



CHAPTER ONE

Nonprofits and the Digital Age

The 21st century will be a time of immense change for the nonprofit industry. In the coming years, the digital age will hit us in full force. Technology and the Internet will increasingly cause the same types of chaotic changes and market disruptions in the nonprofit industry that it continues to cause in the for-profit industry. Customers, who will become increasingly “wired,” used to comparison shopping on Web sites, and accustomed to overnight delivery, will demand more products and services in more convenient ways. Dramatic infusions of new money from government devolution and philanthropy will foster unprecedented consolidation and competition in the industry.

Simply put, business will not continue as usual. At times like this, certain fundamentals about the way the nonprofit industry has operated will change. At a strategic inflection point, Intel chairman Andy Grove argues, the forces of change are so great that they can be fatal if not attended to. At those times, organizations that understand and anticipate these fundamental changes and learn how to operate in new ways will thrive. Those who maintain the status quo are unlikely to survive intact. This book is designed to provide a framework to help you navigate through the strategic inflection point when it hits your part of the industry and to build an organization that thrives on change.

UNDERSTANDING THE FORCES OF CHANGE

The fundamental forces of change facing the nonprofit industry fall into five related but distinct categories: technology, customers, money, competition, and choice. Although these factors have all been at work over the past decade to various degrees, most sectors of the industry have not had to face or have chosen not to face the consequences of these forces to date.

Technology

Leading nonprofits in the 21st century will require applying lessons learned from the dot.com world's use of technology and the Internet as a communications tool that efficiently moves information to fundamentally reshape old ways of doing business. What is this likely to look like?¹ Nonprofits will scale their operations in ways never seen before. They will use their organization's information assets, often as the first-mover in their sector, to get to a lot of customers—both old and new—fast. They will be able to be both a “high-tech” and “high-touch” organization by combining physical qualities and information/digital assets. This approach will give them both a distinct competitive advantage and the capacity to act as a broker with traditional and new customers.

Nonprofits will embrace strategic alliances with value-added partners. Working with former competitors, friends, and even new for-profit and nonprofit organizations, they will build mechanisms to share information and knowledge with each other to enhance their collective competitive advantages. From these relationships, some existing organizations will likely become obsolete and replaced with new infomediaries who are able to play an enormous role in a particular sector by mining customer data and making customization of that data possible.

Technology and the Internet will enable organizations to redesign themselves from the inside out by creating new business processes and systems. With the Internet as their communications backbone, the knowledge required for innovation will flow freely from one employee to the next regardless of position within the organization.

Customers

Customer-led applications of technology and the Internet will force nonprofits to change if they want to attract, interact with, and retain their customers. Simply put, customers are fast becoming part of the Internet culture. Results from the U.S. Department of Commerce's most recent report on the digital divide² show that computers and the Internet are rapidly becoming a part of every American's way of life. The data show that the overall level of U.S. digital inclusion is rapidly increasing. The share of households with Internet access soared by 58 percent, rising from 26.2 percent in December 1998 to 41.5 percent in August 2000. More than half of all households (51.0 percent) have computers, up from 42.1 percent in December 1998. There were 116.5 million Americans online at some location in August 2000, 31.9 million more than there were only 20 months earlier. The share of individuals using the Internet rose by 35.8 percent, from 32.7 percent in December 1998 to 44.4 percent in August 2000. If growth continues at that rate, more than half of all Americans will be using the Internet by the middle of 2001.

The rapid uptake of new technologies is occurring among most groups of Americans, regardless of income, education, race or ethnicity, location, age, or gender. Groups that have traditionally been digital "have nots" are now making dramatic gains. The gap between households in rural areas and households nationwide that access the Internet narrowed from 4.0 percentage points in 1998 to 2.6 percentage points in 2000. In rural areas in 2000, 38.9 percent of the households had Internet access, a 75 percent increase from 22.2 percent in December 1998. African-Americans and Hispanics, while still lagging behind other groups, showed impressive gains in Internet access. In 2000, African-American households were more than twice as likely to have home access than they were 20 months before, rising from 11.2 percent to 23.5 percent. Hispanic households also experienced a tremendous growth rate during this period, rising from 12.6 percent to 23.6 percent.³

