

# CHAPTER 1

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## Introduction

Welcome. This book is intended for you, the leadership of our nation's nonprofit charitable organizations. It is designed to give you a different insight into how top-quality nonprofits *really* run, what works, what does not, and how to ensure that your organization is one of the ones that works, both this year and throughout the twenty-first 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.

### Three Core Philosophies

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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: Nonprofits Are Businesses

Your organization is a *mission-based* business, in the business of doing mission. For-profits chase profits—nonprofits pursue their mission. But just because you are not primarily motivated by profit does not give you a license to be sloppy or to ignore a good idea simply because it was initially developed for the for-profit sector. Let's take another minute to examine this because it is really important to what you are going to read in the rest of the book.

In the past decade many nonprofits made the decision to stop being a charity and start being a mission-based business. What's the difference? In both cases, the stewards of the organization (paid staff or governing and nongoverning volunteers) are responsible for getting the most high-quality mission they can out the door using all the resources available. The difference lies in how a charity and how a mission-based business view their resources.

A *charity* views its resources as a combination of four things: people, money, buildings, and equipment. If you think about it, your organization has some combination of these four things, too. The charity uses these four resources to provide mission, and when the resources are used up, mission stops.

A *mission-based business* also has the same combination of four resources: people, money, buildings, and equipment. But it looks beyond just those four and also considers business tools in performing mission. Thus, it utilizes the techniques that business has spent literally billions of dollars and thousands of person-years honing and it turns them to mission. What is the result? Good marketing becomes good mission; good human resources (HR) becomes good mission; good inventory management, good cash flow management, good business planning, all of these become good and better mission. More high-quality mission out the door. And, if this is done right—and here is the key—the other four resources *last longer*.

This philosophy is certainly not as shocking to most readers (or perhaps even a new idea) as it was when I wrote the first edition of *Mission-Based Management* in 1992. Only eight years earlier, in 1984, I had told a national audience that nonprofits needed to become more businesslike in their pursuit of mission, and I was not only booed, people actually threw things at the stage. We've come a long way since then.

But there are still people who are uncomfortable with the idea of using business skills in nonprofits. They worry that if we act too much like a business, we'll become a business and lose our mission focus. I agree—mission is always first. *Always*. But if we don't use these business tools, we won't do as much mission as we could. It's a balancing act: Stay on the mission track but use the best tools of business when they are appropriate.

A story may illustrate this issue best. In 2006, I was presenting for a full day on *Mission-Based Management* to a group of board members and CEO/executive directors from about two hundred nonprofits in California. I had given the content of this chapter and Chapter 3 in my first segment of the morning and, at the break, a man approached me to tell me he was really uncomfortable with the idea of using business tools in nonprofits. I learned that he was the board president of a homeless shelter and, in his other life, the president of a local bank. In fact, I found out later that he had an MBA from Stanford as well as an undergraduate degree from Harvard—a smart,

highly educated businessman. But he was really hung up on the concept of, in his words, “using business tools in nonprofits. We’re better than that.”

I told him that he should never do things in his nonprofit that made him uncomfortable, but that I’d like him to answer three questions. He agreed.

First question: “Do you have and use telephones in your homeless shelter?” He said they did, but looked confused. Second question: “Do you have and use a copier at the shelter?” Again, his answer was a yes, combined with a furrowed brow. Third question: “Do you have and use computers?” A look of understanding came over his face. “Got it,” he said. “Okay. Okay, got it.”

You see, telephones and copiers and computers were invented first for business, not for nonprofits. They were business tools first. And telephones, copiers, and computers can be used for bad things, but we choose to use them in ways that pursue our mission. Likewise, marketing and cash flow management and HR are business tools that can all be used for bad things, but if we do not use them and use them as *tools for good*, we won’t be getting as much mission out the door as we could be. We’ll be failing as stewards.

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, and negotiating in good faith and from a position of strength—in short, being businesslike in pursuit of your mission.

Your organization is a business, and the more businesslike you are, the better it will be for the people you serve.

## Second: No One Gives You a Dime

This may come as a surprise, but your organization does not get gifts... Really. No one gives you anything, not government, foundations, United Way, corporations, or individual donors. If you are confused, that is okay. This idea goes against all your training to this point. Try looking at it this way and see if you feel different 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 personally? Of course not. Am I giving a gift to your organization? You’re getting closer. But what I’m really doing, and what really happens in all of these transactions, is that I am *purchasing services for someone or some family I will never meet*. I am willing to give you money because you gave me what the business community calls an *expectation of outcome*. When I send money to an airline to pay for a plane ticket, I have an *expectation of transportation* in a few days or

weeks. When I send money to a concert venue to purchase tickets, I have an *expectation of entertainment* the night of the concert. When I send money to a nonprofit, I have an *expectation of service*.

