

1)	What this paper says _____	1
2)	Why I'd like you to read this _____	2
3)	Why should you want to _____	2
4)	Why should you not want to _____	2
5)	Who to throw the fruit at _____	2
6)	What I am trying to do _____	2
7)	What words I use _____	3
8)	Some news, good, bad and ugly _____	3
9)	Why shake the bottle _____	4
10)	When this worked before _____	4
11)	Solving three problems inside the NPO _____	4
12)	Closing the gap between Promise and Performance _____	5
a)	Measuring and Managing Excellence _____	5
b)	Measuring and Managing Sustainability _____	8
13)	Who wins in this approach _____	9
14)	Conclusion _____	9

1) What this paper says

- CRM¹ helps the NPO² improve its relationships with donors and prospects for income. For NPO's that qualify, CRM is the next step in winning more respect, loyalty and trust. **However, the connection between friend raising and fund raising is not straightforward and can even be counter-productive for NPO's and donors.**
- Unless introduced after the operation is stable and strong, CRM technology to improve relationships with donors can sabotage the NPO's sustainability.** This is because CRM helps the NPO to market itself (i.e. make promises to the donor) but not to operate itself (i.e. deliver on those promises). Delivery depends on three other functions – Finance, HR and Operations – being all and equally strong. Strengthening marketing alone, especially when the other three are weak, widens the gap between the NPO's ability to promise and its ability to perform. Healthy relationships and organisational sustainability need this gap to close.
 - Unless the fundamentals are sound, improving the personal relationships between donor and NPO staff can be corrupting.** This is because professionals are rational and avoid subjective considerations in reaching their decisions. If they do not, taxpayers pay too much and communities get too little. If anything, donors should bypass personal relationships and give funding based on genuine criteria. NPO's and especially donors should therefore delay investing in CRM until the NPO has built its operational capacity i.e. its ability to make an impact, cheaply, quickly and fully, to the right people in the right way at the right time.
 - Unless NPO's borrow from the hard as well as soft areas of capitalist management technology, they will over-invest in marketing and under-invest in operations.** This is because marketing concepts are easier to learn than the engineering and accounting concepts used in operational performance improvement. Doing the easy and not the hard work widens the gaps between the marketing and the other departments, hence between promises and performances.
 - Unless NPO's invest in improving operational capacity, they will fall behind the corporate sector in terms of productivity and eventually be replaced by for-profit counterparts.** This is because companies that fund CSI departments and charitable or developmental Foundations are under pressure to produce results. To do so, they increasingly transfer their business standards and skills into their non-profit activities. These corporate donors apply lessons from hard areas of management science: strategy, corporate finance, accounting, auditing, production operations management, MIS and IT that are typically more ruthless than their non-profit equivalents. Increasingly, as they work more with NPO's, they are disenchanted and set up their own operations or choose more business-like partners.

¹ Constituent Relationship Management = the non-profit equivalent of the for-profit technique of Client Relationship Management

² Non-Profit Organisations = registered or informal associations for the public benefit, whose leaders do not share in the end-year residual income (i.e. not take a profit) and have no legal authority to impose a charge on the tax-payer (i.e. not government)

e) Unless donors maintain performance measures and standards, relying on personal relationships in their decisions will shrink and taint the sector, as bad NPO's squeeze out good NPO's. This is because NPO's that cynically over-promise to get the funding make better first impressions than humble and honest NPO's. Dishonest NPO's spend less on genuine projects and more on pure marketing, so they build their networks faster. If they get the funding the good NPO deserves, some good NPO's will close by the time the project is audited and the truth emerges. If donors do not audit, or audit poorly, or set slippery targets, they will not expose the bad NPO's, who will get the next project, and good NPO's will disappear, skewing the ratio between good and bad NPO's left in the sector.

f) A sustainable NPO has good relationships, but a good relationship does not come from being sustainable, and being sustainable does not come from a good relationship. Operational excellence is the source of both good relationships and sustainability. Excellence means all the work is done, and all the work is done well, and this generates the good relationships with donors as well as sustainability for the NPO. Good relationships are the reflection of the respect and loyalty and trust™ the NPO generates in its work.