This Internet culture is about more than just access, however; it's about putting that access into action. More Americans are going online to conduct such day-to-day activities as business transactions, personal correspondence, research and information gathering, and

shopping. Eighty percent of Internet users report that they regularly use e-mail. Low-income Americans are more likely than higher-income Americans to use the Internet for online coursework and local job searching. In fact, 45 percent of Americans who use the Internet at home and earn \$10,000 to \$15,000 use it to take online courses; 25 percent use it for local job searching.⁴

What does all of this mean for nonprofits? It means that they will have to build new and different customer-centered relationships with their customers. These relationships will have to reflect where their customers are now, not where they have been in the past. The quantity and quality of communications will have to increase through creative and compelling applications of e-mail, instant messaging services, list serves, and Web sites. Products and services will have to be available where and when customers want them. Customers will want their interactions customized to fit their unique circumstances.

Money

An unprecedented amount of money has become available for investment in the nonprofit industry over the past decade. The devolution of power from centralized government at the federal and state level to local communities has literally flooded some sectors of the nonprofit industry with new money. Billions of dollars annually are being delegated to the local level to implement reforms of education, health care, energy conservation, affordable housing, and transportation. More often than not, government units are ill-prepared or too thinly staffed to do this work. This situation has left nonprofits as the only viable vehicle for change. Nowhere is this more obvious than in the way that the United States has implemented its approach to welfare reform. After more than 30 years of telling states and poor people what they had to do to fight poverty, the federal government has thrown out all the rules, granted large sums of money to the states, and told them to figure out how to get the job done. In turn, state legislatures, wary of failed government programs, are relying on local nonprofit organizations to solve seemingly intractable problems. They are now looking to nonprofits to help get people to work, find and keep a good job, and pay for quality child care.

These recent opportunities, however, have the potential of being dwarfed by what the future holds. Despite periodic stock market

fluctuations, the economic boom of the past 20 years has created an astonishing amount of individual and foundation wealth in America. That funding combined with the \$4.8 trillion that will be transferred from parents to children in the next 20 years—the so-called intergenerational transfer of wealth—is likely to create the largest pool of money dedicated to making positive social change in the history of humankind. Add the growing interest in venture philanthropy to this mix and you have a formula for financing truly innovative approaches to solving many of the world's problems.

Competition and Choice

The availability of technology and new resources has spurred growth in the industry. In fact, the sheer number and scope of nonprofits has grown more in the past decade than it had in the preceding 20 years.⁵ Every area of public life has been impacted by this change, from institutions like schools, universities, and museums to groups advocating for environmental, human, and women's rights. This rising tide, however, has not necessarily raised all the boats. For example, organizations that have been unable to "scale up" their programs to meet funder or government demands or to withstand outside scrutiny have been losing out to other nonprofit or for-profit groups that can answer these challenges. In some cases, additional funds have so severely taxed antiquated internal accounting and reporting systems that these issues have overwhelmed senior management's energies and paralyzed organizations.

Competition has also come from unexpected places, especially where the amount of money in play is significant. In Dallas, Texas, for example, the city awarded its welfare-to-work program management contract to Lockheed Martin, the large defense contractor with a track record of managing complex databases and being a fierce competitor for business, not a nonprofit workforce development organization. For all intents and purposes, the nonprofit workforce development sector has been shut out of this work. This example alone illustrates both the promise and pitfalls that nonprofits will face more often in the 21st century.

Finally, wired customers will increasingly demand more choices, driving both competition and consolidation. For example, many nonprofits who stick only to high-touch in a limited geographic area inevitably will be driven out of business or forced to compete

with an organization that can deepen the customer experience with high-tech, customized interactions online as well. Nonprofits will have to provide their customers with flexible choices, delivered directly or through other strategic relationships to compete in the marketplace.

FORCES OF CHANGE AT WORK

You don't have to look far to see these forces of change at work. Ten years ago, nonprofit and university research hospitals were everywhere; today, there are 50 percent fewer of them. The nonprofit health care system faced a strategic inflection point—a tsunami of change involving technology, money, customers, consolidation, and competition—and was simply wiped out by the force of it. In fact, Intel Chairman Andy Grove would probably say that this part of the sector has been through its strategic inflection point and has already come out on the other side. Unfortunately, not many nonprofit hospitals are still standing.

As we have traveled throughout the country, we see many nonprofits that have not yet focused on these forces of change or begun positioning themselves to adapt to them. This inaction often results from one or more of the following syndromes:

- Business discipline is bad, especially if it leads to profits.
- Doing good means never having to say you're sorry.
- I don't need to worry about my staff because I have God on my side.
- Don't fix it if it ain't broke.

