Teaching Strategic Management
to Nonprofit Students

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Abstract

Strategic management is a multidisciplinary concept with rich theoretical and empirical backgrounds that can inform decision making in organizations. Strategic management is defined as a blend of management practices that entails interpreting environmental conditions and designing systems to foster success (Miles & Snow, 1978). Applying strategic management concepts to the nonprofit sector is not a new idea (Kearns, 1994; Moore, 2000; Oster, 1995), but translating those concepts in a way that is instrumental to students in a nonprofit management class remains a challenge. In this paper, I introduce a framework to inform strategic thinking and suggest how to introduce these ideas to students studying nonprofit management. The four components of the framework are summarized and teaching strategies are reviewed

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In this paper, I discuss practices instructors can use to introduce strategic management principles to graduate students studying nonprofit management. I summarize the nonprofit strategic management cycle (Brown, 2014) and explain the instructional practices used in the first few classes of a semester-long graduate class to help students gain an ability to "think strategically" (Bryson, 2011). Strategic management is defined as a blend of management practices that entails interpreting environmental conditions and designing systems to foster success (Miles & Snow, 1978). Strategic management is multidisciplinary, and students studying nonprofit organizations can benefit from appropriately contextualized principles that frame and structure management concerns (Kabacoff, 2014). If managers accurately perceive environmental conditions and build capabilities, they can improve the likelihood of organizational success. Using this perspective as guidance, I review the strategic management cycle developed by Brown (2014) and consider how students might use the model to improve strategic thinking skills. In this paper, I provide advice on how strategic management concepts can enrich learning for nonprofit management students.

Brown (2014) introduces the cycle in a textbook based on classic strategic management principles (Hitt, Ireland, & Hoskisson, 2011), but the book is sensitive to the realities of operating a nonprofit organization. A number of issues make managing a nonprofit challenging. These include an appreciation of the public benefit purposes that nonprofits are formed to achieve. Nonprofits address complex and multifaceted social problems, which often require substantial coordination, cross-sector relationships, and interorganizational partnerships. Furthermore, nonprofits operate in complex market contexts that are unlikely to sustain organizational operations exclusively through an earned revenue model. These operating contexts are further complicated by the indicators of success that are difficult to operationalize and accountability expectations that are often pronounced. Brown provides guidance to nonprofit managers who want to think more strategically about managing a nonprofit organization (Allio, 2006). In this paper, I summarize the nonprofit strategic management cycle and illustrate how the cycle is introduced in a semester-long graduate-level nonprofit management class to foster a student's ability to think strategically. Student learning outcomes can be difficult to measure objectively, but course evaluations, written assignments, and student feedback suggest the model and the activities discussed in this paper improve strategic thinking skills.

Strategic thinking is the use of strategic management concepts to inform decisions in organizations creatively. Bonn (2001) suggested that strategic thinking entails (a) a vision for the future of the organization, (b) a holistic understanding of the organization and its environment, and (c) the ability to develop creative solutions. Students need to "develop adequate thinking models . . . [that] . . . reflect the mental power of people to understand the reality they are living and to process all the data and information necessary for decision making" (Bratianu, 2015, p. 411). To support students in this process, the nonprofit strategic management cycle provides a theoretically and empirically rigorous framework that encourages systems thinking and a holistic approach to management (Bratianu, 2015). It was developed with an appreciation of the challenges and complexities of operating in a nonprofit organization. Other strategic management models (Mintzberg, Ahlstrand, & Lampel, 1998) frame and summarize key strategy concepts, but they were not developed as particularly sensitive to nonprof-

its. The nonprofit strategic management cycle is a powerful and innovative model that can be used when teaching strategy to nonprofit students.