2) Why I'd like you to read this

This paper deals with survival. It covers key development concerns: sustainability, value and impact. It promotes doing good, being good, looking good. It offers technical support for Finance, HR and Operations managers to build the whole NPO, and not just the fundraisers and marketing managers. It highlights solutions inside the organisation because that is where the managers who want more than to pray for rain in a time of drought have power. It identifies key performance areas for managers, and gives the science behind the capacity building the sector needs. It shows donors what to test for if they want to build better NPO's.

3) Why should you want to

This paper is hopeful. We have powers of choice. We enjoy good will. We operate inside a moral climate. We enjoy exceptional governmental and corporate support. Some areas have money. Volunteerism is growing. This paper is practical. It deals with what we do – promise - and when we do it – perform. It is humble. It puts the power to make the difference in your hands. It is consensual. It believes we deserve our places in the sun and want to be and do the best we can. It is positive. Our sector has special people, who add a passion for making a difference to the job of making a difference. This paper is for you

4) Why should you not want to

It is possibly hard to read. It has difficult points to make. It says a lot in a few words and graphs, and may not do it well. It may miss your pet issues. It may overstate here or understate there, and have mistakes. Our sector has few facts and many impressions, deep fault lines and strong opinions. It is tentative. It wants to shout “fire” in our room, and where the water is, but is not sure we all agree on fires, if we are in the same room, and who will head for water and who for exits.

5) Who to throw the fruit at

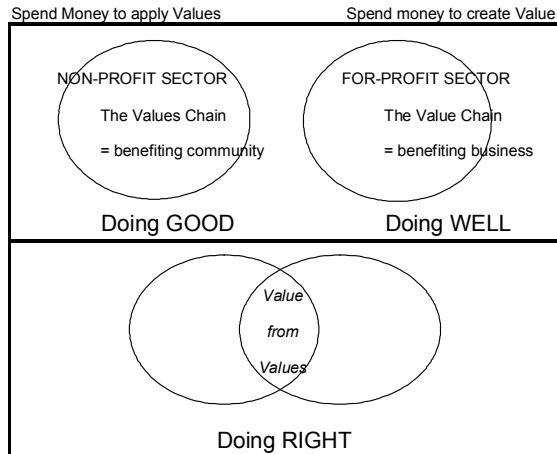
As a consultant to donors and NGO's, both sides endured my workshops and tried my software on sustainability and excellence. I thank my clients and colleagues who taught me what I know. They are not responsible for how badly I learnt it.

6) What I am trying to do

Civil society has two great sectors: non-profit and for-profit. Non-profits have the moral high ground with their intention to “do good”, but are unsustainable until they get a “recipe to operate”. For-profits have the material high ground because they know how to “do well”, but they are unsustainable until they get a “licence to operate”³. Corporates know this. Their CSI⁴ initiatives either use or copy NPO's to win a licence as “corporate citizens”. NPO's are slower to use or copy corporates, so this paper aims to copy from the corporate business case to help the NPO “do right”.

³ Worldwide, industries like (illegal) drugs, hemp and asbestos lost their moral licence. Industries like tobacco and alcohol have their licences eroding. Industries like sex work and marijuana are having their licences restored.

⁴ Corporate Social Investment: the application of business principles to produce supply-chain sustainability out of hitherto purely philanthropic charity.



This paper tries something difficult: to move management and measurement concepts from the for-profit sector to the non-profit sector. The attempt is ambitious: to invent and introduce some new concepts for the non-profit sector. The aim is straightforward: to make us prouder to be in the development community. The need is urgent: to close the gap between what consultants, donors and NGO's promise and how they perform, and between what communities need and what they get. The risk is important: too much borrowing can contaminate the virtues of the development sector – a size of heart, a generosity of spirit, a tolerance for bona fide mistakes, a democracy at work, and a willingness to invest emotionally out of all proportion to the material reward.