In other words, and here is the key: You *earn* all the money you get. Don't let anyone tell you that you are a subsidized organization. Subsidies are things that people get without doing anything. I lived in the farm belt in Illinois for thirty years. We had many farmers who were paid by the federal government for *not* growing crops. That's a subsidy. What you get is earned income, *all of it*.

The problem with thinking of your income as gifts 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. You continue to believe you are not earning your way when, in actuality, you are. 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: Nonprofit Does Not Mean No Profit

Let's cut to the chase. Whether you call yourself a not-for-profit or a nonprofit, you should not ever feel bad if you end the year with more money in than out. In short, making money is good for mission. Only by making a profit (yes, a profit) can you grow, serve more people, and try new services. Only by making money can you pay down any debts you have. Profit is not a bad thing in your organization; it's a good thing. It's also not always a possible thing, but we'll get to that in later chapters.

Let's look at this idea in three ways: the legal point of view, the ethical perspective, and from the vantage point of good management.

First, making money in a nonprofit is legal. 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 nonprofit 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 benefiting from the organization's profits, but the key to the phrase is that the IRS anticipates and accepts profits. Profits in a nonprofit 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 every April we add up all of our income from the prior year and pay the IRS a portion of that. But the tax your nonprofit organization is subject to is a business tax, and guess what? Businesses do not pay tax on what you and I would term *income*; they pay taxes on *profits*. They add up all their revenue, 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 is the question: *If you cannot make a profit, why do you need a tax exemption?*

In fact, the entire issue of nonprofits 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. In the early 1950s, when the last substantive work was done on federal nonprofit statutes, Congress decided we needed more nonprofits, so it allowed your organization to keep what it earns and reinvest it in the community. They wanted to encourage our sector and did not think that we should be taxed for doing good things related to our mission. What's happened since? All of us have screwed it all up by not allowing nonprofits to keep what they earn. When I say all of us, I mean funders, the press, the public, and those of us in nonprofits. We all bought into the idea that nonprofits should be poor, and it has deeply damaged the sector and our ability to do good mission. By keeping nonprofits poor, always scraping by from year to year or from payroll to payroll, we've sapped much of the ability to innovate, experiment, and come out with better services for people in need.

Profits in your nonprofit are also *essential*, a key element in financial empowerment, a subject that we will cover at length. As I said earlier, without profits, you cannot grow, you cannot 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 contend that you need to make money as an organization at least seven out of ten years. To do less is not good mission-based management.

But what about the ethical perspective? This is *hard*. By not spending every dime you have every year on service, you necessarily will wind up saying no to someone who needs or wants your services, perhaps someone who is hungry, undereducated, or in need of spiritual help. And I doubt that anyone reading this book came to the nonprofit sector to say, "No, we won't help you." But if you say yes to everyone now, you won't have any funds for next year. I am just as sure that your organization is not in business to solve a *short-term* problem as I am that you do not want to turn people away. Nearly all nonprofits are struggling to solve *long-term* issues: hunger, homelessness, drug addiction, the need for more education, arts,

environmental quality, and on and on. Long-term problems require your organization to be around for the long term. Keep your organization poor and it won't be. Again, this is a balancing act, one of many you have to do. Focus too much on mission and not enough on money and you are out of business. Focus too much on money and not enough on mission and you become just a business.

One more point here: I am not contending that you need to have every single service you provide be profitable every year. You do not, and you probably should not. There will be services that are so mission-rich that they can be money-poor. Services that only you provide in your community that do not pay for themselves or that are mission-critical. But if all you provide are mission-rich/money-poor services, you will soon be out of business and no good to anyone. Again you need a balance, and you need to use the business skill of return-on-investment (ROI) to maintain the right balance.

For-profit businesses are concerned about their financial ROI, and rightly so. If they invest funds in a building or a piece of equipment or staff expansion, they want to know how quickly they get their investment back and at what rate.

Nonprofit businesses need to also be concerned about ROI as well, but unlike for-profits, we have two returns: the *financial* return and the *mission* return. Thus, if you invest money in Service X, you should be asking, "Does this service make money or lose money AND does it do a lot of mission or only a little?"



**HANDS ON:** Always consider the expenses in your income and expense form as investments in mission. If you do that, you will need to think about the return on that investment, both in financial and mission forms. The financial return is pretty easy to calculate, but the mission return is much more difficult. We will talk about ways to do this calculation later. ■

I'm sure you have services that are mission-rich and money-poor, and if you are like 90 percent of nonprofits, you invest resources in a service that does NO mission. For example, if you run a soup kitchen, you provide a very, very mission-rich service. But it doesn't pay for itself because you are giving food away. But this is fine because on the two-ROI scale it balances out: mission-rich, money-poor.

So what's the service that does no mission? It's variously called development, or fund-raising, which by itself does *no* mission. Only if the service *makes money* can it spin off funds to help other mission-rich/money-poor services, like the soup kitchen. Thus, you need to make sure your

fund-raising is not haphazard, or done poorly. It needs to make money! This underscores another theme that we'll return to a lot in the book: You have to do whatever you do *well*. Really well.

