The best management practice and most innovative methods now come from the Girl Scouts and the Salvation Army.

What Business Can Learn from Nonprofits

by Peter F. Drucker

The Girl Scouts, the Red Cross, the pastoral churches – our nonprofit organizations – are becoming America's management leaders. In two areas, strategy and the effectiveness of the board, they are practicing what most American businesses only preach. And in the most crucial area – the motivation and productivity of knowledge workers – they are truly pioneers, working out the policies and practices that business will have to learn tomorrow.

Few people are aware that the nonprofit sector is by far America's largest employer. Every other adult – a total of 80 million plus people – works as a volunteer, giving on average nearly five hours each week to one or several nonprofit organizations. This is equal to 10 million full-time jobs. Were volunteers paid, their wages, even at minimum rate, would amount to some $150 billion, or 5% of GNP. And volunteer work is changing fast. To be sure, what many do requires little skill or judgment: collecting in the neighborhood for the Community Chest one Saturday afternoon a year, chaperoning youngsters selling Girl Scout cookies door to door, driving old people to the doctor. But more and more volunteers are becoming "unpaid staff," taking over the professional and managerial tasks in their organizations.

Not all nonprofits have been doing well, of course. A good many community hospitals are in dire straits. Traditional churches and synagogues of all persuasions – liberal, conservative, evangelical, fundamentalist – are still steadily losing members. Indeed, the sector overall has not expanded in the last 10 or 15 years, either in terms of the money it raises (when adjusted for inflation) or in the number of volunteers. Yet in its productivity, in the scope of its work and in its contribution to American society, the nonprofit sector has grown tremendously in the last two decades.

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The Salvation Army is an example. People convicted to their first prison term in Florida, mostly very poor black or Hispanic youths, are now paroled into the Salvation Army's custody – about 25,000

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each year. Statistics show that if these young men and women go to jail the majority will become habitual criminals. But the Salvation Army has been able to rehabilitate 80% of them through a strict work program run largely by volunteers. And the program costs a fraction of what it would to keep the offenders behind bars.

Underlying this program and many other effective nonprofit endeavors is a commitment to management. Twenty years ago, management was a dirty word for those involved in nonprofit organizations. It meant business, and nonprofits prided themselves on being free of the taint of commercialism and above such sordid considerations as the bottom line. Now most of them have learned that nonprofits need management even more than business does, precisely because they lack the discipline of the bottom line. The nonprofits are, of course, still dedicated to "doing good." But they also realize that good intentions are no substitute for organization and leadership, for accountability, performance, and results. Those require management and that, in turn, begins with the organization's mission.

As a rule, nonprofits are more money-conscious than business enterprises are. They talk and worry about money much of the time because it is so hard to raise and because they always have so much less of it than they need. But nonprofits do not base their strategy on money, nor do they make it the center of their plans, as so many corporate executives do. "The businesses I work with start their planning with financial returns," says one well-known CEO who sits on both business and nonprofit boards. "The nonprofits start with the performance of their mission."

Starting with the mission and its requirements may be the first lesson business can learn from successful nonprofits. It focuses the organization on action. It defines the specific strategies needed to attain the crucial goals. It creates a disciplined organization. It alone can prevent the most common degenerative disease of organizations, especially large ones: splintering their always limited resources on things that are "interesting" or look "profitable" rather than concentrating them on a very small number of productive efforts.

The best nonprofits devote a great deal of thought to defining their organization's mission. They avoid sweeping statements full of good intentions and focus, instead, on objectives that have clear-cut implications for the work their members perform – staff and volunteers both. The Salvation Army's goal, for example, is to turn society's rejects – alcoholics, criminals, derelicts – into citizens. The Girl Scouts help youngsters become confident, capable young women who respect themselves and other people. The Nature Conservancy preserves the diversity of nature's fauna and flora. Nonprofits also start with the environment, the community, the "customers" to be; they do not, as American businesses tend to do, start with the inside, that is, with the organization or with financial returns.

Willowcreek Community Church in South Barrington, Illinois, outside Chicago, has become the nation's largest church – some 13,000 parishioners.