Nonprofit Strategic Management Cycle

The strategic management cycle provides a framework to consider the strategic areas managers confront (Backman, Grossman, & Rangan, 2000; Chew & Osborne, 2009; Courtney, 2002; Kong, 2008) and is based on a modified version of the "adaptive cycle" developed by Miles and Snow (1978, p. 24; see Figure 1). The model is an abstraction of strategy processes in organizations. The components are interdependent, and managers who address each of these areas regularly are likely to help the organization perform better (Poister, 2010). In Chapter 2 of the textbook, Brown (2014) introduces the four components in the model: mission and values; operating domains; systems and capabilities; and performance and innovation.
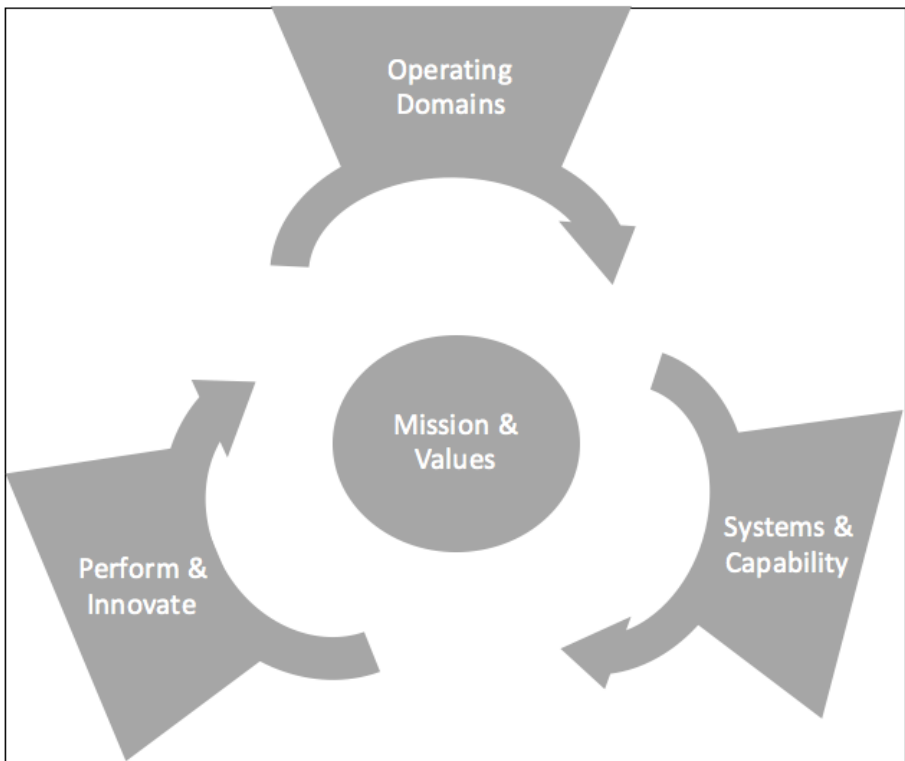
Figure 1. Nonprofit strategic management cycle. From *Strategic Management in Nonprofit Organizations* (p. 47)*, by W. Brown, 2014, Burlington, MA: Jones & Bartlett Learning.

The cycle suggests four basic questions that guide strategic thinking:
1) What is your purpose? (Mission & Values)
2) What are you going to do? (Operating Domains)
3) How are you going to do it? (Systems and Capabilities)
4) What constitutes performance? (Performance and Innovation)

All parts of the nonprofit strategic management cycle work together to constrain choices and facilitate performance (Schiemann, 2009). It is a cycle in the sense that modifications and interpretations at each stage are influenced by activities and learning that occur in other areas. For instance, mission statements influence how operating domains are defined because they typically specify beneficiaries and other features related to social and community needs. Similarly, as operating domains are defined, implementation of programs often reveals opportunities or barriers that will require readjustment of how the operating context is defined. Performance assessment too guides operations to refine practices continually, to achieve efficiencies and improve quality and ultimately outcomes. Consequently, the four components interrelate to guide programs and organizational activities (Walker, 2013). Programs entail the range of tactics used by the organization to address social issues or concerns. Common program tactics are social services and advocacy. Organizational activities entail tactics managers use to operate and maintain the organization. These include activities such as fundraising, staff development, and administrative systems. In the next section, I review the four questions and components of the strategic management cycle.