7) What words I use

This argument relies upon these concepts:

- Civil society, corporate citizenship,
- Excellence as Economy, Efficiency, Effectiveness and Equity ($X = E \times E \times E \times E = E^4$)TM
- HR, Finance, Quality, Risk, Operations, MIS, M&E, Marketing, Strategy KPA's
- Impact, Force, Reach, Value, Transparency, Visibility, Participation
- Moral authority, business cases, licence to operate and recipe to operate
- Promises, Impact and Performance,
- Sustainability as Respect, Loyalty and Trust ($S = R \times L \times T$)TM
- The volume, duration and freedom of income streams

8) Some news, good, bad and ugly

- What is bad, but may not be news, is the development sector is in crisis; its territory is shrinking and its capacity to manage even the shrinking territory is failing.
- What may be news, but is good, is how we development practitioners ignore the crisis. This is sensible behaviour! Firstly, the sector has been in free-fall for so long, we are entitled to see it as the norm. Secondly, individuals have no power over the structural reasons for the sector to be shrinking and failing⁵, so we are right to avoid fights we will lose. Thirdly, those still in practice are survivors, so we cope well with problems, look for solutions, and maintain our morale with a focus on our successes.
- What is bad news is that we are losing all our developmental wars. The bad part is how self-imposed our performance problems are. We take more money, people and time and achieve less than we want to. The news part is how much HIV/AIDS has set us back⁶, especially in Africa. One disease has reversed every achievement in 20 years of development, and made pushed Africa the only continents likely to miss our Millennium Development Goals! It has added fuel to every development challenge, e.g. hunger (by killing farmers), literacy (by killing teachers), poverty (by killing earners) etc. It has removed fuel from every other project and programme, e.g. shrinking budgets, diverting attention, complicating goals. It has caused divisions when success needs unity, e.g.

⁵ Such as (1) the moral authority of Government, which means political power and influence accumulates in its hands, at the cost of the for-profit and non-profit sectors and (2) the productive strength of Business, which means economic power and influence accumulates in its hands, at the expense of the public and non-profit sectors. The great loser is the non-profit sector, which – without superior moral authority, political authority or productivity – finds its power base eroded.

⁶ HIV/AIDS is certainly outsmarting and outplaying humans, but not, let us hope, outlasting

causing stigma and guilt, polarising healthy and sick, man and woman, sugar daddy and child etc.

- d) What is ugly and may be news is how violent public demonstrations, rising mortality and joblessness et al show we may be running of time. Rising public want and falling public delivery become, after some turnover point, a death sentence. It can be no surprise that communities are needy. This is the rallying call of the development sector. But it is a shock that communities have such strong senses of entitlement and grievance. *Where did we go wrong? Did we over-promise and under-perform when we set out to develop people and communities? Did we create impossible expectations with our enthusiastic promises at launches? Did we leave others behind when we selected beneficiaries? Were we naïve? Did we create grievance when we hoped to create gratitude? Did we create entitlement when we hoped to create welcome? Are our own chickens coming home to roost?*
- e) What is good is how much tax, income, and dividends come to development from the generosity of the international community, taxpayers, individuals and shareholders. In addition, how the professionalisation of the development sector has put a quantity of quality people into programmes. Moreover, how the memory of apartheid creates a moral community with a national developmental consensus. What may be news is that, for the most part, our sector's problems with delivery are self-inflicted, and therefore preventable and curable. *This paper thinks this is true, but would say so even if not: we need to believe we decide our fate, that changing our mind changes our acts, and that our actions change the world.*

9) Why shake the bottle

Protecting these non-profit virtues is important, so only strong arguments can motivate copying from the for-profit sector. There are two:

- a) We are losing our developmental wars: Africa is the only continent likely to miss any Millennium Development Goals – and we are likely to miss every one. The sick, the dying, the poor, the weak and jobless need us to look for something new.
- b) We are losing our competitive wars: the non-profit sector, at least in SA, is battling to survive and is being squeezed out by Government and Business. If we can add a business head and keep our social heart, we should be sustainable, and able to squeeze back. If we do both well, we can look one day to influence (to say the least) what Government and Business does.

