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Nonprofit Boards: It is time to Lift your Gaze and See the System

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Abstract: *Nonprofits the world over have faced significant crises in 2020, leaving them and their constituents in precarious positions. Responses to these crises have demonstrated incredible agility. However, they have also demonstrated that the first two levels of governance (level 1: fiduciary responsibility and level 2: organizational performance) are not sufficient in reimagining a new normal. The pandemic and the social justice movements remind us that nonprofit boards need to lift their gaze beyond level 2, and strive for systems impact. We call it level 3 governance. We've seen incredible agility by nonprofits throughout these crises; and systems thinking has long been understood to be a sound way to consider and address complex social problems. Thus, the timing is ripe to bring the two together, and nonprofit boards must take the leadership in doing so. Applying systems thinking at the board level has not been normal practice. This paper provides a framework for how boards might do so and, in turn, govern beyond their organization and meet the social purpose for which their organizations exist.*

The world will surely come out of the Covid-19 crisis. Some countries have taken timely and aggressive steps to stem the spread (New Zealand, South Korea, China and Australia among them), while others (especially the U.S., Brazil, and India) are still attempting to gain ascendancy from the first wave, while Europe seems to be entering a second wave. Globally, nonprofits and civil society organizations have responded in an exemplary manner providing relief to thousands, if not millions of citizens. Many are looking forward to putting behind the intense demands of the immediate crisis and going back to addressing their core work, knowing fully well that the new normal will not be business-as-usual, certainly not what it was before Covid-19. The pandemic, and the immediate response that followed has shown the nonprofit sector in its best light: unselfish, caring and devoted to the full circle of needs of its beneficiaries. By and large, in the three countries we have examined, the U.S., India and Australia, such field actions have been led by management and staff who have pivoted and responded to the pressing needs of their community.

Going forward, our call is for nonprofit boards to play a larger role as their organization attempts to find a sustaining way to retrace its mission, perhaps reshaping it, even expanding it.¹ In the U.S., the cries for social justice came amid the Covid-19 crisis, but the undercurrents were there long before. In India, the

miserable plight of migrant workers was brought to light by Covid-19, under the full glare of a previously unaware public. In Australia, social inequity was also already entrenched before Covid-19. Whilst none of these issues are new, the pandemic has brought them into sharper focus. Make no mistake, addressing the immediate public health crisis is only the start of a long road. We have many significant societal issues to address. What then should be the responsibility of nonprofits/NGOs (non-governmental organizations) and their senior leadership going forward?

The new normal will be characterized by two somewhat opposing tensions for nonprofit leaders. On the one hand, until we have a treatment and a vaccine for Covid-19, there will be uncertainty, requiring frequent crisis management interventions. There may be more outbreaks, imposing periods of lock down, social distancing, and other such restrictive activities in large or small geographical areas. On the other hand, through exercise of democracy and protest, citizens are demanding much more than “quick-fix” solutions for deeply entrenched social and environmental problems - be it climate change, labor rights or racial and social justice. Those nonprofits that come out strong from the crisis because of their agility and adaptability must grasp and embrace the larger systemic issues enveloping the core mission of their organizations.

Nonprofits & the 2020 Crises

Nonprofits the world over have been struck by multiple recent crises. The defining crisis of 2020 is the Covid-19 pandemic, a health emergency requiring a severe social and economic response – disproportionately impacting the most disadvantaged. But even before Covid-19, 2019-2020 was a year of significant crises. In many parts of the world natural disasters connected to global warming occurred, from floods in Europe to extreme bushfires in Australia. And then in May 2020, another storm was unleashed, triggered by the death of an unarmed black man at the knee of a white Minneapolis police officer in the U.S. Repulsed by the viral video of the killing, huge numbers of people in many cities and across many nations came out to protest systemic racial injustice.

Collectively, the crises have had a sobering effect on society. Inequities around the world have become starker and history tells us (and Oxfam predicts²) the number of people experiencing vulnerability will significantly increase, their situation will become even more dire, and any recovery will be slow.

By mid-year, unemployment had reached 7.5% in Australia (a temporarily low number due to JobKeeper³), over 8% in the U.S. (in spite of the more than \$500 billion allocated to the Paycheck Protection Program) and 7% in India⁴, leaving vast numbers of people jobless and many more millions underemployed (working less hours than they want to or need to).⁵ With lack of income, and in countries with inadequate social security, came shortages of food, an inability to pay rent, and a lack of access to healthcare. With closed schools, children from low income families were deprived of government mandated, or nonprofit supported, free meals. Even though many educational institutions pivoted to online instruction, the digital divide meant many children from poorer households without resources fell further behind.

But as need increased exponentially, resources remained scarce. Many human services agencies were hard pressed to serve their clients. Many could not provide a safe working environment for their workers and volunteers.⁶ Many nonprofits worked to secure funding and resources, and managed to get immediate assistance to their communities. For example, GiveDirectly, a leading global NGO specialized in delivering digital cash to households living in poverty, partnered with Propel in the U.S. to identify Households dependent on “food stamps” to channel cash aid to over 100, 000 such families. In India Apnalaya, an NGO engaged in educating and empowering poor citizens of their legal entitlements and rights, quickly pivoted to raise resources, both in kind (food and hygiene supplies) and cash, to go door-to-door in strict lockdown conditions (with approval of local authorities) to address the needs of their communities. In Australia, after the cancellation of their major fundraising events, OzHarvest pivoted with a #HereforHope campaign to raise funding to continue to support people across Australia experiencing food insecurity⁷.