What Is Your Purpose? Mission and Values

Mission, values, and vision statements are fundamental principles in nonprofit management (Ebrahim, Battilana, & Mair, 2014; Sheaffer, Landau, & Drori, 2008; Sheehan, 2010). They articulate important perspectives of the organization and capture the motivations of leaders. These guiding statements define the purposes of the organization, distill key beliefs regarding social value principles, and articulate the benefits the organization hopes to create. This worldview is a critically important aspect of the strategic position of the organization (Checkland, 2000). As nonprofits are values-based organizations, values statements may be one of their most important and distinctive elements (Jeavons, 2010). Mission statements are central for several reasons as they are an abbreviated rationale for the nonprofit's existence and provide a cornerstone for management. These statements explain the key principles, which can be powerful but often lack sufficient specificity to guide operations effectively (Lencioni, 2002). These statements should be evaluated for clarity and alignment with other aspects of the management cycle. Mission and purpose definitions are evaluated through iterative processes, and this is discussed further as part of the instructional strategies used to explain the model. The remaining elements in the cycle help translate those ideals into organizational activities.

What Are You Going to Do? Defining Operating Domains

Operating domains place the organization within an industry or a market. Defining the operating domain requires that managers interpret environmental conditions and place the organization in the context of a broader external system (Schmid, 2009). Areas of concern include the nature and character of how community needs are

defined and the nature of the resource environment that can sustain activities. By defining the sphere of activity, nonprofits can better conceptualize, justify, and coordinate their activities (Chew, 2009). These definitions are socially constructed by stakeholders within and external to the organization (Hasenfeld, 1983). There is attention to how the nonprofit relates to other organizations and actors doing similar work. Subsequent chapters in the textbook provide additional information about the external environment, so at this stage only the basic features are introduced. Defining the operating domain is complicated because nonprofit managers typically consider two distinct operating contexts: public benefit concerns and resource sustainability concerns (Bell, Masaoka, & Zimmerman, 2010).

The public benefit domain includes a definition of the social issue or need that the organization intends to address (Altschuld & Kumar, 2010). This includes understanding the nature and character of the intended beneficiary (who or what benefits from organizational activities). Often, direct beneficiaries participate in the services of the organization, but there are also indirect beneficiaries. Considering the range and type of beneficiaries can help define the public benefit domain. Nonprofits must also address the resource domain (Moulton & Eckerd, 2012). What is the nature of the funding environment that might influence the ability of the nonprofit to secure resources? Three broad resource categories are proposed as reflecting key aspects of the resource domain: financial resources, human capital opportunities, and social capital elements. Defining the operational domain inclusive of resource options is as important as defining the public benefit domain (Sargeant & Jay, 2014). Without thoughtful articulation of operating domains, it is increasingly difficult to design organizational systems and monitor performance. The two operational domains are extended into the remaining elements of the strategic management cycle in Table 1.

Table 1

Aspects of the Strategic Management Cycle

Operating domains	Systems and capabilities	Performance and innovation
Public Benefit	Services and advocacy	Program performance and social impact
Resource	Fund-raising and public relations	Financial solvency, engagement, participation, organizational legitimacy

How Are You Going to Do It? Creating Systems and Capabilities

This aspect of the strategic management cycle is concerned with building capabilities and managing systems that are deployed to address social problems and secure resources (Sirmon, Hitt, Ireland, & Gilbert, 2011). Management systems and capabilities are covered in more details in subsequent chapters, so at this point students are introduced to the idea of organizational practices and systems, but not extensive details. For each domain area (i.e., public benefit and resource) managers formulate systems and structures that use organizational capabilities to fulfill operating demands. This is how the organization seizes opportunities. There is an array of responses, and each op-

erating domain requires distinct delivery systems and management tactics. Reviewing Table 1, students appreciate how organizations build systems and capabilities relative to each operating domain. For instance, organizations develop and implement high quality programs and services, which address needs in the public benefit domain. Similarly, organizations have capabilities and systems focused on the resource domain, such as fund-raising, which are distinct from programs and services.