10) When this worked before

Copying from business has precedent. Social marketing uses techniques from corporate marketing to boost the NPO etc for the public benefit. The latest example is constituent relationship management, a careful clone of corporate Client Relationship Marketing, a species of marketing techniques that involves collecting client information enthusiastically to better understand and satisfy donor needs. This paper looks to harder areas of management science - corporate finance, corporate strategy and operations management – for advice for non-profits.

11) Solving three problems inside the NPO

Fundraisers⁷ and NPO marketers produce the promise that wins the donor's funding. NPO operations produce the performance to match the promise and spend the money. Donors compare promise with performance when they match up the application, the budget and the project reports. If they feel disappointed, where does the problem lie? Did the fundraiser or marketer over-promise or did the NPO or operation under-deliver? Often, the weaker party gets the blame, no matter what the truth is. To find the truth, we need to look at three reasons for the gap between promise and performance: individual weakness, poor communication, and fractured knowledge.

Harmony depends upon overcoming all three, the last being the most challenging:

- (1) Individual: lacking the skills or tools, or attitude, or reason, to work well

⁷ Fundraisers may be the employee inside or the self-employed individual outside the NPO. Many NGO's, especially as they grew, absorbed the fundraiser into their operations, as a separate marketing or sales person, or as an additional role for the executive director, or programmes or finance manager. Donors, sometimes sceptical of standalone fundraiser commission rates, welcomed this move as bringing them closer to the NGO.

(2) Situational: time pressure and bad communication preventing people from checking their facts and assumptions and combining their knowledge with other people or functions as they should – the problem of “separate silos”

(3) Structural: The specialisation of labour: people simply not understanding what the other person is saying, despite their best intentions and interpersonal communication. How often do finance people struggle with the project plan and the operations staff with the budget? Too often, individuals and organisations have specialised knowledge but generalised ignorance, and mistakes in the areas of their ignorance overwhelm intelligence in the areas of their knowledge.

Learning Economics, Corporate Finance, Production Operations and Strategy lessons from the business deals with all three: it builds the individual, eases inter-personal communication and brings cross-departmental understanding. Learning the lessons has the three benefits needed to close the promise-performance gap: it gets easier to select and train the right employees, share their knowledge, and prevent their mistakes. This brings the NPO closer to excellence, and is the basis for genuinely improved internal and external relationships.

12) Closing the gap between Promise and Performance

Donors pay NPO's to win the development fight, and when we fail to do so, can we expect good relationships? By the standards of the private sector, NPO's are not excellent⁸. Donors complain⁹ of delay, under- or non-delivery, and under- or over-spend. By the same standards, NPO's do not enjoy good relationships. Donors hesitate to **trust** NPO's that over-promise or **respect** NPO's that under-perform and cannot be **loyal** to either. NPO's may not always know how Donors really feel. Donors are polite and struggle to share their true feelings of disappointment face-to-face, so vent feelings in private. As a result, just as NPO's have a gap between what they promise and how they perform, donors have a gap between what they say and what they think. NPO's that want sustainability and have good relationships with Donors need to be **excellent** in their day-to-day work.

The sector's crisis of donor confidence is often our crisis of guilt, and even good NPO's can be tempted to be dishonest or keep silent to avoid the shame of disclosure. Consultants that use worst-practice examples as well as best-practice examples in their teaching help to reduce the stigma of failure, and bring back honesty. Less stigma about failure and more pride in excellence mean NPO's can be honest about their performance, good or bad, and get the resources they deserve. Equally, donors can be honest about their expectations, valid or not. Examples of failure and success have the same aim, to steer the NPO towards the excellence that closes both gaps.

