

# 1

## Introduction

Welcome. This book is intended for you, the leadership of our nation's not-for-profit charitable organizations. It is designed to give you a different insight into how top-quality not-for-profits *really* run, what works, what doesn't, and how to ensure that your organization is one of the ones that works, both this year and throughout the new century. It is intended to help you become a mission-based manager.

In this introductory chapter we'll review the core philosophies on which I have based the book, examine the reasons that I feel the book is needed, and then take the first look at what the book holds, and the best ways for you as a reader and a management practitioner to use it. By the end of the chapter, you should have a better understanding of my philosophical perspective, and also be ready to get the most from the book as a whole.

### A. CORE PHILOSOPHIES

Before you continue, you need to know that the material in this book is based on three philosophies. These philosophies have been the core of my consulting, training, and writing since 1982, and they express better than anything I have seen my beliefs about what your organization is and what it can become.

#### **FIRST: NOT-FOR-PROFITS ARE *BUSINESSES***

Your organization is a *mission-based* business, not a charity. For-profits chase profits—not-for-profits pursue their mission. But just because you aren't primarily motivated by profit doesn't give you a license to be sloppy or to ignore a good idea simply because it was initially developed

for the for-profit sector. Whether you are a paid employee or a volunteer, you are a steward of your organization and its resources. As steward, you are responsible to use all the resources at your command to do more mission, and the techniques of the for-profit world are, in many cases, very applicable. Actually, making the connection between for-profit business techniques and the not-for-profit world is what I have been doing since 1982, and many of those skills show up in this book: good marketing, keeping track of cash flow, good controls management, and focusing on your core competencies.

How many times have you been told that you are a professional? Many, I'm sure. Well, perhaps for the first time, you are now being told that, as a mission-based manager, you are a businessperson as well. If you act in a businesslike manner, you can get more mission for your money, doing more with the limited resources at your disposal.

Using good business skills as a mission-based manager does not, I repeat, *not* mean dropping services simply because they lose money, nor does it mean turning people away because they cannot pay. But it does mean paying attention to the bottom line, having a strategic vision, negotiating in good faith and from a position of strength—in short, being businesslike. Your organization is a business, and the more businesslike you are, the better it will be for your clientele.

For-profit businesses are concerned about one bottom line: the financial return on their investment. If they invest \$x, how big is \$y return? Not-for-profit businesses need to worry more about their bottom line as well, but you have two returns to consider. On any expenditure (which I consider an investment), the question is: How much mission am I getting back on this investment. What's the mission return? And what is the financial return? We'll talk a great deal about this concept throughout the book. But let's agree that business ideas, concepts, and techniques do have mission application.

## **SECOND: NO ONE GIVES YOU A DIME**

This may come as a surprise, but you do not really get gifts. You do not really receive donations, you do not really get grants. I know that that is what all of us call them, but the problem with thinking of those transactions as gifts or donations is that the organization then acts like a charity. You become stuck in the mentality that you are so poor that the only way you can survive is by the beneficence of people or organizations richer than you.

Technically, that may all be true, but try looking at it this way, and

see if you feel differently about yourself and your organization. Let's assume that you come to me for a donation, and you convince me that you really need the money for a service or a building. I write you a check for \$100. Am I making the donation to you? Of course not. Am I giving a gift to your organization? You're getting closer. But what I am really doing and what really happens in all of these transactions is that I am *purchasing services for someone who cannot pay*. No one sends you money and expects you to keep it in a vault somewhere. Whether you get a grant from the feds, or a bequest from a local person, it is understood that you will provide services with the money you have. In business terms, I give you my money based on an *expectation of outcome*. When I go to McDonald's, I have an expectation of a burger; when I enter a hotel, I have an expectation of lodging.

In other words, and here is the key: You *earn* all the money you get. It is essential that you and your staff and board understand this and believe it if you are to adopt the characteristics of success that are presented in this book. Why? Because if you keep thinking of yourselves as a poor charity, you will continue to be treated that way and not like the mission-based business that you are.

