

CHAPTER 1

The Four Pillars of High Performance

It's amazing what ordinary people can do if they set out without preconceived notions.

—Charles F. Kettering

At a BoardSource conference some years ago, Vartan Gregorian, president of the Carnegie Corporation, told a story from when he was a dean about a board member at the University of Pennsylvania. The board member asked a question about student–faculty ratios. Dr. Gregorian replied with pride that there was a one-to-one ratio in the department of Siberian studies. Not surprisingly, this disturbed the board member very much because it seemed a wasteful use of resources. Dr. Gregorian immediately understood that the best student/faculty ratio for that individual was the 1-to-400 ratio in the Psychology 101 class. In other words, Dr. Gregorian and his board member had very different opinions about what high performance meant.

Defining High Performance

As Dr. Gregorian's experience with student/faculty ratios illustrates, helping your nonprofit become a high performer begins with being clear about what high performance means. For many of us, high performance is equivalent to effectiveness.¹ And for the late, great Peter Drucker in the mid-1970s, the definition couldn't have been any simpler, "Effectiveness is the foundation of success—efficiency is a minimum condition for survival *after* success has been achieved. Efficiency is concerned with doing things right. Effectiveness is doing the right things."² The Achilles' heel was in knowing what things are

right to do. For a decade the debate raged, with expert Kim Cameron finally throwing in the towel by declaring that “agreement about effectiveness is mainly an agreement to disagree.”³

If you think that defining high performance in the nonprofit sector has been any easier, think again.⁴ A decade or so ago, Daniel Forbes reviewed empirical studies of nonprofit organizational effectiveness over a 20-year period and determined that high performance has “been a subject of controversy and confusion, and it is difficult to identify any signs of theoretical progress in our understanding of the concept.”⁵

Though there is a good deal of opinion about what constitutes nonprofit high performance, there isn’t much in the way of empirical research on the topic, and so we are often advised to look to the for-profit sector;⁶ eBay founder Pierre M. Omidyar, for example, wants “charities to run like businesses.”⁷ And why shouldn’t he? As Robert Herman and David Renz observe, “many ideas first instituted and popularized in business (such as strategic planning, visioning, total quality management, benchmarking, and others) are later adopted by NPOs.”⁸

Some of this *for-profitizing* of nonprofits may be due to the belief that there is little difference between one business and another. As Peter Drucker puts it, “Ninety percent or so of what each of these organizations is concerned with is generic. And the differences in respect to the last 10 percent are no greater between businesses and nonbusiness than they are between businesses in different industries.”⁹ Although mice and humans share 99 percent of their genetic code¹⁰ (and we’re certainly not mice), maybe there really isn’t much difference between for-profit and nonprofit agencies.

Assuming that the for-profit and nonprofit sectors mirror each other can be tempting, but it is faulty logic.¹¹

First, “effectiveness measures applied in the private and public sectors are significantly different.”¹² Second, we know that 64 percent of 1,072 respondents to a national study of nonprofit executive directors were outsiders when they took their positions,¹³ inverse to the 36 percent rate of outsiders in for-profit successions.¹⁴

Third, we know that “the centrality of mission for nonprofit organizations places limitations on their flexibility of action”¹⁵ compared to for-profits that can simply shut down or sell off a line of business or even the entire operation. It may be true that the “success rate for nonprofit enterprises is the same as small businesses: a large share fail. The difference is, with the social mission attached, it is harder for nonprofits to let go.”¹⁶ Perhaps this is why Robert Shriner argues that “running a non-profit is *very much harder* than operating a similar sized for-profit business.”¹⁷

So what do nonprofits use to gauge effectiveness? A great many things is the short answer. Daniel Forbes gives the long answer: goal attainment, system resource, reputational approach, multidimensional approach, and

emergent approach. Goal attainment is the degree to which the organization achieves its goals; system resource measures how well you use resources; the reputational approach is based on how others see you. Multidimensional approaches “recognize that NPOs have multiple performance criteria (related to programs, finances, advocacy, etc.).”¹⁸ Emergent approaches are, well, emergent.