> Nonprofits need management precisely because they don't have a bottom line.

Yet it is barely 15 years old. Bill Hybels, in his early twenties when he founded the church, chose the community because it had relatively few churchgoers, though the population was growing fast and churches were plentiful. He went from door to door asking, "Why don't you go to church?" Then he designed a church to answer the potential customers' needs: for instance, it offers full services on Wednesday evenings because many working parents need Sunday to spend with their children. Moreover, Hybels continues to listen and react. The pastor's sermon is taped while it is being delivered and instantly reproduced so that parishioners can pick up a cassette when they leave the building because he was told again and again, "I need to listen when I drive home or drive to work so that I can build the message into my life." But he was also told: "The sermon always tells me to change my life but never how to do it." So now every one of Hybels's sermons ends with specific action recommendations.

A well-defined mission serves as a constant reminder of the need to look outside the organization not only for "customers" but also for measures of success. The temptation to content oneself with the "goodness of our cause" – and thus to substitute good intentions for results – always exists in nonprofit organizations. It is precisely because of this that the successful and performing nonprofits have learned to define clearly what changes *outside* the organization constitute "results" and to focus on them.

The experience of one large Catholic hospital chain in the Southwest shows how productive a clear sense of mission and a focus on results can be. Despite the sharp cuts in Medicare payments and hospital stays during the past eight years, this chain has increased revenues by 15% (thereby managing to break even) while greatly expanding its services and

raising both patient-care and medical standards. It has done so because the nun who is its CEO understood that she and her staff are in the business of delivering health care (especially to the poor), not running hospitals.

As a result, when health care delivery began moving out of hospitals for medical rather than economic reasons about ten years ago, the chain promoted the trend instead of fighting it. It founded ambulatory surgery centers, rehabilitation centers, X-ray and lab networks, HMOs, and so on. The chain's motto was: "If it's in the patient's interest, we have to promote it; it's then our job to make it pay." Paradoxically, the policy has filled the chain's hospitals; the free-standing facilities are so popular they generate a steady stream of referrals.

This is, of course, not so different from the marketing strategy of successful Japanese companies. But it is very different indeed from the way most Western businesses think and operate. And the difference is that the Catholic nuns – and the Japanese – start with the mission rather than with their own rewards, and with what they have to make happen outside themselves, in the marketplace, to deserve a reward.

Finally, a clearly defined mission will foster innovative ideas and help others understand why they need to be implemented – however much they fly in the face of tradition. To illustrate, consider the Daisy Scouts, a program for five-year-olds which the Girl Scouts initiated a few years back. For 75 years, first grade had been the minimum age for entry into a Brownie troop, and many Girl Scout councils wanted to keep it that way. Others, however, looked at demographics and saw the growing numbers of working women with "latch key" kids. They also looked at the children and realized that they were far more sophisticated than their predecessors a generation ago (largely thanks to TV).

Today the Daisy Scouts are 100,000 strong and growing fast. It is by far the most successful of the many programs for preschoolers that have been started these last 20 years, and far more successful than any of the very expensive government programs. Moreover, it is so far the only program that has seen these critical demographic changes and children's exposure to long hours of TV viewing as an opportunity.

Many nonprofits now have what is still the exception in business – a functioning board. They also have something even rarer: a CEO who is clearly accountable to the board and whose performance is reviewed annually by a board committee. And they have what is rarer still: a board whose performance is reviewed annually against preset performance objectives. Effective use of the board is thus a second area in which business can learn from the nonprofit sector.

In U.S. law, the board of directors is still considered the "managing" organ of the corporation. Management authors and scholars agree that strong boards are essential and have been writing to that effect for more than 20 years, beginning with Myles Mace's pioneering work.[1] Nevertheless, the top managements of our large companies have been whittling away at the directors' role, power, and independence for more than half a century. In every single business failure of a large company in the last few decades, the board was the last to realize that things were going wrong. To find a truly effective board, you are much better advised to look in the nonprofit sector than in our public corporations.