While many organizations around the world pivoted with increased support from their key donors, many are still struggling to keep up with increased demand in the face of decreasing resources. In Australia, surveys of community service organizations found significant increases in demand for food, housing, mental health and financial counselling supports.⁸ At the same time, modelling showed a 20% revenue reduction and could possibly leave almost 9 in 10 charities, who employ paid staff, running an operating loss in the financial year. The projection showed 1 in 6 in danger of closing in less than 6 months, leaving 200,000 jobs at risk.⁹ Similarly, surveys from the U.S. and India indicate that even though a third of the nonprofits were able to pivot and provide emergency relief, a quarter face dire circumstances, and will need to shrink operations and curtail program delivery.¹⁰ With steep declines in revenues, many nonprofits of all sizes and types are fighting for survival in the U.S. as well.

Nonprofits have faced crises before, but this crisis is different. The 2008 financial crisis impacted revenues but did not fundamentally stop the sector from conducting activities that served its clients. Covid-19 has brought a hard stop to the work of many nonprofits, and with no certain Covid-19 treatment or a cure in sight, there is a good chance that many workers who were laid off, or in furlough, may not find their jobs back. Short-term survival has been the focus of many nonprofits in 2020: cash preservation, attending to core programs, continuing to keep staff on the payroll (often with Government support)¹¹, and simply finding means to survive until things hopefully return to ‘normal’. Some nonprofits were able to pivot to online delivery of their programs. Others went out of their usual core working lanes to help essential workers and needy communities with food, transportation and housing. While responses to the Covid-19 crisis have been quick and fluid, the responses to the cries for social justice have been measured and reflective. In the US, for example, the BLM movement has brought a recognition that discrimination based on race, ethnicity, or religion is a complex systemic problem; that social injustice is not caused by any one thing. It is not just about the police force or its training, but the entire criminal justice system, and beyond – the in-built biases within education, healthcare and employment.

A new normal will certainly arrive. When, nobody can predict. But the best projections are that it will not be before the middle of 2021. In the next six to nine months before it arrives, unfortunately some nonprofits would be forced to retrench. Some would be exhausted by the sheer magnitude of the pivot

they have undertaken, and would be yearning to return to something resembling what it was like before the crises. But some, as much as a third according to our reckoning, would see a new path - a new calling - informed by a new understanding of the challenges facing their own organizations and the communities they serve. The work of readjusting to a new world must begin now. The crises have become part of the day-to-day management activities of most nonprofits that are operational and active now. In undertaking the pivot, they have, in the last six months, many have discovered opportunities to extend their mission, some have found new sources of funds and support. Now is the time to decide whether to continue with a rejuvenated adaptation of their original mission.

In some cases, reimagining the mission has become a sheer necessity. In light of the crises, some nonprofit leaders have begun to wonder what ever happened to the years, if not decades, of service they had rendered their communities. Were they collectively meeting their purpose? Why had they had so little impact, in spite of their best intentions? Were they being true to their mission by simply addressing the symptoms rather than the root causes of the problems constraining the communities they serve? Were they lifting their gaze enough? Were they achieving the social impact they had intended?¹²

Systems thinking and complex social change

No single organization can solve the range of dysfunctionalities and inequities in society. Thoughtful leaders know they must be cognizant of how their work fits into the overall picture or system. Systems thinking is not new. It's been long recognized as key to understanding and addressing complex social problems (or 'wicked problems'). These complex problems have no clear or linear cause and effect, they have multiple, interrelated factors and they sit within systems (see text box). Consequently, no single organization or intervention can tackle these problems alone. Further, there are often many different ideas, understandings and approaches as to how these problems manifest and should be addressed. Therefore, to solve complex social problems we need groups of various actors, actions and interventions to work in sync.¹³

A system is "a configuration of *interactive, interdependent parts* that are connected through a *web of relationships*, forming a whole that is greater than the sum of its parts." Systems *contain sub-systems* and *feedback loops*, can be *resistant to change* and are *sensitive to an evolving environment*.¹³

Boards looking at and beyond the crisis

For many boards, the immediate crisis response has unsurprisingly been financially dominated: to approve budget or operational changes, release funds from the balance sheet, raise resources from existing funders, find new funding, and seek exemptions from funding restrictions.¹⁴ Whilst this has been necessary and important, few have started to significantly plan for the future 'new normal' or instill a confidence in their executive team that they are aligned in the right direction.

Of the nonprofits we surveyed in the US and India, nearly a third expressed a desire to reimagine their operations in the near future based on new insights gained from their response to the crisis. One-third expressed a desire to go back to their original mission, at least for now, before considering any decisive

shifts, and the remaining third wished for the crises to settle down before seriously considering any options. A large proportion of this last third saw the Covid-19 crisis as an existential threat to their ongoing work.¹⁵ While anecdotal evidence from India and the U.S. points to the effective role played by many boards in the reorientation of an organization's activities, in reality we believe the evidence is mixed. In an Australian survey of for-purpose organizations in July/Aug, 2020, only 40% reported that their boards were effective in helping them navigate the uncertainties posed by the crises.¹⁶ Even if not all boards are proactively getting ready for the new normal, it is becoming increasingly apparent that the disruption is forcing nonprofits to lift their gaze to view their contributions systemically, while also holding onto the agile and adaptive approach sparked by the crisis. The intensifying natural disasters, the Covid-19 pandemic, and the epidemic of racial inequality, have brought to the forefront two strategic capabilities that all nonprofits must build into governance: agility and systems thinking.¹⁷

The Two Levels of Traditional Governance

Nonprofit boards have traditionally carried two sets of responsibilities - one to meet their fiduciary responsibilities and the other to keep an eye on the organization's performance in relation to its mission.