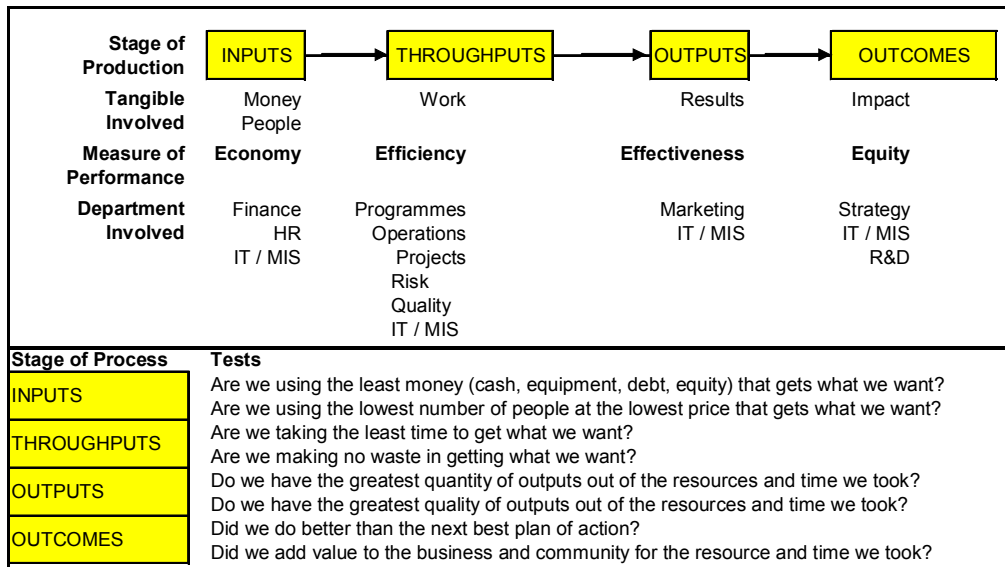
a) Measuring and Managing Excellence

Donors sometimes accuse NPO's of caring more for the process than the product. We need both. We need workplace democracy with workplace discipline. Decisions that are always soft and developmental mean the organisation always falls, and falls hard. By contrast, the private sector focuses on results, and measures its productivity by the balance between its inputs and its outcomes. Businesses improve their productivity by learning from a branch of Management Science called Production Operations Management. Its core idea is the process flow with four stages: inputs, throughputs, outputs and outcomes. Each stage is managed by different departments. Each department applies a test of performance: **economy** (for inputs), **efficiency** (for throughputs), **effectiveness** (for outputs) and **equity** (for outcomes).

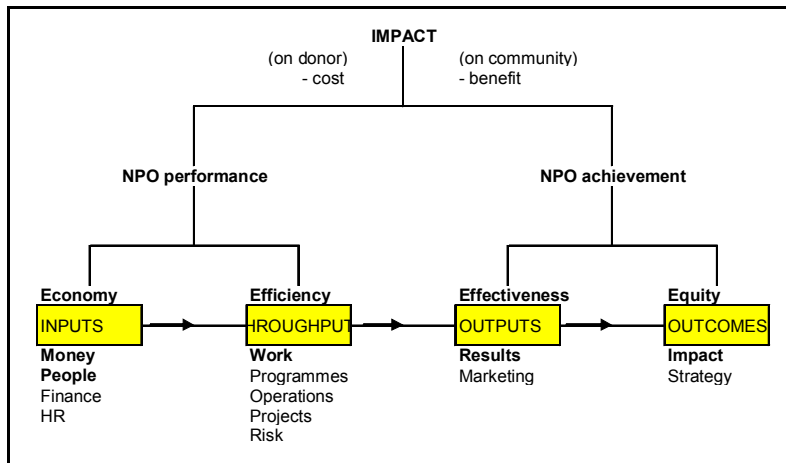
The graph below lists the stages in sequence, shows their measure, the tangible and departments involved, and lists some questions appropriate to each aspect.