> What do a large Catholic hospital chain and successful Japanese companies have in common?

In part, this difference is a product of history. Traditionally, the board has run the shop in nonprofit organizations – or tried to. In fact, it is only because nonprofits have grown too big and complex to be run by part-time outsiders, meeting for three hours a month, that so many have shifted to professional management. The American Red Cross is probably the largest nongovernmental agency in the world and certainly one of the most complex. It is responsible for worldwide disaster relief; it runs thousands of blood banks as well as the bone and skin banks in hospitals; it conducts training in cardiac and respiratory rescue nationwide; and it gives first-aid courses in thousands of schools. Yet it did not have a paid chief executive until 1950, and its first professional CEO came only with the Reagan era.

But however common professional management becomes – and professional CEOs are now found in most nonprofits and all the bigger ones – nonprofit boards cannot, as a rule, be rendered impotent the way so many business boards have been. No matter how much nonprofit CEOs would welcome it – and quite a few surely would – nonprofit boards cannot become their rubber stamp. Money is one reason. Few directors in publicly held corporations are substantial shareholders, whereas directors on nonprofit boards very often contribute large sums themselves, and are expected to bring in donors as

1. A good example is Myles Mace, "The President and the Board of Directors," HBR March-April 1972, p. 37.

well. But also, nonprofit directors tend to have a personal commitment to the organization's cause. Few people sit on a church vestry or on a school board unless they deeply care about religion or education. Moreover, nonprofit board members typically have served as volunteers themselves for a good many years and are deeply knowledgeable about the organization, unlike outside directors in a business.

Precisely because the nonprofit board is so committed and active, its relationship with the CEO tends to be highly contentious and full of potential for friction. Nonprofit CEOs complain that their board "meddles." The directors, in turn, complain that management "usurps" the board's function. This has forced an increasing number of nonprofits to realize that neither board nor CEO is "the boss." They are colleagues, working for the same goal but each having a different task. And they have learned that it is the CEO's responsibility to define the tasks of each, the board's and his or her own.

> The key to making a board effective is to organize its work, not talk about its function.

For example, a large electric co-op in the Pacific Northwest created ten board committees, one for every member. Each has a specific work assignment: community relations, electricity rates, personnel, service standards, and so on. Together with the co-op's volunteer chairman and its paid CEO, each of these one-person committees defines its one-year and three-year objectives and the work needed to attain them, which usually requires five to eight days a year from the board member. The chairman reviews each member's work and performance every year, and a member whose performance is found wanting two years in a row cannot stand for reelection. In addition, the chairman, together with three other board members, annually reviews the performance of the entire board and of the CEO.

The key to making a board effective, as this example suggests, is not to talk about its function but to organize its work. More and more nonprofits are doing just that, among them half a dozen fair-sized liberal arts colleges, a leading theological seminary, and some large research hospitals and museums. Ironically, these approaches reinvent the way the first nonprofit board in America was set up 300 years ago: the Harvard University Board of Overseers. Each member is assigned as a "visitor" to one area in the university – the Medical School, the Astronomy Department, the investment of the endowment – and acts both as a source of knowledge to that area and as a critic of its performance. It is a common saying in American academia that Harvard has the only board that makes a difference.

The weakening of the large corporation's board would, many of us predicted (beginning with Myles Mace), weaken management rather than strengthen it. It would diffuse management's accountability for performance and results; and indeed, it is the rare big-company board that reviews the CEO's performance against preset business objectives. Weakening the board would also, we predicted, deprive top management of effective and credible support if it were attacked. These predictions have been borne out amply in the recent rash of hostile takeovers.

To restore management's ability to manage we will have to make boards effective again – and that should be considered a responsibility of the CEO. A few first steps have been taken. The audit committee in most companies now has a real rather than a make-believe job responsibility. A few companies – though so far almost no large ones – have a small board committee on succession and executive development, which regularly meets with senior executives to discuss their performance and their plans. But I know of no company so far where there are work plans for the board and any kind of review of the board's performance. And few do what the larger nonprofits now do routinely: put a new board member through systematic training.