Level 1 Governance: Duty and Fiduciary Responsibilities

At Level 1 boards fulfill their legal responsibilities regarding: *duties of care* and fiduciary responsibilities; *duties of loyalty* to act in "the best interest" of the organization; and *duties of obedience* to remain compliant to relevant laws and regulations.¹⁸ These boards focus on solvency, financial sustainability, risk and compliance – meeting at least the minimum level of required legal and fiduciary responsibilities.

In the first phase of the Covid-19 pandemic, fiduciary responsibilities were understandably a strong focus of boards. Either directly or indirectly, many boards were key in the financial and organizational health of the organization.

But they also demonstrated how important agility and adaptation is for nonprofits and that this work of the board cannot be limited to a once a quarter planned meeting. Strong management teams led by alert CEOs and Boards demonstrated agility by swinging into action in a matter of days to deal with the crisis. Across many countries, we witnessed an alert management responding to support people who were most vulnerable to the disruptions caused by Covid-19, and in many cases they were actively backed by their board.

Very quickly, Boards increased their focus on level 1 governance in the new environment and released reserves, negotiated terms with funders, supported management with quick pivots, initiated planning for alternate scenarios and workplace changes. They continued to ensure organizational compliance with evolving Covid-19 rules and regulations (for example, social distancing, working from home, workplace health and safety and use of protective equipment; see **Figure 1**). And they supported organizational changes that ensured the organization met its mission in the changing context of the crisis.

Figure 1: Level 1 and 2 Governance and the new work of the board



We have witnessed nonprofits improvise at Level 1 governance throughout the crisis. Acumen, a Global Impact Fund headquartered in New York, for example, raised a \$4.4M global emergency facility to provide grants and emergency loans to its portfolio companies that were both protecting critical jobs and positioning themselves for a new future. Within 30 days of raising the money, Acumen had disbursed most of it through newly formed rapid investment committees in each of their geographical regions, including Malaysia, Bangladesh and Spain. One of their entrepreneurs who had scaled a 40 person distributed manufacturing operation for producing sanitary products, pivoted within a few days to a revised production line that produced 60,000 masks daily in Mumbai, India. In the U.S., the first of the Acumen emergency grants was given to Every Table, a healthy nutritious affordable restaurant chain in Compton, Los Angeles, to enable it to pivot to a delivery model that provided 150 thousand free meals to low income residents most hurt by the Covid-19 restrictions preventing them from work.¹⁹

In India, Akshaya Patra, which supplied nutritious midday meals to 1.8 million low-income school-children every day, pivoted to provide food packages for millions of workers who had been stranded by the shut-down of factories with the lockdown. By August 2020, they had provided over 70 million such packages.²⁰

In Australia, The Smith Family – a leading children’s education charity evolved from providing face-to-face support for children from low income areas to bridging the digital divide. They raised funds, partnered with tech and internet data providers, and redeployed their Learning for Life coordinators to get over 1,000 computers, data and tech support to their families within weeks.²¹ Acumen, Akshaya Patra and The Smith Family all quickly pivoted using their capabilities (fund raising, meal distribution and education inclusion respectively), to gain access to resources that addressed vital needs of vulnerable communities.

Level 2 Governance: Organizational Mission Performance

Under normal circumstances, Level 2 boards go to the next level and keep their eye on organizational performance. They understand and track how the organization is performing against its core work. They understand not just the inputs and activities (the organization’s work), but also the outputs and outcomes that align to the organization’s mission. They focus on the beneficiaries and the outcomes for them. Whilst Level 1 boards seek to “keeping the trains safe and running on time”, higher performing Level 2 boards ensure that the trains reach their declared destination.²²

At high performing nonprofits, the core cycle of “mission-strategy formulation-execution-measurement, and adjustments” repeats itself, and over several cycles leads to a well-honed operational model where the nonprofit effectively accomplishes its intended goals. Effective Level 2 boards oversee this entire evolutionary process, without getting stuck entirely at the Level 1 core functions.

In many countries, including Australia, the US, UK and Canada, the Covid-19 crisis has spurred organizations and governments to relocate people who are homeless and sleeping rough off the streets or in crowded shelters, into hotels. The mission to address and/or improve outcomes for people who are homeless did not change, but the agile shift by housing nonprofits in collaboration with governments resulted in getting thousands of people from unsafe to safe environments.²³ The immediate challenge is to ensure that in times of crisis any operational shifts are in the direction of the mission, that is, stretching for good, rather than drifting for bad (**Figure 1**). The longer term challenge for these nonprofits and for their boards is, what happens after the emergency measures recede? What happens when the crisis begins to abate, and the hotels find it financially more attractive to move back to their normal business. Can the nonprofits do something now to build a path where they can secure a slate of hotels to convert their business model to serve the homeless? That will require radical thinking and invention of a new public-private partnership model.

Nonprofits who have a goal to end and/or reduce homelessness have a clear aspirational north star.²⁴ Their beneficiary group will depend on who they are focused on serving, and at which point in the lifecycle (i.e., rough sleepers, young people, older people, women, families experiencing domestic and family violence etc.). However, if we only have nonprofits ‘servicing homelessness’ (i.e. supporting people who are already homeless) with temporary shelter, food and other emergency supports, we will never reach the north star – for that we need stable, safe, affordable accommodation (and pathways into them). This focus on servicing rather than solving is a familiar problem in many cities in the developed, and developing, world. Yet, nonprofits engaged in serving the homeless have to ask the question, how to consolidate the gains from their constructive pivot when the crisis is behind them. Will they have the same support from local government and private operators with respect to hotel rooms? What can they learn from the model and how can they tweak or even reimagine their operating model and their partnerships?

