

# Business Perspectives for Parent Centers

By Sheryl K. Sandberg

## The Growing Nonprofit Sector

The United States is the leader in the development of the nonprofit sector. In 2001, the nonprofit sector in the United States constituted approximately 8 percent of the Gross Domestic Product, provided 9.5 percent of paid employment, and comprised over 1 million organizations, making it by far the largest nonprofit sector in the world. If you include volunteers, the nonprofit sector is America's largest employer. One out of every two adults in this country—more than 80 million people—work as volunteers, giving an average of nearly five hours each week to nonprofit organizations. If these volunteers were paid, even at minimum wage, their salaries would amount to more than \$150 billion.

The nonprofit sector participates in industries in all areas of our economy and forms the backbone of the U.S. system for providing higher education, health care, and cultural experience. It also dominates social safety-net services, providing everything from homeless shelters to soup kitchens to job counseling programs.

The nonprofit sector in the United States is significant not only in size and importance, but is also undergoing significant change. Over the past 20 years, the nonprofit sector has experienced phenomenal growth:

- Excluding churches, 60 percent of all charitable organizations in existence today were founded since 1971.
- Since 1977, the nonprofit sector has experienced close to an 80 percent inflation-adjusted growth rate.

As with all industries and sectors, and even nations, rapid growth has caused the nonprofit sector to mature and change. Norms about the appropriate role of government, nonprofit organizations, and for-profit service providers are shifting. At the very heart of these changes lies an increasing respect for the potential value of many of the structures and methods traditionally associated with business management.

## Four Major Trends in the Nonprofit Sector

Along with the rapid growth of the nonprofit sector, four major trends contribute to the change in the nonprofit sector.

### 1. There is nationwide disillusionment with the provision of government services

This disillusionment is illustrated most drastically by the 1996 welfare reform bill. Driving these changes are concerns about dependency and paternalism, with people increasingly ascribing to the view that the public provision of social services creates perverse incentives and dependency for the beneficiaries. As a result, there is an increased need for nonprofits to provide social assistance and services, and more traditional profit-seeking businesses are entering areas formerly dominated by social enterprises and government.

### 2. Nonprofits face increased financial pressures to be less dependent on donations

As the number of nonprofit social enterprises grows, competition for philanthropic funding is increasing. Institutional donors are placing increased pressure on grant recipients to find more sustainable funding sources and to decrease their dependency on grants. Social enterprises are seeking more economically sustainable modes of operation, experimenting with more sophisticated methods of providing their services, moving into markets to subsidize their activities and creating for-profit subsidiaries.

### 3. Traditional businesses are being called upon to take a more active role in solving social problems

The result is an increase in the role businesses play in the nonprofit sector, including the creation of new public-private partnerships, an expansion of cause-based marketing efforts, and new corporate volunteerism programs.



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#### **4. We live in an era of economic expansion but rising income inequality**

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Beginning in the late 1970s, the gap between rich and poor in this country began to widen, a trend that continues into the 2000s. Given our nation's increasing income inequality, nonprofits have an increased role in providing for those who are falling further and further behind.

As a result of these four trends and the rapid growth the non-profit sector is experiencing, nonprofits have no choice but to become highly functioning organizations. In order to do so, they must learn six major lessons from business.

### **Six Major Lessons Nonprofits Must Learn from Business**

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#### **1. Build a sustainable competitive advantage through your mission**

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Businesses know that they need a competitive advantage to survive in the relentless free market, that they must produce goods or services of higher quality or lower cost than their competitors. In order to do that, they need to identify their core competency—those things that they have the institutional capacity to do that others cannot do as well. A successful business works at perfecting these core competencies and does not waste resources, time, and attention on other endeavors.

For nonprofits, the concept of building a sustainable competitive advantage is also crucial. The goal, however, is not creating profits, but social good. The best nonprofits clearly identify what social good they seek to provide, and build a sustainable competitive advantage in doing so. They develop an organizational mission that is clearly defined to specify this social good and thereby create a disciplined organization. They avoid sweeping statements full of good intentions and focus, instead, on objectives that have clear-cut implications for the people they seek to serve.

The experience of one large Catholic hospital chain in the Southwest demonstrates how productive a clear sense of mission and a focus on results can be.