### **THIRD: NOT-FOR-PROFIT DOES NOT MEAN NONPROFIT**

You have certainly noticed by now that I use the term *not-for-profits*, eschewing the commonly used *nonprofit*. There is a good reason for this—there is a difference. A *nonprofit is an organization that loses money*. Many savings and loans in the 1980s were nonprofits, as were many of our domestic airlines and automakers. Too many not-for-profits are also nonprofits, a situation that we need to correct and soon. There is a reason that so many not-for-profits lose money, and it has to do with the perception that it is illegal and immoral for a not-for-profit to make money.

It is not. Nowhere in any state or federal law, and nowhere in any state or federal regulation dealing with taxation or corporate structures, does it say that a not-for-profit cannot make money, cannot make a profit. In fact, the Internal Revenue Service (IRS) code dealing with 501(c)(3) organizations says, “. . . the profits of the corporation shall not inure to the benefit of. . . .” This clause precludes staff or board from inappropriately benefitting from the organization's profits, but the key to the phrase is that the IRS anticipates and accepts profits. Profits in a not-for-profit are *legal*.

If you or anyone in your organization thinks that I am wrong about profits being legal, consider this. Your organization is considered tax-

exempt (by reason of your 501(c)(3) status), but from what kind of *federal* taxes? I know you may not pay sales or property taxes, but those are state or local exemptions. At the federal level, you are exempt from what the IRS terms *income tax*. Now, for you and me, income tax means that we add up all of our income and pay the IRS a portion of that. But the tax your organization is subject to is a business tax. Businesses do not pay tax on what you and I would term *income*, they pay taxes on profits. They add up all their income, subtract all their expenses, and pay, in taxes, a portion of their profits. *Income* to the IRS means *profits* to you and me. Thus, your organization has an exemption against paying taxes on its profits. Here's the question: *If you can't make a profit, why do you need a tax exemption?*

In fact, the entire issue of not-for-profits not being able to make money is just so much smoke, and it runs right in the face of the intention of Congress in giving you the charitable status you have. Congress wanted your organization to keep what it earns and reinvest it in the community. They wanted to encourage our sector and didn't think that we should be taxed for doing good things related to our mission. What have we done? Screwed it all up by not allowing not-for-profits to keep what they earn.

Profits in your not-for-profit are also *essential*, a key element in financial empowerment, a subject that we will cover at length. Without profits, you cannot grow, you can't innovate and try new ways to serve your communities, you cannot recruit and retain excellent staff, and you cannot take prudent risks on behalf of your clientele. You will see in later chapters that I will contend that you need to make money as an organization at least 7 out of 10 years. To do less is not good mission-based management.

These philosophies form the foundation for everything that follows in this book. They are the core of mission-based management. If you agree with them, if you find yourself nodding and saying "That's great!", you are going to enjoy the book and get a great deal out of it. If you are uncomfortable with the philosophies, I hope that the remainder of this chapter and the issues raised in Chapters 2 and 3 will convince you of the validity of these philosophies. If that doesn't work, then I think that the remainder of the book will convince you that there are many, many business applications that can improve your ability to do better mission more efficiently and effectively.

We will return to these philosophies at the end of the book, to look at how your funders can adopt them to give you more leeway to do your job. But for the majority of the book, we will concentrate on how you

can make them a reality in your own management style, in your own mission-based organization.

## **B. WHY IS THIS SECOND EDITION NEEDED NOW?**

The 1980s were an extremely turbulent time for America's not-for-profits. During the Reagan Administration years of 1981 to 1989, the vast majority of not-for-profits—those that depend on government funding for the majority of their incomes—had their perspective on life radically changed. No longer could these organizations depend on government (read: taxpayer) largesse to cover their expenses, nor would regular cost of living adjustments (COLAs) solve their problems. No, not-for-profits would have to learn to make do as more independent, more businesslike, entities. Wouldn't they?