It is questions like the above that demonstrate that Level 2 governance is not enough. Both the pandemic and the cries for social justice have drawn attention to a path that was invisible until now. The forced pivot has brought many unseen opportunities as well yawning gaps to the fore.

Are the two levels of Traditional Governance enough?

The Global Social Progress Index and many other data sources suggest that we were not making progress on key issues even before the crises of 2019-20. Income, education, employment, health and other inequalities remain a persistent feature in many developed (and developing) countries. More than 1 in 6 people live in poverty in the USA (over 1 in 10 in the UK, Australia and Canada); and over half a million people are homeless in the US (over 100,000 homeless in Canada, France and Australia), and a disproportionate number of black men (475,000) are incarcerated.²⁵

As economies dip into recession and systemic inequality become starker, nonprofits have a critical role to play in the recovery and reorganization of society. However, what these crises have laid bare, is that focusing on individual organizational performance will not be sufficient to improve the well-being of society. As the new normal emerges, many nonprofit boards will return to their core Level 1 and 2 activities. Many boards and their organizations will be in discussions to pull back from programs that were necessary during the pandemic, but are not sustainable any more or perhaps not required. Yet, given the significance of the social and human crises underscored by the Covid-19 crisis, the pressing question before nonprofit boards is: Are these two levels of governance enough? We argue that they are not. We urge boards of high performing nonprofits to lift their sights to a new level of governance: we call it Level 3 governance.

Level 3 Governance: System performance

While Board Directors and Trustees are often told, and led to believe, is that their primary responsibility is to the organization (Level 1 and 2 governance), there are social and legal imperatives for boards to aim higher. In the US, Australia, UK and Canada, for example, legislation states that charities exist for “public benefit” and receive tax exemptions as a result.²⁶ The fiduciary and social duty of charities and nonprofit boards extend beyond their organization, to the public (or key beneficiaries) for whom they exist – this is Level 3 governance (**Figure 2**).

Figure 2: Three levels of Governance



This is the key difference between a nonprofit and a for profit board. While a for-profit board is tasked with protecting and advancing the interests of the owners of the company (organizational focus), in the nonprofit world, societal goals are paramount. Organizational performance should be a pathway to contributing to a broader social purpose, rather than the end goals of the organization itself.

This became evident in the homelessness situation during Covid-19, where nonprofits started to collectively work together to advocate for a shift away from a return to the ‘status quo’ of pre-Covid-19. It is also evident in the collaboration of over 50 conservation and land management organizations in Australia (led by The Pew Charitable Trusts) to address environmental outcomes whilst supporting

economic recovery. And, it's evident in the work of organizations coming together in India to redress legislation that protect the rights of millions of migrant laborers.²⁷ The reach to solve each of these problems is far greater than any one organization can solve alone.

Beyond the societal goals, there is also a funding imperative for boards to lift their gaze. Thoughtful funders want to know whether the work of the organization is helping to move the needle on social progress and addressing root causes, not just its superficial manifestations. Such questions, of course, challenge the leadership of nonprofits (both the executives and the board), who rightly are concerned that the organization could get stretched and lose its focus. However, at the same time, nonprofit leaders recognize that they have a larger responsibility to society; indeed, it is why many are passionately committed to the work they do. Hence, it is our belief that the challenge of lifting to Level 3 is not one of intent, we believe that most nonprofit boards get it. It is having the will and a framework to act.

Moving to Level 3 Governance: The New Frontier for Boards - Systems Impact

Level 3 Governance - systems impact - is the new frontier. Level 3 recognizes that a focus on the organization's mission alone is no longer sufficient; not anymore. It recognizes that no one organization can solve complex problems alone. It recognizes that in order to be effective, they must be cognizant of the longer-term outcomes their beneficiary seeks, and how their organization's work fits in the broader ecosystem. Level 3 governance shifts the focus beyond the organization, to the purpose for which it exists.

This makes systems thinking a useful approach to better understand and effect social change. It involves understanding the context of the problem (including root causes) and the relationships between actors (people, organizations, policies) in the ecosystem within which the problem persists. It is only after gaining this broad understanding can we identify the key levers (actions or interventions) for change, and contemplate the feedback loops, and the unintended consequences.²⁸

Level 1 & 2 boards pose questions like: *"How well are we completing our activities/work?"; "What are the immediate outcomes of our intervention for our beneficiaries?"; and "Is this the right work to do in the context of the problem we are solving for?"*. Level 3 boards go further to ask: *"What have we done for our beneficiaries beyond the immediate outcomes of our intervention? Are the outcomes long lasting? Will our intended beneficiaries be able to navigate through the rest of the complex world that surround them? What are the unintended consequences of our work? Do the individual benefits add up and contribute to the community and society of which the individual is a part of? What is our organization's contribution and impact on the well-being of society?"*

Coming from the severe stress of the Covid-19 crisis, the board leadership of many nonprofits may conclude that they first need to focus on Level 1 and 2 governance issues. While in some cases, that may be the right thing for a start, lifting their sights to Level 3 may be an opportunity spurred by the crisis. As nonprofits plan a transition to the new normal, it may be worthwhile to return to the question of the organization's true purpose. The challenge for nonprofit boards is how to productively engage in such a

discussion without being caught up in the top-down rhetoric of system change, which is often seen as outside their control and in the hands of public policy leadership.

Applying Level 3 Governance: Getting Started

The challenge for boards and their management teams is: Where to start? In the **Appendix** at the end of this paper we provide a framework, and the six steps that make for an effective process. In the section below we expand on the first critical step for the board: rethinking the vision and understanding the role of the organization's mission in light of the system.