Programs related to the public benefit domain are used to create social value. Based upon how the social condition is interpreted and defined, managers can use different methods. A common option for nonprofit organizations is providing services. Another method to achieve social benefit objectives is through advocacy-type activities focused on changing institutional systems (political and economic). These include direct lobbying and grassroots activities (Boris, 2006).

In the resource domain managers build systems to address organizational sustainability. These include the array of management activities to capture resource attributes in the environment. Fund-raising strategies are a common set of activities organizations use to secure financial resources (Sargeant & Jay, 2014). However, organizations sustain activities in other ways, and students are encouraged to consider the range of resource features that organizations might seek to acquire. Partnerships, for instance, are a valuable yet difficult to quantify resource that managers value (Brown, Andersson, & Jo, 2015). Organizations also carry out initiatives to build recognition and legitimacy of organizational activities. Irrespective of the methods selected, managers build capabilities and monitor implementation to improve performance.

What Constitutes Performance? Interpreting Different Measures of Performance

The final aspect of the strategic management cycle is related to performance and innovation (Bagnoli & Megali, 2011; McDonald, 2007). Determining performance is a challenge for nonprofits, and this aspect of the strategic management cycle is important for nonprofit managers (Medina-Borja & Triantis, 2007). Performance measurement is important because of the multiple and potentially conflicting indicators that might be salient for nonprofit managers. The key concerns are related to how managers monitor activities and determine accomplishments. The book proposes four broad performance measures (see Table 2). These include program outcomes, which reflect the benefits created through the activities of the organization (Bagnoli & Megali, 2011; Sowa, Selden, & Sandfort, 2004). The next area recognizes the need to monitor program and organizational activities. This reflects program outputs and process measures to determine the level of organizational activity (Benjamin, 2013). The third area, resource accumulation, is the ability to secure necessary funds and labor to achieve objectives (Medina-Borja & Triantis, 2007; Moxham, 2009). Finally, the textbook identifies that there is a subjective aspect to performance (Herman & Renz, 1999, 2008; Sowa et al., 2004). Herman and Renz (1999) discussed this idea and proclaimed that performance for nonprofits is "socially constructed." This means some stakeholders may not need objective measures of performance, but are satisfied with a sense of legitimacy among influential actors. Even if the organization cannot articulate clear outcomes, some stakeholders will consider the organization effective because of these secondary perceptions of performance. Given the lack of universal bottom-line indicators and the difficulty of determining success, using various performance indicators is important (Sowa et al., 2004).

Table 2

Typical Concepts of Effectiveness

Concept	Definition	Examples	Limitations
Outcome Performance, Social Value, Mission Accomplishment	Create benefits to fulfill charitable purpose	Ending homelessness, building self-esteem of girls, making children contributing members of society	Difficult and costly to measure Forced quantification may oversimplify or miss key concepts
Productivity and Operational Efficiency	Produce services and operate according to management principles	Increased volume of services provided (outputs) Following management guidelines and principles (i.e., transparency)	Inability to link activities to long-term priorities
Resource Accumulation	Secure necessary and increasing levels of financial and human capital	Growth in donations from year to year, expanded number of volunteers, employee commitment and retention	Too much focus on inputs and can lead to misguided practices
Perceived Value & Legitimacy From Stakeholders	Gain support of key stakeholders	Widespread perceptions of legitimacy, strong support and advocacy by key stakeholders	Can shift purposes of organization to interests of influential stakeholders