Rather than try to make a case for one definition of high performance over another, Robert Herman and David Renz simply say that “NPOs have multiple performance criteria (related to programs, finances, advocacy, etc.), and these criteria often are independent of one another . . . assessments that focus on a single criterion (e.g., fund balance, a program outcome) are inadequate.”¹⁹ These two experts are among the more prolific advocates of the multiple constituencies approach to high performance wherein “an organization comprises multiple stakeholders or constituents who are likely to use different criteria to evaluate its effectiveness.”²⁰

The argument here is that nonprofit executive directors should understand that “different constituencies are judging their organizations’ effectiveness in different ways and that they (the managers) should find out what criteria are important to the different constituencies and provide favorable information on how their organizations are doing on those criteria.”²¹ Remember the story told by Vartan Gregorian and his board member that began this chapter, the one where the board member valued larger class sizes and Gregorian thought smaller were better? This is how the multiple constituencies approach works.

In 2004, Robert Herman and David Renz supported their position in a longitudinal study of 64 locally based, United Way-funded health and welfare organizations by saying “In short, we adopt the view that overall nonprofit organizational effectiveness is whatever multiple constituents or stakeholders judge it to be.”²² Early in 2005, they found an apt analogy to illustrate this method:

One way we explain this notion is to share the story of the three baseball umpires and how they call balls and strikes. The first said, “I just call ‘em as they are.” The second said, “I call ‘em as I see ‘em.” The third, the social constructivist, declared, “They ain’t nuthin ‘til I call ‘em!” Of course, unlike baseball, NPOs have no single umpire. All stakeholders are permitted to “call” effectiveness, and some will be more credible or influential than others. We have found that different stakeholders who are judging the same nonprofit often do not agree on that NPO’s effectiveness. Furthermore, their judgments often will change over time.”²³

How to operationalize this multiple constituencies approach is straightforward. Step 1 is to keep in mind that high performance is always an

issue of comparison. Sometimes you compare yourself to others, as Michael Porter recommends in his modification of Peter Drucker's doing-things-right approach by defining organizational effectiveness as "performing similar activities *better* than rivals perform them."²⁴ Sometimes it's that and more, as David Renz and Robert Herman describe:

The comparison may be to the same organization at earlier times, or to similar organizations at the same time, or to some ideal model, but effectiveness assessments are always a matter of some kind of comparison. And the basis for the comparison is a key (though sometimes hidden) element in defining effectiveness (and why we often disagree about it).²⁵

This certainly appears to be the case with the Alliance for Nonprofit Management—an association of capacity builders serving nonprofits—where the test of capacity building is "whether organizations and the sector as a whole have become stronger and more effective in their efforts."²⁶ How do you know you've become stronger unless by comparing yourself to an earlier time or to something else? And the essential test of organizational change efforts in general? Just one question: "Are we better today than we were yesterday?"²⁷

In other words, "You're either getting better or you're getting worse each day. There's no such thing as staying the same."²⁸ This is certainly what Jerry Porras and Jim Collins found in their study of built-to-last companies that "focus primarily on beating themselves [by] relentlessly asking the question, 'How can we improve ourselves to do better tomorrow than we did today?'"²⁹

In step 2, you don't ask the stakeholder how the agency is doing with regard to this or that characteristic (e.g., fund raising); you ask instead "how well the organization has been doing on whatever is important to them."³⁰ Add up the scores to get an average, and you're good to go. Because comparison is always a part of effectiveness, how that average moves up or down over time becomes a "useful overarching criterion for resolving the challenge of differing judgments of NPO effectiveness by different stakeholder groups."³¹ And even though everyone is probably using a different criterion for what is being evaluated, that's the nature of the multiple constituencies approach; doing anything else is a waste of time since not everyone will buy into it.³²

This approach to understanding high performance—that it is whatever stakeholders say it is—is not new by any means. Nearly 25 years ago, Kim Cameron argued that the goal approach itself is a social construct that is subject to the same realities of all approaches, "Criteria for judging organizational effectiveness are founded in the preferences and *guidelines* of

individuals. Individual differences preclude consensus regarding one universal set of criteria.”³³ At about the same time, Anne Tsui asserted that managers “gain and accrue a reputation for being effective by meeting the expectations of each of the multiple constituencies.”³⁴

Rosabeth Moss Kanter and Derick Brinkerhoff take this viewpoint as well, “Effectiveness appears to be less a scientific than a political concept. . . . Multiple constituencies and multiple environments require multiple measures.”³⁵ Melissa Stone and Susan Cutcher-Gershenfeld also found this in a review of ten studies on high performance in non-profit organizations.³⁶ Ditto for Barbara Blumenthal, who reviewed over 100 articles on organization high performance and organization change and more than 30 assessments of capacity building, and had interviews with more than 100 people practiced in capacity building. And which were the most important high-performance factors? She found that “*it all depends.*”³⁷