Traditionally we ask organizations what their purpose/vision is. A system thinking reframing starts with the beneficiary. It asks: *What problem are we ultimately trying to solve? And for whom?* Reframing along these lines ensures that the work of the organization does not get dropped off after the immediate organizational outcomes are achieved. Many nonprofits profess a vision, but often it is a grandiose statement of the desired state of the world, a vision of what it could be like. Few Nonprofit boards, however, take the time to consider their specific role in contributing to this desired state of the world in the context of the system in which their nonprofit conducts its work.

Our call to the boards and leaders of nonprofits is to embrace the role of guiding their organizations on the path to developing a vision that leads to societal impact. The visioning process will identify needs, gaps, understand frictions, spot opportunities and sketch a role for the organization in the collaborative path to societal impact. This will often call for the construction of a new vision statement that is consistent with the aspirations of the organization.

This vision / purpose statement is always a positive statement and aspirational. Clearly articulating vision is one of the critical elements that differentiates a for-purpose organization – it focuses on the 'why' of the organization and provides an aspirational north star to work towards. Crucially, utilizing the systems thinking approach reinforces that the purpose is about the beneficiary and societal impact, not one's organization. The beneficiary must be clear and at the center at all times, and the system must be seen from their perspective.

Consider environmental protection as another example. Land conservation organizations have worked over many decades to protect and restore endangered ecosystems and develop solutions to tackle climate change. Many environmental organizations struggle to identify their key beneficiary – is it the earth itself? The flora and fauna they seek to protect? The human beings who live, work and play on the planet? Or some combination? The question that must be asked is what is the value of each organization in the overall eco-system? Some preserve small or large tracts of land, others work on energy policy, some on legislating polluter behavior or destructive farming practices. Wouldn't the organizations be more successful at achieving their own mission, if only they raised their sights to unite in addressing the cause of environmental protection? Each organization, of course, will focus on their core mission but with a holistic understanding of how the pieces fit and if possible, even collaborating where cracks appear.

Understanding and working in context is key. In Australia, the outcome of the pandemic will be economic recession and significant unemployment – economic growth and employment are government priorities. In this context, more than 50 organizations have come together and submitted a proposal for \$4 billion in combined government economic stimulus that would provide jobs to 24,000 workers at its peak to undertake practical conservation activities such as weed and pest control, river restoration and bushfire recovery and resilience. No one organization could have made an ask of this scale, credibly of the government. But collectively, and with the coordination of The Pew Charitable Trusts, the organizations have lifted their gaze to understand the context and work together for societal impact.

In the U.S, consider what might be achieved by effectively coordinating the various youth development efforts of the numerous nonprofit and government agencies? Around a million young men and women drop out of high school every year. Another roughly one million, graduate from high school but do not go on to 2-year (vocational) or 4-year college (academic) education. And collectively at any point in time, there are approximately 3 million young men and women 16 to 24 years of age, who are either unemployed or unemployable. Some superb nonprofits, such as Year Up, train several thousand such young people over a one-year period to get them job ready. There are other agencies who work hard to teach them vocational skills, others who work on civic skills. There are others who address their physical, emotional and psychological health, and others who serve at-risk youth and work with the justice system to provide them a chance to reform and integrate with their families and society. Many of these problems are interconnected, and unless all the dots are connected, it will not be possible to make progress in a systematic fashion at scale.

We are not suggesting that every organization should be attempting to solve problems at a system level, but rather that every organization should be cognizant of the systemic issues and ensure that their solutions dovetail into the macro-system for the best possible collective impact. In each of these examples, nonprofits can then connect their purpose, the beneficiary context and goals to the organization's mission, strategy, operational model and performance measurement.

Zooming Out and Zooming In

As outlined, mapping the ecosystem from the viewpoint of the beneficiary ensures that one understands the agents that are addressing, or contributing to, the solution. And from there the board should work through the outer layers understanding and prioritizing the key agents and levers that can drive change. The **Appendix** provided at the end of this paper provides more guidance. Once this is understood, boards can contemplate the critical question: *Where does our organization sit and where can we best contribute to change within the ecosystem?*

This enables the organization's "vision" or overarching purpose to provide guidance to its core mission, while also acknowledging that the organization plays a role in the context of a larger ecosystem. If the layers of the ecosystem were frictionless, we would end up with a world where organizations' vision and mission were in harmony. But, given what we understand about complex social problems and systems thinking, it's unsurprising that this is hardly ever the case in practice.

How much to stretch and how much to stay within core “mission lanes” is a critical challenge for most nonprofit organizations. Stretching too much will fracture the organization and cause “mission drift”, whereas keeping heads in the sand may mean missing out on long-term impact.

The frictions within and between the layers and the direct and indirect feedback loops, illustrate the need to be on the lookout for unintended consequences – a certainty in complex systems – with a view to maximizing the positives, and avoiding the negatives.

Lifting to Level 3 pushes the board to go beyond financial and operational performance - it demands that leading nonprofits keep an eye on societal impact. It is critical for boards to be able to understand the organization’s impact and their hypothesized pathway (or theory of change).

And if the board concludes that the organization is not navigating in the right direction or achieving its intended impact in the system, it should develop strategies to make definitive course-corrections. That work cannot be left to the executive team alone. The board will have to take the lead in such decisive shifts in direction if the boards are to govern for the purpose for which their organizations exist. This is the new work of the board of high-performing nonprofits.

It is our contention that it is up to the board to own this new expanded role. This is not to suggest that the board and the organization get into yet one more deep dive assessment exercise, but rather through a broader approach of lifting their gaze to intelligently and humbly assessing their organization’s contributions in the larger ecosystem. Here the goal is not to seek precision but to ensure that the organization is directionally aligned to help move the needle on the underlying societal problem. It is more in the spirit of aligning the organization in the right direction rather than calculating an impact score card.