⁸ Ironically, the non-Governmental organisation is very qua-Governmental in this.

⁹ But we are a polite community, so donors do not always say so, preferring to end funding and move on



The four stages fuse into two pairs; one pair reflects how the NPO **performed**, the other pair reflects on what it **achieved**. Together, they produce the two sides of the NPO's **impact**; what it cost the donor and how it benefited the community. The donor compares this to what the NPO **promised** to cost in its budget, to do in its project plan, and to achieve in its proposal. IT and MIS are involved at every stage to tell its truth – i.e. be transparent.

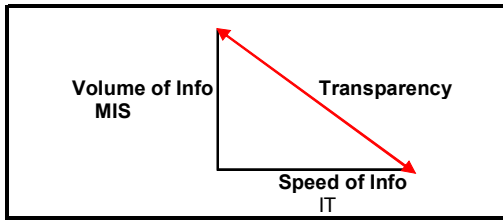


For the NPO to manage each stage of its production process, it needs to have people answering certain questions. These questions “belong” to certain managerial functions, which become separate departments as the NPO expands. Good reports for donors therefore “tell the truth, the whole truth and nothing but the truth” in giving these answers, in full, and no more and no less.

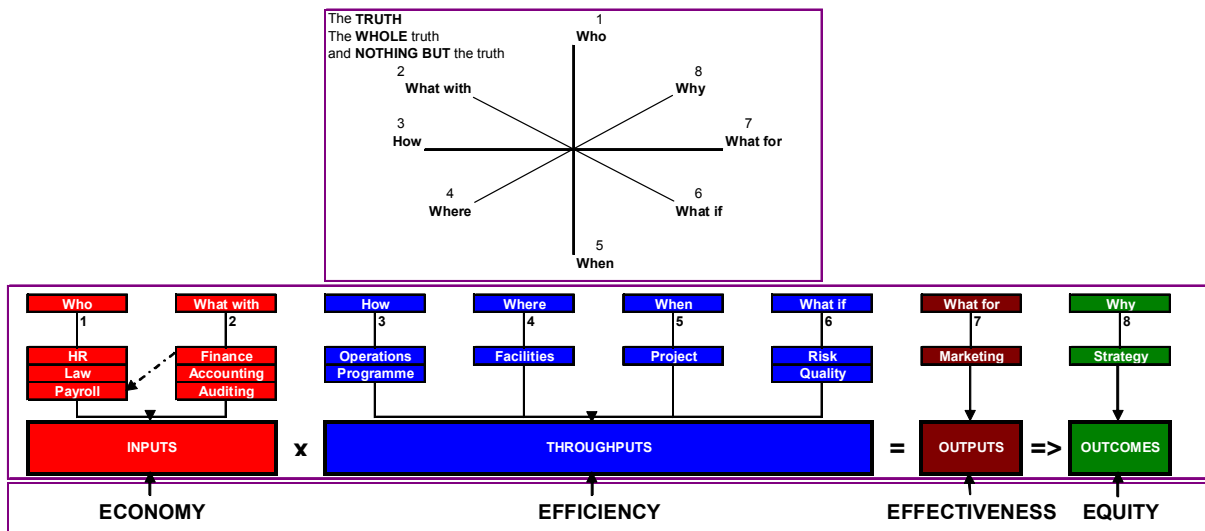
Function	Question
Finance	HOW MUCH will we need
HR	WHO will employ
Marketing	WHAT will we offer
Operation	WHERE / WHEN will we supply
Programme	HOW MUCH will we produce
Quality	HOW WELL can we do it
Risk	WHAT IF things go wrong
Strategy	WHY are we doing this?
MIS	WHAT will we show and tell
IT	HOW quickly will we tell it

It can happen that the link between the department, its function and the question that it “owns” gets lost. When this happens, the NPO can forget how to manage that particular