- Over the past 10 years, sharp cuts in Medicare payments and hospital stays resulted in declining occupancy and revenues for many hospitals.
- Rather than follow the path of most hospitals and focus on increasing services in the hospital, the CEO of this nonprofit hospital chain understood that her organization's mission was to deliver health care to the poor and focused on this core competency.
- When health care delivery began moving out of hospitals for economic reasons, this chain promoted the trend instead of fighting it. They founded ambulatory service centers, rehab centers, x-ray networks, and HMOs.

- The result was that they continued to provide health care to the poor through these free-standing services, as well as making the hospital immensely popular.

#### **2. Be customer-focused—be mission-driven but market-led.**

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It is not enough to develop a focused mission. To be successful in achieving social good, an organization must be led, not by the thoughts of its founders and management, but by the needs of those it strives to serve.

Many social change organizations are founded and run by people extremely committed to and enthusiastic about the cause and mission of their organization. Usually they have undertaken personal sacrifices in order to work for a cause that is consistent with their values. But sometimes their enthusiasm overrides the consideration of the real needs of the intended beneficiaries of their work.

The story of the nation's largest church provides one of the best examples of a nonprofit customer being led. The founder of Willowcreek Community Church in South Barrington, Illinois, structured his church by going door-to-door in a community of people who rarely attended church and asking a simple question, "Why don't you go to church?"

He then designed a church to answer the needs expressed by the answers given to this question, holding services on Wednesday evenings, delivering sermons that end with specific action recommendations, and using language that people could understand and to which they could relate. He increased participation of the congregation in running the church. The result is the largest and most active church in the United States.

In your work of running parent centers, make sure that you are correctly assessing the needs of those you are striving to help. Obtain constant feedback from the parents with whom you work. Tactics service businesses use, such as anonymous feedback forms, numerical ratings, and suggestion boxes, have proven to be as successful for nonprofits as for businesses. By thinking of yourselves as running a business with customers, you can ensure that you stay market-driven.

#### **3. Measure your performance**

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Many social change organizations lack good systems for measuring performance. It is easy to understand why.

The goal of the organization is to create social value which is often intangible and not easily converted into numerical units. In addition, nonprofits lack the immediate, clear guidance the market provides for-profit corporations. Managers of nonprofits, therefore, often lack objective data needed to measure the success or failure of their programs.

Although a well-defined mission serves as a constant reminder of the need to look outside the organization, measurement provides the method by which success can be quantified and, therefore, achieved. Successful nonprofits have learned to define clearly what changes outside the organization constitute results, to articulate clear goals, and to find tangible measures of success in achieving them.

These measures are crucial to keeping employees—both paid and volunteer—working toward the organization’s mission.

#### **4. Invest in your people**

Businesses have learned that they are only as good as the people who work there. Throughout the business world, the last two decades have seen an increased commitment to attract, train, and retain the best people. For a nonprofit organization, attracting and motivating people—not only your paid staff, but your volunteers and your board of directors or trustees—is crucial to success.

For paid employees, informal norms in many nonprofit fields seem to hold wages below those for comparable for-profit jobs. The public may perceive market salaries, particularly in the management ranks, to be an illegitimate expense, a sign that either the organization’s staff is not sufficiently altruistic or that the organization does not really need as much outside support. As a political appointee, I learned firsthand how important appearances are to success, and I believe that any organization should mind such appearances. It is therefore crucial to find ways to attract and motivate your paid employees that are not fully dependent on salary alone.

Volunteers form an important part of the workforce for most nonprofits. It is critical to remember that volunteers are not costless to an organization. Like all other employees, they use management and financial resources and represent the organization to its intended beneficiaries and the outside world. Like paid employees, they must be trained, managed, inspired, and supported.

Many nonprofits traditionally believed that since they did not pay their volunteers, they had little or no rights to make demands of them. Those who are most successful in running nonprofits, however, believe that it is precisely because volunteers do not get paid that they must make a greater contribution to the organization and derive greater satisfaction from their accomplishments.

To attract and hold volunteers and ensure high performance, the organization has to offer meaningful achievement to its volunteers. The best way to do this is to recognize and use the unique competence and knowledge each of them brings to the organization. Volunteers and the organizations they work for are also well-served when given opportunities to take on more demanding assignments. The leading nonprofits have done this and have even developed career ladders for their volunteers.