No one organization can solve complex social problems alone. Therefore, lifting the Board’s gaze to Level 3 governance will help to get to the heart of what the organization’s intended role within the larger ecosystem should be. The board should seek to understand what is currently being done; what the evidence suggests works (or doesn’t); and the key facilitators and barriers to change. Mapping the ecosystem requires the board to zoom out, but it must set boundaries as to how far it is willing to go. The organization’s contribution to mission is core and paramount. Therefore, the ability to zoom back in is key, which is where the work of Level 1 and 2 get done. The ability to titrate between the three levels is the hall mark of a well-functioning board.

Appendix: A Framework for System's Thinking

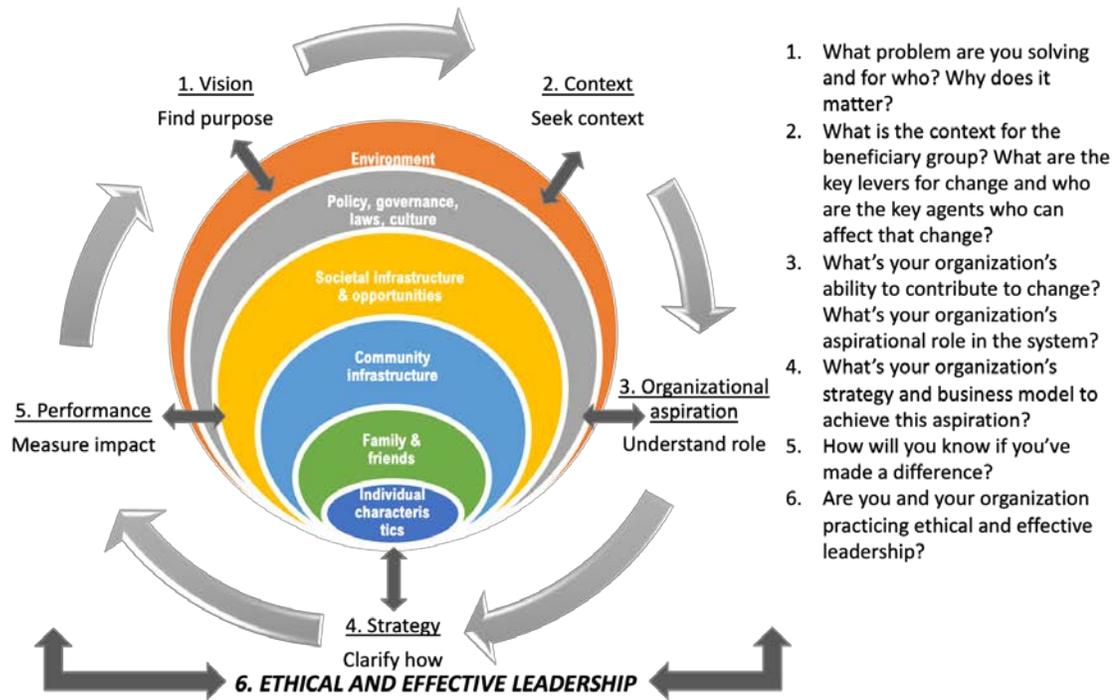
The board must always ask: who is our beneficiary and what change do we want to achieve with, and for, that group? And why does this change matter to them?

Remembering that the art of systems thinking is first seeking to understand problem from the beneficiary's perspective, the next step is about understanding the influence of the societal layers that surround the individual in the ecosystem²⁹ (**Figure 3**). Let's consider a young child in a disadvantaged community. First, we must understand their characteristics and traits. Second is their family - it is hard for a child to prosper at school, for example, if the environment at home is not conducive to healthy development. The parents' social, economic, and emotional situation affects the child. As do the peer and acquaintance network around them. In the next layer, the community has a strong influence: consider their peers and educators at school where the child spends a large proportion of time and where values and norms are shaped and opportunities, connections and supports emerge. Consider too, the role of those giving the care, and community organizations that provide the support. The curricular, extra-curricular, social and cultural interactions at this layer have a significant influence on the child's development, engagement and future pathways. Surrounding these immediate spheres of influence are further infra-structural layers. The community's housing, schools, workplaces, parks and public transport systems affect the child's life and their ability to access and engage with appropriate services. Next there are also rules, regulations, policies, cultural and societal practices that intermediate people's trajectories (sometimes dampening progress and at other times accelerating it). All of this sits within the physical environment at a household level (such as security and comfort), and at a community and society level (with terrain, location and safety).

Boards need to understand the complexity of what is going on in the real lives of the primary beneficiaries in the system within which they live every day, and within which the organization operates. Only through this understanding will the board be able to assess the higher level of impact of the organization's own work and that of its peers who are all rowing in the direction of lasting social change.

Taking this approach will assist boards to get to the heart of the why: does this vision matter for those who matter most - the key beneficiaries. This approach will assist in understanding the types of problems that need to be solved – be they simple, complicated or complex.³⁰ It also places the organization in a strong position to then step through the more familiar components of intended organizational mission and role development, strategic and business planning and performance measurement (see **Figure 3**) so that vision may be realized.

Figure 3: System's thinking framework for social impact



Besides the child, there are thousands of agents (people and organizations within this system). There are also different levers occurring which directly or indirectly result in changes (positive, negative and neutral) for the child. One non-profit within this child's ecosystem is not going to be able to change the child's trajectory alone. This nonprofit is amongst thousands of other agents in this child's ecosystem. What's important is that nonprofit boards understand this and determine their organization's role within this system to achieve change.