Those of us in the field thought so. In many organizations, things did change. New businesses sprang up, inside or outside the traditional organization's array of services. Educational opportunities for not-for-profit staff slowly became available across the country throughout the decade, not only at the continuing education and seminar level, but as graduate degrees in many top-notch educational institutions. More and more staffs sought and received the one type of course work that they had previously never had access to: basic, as well as advanced, management training.

Unfortunately, many organizations continued to do business as usual. After a brief foray into a new idea or service, they returned to their traditional sources of funding, squeezed more work out of their staffs, tried to serve the avalanche of new people needing help. (In the human service not-for-profit, this higher need for service—from homelessness to public health to literacy—was another result of the Reagan years.) They continued to act like charities rather than not-for-profit businesses. Government, foundations, and United Ways for the most part only exacerbated the problems by emphasizing cost controls over strategic planning and marketing, and fund raising over entrepreneurship—two essential components of an excellent organization-for-profit or not-for-profit.

The 1990s have brought some needed change and some new challenges. Hundreds of colleges and universities now have both undergraduate and graduate levels. Management support organizations sprang up in many states and metropolitan areas, ready to help not-for-profits run their organization more efficiently and effectively. Some funders began to move toward fee-for-service contracting rather than grants. But there were also new challenges. Reimbursement structures based on the managed care

model took hold in a wide variety of shapes at the federal and state level, requiring measurement of outcomes rather than process for the first times. After decades of punishing “duplication of service,” some funders started to worry about costs to such an extent that social service and educational organizations nationwide began a movement to merge. Competition for dollars, for good staff, for good volunteers, and for people to serve became much more intense.

As a result, there is a pressing need for a new way of thinking regarding not-for-profit management. This book is intended to help you put an end to the old way of doing things, to help you make the transition from an administrator of a charity to a mission-based manager. I know, from consulting and training thousands of not-for-profit staff and boards since 1982, that the organizations that *are* succeeding in meeting the needs of their clientele, the organizations that *are* financially stable, the organizations that *will* meet the challenges of the future have the characteristics discussed in later chapters. I also firmly believe that if your organization has those characteristics, or acquires them, *and consistently works to improve them*, that you will succeed in serving the people that are depending on you. Unfortunately, too many not-for-profit managers, not-for-profit board members, and not-for-profit funders are still stuck in the 1970s. And they are getting further behind every day.

Mission-based management is good management. It is more than stewardship, a term that has become widely used in the not-for-profit field in recent years. It is a philosophy that says “I will use all the best tools at my disposal to help my organization excel in the pursuit of its mission. The mission is the reason that we are here, but that is no excuse for sloppy or slipshod management. We would never tolerate poor quality in services. We won’t tolerate poor quality in management either.”

### C. MISSION-BASED MANAGEMENT, SECOND EDITION

You already know that much has changed since the first edition of *Mission-Based Management* in 1994. The format for all of the *Mission-Based Management* series books has evolved as well. There are now more features in the chapters than before that should give you, the reader, more value for your time. The book is designed to be used as a guide and as a reference for you to return to over and over. I know that your time is limited and that you will be tempted to jump right to the parts that you are most interested in, perhaps Developing A Bias For Marketing (Chapter 9) or Financial Empowerment (Chapter 10). To the extent possible, I urge you to read the book from front to back. The chapters are in the order presented for a reason: They build upon one another. Issues raised in the

early chapters are discussed further in later ones; problems surfaced in one sometimes reappear in another. To get the most from the book, read it in the order that it is printed.

Because much of what I talk about in the remainder of the book is based on teamwork, and bringing in lots of staff, board, and outside experts to help, I suggest that you work through this book as a team effort. Have a small group of senior managers, middle managers, and direct service staff read a few chapters and then get together to discuss their application in your organization. Ask the group: “Is what is presented appropriate for our organization? If so, what do we need to do to facilitate any needed changes? If it is not appropriate, why not? Are we doing the best we can in this area? How can we be better?” Use the lists of questions that I have included at the end of each chapter to start these discussions. By reading the book as a team, and by reading it at the same time, you will get a more complete, more organization-wide use of the book, and the benefits of the book will be applied to your organization sooner.