Student Learning Opportunities

Several methods are used to help students understand the features of the strategic management cycle and gain an appreciation for how the components interrelate (see Appendix for summary table of teaching activities). The intent is to help students understand how the model provides a systematic framework to analyze organizations. First, students review the chapter from the textbook that discusses the cycle and respond to two online discussion questions. One question asks students to consider if an organization (National Relief Charities) is successful in meeting its public benefit purposes (this relates to the final component of the strategic management cycle). A short summary of National Relief Charities is provided in the book, and students are encouraged to review the organization's website. National Relief Charities is a fascinating case as they have a fairly successful fund-raising system (raising almost $40 million annually over the last several years), but historically poor efficiency measures (at one point more than 50% of revenue was expended on fund-raising). They have worked

diligently over the past several years to improve practices and control fund-raising costs. This includes more rigorous measures of outcome performance. These efforts have led to improved ratings by the Better Business Bureau Wise Giving Alliance, and this provides substantial material for discussion.

During class students discuss different performance indicators for National Relief Charities. The four categories of performance categories are written on the board and students identify different performance indicators (pounds of food distributed, millions of dollars raised, etc.). As students bring up different indicators of performance, the class discusses how the indicator should be categorized (see Table 3). The value of this exercise is to distinguish between outcomes as benefits created and all other potential measures of performance, in particular resource accumulation. The discussion is highly interactive as students generally have ideas about what makes an organization effective and ineffective, and the process to classify various indicators from a case is helpful.

Table 3

Performance Measures for National Relief Charities

Outcomes & mission accomplishments	Productivity & efficiency	Resource accumulation	Perceptions
Improved health conditions	Number of individuals served	Millions of dollars raised	Reports from partner agencies and reservation leaders
Stronger communities	Ratio of funds raised to administrative costs	Net revenue	

The second discussion question asks students to identify mission statements from two to three organizations and to discuss features of these mission statements. In class, students meet in small groups to discuss the example mission statements. They identify the extent to which the mission statements reflect key attributes, such as beneficiary identified, clear statement of public benefit purpose, and benefits the organization hopes to create. Strong and weak mission statements are shared with the class, and students justify why they felt the mission statement was strong or weak and provide an ideal exemplar. This exercise sets the stage for a subsequent assignment that asks the students to develop a mission statement for a case study organization. It helps the students translate academic "features" of a good mission statement into concrete examples or qualities of different organizations. The class also talks about how mission statements can be used to guide organizational activities. This includes a discussion of mission creep and a recognition that missions serve to constrain organizational options (the book calls this a "box") as well as serve as the basis for growth (the book calls this a "planter"). The students resonate well to these metaphors of mission statements and how they inform strategy.

For the next class students prepare a response to a case study and explore how aspects of the case "fit" into the cycle. The case study introduces an international student exchange program undergoing reorganization (Drucker, 1977, pp. 35–39). It might appear dated, but the case illustrates fundamental management challenges and concludes by asking students to help define the organization's mission and to describe the organization's customer. This relates to the first two elements of the strategic management cycle (mission and operating domain) and provides an ideal frame to discuss the cycle. Any case can be used, and through practice it is not difficult to classify case features. I have found that at this stage a simpler case is useful because there are fewer story lines and conflicts. Throughout the semester more complicated cases (e.g., Appalachian Mountain Club, Stone, 2000, and Casa de Esperanza, Sandfort, 2005) are summarized by reviewing the basic questions from the cycle.

Students identify important aspects of the case study and match those to cycle components. As with the discussion about performance indicators, students classify case features as fitting in one of the four cycle elements. This process is relatively intuitive, and students can fairly quickly determine how different attributes of the case align with the cycle. Some of the case features and how they are categorized into cycle components are listed in Table 4. Identifying case elements and getting students to explain what features are important is valuable. I use this approach because students can relatively easily identify "important features" in the case, but they are still learning the model. The process to classify case features helps students to define the cycle components and organize the case. At times case features fit into more than one area, so the class discusses how the example might be conceptualized by managers if they are categorized one way versus another. For instance, the intended beneficiary is a feature of the mission/purpose of the organization but also helps define the operating domain, so the class discusses how the mission specifies youth worldwide and how the operating domain targets particular segments or categories of youth that the organization can and does serve.