Endnotes

¹ We define mission as the primary purpose of the organization, the very reason for its existence. We acknowledge that the word 'mission' has negative historical connotations for some people, including Aboriginal and Torres Strait Islanders who were exposed to institutional abuse by missionaries and faced other negative consequences of missionary colonization. We certainly need a different term, but for the time being because of its universal usage, we continue with the word "mission," in this article. Our sincere apologies to the many who may be offended, that is not our intention.

² <https://www.oxfam.org/en/press-releases/half-billion-people-could-be-pushed-poverty-coronavirus-warns-oxfam>

³ Australian Government's employment support package, <https://treasury.gov.au/coronavirus/jobkeeper>, September 2020.

⁴ <https://tradingeconomics.com/united-states/unemployment-rate>; <https://tradingeconomics.com/india/unemployment-rate>, Accessed, October 23, 2020;

⁵ Australian Bureau of Statistics, Labour Force, Australia, Cat. No. 6202.0, July 2020, <https://www.abs.gov.au/ausstats/abs@nsf/mf/6202.0>,

⁶ <https://www.nytimes.com/2020/07/24/business/economy/nonprofits-coronavirus-economy.html>; "Providing a Pandemic Safety Net, Nonprofits Need their Own," Accessed October 15, 2020.

⁷ See Harvard Business School case, Blue Meridian Partners, 520-076 for "Give Directly"; Apnalaya description was obtained from interview with CEO Arun Kumar, July 7th, 2020. Also see website: <https://apnalaya.org/apnalaya-covid-19-relief-response/>

⁸ <https://www.socialventures.com.au/assets/200603-SVA-CSI-charities-covid-19-financial-health-check-report.pdf>

⁹ <https://www.socialventures.com.au/assets/200603-SVA-CSI-charities-covid-19-financial-health-check-report.pdf>

¹⁰ In a detailed survey conducted by one of the authors of 250 non-profits in the U.S., in June, 2020 and 350 in India in July 2020, roughly a quarter indicated that this was an existential crisis for them; <https://independentsector.org/resource/covid19-survey/> "The impact of COVID-19 on Large and Mid-Sized Nonprofits, June 15, 2020, Independent sector, Accessed October 12, 2020.

¹¹ For example, the Coronavirus Aid, Relief, and Economic Security (CARES) Act in the United States and JobKeeper (Coronavirus Economic Response Package) in Australia. See: <https://treasury.gov.au/coronavirus>; <https://www.cbpp.org/research/federal-budget/cares-act-measures-strengthening-unemployment-insurance-should-continue>.

¹² See Guest Editorial by Orlando Watkins, *Inside Philanthropy*, November 4, 2020, "Black Lives Matter, COVID and Equity: Philanthropy Must Step Up for the Long Struggle."

¹³ While the notion of Systems has existed for a long time, the definition is often attributed to John Henry Holland, "*Emergence from Chaos to Order*," 1998, Addison-Wesley California; The most applied description and one that non-profits can relate to is offered in: Abercrombie, R., Harries, E. and Wharton, R. (2015) *Systems Change: A Guide to What It Is and How to Do It*, New Philanthropy Capital, Lankelly Chase. Other useful definitions can be found in: Organisation for Economic Cooperation and Development (2017) *Working with change: systems approaches to public sector challenges*, an initiative of the OECD's Public Governance and Territorial Development Directorate, Observatory of Public Sector Innovation, France.

¹⁴ Several excellent articles explore the evolution of board roles over time, the following provide a representative overview: Brown, William A., and Chao Guo. "Exploring the Key Roles for Nonprofit Boards." *Nonprofit and Voluntary Sector Quarterly* 39, no.3 (June 2010): 536-46; Brown, William A., and Joel O. Iverson. "Exploring Strategy and Board Structure in Nonprofit Organizations." *Nonprofit and Voluntary Sector Quarterly* 33, no.3 (September 2004): 377-400; David F. Larcker, Nicholas E. Donatiello, Bill Meehan, Brian Tayan. 2015 Survey on Board of Directors of Nonprofit Organizations. Stanford GSB, Rock Center; Jaskyte, K. (2018). Board Attributes and processes, Board Effectiveness, and Organizational Innovation: Evidence from Nonprofit Organizations. *Voluntas*, 29(5), 1098-1111; National Council of Nonprofits, "Board Roles and Responsibilities", Accessed April, 16 2020, <https://www.councilofnonprofits.org/tools-resources/board-roles-and-responsibilities>.

¹⁵ We conducted a survey of 1,000 nonprofits each, in the U.S., and India, covering a full range in terms of the size of their revenues/budgets. The survey was conducted in early June in the U.S., and early July in India. The response rate was roughly 25% in the U.S. and 35% in India.

¹⁶ Nearly 48% of 394 respondents from across the for-purpose sector in Australia surveyed in July-Aug 2020 as part of the Pulse of the For-Purpose Sector, reported that their boards were not that helpful in helping them steer through the crisis. About 40% said their boards were 'somewhat effective', 8% ineffective but not destructive and the remaining 4% were ineffective with varying levels of destructiveness.

¹⁷ In general, the notion of strategy, and its relation to mission and mission performance has permeated from the strategy literature including the early classic work by Peter Drucker. The following articles provide a birds-eye-view of the literature as applied to nonprofits: Drucker, P.F., "The Theory of the Business", *Harvard Business Review*, Sept-Oct 1994, <https://hbr.org/1994/09/the-theory-of-the-business>; Ebrahim Alnoor and V. Kasturi Rangan (2014), What Impact? "A Framework for Measuring the Scale and Scope of Social Performance," *California Management Review*, Vol. 56 (3), Spring, 118-141; Magretta, J., "Why Business Models Matter", *Harvard Business Review*, May 2002, <https://hbr.org/2002/05/why-business-models-matter>; Rangan, V. Kasturi (2004), Lofty Missions, Down-to-Earth Plans, *Harvard Business Review*, March, R0403J; Rangan, V. Kasturi and Tricia Gregg (2019). "How Social Entrepreneurs Zig-Zag their Way to Impact at Scale," *California Management Review*, Vol 62(1), Fall, 53-76.