Now, let’s turn to the format of the book. By giving you an overview of both the format and sequence, as well as a brief peek at the benefits that you will get from each chapter, I hope that you will get more from our time together.

## 1. THE FORMAT

Each chapter starts with an **OVERVIEW**, intended to give you a brief summary of what the chapter will hold. The body of the text comes next, and I try, as much as possible, to give you illustrations and ideas for immediate use. These illustrations and ideas are highlighted by the terms “☐ **FOR EXAMPLE**” and “☞ **HANDS-ON,**” respectively. Look for them in nearly every chapter. Near the end of the chapter is a **RECAP**, which is a brief review of the points that have been covered in the chapter, to allow you to draw all of the material together in your mind. There is also a list of **Questions for Discussion**, which are intended to stimulate group conversations with your staff and volunteers about ways to best use the ideas included in the book.

## 2. THE CONTENT

The book is broken down into what I call context-setting chapters, working chapters, and the final chapter, which is a call to action for the funders of not-for-profits. Let’s look at each chapter briefly.

## 8 Why Is This Second Edition Needed Now?

### 1. Introduction

- This is the chapter you are reading now. It includes a look at three core philosophies, who the book is written for, how the book is designed, and how to get the most from reading it.

### ***Context-Setting Chapters***

#### 2. Where We Were, Where We Are, Where We're Going

- A brief history of the not-for-profit world, an examination of the relationship between not-for-profits and their funders, and an updated prediction of the not-for-profit world for the next 10 years.

#### 3. What Works: The Characteristics of a Successful Not-for-Profit

- An updated list of the nine things that a not-for-profit needs to continue to do its mission well in the twenty-first century.

### ***Working Chapters***

#### 4. The Mission Is the Reason

- How to get the most benefit from the reason that not-for-profits exist. For many, the mission is an underutilized resource. A discussion on updating and then using a motivational mission statement.

#### 5. A Businesslike Board of Directors

- What an effective board is, and what the board's and the staff's respective roles are. Reducing board liability and recruiting and retaining a board will be covered as well.

#### 6. Managing Your People

- A new approach to management that succeeds in today's high-speed, information-driven environment, also including better communications, evaluations, and rewards.

#### 7. The Wired Not-for-Profit

- How to use technology to better manage, inform, market, empower, and compete in today's wired environment.

## 8. Creating a Social Entrepreneur

- How to develop a culture that takes prudent risks on behalf of its clientele. The criteria of a social entrepreneur. How to focus on your core competencies and remain flexible.

## 9. Developing a Bias for Marketing

- The best way to bring your entire team into the marketing process, to discover who your markets really are and how to meet their needs and wants. The characteristics of a market-driven and mission-based organization. How to improve 1% every day.

## 10. Financial Empowerment

- The eight key characteristics of a financially empowered not-for-profit, better internal reporting, and how a not-for-profit can keep what it earns.

## 11. A Vision For the Future

- How to plan where you are going, and how to get the most from the planning process as well as from the plan itself. Sample plan outlines.

## 12. The Controls That Set You Free

- The way to get the most from nine different kinds of policies, including a tested method for their development and enforcement.

## 13. A National Agenda: Empowering Our Not-for-Profits

- The other side of the coin: what the funders need to do to improve, free, embolden, and empower the not-for-profits with whom they contract.

## 14. Final Words

- These are organizations, books, Web sites, and periodicals that can help you become a better mission-based manager.

## **RECAP**

In this chapter we've covered the key philosophies that are the basis for the book and why I think the book is needed. We've also taken the first look at the contents of the book and how it is set up, so that you can make the most use of it to benefit your organization and the people that you serve.

I know that you have a tough and challenging job. As a leader of a not-for-profit, you have to concern yourself with many differing and conflicting needs and demands, those of your funders, your clientele, your board, staff, community, banker, and peers. You need to ensure that your organization is pursuing its mission with zeal, that it meets the changing needs of the community that you serve, and that you have enough money to make ends meet.

The tools to help you do those things are in the following pages. Good reading and good luck!