Nonprofits used to say, "We don't pay volunteers so we cannot make demands upon them." Now they are more likely to say, "Volunteers must get far greater satisfaction from their accomplishments and make a greater contribution precisely because they do not get a paycheck." The steady transformation of the volunteer from well-meaning amateur to trained, professional, unpaid staff member is the most significant development in the nonprofit sector – as well as the one with the most far-reaching implications for tomorrow's businesses.

A Midwestern Catholic diocese may have come furthest in this process. It now has fewer than half the priests and nuns it had only 15 years ago. Yet it has greatly expanded its activities – in some cases, such as help for the homeless and for drug abusers, more than doubling them. It still has many traditional volunteers like the Altar Guild members who arrange flowers. But now it is also being served by some 2,000 part-time unpaid staff who run the Catholic charities, perform administrative jobs in parochial schools, and organize youth activities, college Newman Clubs, and even some retreats.

A similar change has taken place at the First Baptist Church in Richmond, Virginia, one of the largest and oldest churches in the Southern Baptist Convention. When Dr. Peter James Flamming took over five years ago, the church had been going downhill for many years, as is typical of old, inner-city churches. Today it again has 4,000 communicants and runs a dozen community outreach programs as well as a full complement of in-church ministries. The church has only nine paid full-time employees. But of its 4,000 communicants, 1,000 serve as unpaid staff.

This development is by no means confined to religious organizations. The American Heart Association has chapters in every city of any size throughout the country. Yet its paid staff is limited to those at national headquarters, with just a few traveling troubleshooters serving the field. Volunteers manage and staff the chapters, with full responsibility for community health education as well as fund raising.

These changes are, in part, a response to need. With close to half the adult population already serving as volunteers, their overall number is unlikely to grow. And with money always in short supply, the nonprofits cannot add paid staff. If they want to add to their activities – and needs are growing – they have to make volunteers more productive, have to give them more work and more responsibility. But the major impetus for the change in the volunteer's role has come from the volunteers themselves.

More and more volunteers are educated people in managerial or professional jobs – some preretirement men and women in their fifties, even more baby-boomers who are reaching their mid-thirties or forties. These people are not satisfied with being helpers. They are knowledge workers in the jobs in which they earn their living, and they want to be knowledge workers in the jobs in which they contribute to society – that is, their volunteer work. If nonprofit organizations want to attract and hold them, they have to put their competence and knowledge to work. They have to offer meaningful achievement.

> Nonprofits used to say, "We don't pay volunteers so we can't demand much." Now they say, "Because we don't pay, we have to demand even more."

Many nonprofits systematically recruit for such people. Seasoned volunteers are assigned to scan the newcomers – the new member in a church or synagogue, the neighbor who collects for the Red Cross – to find those with leadership talent and persuade them to try themselves in more demanding assignments. Then senior staff (either a full-timer on the payroll or a seasoned volunteer) interviews the newcomers to assess their strengths and place them accordingly. Volunteers may also be assigned both a mentor and a supervisor with whom they work out their performance goals. These advisers are two different people, as a rule, and both, ordinarily, volunteers themselves.

The Girl Scouts, which employs 730,000 volunteers and only 6,000 paid staff for 3½ million girl members, works this way. A volunteer typically starts by driving youngsters once a week to a meeting. Then a more seasoned volunteer draws her into other work – accompanying Girl Scouts selling cookies door-to-door, assisting a Brownie leader on a camping trip. Out of this step-by-step process evolve the volunteer boards of the local councils and, eventually, the Girl Scouts governing organ, the National Board. Each step, even the very first, has its own compulsory training program, usually conducted by a woman who is herself a volunteer. Each has specific performance standards and performance goals.

What do these unpaid staff people themselves demand? What makes them stay – and, of course, they can leave at any time. Their first and most important demand is that the nonprofit have a clear mission, one that drives everything the organization does. A senior vice president in a large regional bank has two small children. Yet she just took over as chair of the state chapter of Nature Conservancy, which finds, buys, and manages endangered natural ecologies. "I love my job," she said, when I asked her why she took on such heavy additional work, "and of course the bank has a creed. But it doesn't really know what it contributes. At Nature Conservancy, I know what I am here for."