¹⁸ National Council of Nonprofits, "Board Roles and Responsibilities", Accessed April, 16 2020, <https://www.councilofnonprofits.org/tools-resources/board-roles-and-responsibilities>

¹⁹ In an interview with Jacqueline Novogratz, CEO of Acumen Fund, August 7, 2020.

²⁰ <https://www.edexlive.com/people/2020/jul/23/how-akshaya-patra-served-a-whopping-70-million-servings-of-food-during-the-pandemic-13453.html>

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- 21 <https://www.thesmithfamily.com.au/about-us/media/2020/pandemic-exposes-digital-divide>
- 22 The role of nonprofit boards has evolved steadily over the years. They have very much embraced the role of measuring strategy performance. The following articles provide the arc of that journey: Hussein, Taz, Alan Tuck, and Rose Martin. "Reshaping Boards to Take on Big Social Issues: Lessons from National Networks." *Bridgespan*, May 30, 2017. <https://bridgespan.org/insights/library/boards/reshaping-boards-to-take-on-big-social-issues>; Jansen, Paul J., and Andrea R. Kilpatrick. "The Dynamic nonprofit Board | McKinsey," May 2004. <https://www.mckinsey.com/industries/social-sector/our-insights/the-dynamic-nonprofit-board>; Jonker, Kim, and William F. Meehan III. "A Better Board Will Make You Better (SSIR)." *Stanford Social Innovation Review*, March 5, 2014, https://ssir.org/articles/entry/a_better_board_will_make_you_better; Ryan, William P., Richard P Chait, and Barbara E Taylor. "Problem Boards or Board Problem?" *Non Profit News | Nonprofit Quarterly*, April 20, 2018. <https://nonprofitquarterly.org/problem-boards-or-board-problems/>. First published in summer 2003 and is featured in NPQ's special winter 2012 edition, "Emerging Forms of Nonprofit Governance."; Barbara E. Taylor, Richard P. Chait, Thomas P. Holland, "The New Work of the Nonprofit Board," *HBR*, September-October, 1996.
- 23 <https://ny.curbed.com/2020/4/13/21218888/nyc-coronavirus-homeless-hotel-rooms-shelters>;
<https://www.abc.net.au/news/2020-06-08/housing-homeless-in-pandemic-has-worked-lets-make-it-permanent/12330442>;
<https://www.toronto.ca/news/city-of-toronto-covid-19-response-for-people-experiencing-homelessness/>;
<https://www.theguardian.com/society/2020/may/24/england-to-provide-3300-homes-for-homeless-after-coronavirus>.
- 24 <https://www.missionaustralia.com.au/publications/annual-reports/annual-report-2020>
- 25 <https://www.epi.org/publication/ib339-us-poverty-higher-safety-net-weaker/>; <https://www.encyclopedia.com/international/news-and-education-magazines/poor-developed-countries#>; <https://www.pewresearch.org/fact-tank/2019/04/30/shrinking-gap-between-number-of-blacks-and-whites-in-prison/>
- 26 Australian Commonwealth Government, *Australian Charities Act 2013*, No. 100 2013, Accessed April, 16 2020, <https://www.legislation.gov.au/Details/C2013A00100>; UK Government, *Charities Act 2011*. Accessed April, 16 2020, <http://www.legislation.gov.uk/ukpga/2011/25/contents/enacted>; Government of Canada, *Canadian Income Tax Act 1985*, Accessed April, 16 2020, <https://laws-lois.justice.gc.ca/eng/acts/i-3.3/>; US Department of Treasury, *IRS Publication 557, 2019*. Accessed April 16, 2020, <https://www.irs.gov/pub/irs-pdf/p557.pdf>.
- 27 <https://www.pewtrusts.org/en/research-and-analysis/articles/2020/07/07/conservation-funding-can-strengthen-the-australian-economy-in-the-face-of-covid-19>; <https://scroll.in/article/974137/indias-new-labour-codes-fail-migrant-workers-whose-vulnerability-was-highlighted-by-lockdown-crisis>
- 28 As mentioned in end note #13 above, there is an extensive literature on system's change. Abercrombie et al., 2015, cited above provides a hands-on primer for nonprofits. In addition, the following too are informative: ; Auspos, P. & Cabaj, M. 2014. Complexity and Community Change: Managing Adaptively to Improve Effectiveness. *Roundtable on community Change*. Washington, D.C.: The Aspen Institute; Best, A. & Holmes, B. 2010. Systems thinking, knowledge and action: Towards better models and methods. *Evidence & Policy*, 6, 145-159; Kim, D.H. (1999) *Introduction to Systems Thinking*, Pegasus Communications, Massachusetts; Maani, K.E. and Cavana, R.Y. (2007) *Systems Thinking, Systems Dynamics: Managing Change and Complexity*, Pearson Education, New Zealand; OECD, 2017; Sterman, J., 2000, *Business Dynamics: Systems Thinking and Modelling for a Complex World*, Boston, Irwin/McGraw-Hill.
- 29 Bronfenbrenner, U. (1979), *The Ecology of Human Development: Experiments by nature and design*, Harvard University Press, Cambridge.
- 30 Snowden, D.J. & Boone, M.E., "A Leader's Framework for Decision Making", *Harvard Business Review*, November 2007, <https://hbr.org/2007/11/a-leaders-framework-for-decision-making>.