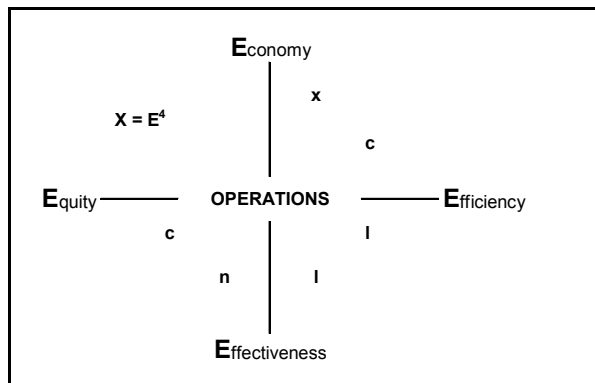
function well, and how to consolidate the separate functions into a report. This is the start of problems with reporting that give NPO a reputation for poor **transparency**.



Transparency combines two qualities – how quickly the information moves, and this is supplied by IT, and much information moves, and this is supplied by MIS¹⁰ (or M&E¹¹). In the graph above, adding volume or speed or both lengthens the transparency “line”. In the graph below, the questions addressed in management and year-end reporting (of the project, programme and organisation) are linked to their responsible functions. It shows which the focal points of the four main (Finance, HR, Marketing and Operations) and the four support (IT/MIS, Risk, Quality and R&D) functions inside the NPO. This shows how management functions combine in a perfect process for a perfect product.



Note that each measure of productivity begins with the letter “e”. Excellence requires achieving each and all of the “e”s. The graph below shows how to link the letters into the word: **excellence**.

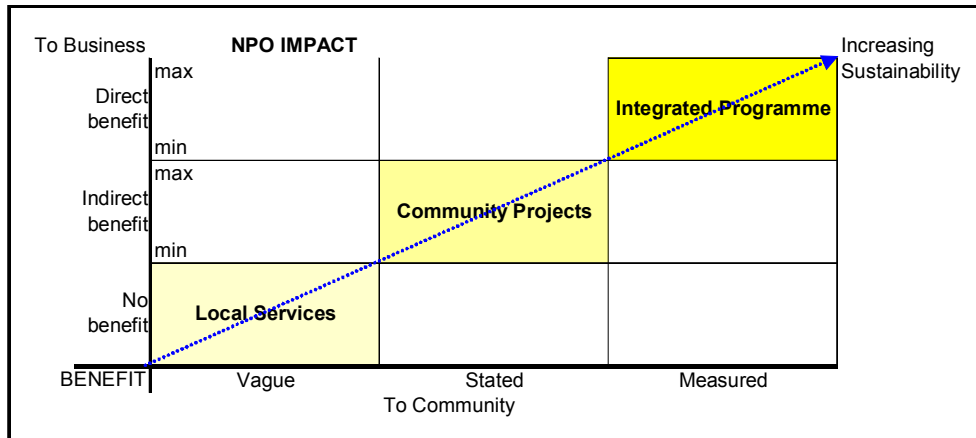


Excellence comes from **economy x efficiency x effectiveness x equity** i.e. $X = E^4$ ™.

¹⁰ Management Information System – the ways that managers get information before they make decisions

¹¹ Monitoring and Evaluation

The ability to measure and manage the NPO's stages in production gives the NPO the ability to predict its impact accurately. Its outputs and outcomes no longer need to be vague, and they can be stated, quantified, measured and proven. This satisfies the donors, gives pride to the NPO, and greatly benefits the community.



b) Measuring and Managing Sustainability

By comparison with for-profits that are more aggressive in their prices or government with its right to tax, NPO's are inherently fragile. NPO's rely on renewed generosity. When NPO's fail to generate respect, trust and loyalty in their daily work, the generosity they depend on disappears, and sustainability is in question.