These three philosophies, that you are a mission-based business, that you earn all your money, and that making money is a good mission thing, 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 does not 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 (Chapter 14), 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.

### Why Is This Third Edition Needed Now?

The 1980s were an extremely turbulent time for U.S. nonprofits. During the Reagan administration years of 1981 to 1989, the vast majority of nonprofits—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, nonprofits 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 nonprofit 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, and tried to serve the avalanche of new people needing help. (In the human service

nonprofit, 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 nonprofit businesses. Government, foundations, and United Ways for the most part only exacerbated the problems by emphasizing cost controls over strategic planning and marketing, and fundraising over entrepreneurship—two essential components of an excellent organization-for-profit or nonprofit.

The 1990s brought some needed change and some new challenges. Hundreds more colleges and universities developed both undergraduate- and graduate-level nonprofit management programs. Management support organizations sprang up in many states and metropolitan areas, ready to help nonprofits run their organizations 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 time. 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. On the good side, the federal deficit was closed and surpluses began. The economy was good, and technology began to provide real returns to all of us. The other great change was the emphasis on what was termed capacity building by foundations. This movement, of funding training, better use of technology, benefits, and other indirect costs, was a terrific improvement over the days when funders only funded “direct costs” and ignored the essential back-office functions that enable service for any nonprofit.

Then came the roller coaster ride of the Bush years in the early twenty-first century with the tech bubble, the war on terror, the housing bubble, and the crash that followed. The economy grew and contracted, grew and collapsed. Donors couldn’t figure out day-to-day how much money they had, millions worldwide lost jobs, and corporations cut back charitable giving and some simply vanished. We went from good times to bad times so incredibly quickly that our heads spun. And all of us realized that the old rules (prudent management, prudent investing, and prudent levels of debt) were not outdated at all.

At the same time, society began to be aware that the Boomer generation was aging and that a hand-off to GenX was imminent. The differences between the generations became near war in many organizations.

Excellent use of technology became more and more important in all parts of society, and nonprofits struggled to keep abreast of changes that could make the difference between connecting with a new generation and being ignored by the young.



As a result of all these changes, there is a pressing need for a rethinking of the best ways to govern and manage our nonprofits. This book is intended to help you find those techniques that will help you do more mission and to make the transition from an administrator of a charity to a mission-based manager. I know, from consulting and training thousands of nonprofit staff and boards since 1982, that the organizations that *are* succeeding in meeting the needs of the people they serve, 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*, you will succeed in serving the people who are depending on you. Unfortunately, too many nonprofit managers, nonprofit board members, and nonprofit funders are still stuck in the 1990s. 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 nonprofit 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.”

### *Mission-Based Management, Third Edition*

You already know that much has changed since the first edition of *Mission-Based Management* in 1994 and the second edition in 2000. 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 10) or “Financial Empowerment” (Chapter 11). 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 that surface in one chapter sometimes reappear in another. To get the most from the book, read it in the order that it is presented.

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 the 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.

### 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.

### 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 nonprofits. Let’s look at each chapter briefly.

#### 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 Are Going

- A brief history of the nonprofit world, an examination of the relationship between nonprofits and their funders, and an updated prediction of the nonprofit world for the next ten years.

### 3. What Works: The Characteristics of a Successful Nonprofit

- An updated list of the ten things that a nonprofit needs to continue to do its mission well throughout the twenty-first century.

## Working Chapters

### 4. The Mission Is the Reason

- How to get the most benefit from the reason that nonprofits exist. For many, the mission is an underutilized resource. A discussion on updating and then using a motivational mission statement.

### 5. Being Ethical, Accountable, and Transparent

- The best nonprofits are accountable and transparent both inside and outside the organization. The best ways to do this on the highest moral plane possible is covered.

### 6. 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.

### 7. Leading Your People

- A new approach to nonprofit leadership that succeeds in today's high-speed, information-driven environment, also including better communications, evaluations, and rewards. We will also look at ways to engage multiple generations in your mission.

### 8. Embracing Technology for Mission

- How to use technology to better manage, inform, market, empower, and compete in today's all-tech, all-the-time environment.

### 9. Creating a Social Entrepreneur

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

### 10. 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 percent every day.

### 11. Financial Empowerment

- The eight key characteristics of a financially empowered nonprofit, better internal reporting, and how a nonprofit can keep what it earns.

### 12. 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.

### 13. 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.

#### 14. A National Agenda: Empowering Our Nonprofits

- The other side of the coin: what the funders need to do to improve, free, embolden, and empower the nonprofits with whom they contract.

#### 15. Final Words

### Recap

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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 twenty-first-century nonprofit, you have to concern yourself with many differing and conflicting needs and demands: those of your funders, the people you serve, and 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!