Business Discipline Is Bad, Especially if It Leads to Profits

Some nonprofits still view money as a bad thing, profits even worse, and the idea of "business discipline" as antithetical to the mission of their organization. This notion could not be further from the truth. In fact, some of the best nonprofits and the happiest nonprofit managers are those that embrace profits and creativity and have back-end systems that can go toe-to-toe with the business operations of many for-profit corporations. Two of our favorites are Pioneer Human Services in Seattle, Washington, which grosses \$40 million a year making sheetmetal for Boeing and running the

Starbucks cafeteria, and New Community Corporation in Newark, New Jersey, with an annual budget of more than \$200 million and more than \$500 million in real estate investments. Both organizations make a lot of money and use that money to help thousands of people each year. They make their money the hard way: They are entrepreneurial; they sell a huge amount of products and services; and they watch their “double bottom line,” helping people and making money.

Doing Good Means Never Having to Say “I’m Sorry”

Some people might call it “righteous indignation” or “the arrogance of good.” Either way, the result is the same: A nonprofit organization gets so carried away with its own self-worth that it forgets why it was really started in the first place. This often manifests itself in several ways. One way is it stops leading—no longer setting out a vision for what the world should be and how the organization can help it get there. One national organization that we know, facing a change in senior management, proudly announced that it was putting “a moratorium on creativity.” Somehow it decided that the organization was so inherently worthwhile that its own internal problems were more important than the problems of the people and organizations that it was serving.

The other way a nonprofit gets carried away is to stop paying attention to its customers and markets—it takes these things for granted. One of the best examples of losing touch with customers is the birth and growth of the charter school movement in public education. Although most public schools in America provide a quality education, some schools and school boards acted as if they had a captive audience. They were certain that no matter how bad the teachers were or how unresponsive the administrators were, parents would keep sending their kids there because they had no choice. All of a sudden when parents realized they could have a choice through vehicles like charter schools, the parents voted with their feet and walked.

I Don’t Need to Worry about My Staff because I Have God on My Side

In the rush to make a difference, nonprofits of all sizes sometimes forget that they are only effective because they have extraordinary

employees working for them. These people need, and deserve, care and attention. You need to feed both their hearts and their heads. They want to be a part of an organizational culture that is something special and to make a difference in people's lives. Most importantly, they want to feel like they are working in an environment that is giving them the chance to reach their full potential.

We coined the name of this syndrome from an experience we had with a faith-based nonprofit organization. This group had had some quick successes but had fallen on tough times. Things were not getting done and people were leaving the organization in droves. No matter how hard we tried, the Executive Director refused to accept our arguments that the organization's lack of productivity was directly tied to the fact that he no longer could attract and keep quality staff to do the work. Finally, after we continued to push on this issue, he blurted out, "You may be right, but all I can do is rely on God to make things right." Divine intervention will always help, but creating the right working environment and supporting your staff will bring even more consistent and sustainable results.

Don't Fix It if It Ain't Broke

This may be the single most dangerous syndrome of all because it gives nonprofits the right to maintain the status quo. If we have learned one thing from our work, it is that a nonprofit organization is always "broke" to some extent and must work to improve itself continuously. It must always be working to be a place where people want to work. It must set out its vision and preserve its values for its employees and customers. It must work to understand its customers and its markets; hire and retain the best people; and build a culture and environment that thrives on change.

Nowhere is this more important than in the area of products and services. Nonprofits that are content with how and what they deliver to customers are the most at risk. We have repeatedly seen organizations go one of two ways: (1) become marginalized because they refused to evaluate and change their products and services, or (2) become a powerhouse by being willing to challenge long-held assumptions about their products and services and make fundamental changes where necessary.

St. Vincent DePaul of Lane County, Oregon (SVDP) is a great example of a nonprofit that constantly challenges its assumptions

about products and services. Part of a national, loosely affiliated network of nonprofit, second-hand stores, SVDP started out selling the used clothing and furniture that it collected from donors around Eugene, Oregon. By talking to its customers and paying attention to sales, they saw an unmet demand for bureaus. With an initial donation of scrap wood from pulp and paper companies in the Northwest, SVDP began a furniture manufacturing business. This business has since turned SVDP into a major manufacturer/remanufacturer of products made from reused materials. Annually, SVDP earns more than \$20 million from sales of used appliances, wood furniture, and even the export of rags to Thailand. The company's 200 employees all earn more than minimum wage with full benefits. SVDP has built a sophisticated distribution system for its products that includes its seven stores in the Eugene area and strategic sales relationships with other SVDP affiliates throughout the nation.