This is certainly what the folks at the *Stanford Social Innovation Review* learned when they evaluated the *Review*'s performance at the one-year anniversary and learned that “depending on their perspective and interests, different stakeholders have widely divergent definitions of performance, and as a result, multiple and sometimes incompatible metrics for which they would like to hold us accountable.”³⁸

Multiple constituencies—which some call *social constructivism* instead—may indeed be the way of the future, but the practical challenges of “They ain't nuthin 'til I call 'em” are obvious. Nonprofits have multiple constituencies with vastly differing viewpoints and levels of experience. Stakeholders include clients who may be impoverished and living in ghettos and funders who may be very wealthy individuals living in gated enclaves. Just picture “the dangers of a situation where a single nonprofit has multiple funders, all of which put a high priority on building capacity and effectiveness but each of which favors a different path to enlightenment.”³⁹

Making sense of all of these viewpoints is difficult for many, especially given the inherent conflicts. It may be true as that *whatever works, works* when it comes to determining high performance, that no “one approach to effectiveness is inherently superior to another.”⁴⁰ Even so, how can we make sense of the obvious contradictory nature of the goal attainment approach when compared to the “I calls 'em as I sees 'em” social constructionist method? In the former, you achieved the stated goal or you didn't. In the latter, the answer you get on a rainy Monday morning from your board chair may differ significantly from the answer on a sunny Friday afternoon.

Given the foregoing, it is little surprise that Rick Cohen, executive director of the National Committee for Responsive Philanthropy, says, “There is

still no hard-and-fast definition through the philanthropic world as to the parameters and indicators of nonprofit effectiveness.”⁴¹ Like Kim Cameron’s declaration that “agreement about effectiveness is mainly an agreement to disagree,”⁴² when it comes to the nonprofit sector, “little consensus has emerged, either theoretically or empirically, as to what constitutes organizational effectiveness and how best to measure it.”⁴³

After reading this, one cannot help but feel sympathy for Sara E. Meléndez, former executive director of Independent Sector, who said in an outgoing interview, “Some people would probably see me walking on water and say, ‘See, I told you she couldn’t swim.’”⁴⁴

Thus, whether your organization is a high performer is in the eyes of the beholder; the criteria they will use are going to be theirs and theirs alone. It may be the goal model, it may be the quality of the leadership of the agency, it may be the organization’s reputation with funders, or it may be something else entirely. What matters is not what you think constitutes high performance, but what your stakeholders think. And as you will soon see, what they think about how to become high performing is quite specific.

The Third Envelope

A retiring executive director left three sealed envelopes for his successor to open in case of emergency. Sure enough, within her first year, the new executive director was forced to tear open the first envelope as the result of declining revenues. Inside was the sage advice to announce a new fundraising campaign. She did just that, the board and community cheered her initiative, and the crisis abated.

Less than a year later, the campaign results were found to be lacking, and the new executive was forced to open the second envelope. When she announced the cost cutting campaign, the praise was loud and clear, except, of course, for the folks who lost their jobs. Thankfully, the crisis subsided, but the peace was short lived as the cost cutting only forestalled and intensified the crisis. With trembling hands and her two-year anniversary just weeks away, the executive director ripped open the third envelope, which said, quite simply, “Prepare three envelopes.”

So what now? Is it time for the third envelope when it comes to what it means to be a high-performing nonprofit? Must we live in a cynical world where “good managers are ‘spin doctors’”?⁴⁵ Why should we care at all about what high performance means? The reason is simple:

The need to demonstrate that one structure, reward system, leadership style, information system, or whatever, is better in some way than another

*makes the notion of effectiveness a central empirical issue. . . . Practically, organizational effectiveness is not likely to go away because individuals are continually faced with the need to make judgments about the effectiveness of organizations.*⁴⁶

The trick is to do exactly what Robert Herman and David Renz recommend and “find out what criteria are important to the different constituencies.”⁴⁷ Thus, we can turn to experts in the field who have identified levers for building the capacity to be effective; in other words, the criteria of high performance.⁴⁸ That’s because capacity at the most general level is described as an organization’s abilities to accomplish its mission.⁴⁹