The second thing this new breed requires, indeed demands, is training, training, and more training. And, in turn, the most effective way to motivate and hold veterans is to recognize their expertise and use them to train newcomers. Then these knowledge workers demand responsibility – above all, for thinking through and setting their own performance goals. They expect to be consulted and to participate in making decisions that affect their work and the work of the organization as a whole. And they expect opportunities for advancement, that is, a chance to take on more demanding assignments and more responsibility as their performance warrants. That is why a good many nonprofits have developed career ladders for their volunteers.

Supporting all this activity is accountability. Many of today's knowledge-worker volunteers insist on

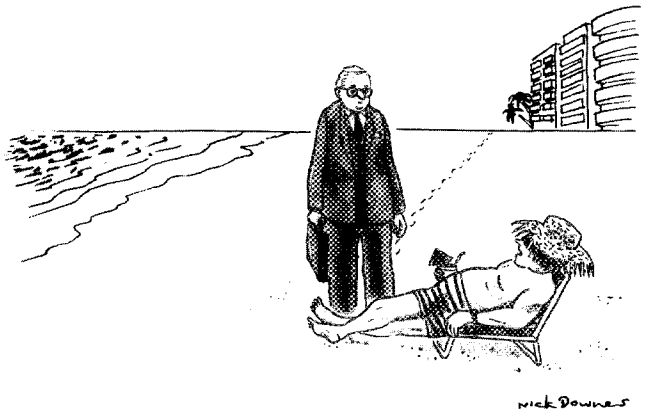
having their performance reviewed against preset objectives at least once a year. And increasingly, they expect their organizations to remove nonperformers by moving them to other assignments that better fit their capacities or by counseling them to leave. "It's worse than the Marine Corps boot camp," says the priest in charge of volunteers in the Midwestern diocese, "but we have 400 people on the waiting list." One large and growing Midwestern art museum requires of its volunteers – board members, fundraisers, docents, and the people who edit the museum's newsletter – that they set their goals each year, appraise themselves against these goals each year, and resign when they fail to meet their goals two years in a row. So does a fair-sized Jewish organization working on college campuses.

These volunteer professionals are still a minority, but a significant one – perhaps a tenth of the total volunteer population. And they are growing in numbers and, more important, in their impact on the nonprofit sector. Increasingly, nonprofits say what the minister in a large pastoral church says: "There is no laity in this church; there are only pastors, a few paid, most unpaid."

This move from nonprofit volunteer to unpaid professional may be the most important development in American society today. We hear a great deal about the decay and dissolution of family and community and about the loss of values. And, of course, there is reason for concern. But the nonprofits are generating a powerful countercurrent. They are forging new bonds of community, a new commitment to active citizenship, to social responsibility, to values. And surely what the nonprofit contributes to the volunteer is as important as what the volunteer contributes to the nonprofit. Indeed, it may be fully as important as the service, whether religious, educational, or welfare related, that the nonprofit provides in the community.

> When I ask executives why they volunteer, too many say, "Because there isn't enough challenge in my job."

This development also carries a clear lesson for business. Managing the knowledge worker for productivity is the challenge ahead for American management. The nonprofits are showing us how to do that. It requires a clear mission, careful placement and continuous learning and teaching, management by objectives and self-control, high demands but corresponding responsibility, and accountability for performance and results.



"You look like you mean business, Hadley."

There is also, however, a clear warning to American business in this transformation of volunteer work. The students in the program for senior and middle-level executives in which I teach work in a wide diversity of businesses: banks and insurance companies, large retail chains, aerospace and computer companies, real estate developers, and many others. But most of them also serve as volunteers in nonprofits – in a church, on the board of the college they graduated from, as scout leaders, with the YMCA or the Community Chest or the local symphony orchestra. When I ask them why they do it, far too many give the same answer: Because in my job there isn't much challenge, not enough achievement, not enough responsibility; and there is no mission, there is only expediency.

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