The board of directors and trustees also form a key part of a nonprofit’s human resources. Too often, nonprofits rely on their boards only for fundraising and financial support and miss out on the additional perspective and assistance these people can provide. The key to using your board effectively is to clearly define and organize its work and invest in them as you would any other worker in the organization—put them through systematic training, design work plans for the board, review their performance, and provide them the support they need to excel.

#### **5. Pay attention to the bottom line**

This is a simple lesson, but one that all too often is ignored. A quick look at what some of the Asian nations are facing shows that even whole nations can operate on a financial basis that is not soundly grounded. For nonprofits, there can be a lack of willingness to admit financial problems.

For management and board members, concluding that an organization faces severe financial difficulties implies the need to raise more money. If a board member does not want to participate actively in an aggressive fund-raising effort, the individual may be reluctant to emphasize the danger signals revealed by the organization’s financial statements. Arjay Miller, former dean of Stanford Business School and former president of Ford, makes the analogy that if a member of a golf club complains about the greens, he or she could end up chairing the greens committee.

Even in organizations where there is no reluctance to admit financial difficulties, nonprofits face a unique set of financing challenges. It is a basic principle of business that fixed expenses should be funded by sources that can be readily controlled and that yield a fairly even stream of income over time. Because nonprofits rarely have access to secure, long-term financing, but are dependent upon medium or short-term grants and gifts, they inevitably wind up funding their fixed expenses from variable sources.

In addition, financial stability can be harmed by the fact that many donors do not want to see large sums of money on the balance sheet. When I was working as a consultant in Los Angeles a few years ago, I did a pro bono project for a day shelter for homeless adolescent youths. This shelter was facing a difficult dilemma. They had received a large charitable gift unexpectedly and, for the first time, had a large sum of money on their balance sheet.

After the organization’s founder spoke to several of his board members, they had decided that their current donors might be discouraged from giving in the upcoming year if they saw that the organization no longer “needed” the money. Rather than use the funds to build up a safety net to pay expenses, the board of directors was considering a large investment that would put the organization under increased financial pressure to move forward.

By looking more carefully at the bottom line and factoring in a potential downturn in funding, the board decided to hold the funds for more basic expenses, a decision for which they were grateful a mere six months later.

## **6. Don't do it alone**

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Businesses know that they cannot do everything themselves. Outsourcing and corporate partnerships are basic to businesses all over the world. For example, firms hire marketing experts to sell their products and firms hire lobbyists to work with Congress. Yet nonprofits—perhaps because of their more limited funds—often attempt to do it all themselves.

Rather than going it alone, partner with the business community. Fortunately for those running nonprofits today, there has never been a better time to do so. Corporations today are giving more than cash. For the first time, businesses are backing philanthropic initiatives with real corporate muscle on a large scale. In addition to providing nonprofits with financial support, companies are giving managerial advice, technological and communications support, and teams of employee volunteers.

Sponsors involving nonprofits have become the fastest growing piece of corporate marketing budgets, increasing from \$200 million in 1984 to \$2 billion in 1994.

You know the kinds of things the business community can do for your organization—hire people with disabilities, provide assistance with media campaigns, control public relations, and give managerial support, in addition to provide financial support. But I would encourage you to make your wish list long and include on it those things that take not just financial support, but real managerial assistance.

In addition to looking for partnerships with the business community, the information age provides a unique time for organizations of all types to learn from other organizations. With an Internet connection, you can link up with other organizations, set up lines of communication with parent groups and centers around the country, and see what other nonprofits are doing to meet their goals.

In this day and age, doing it alone is not only time-consuming and inefficient, but unsustainable. Look to others—via technology and via the business community—for the help they can give.

## **Conclusion**

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Craig Smith, president of Corporate Citizen, a think tank based in Seattle, has said, “Twenty years ago, management was a dirty word for those involved in nonprofit organizations. Business and nonprofits prided themselves on being free of the taint of commercialism and above such sordid considerations.”

Nonprofits today have not just moved beyond this type of thinking, but have embraced the importance of business perspectives in their work. These six lessons—build a sustainable competitive advantage through your mission, be customer-focused, measure your performance, invest in your people, pay attention to the bottom line, and don't do it alone—can help form a basis for incorporating business perspectives into the organizations you run.