This section addresses what sustainability¹² is, and who must get it how. For businesses, sustainability is enough certainty of getting enough income for enough time. This is the concept of an "income stream" in Corporate Finance, the branch of management science for accounting and finance management. Businesses have a rich stock of concepts to work with, such as income streams, liquidity and solvency, discounted cash flows, present, future and net present value, and economic value added. They can apply entire systems of valuation, using solvency, debt and liquidity ratios and the du Pont analysis. NPO's can enjoy the simplicity of the income stream concept. It is both an easy mental image and a true proxy for sustainability.

Non-profits can take the three components of an income stream – how much money there is, and over what period it comes, and with how much freedom – to set three tangible, measurable, manageable and achievable targets for NPO's. The quality of the relationship with donors can be tested and measured.

- a) How much money donors give the NPO shows their respect
- b) How often donors renew, extend or repeat funding shows their loyalty
- c) How freely donors give (untied) money shows their trust

Income stream concept from Corporate Finance
Income stream = value x renewal x freedom of income
Sustainability = Respect x Loyalty x Trust = R x L x T = RLT = S™

Respect = value of income
Loyalty = the renewability of income
Trust = the freedom

In other words, for an NPO to be sustainable, it should generate Respect, Loyalty and Trust™ in the course of its work. In this way, it generates the income stream that gives it sustainability and enjoys the qualities that give it good relationships.

¹² Sustainability of the organisation is often confused with the renewability of the environment. Sustainability always refers to the organisation.

How is the responsibility for sustainability distributed across the NPO? Which department has the task of securing which component? The **marketing** function or fundraisers make the promises that win the funding. Marketing efforts therefore build **Respect**. Marketers and fundraisers are not responsible for delivery on those promises, and donors only give loyalty to those NGO's that deliver. The programmes function is responsible for designing a good outcome and the operations function is responsible for delivering a good outcome. Good outcomes win donor Loyalty, so **programmes** and **operations** staff are responsible for **Loyalty**. Marketers and fundraisers who over-promise are, to be blunt, lying, and if repeat it, they are liars. Programmes and Operations staff that under-perform are breaking their word too, and if they repeat this, they lose the donor's trust. A gap between promises and performance always involves a mismatch between what people said and what they did, so winning trust involves balancing the marketing and operations and programmes functions.

Marketing managers build Respect. Programme / Operations managers build Loyalty. Respect and Trust are the responsibility of the NPO's managers. When both sides tell the same story, the NPO wins Trust. Trust is the responsibility of the NPO's board i.e. corporate governance consists of hiring and keeping ethical staff who keep their word, as seen in the balance between the stories that managers tell.

13) Who wins in this approach

This paper combines insights and approaches from Corporate Finance, Marketing, Production Operations and Strategy to suggest we can aim for

- a) Happier and more equal relationships inside the NPO and with the Donor
- b) A clearer and stronger sense of Sustainability
- c) Clearer and easier indicators for NGO managers to win performance and impact
- d) Happier NGO staff who better know what to do and when it matters
- e) Stronger and faster yet simpler and easier reporting for donors and NGO's

14) Conclusion

Capitalism has technical assets non-profits can use, even when we do not like its business model. The for-profit search for excellence is the same as the non-profit search for sustainability. This paper has borrowed notions of excellence and sustainability from capitalist management science and transformed them for the democratic sensibility of the development sector. The borrowing is to close the gap between promise and performance. The transforming is to preserve the NPO's virtues of kindness and generosity. These techniques offer the strongest hope that NPO's can overcome a crisis in confidence by their own efforts. For NPO's to be sustainable they need to be operationally excellent. To be excellent, each function needs to answer its "own" question in the right way at the right time. Doing the right thing right, and telling it like it is, gives NPO's good relationships inside its departments and with the donors. Sustainability comes from donors! Excellence comes from NPO's. Donors will give NPO's sustainability if they are excellent in practice. This closes the gap between what donors want – great promises – and what NPO's want – great performance.

A few parts of this paper appeared at the last SAIF Conference. More parts emerged in workshops on behalf of SAGA. This is the first time the whole has appeared in print. All parts (and especially the X = E4 and S = R x L x T) are copyright to Errol Goetsch.