The discussion concludes with students recognizing that elements in each column are interconnected. This happens serendipitously as the features from the case are often discussed as unitary elements. The students are so focused on identifying features that they lose the holistic perspective. As the categories get filled it becomes apparent how the elements are interrelated. The idea that case features are interconnected across the four parts of the cycle is a significant learning outcome that emerges from the discussion. For example, the purpose of the organization is to increase intercultural understanding (column 1) for American, European, and Asian youth (column 2) through exchange programs (column 3), and at this point the primary performance measures are retention and satisfaction (column 4). I'll circle or connect the different elements that are related. Through the discussion students also identify that not all features have clear linear relationships across the four categories. This too inspires conversation and reflection on how the components should or should not be interrelated. The prior discussion on performance inspires students to consider the existence or lack of performance measures for critical activities.

Table 4

Example of Cycle Features for Case Study Organization:
Worldwide Youth Federation Exchange

Mission/purpose	Operating domain	Systems & capabilities	Performance measures
Increase cultural understanding	American, European, and Asian youth	Exchange program	Satisfaction
Youth of the world		Host families	Number of students who travel
Promote world peace	WWII American Veterans	Network of American GIs	
	American, European, and Asian host families	Limited monitoring and tracking of finances	Cost of providing services

Conclusion

Strategic management in nonprofit organizations is the ability to understand external opportunities and challenges while weaving together systems to address the multiple stakeholders affected by the actions of the organization. The strategic management cycle frames four broad strategic concerns for managers. Introducing the model early in the semester provides a framework that students use throughout the course while they analyze more-complex case studies and learn increasingly sophisticated strategic management concepts. The four "problems" become a rubric that reminds students about the interconnected nature of strategy: (a) conceptualizing the organization's purpose, (b) defining operating domains, (c) creating systems that use organizational capabilities, and (d) building control and performance management systems that foster learning. The cycle highlights the challenges managers confront in understanding performance in the sector and that nonprofits operate in at least two operating domains. It is a powerful model that is theoretically intuitive and grounded in the nature of nonprofit organizations.

Introducing this model to graduate students as part of a semester-long nonprofit management course provides a framework for them to think strategically about opportunities and challenges nonprofits confront. It is a holistic model that encapsulates key areas for managers to explore, conceptualize, and enact. Helping students categorize complex organizational scenarios into cycle components is surprisingly powerful. It helps students mitigate ambiguity and captures the organization and operating context in its entirety. As with all conceptual models it is perhaps overly simplistic, but it opens the door to suggest a range of management tools that managers can acquire related to each aspect of the cycle. Conceptualizing how organizational elements align with cycle features provides substantive insight into organizational issues. This includes linkages and gaps across cycle elements. Over the semester the cycle is used to frame subsequent topics. In nearly every class some reference to the cycle reminds students that it provides the structure for the textbook and class.

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Appendix

Summary of Instructional Activities

Learning objective	Activity	Materials
Identify and explain different types of performance indicators	Review National Relief Charities (NRC)	NRC website and support materials
	Identify and discuss performance indicators for NRC	Online discussion forum
Identify features of mission and create a strong mission statement	Find example mission statements	Web search to find example mission statements
	Analyze mission statements and discuss in class	Online discussion forum
	Create mission statement for case study	Case study "What Is Your Mission? What Is Your Market?" (Drucker, 1977)
Classify case study features into cycle components	Review features of the cycle	PowerPoint to summarize the cycle
	In class, students identify significant features from case and categorize those features into the cycle components	Case study with written assignment
Identify interconnected elements in the cycle	Using the class discussion and information on the board, encourage students to see how case features interrelate across cycle elements	Class discussion summarized on the board