Technology and the Internet only heighten the importance of having an organization that always thinks something needs to be fixed. The Pet Shelter Network is a great example of an organization on the cutting edge of managing change. Only a few years ago, a family with a lost dog had to call countless shelters in hopes of finding their lost pet. Now, because of the Internet and enlightened management, any family anywhere in the United States and Canada at any time of the day or night, can log onto www.petshelter.com, type in a description of their animal, and automatically search shelters throughout their area. If The Pet Shelter Network hadn't thought anything was broken, they never would have fixed this problem.

LEARNING TO OPERATE IN NEW WAYS

Obviously, as The Pet Shelter Network example shows, some nonprofits have made extraordinary efforts to understand these forces of change and to learn how to operate in new ways. Many of them, like Environmental Defense, America's Second Harvest, and The Exploratorium Museum, are highlighted throughout this book. As we worked together over the past five years, we were committed to overcoming these syndromes in our own organization, to anticipating the changes that were about to occur in our part of the industry, and to learning to operate in new ways. We found that we had to focus on the following six things to make this happen:

1. *Our corporate culture.* We needed to build and sustain a culture through our vision, values, and a focus on our people. People want and deserve to have a clear vision for the future, but vision alone will not attract the best people to an organization or get them to stay there. That requires a “people first” attitude with fair pay and benefits, opportunities for personal and professional growth, and a quality work environment.
2. *Our business model.* We needed to clearly define our business model and bring a business discipline to everything we were doing. This meant being customer-centered and understanding our customers (who we serve), including how we access them and how they access us. We had to regularly evaluate our content (what we do)—the products and services that we were delivering and how we were delivering them. We had to work to see that we had the infrastructure necessary to support the culture we built. We had to stay aligned, keeping all the parts working together or focused toward a shared vision.
3. *Best new management and leadership thinking.* We needed to be on top of the best thinking so we could adapt it to our own organization.
4. *Technology and the Internet.* We needed to harness the power and potential of technology and the Internet in everything we did.
5. *Reflection and repositioning.* We needed to constantly reflect on our individual and organizational efforts and be prepared to reposition ourselves to meet and embrace change, capture market opportunities, and serve customers.
6. *Dynamic renewal.* We had to accept, and help the organization accept, the fact that our work would never be done—that building and managing an effective organization is a dynamic and continuous process. Change should be embraced, not feared.

BUILDING THE DYNAMIC MANAGEMENT MAP: THRIVING ON CHANGE

We built a model, the Dynamic Management Map, that helped us to meet these goals (see Exhibit 2.1 on page 15). The map looks at issues through an inverted pyramid, always addressing the biggest

issues first, creating a dynamic process for reflecting on where you currently are, and then repositioning your organization so you can make the changes you need to go where you need to go.

We used the map, which is described fully in Chapter 2, to help our organization evolve into a dynamic, vibrant, and vital place that thrived on change. We call this a “dynamic organization.” That experience, which led to our new venture, One Economy Corporation, detailed in Chapter 9, and the keen interest in our work expressed by other nonprofit leaders, convinced us that we had to share what we have learned more broadly—to help more organizations become dynamic organizations ready for the digital age.

It is not too late to start understanding the forces of change that your organization is facing and to begin learning how to operate in different ways. Follow the map, as we define and describe it over the next few chapters. Use it to navigate through your own strategic inflection point. Take small steps if necessary, but whatever you do, take action. You will come out on the other side of your strategic inflection point better, stronger, and more vibrant than ever—a dynamic organization for the digital age.

NOTES

¹Sendil Ethiraj, Isin Guler, and Harbir Singh, www.knowledge@wharton.edu, from the Wharton School of Business, University of Pennsylvania, developed this general framework. We have taken great liberties with the authors’ language so it would be more applicable to the nonprofit community, but we are greatly indebted to them for establishing the framework.

²U.S. Department of Commerce, *Falling Through the Net IV* (October 2000), 1.

³*Ibid.*, 2.

⁴*Ibid.*, 2.

⁵*The Independent Sector*, www.independentsector.org, “The New Nonprofit Almanac IN BRIEF.”