Because of the broadness of the term, we often describe *capacity* by the interventions that build it. These include “strategic planning, board development and technology upgrades,”⁵⁰ a “blend of sound management, strong governance, and a persistent re-dedication to achieving results,”⁵¹ and the “development of an organization’s core skills and capabilities, such as leadership, management, finance and fundraising, programs and evaluation.”⁵²

In the funding community, Barbara Kibbe, former vice president, program and effectiveness, of the Skoll Foundation, defines capacity as “the ability of an organization to define a meaningful mission, generate the tangible and intangible resources to advance that mission, and deploy those resources efficiently and well in the accomplishment of its work.”⁵³ For Kevin Kearns, former president of the Forbes Funds that dedicated all annual funding to capacity-building efforts in the Pittsburgh region, capacity building includes “activities such as direct consulting with nonprofit organizations on specific operational or policy issues, training seminars and other professional development programs to enhance the skills of staff and volunteers.”⁵⁴

The Alliance for Nonprofit Management defines capacity as the organization’s ability “to achieve its mission effectively and to sustain itself over the long term.”⁵⁵ Giving an indication of how broad the concept can be is the following statement from the Alliance:

Capacity building refers to activities that improve an organization’s ability to achieve its mission or a person’s ability to define and realize his/her goals or to do his/her job more effectively. For organizations, capacity building may relate to almost any aspect of its work: improved governance, leadership, mission and strategy, administration (including human resources, financial management, and legal matters), program development and implementation, fundraising and income generation, diversity, partnerships and collaboration, evaluation, advocacy and policy change, marketing, positioning, planning, etc. For individuals, capacity building may relate to leadership development, advocacy skills,

*training/speaking abilities, technical skills, organizing skills, and other areas of personal and professional development.*⁵⁶

Grantmakers for Effective Organizations takes the prescriptive path by recommending that the effective nonprofit “fulfill its mission by measurably achieving its objectives through a blend of management, strong governance, and a persistent rededication to assessing and achieving results.”⁵⁷ Jamie Lee of the Kauffman Foundation prescribes six attributes of the effective organization: mission directed and vision driven, outcomes oriented, sustainable, entrepreneurial, adaptable, and customer focused.⁵⁸ Barbara Kibbe says that planfulness, effective leadership, and strong governance are the three central features of high performance.⁵⁹ Christine Letts, William Ryan, and Allen Grossman talk about the ability of organizations to fulfill their missions in a dynamic world where they “not only develop programs, but also operate, sustain, improve, and grow them—eventually replacing them with new approaches.”⁶⁰

As obviously illuminated in the foregoing, and as Paul Light observes, capacity building includes “dozens, if not hundreds, of applications, from training programs to strategic planning, board development, management systems, leadership recruitment, organization restructuring, and fund raising.”⁶¹ No wonder that “the most important challenge faced by those who would focus on NPO effectiveness is that of the criterion. Is it possible to settle on a small number of fairly easily measured indicators?”⁶²

Grouping the ideas around common themes brings order to the many ideas from the capacity-building experts above plus Paul Light’s *Pathways to Nonprofit Excellence* study⁶³ and Robert Herman and David Renz’s objective effectiveness criteria.⁶⁴ As shown in Table 1.1, what one finds in the third envelope are the four pillars of high performance: purpose, strategy, operations, and governance.

Translating these uses into a graphical representation reveals the *Results Now* model as shown in Figure 1.1.

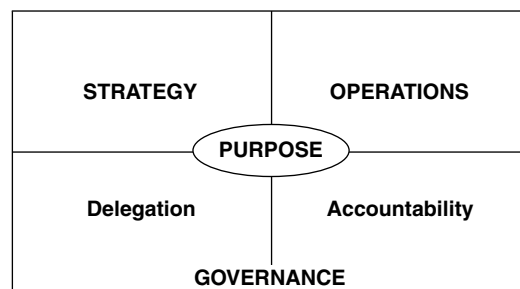


FIGURE 1.1 *Results Now* Model

TABLE 1.1 Four Pillars of High Performance

Advice	Levers	Uses
<ul style="list-style-type: none"> - The ability of an organization to define a meaningful mission, mission directed, mission statement 	Mission	PURPOSE
<ul style="list-style-type: none"> - Leadership, effective leadership - Adaptable, entrepreneurial, develop programs, customer focused - A persistent rededication to assessing and achieving results, goals or objectives, have a strategic plan for the future, organization restructuring, persistent rededication to achieving results, planfulness, planning document, statement of organization effectiveness criteria, strategic planning, vision driven, development of an organization's core skills and capabilities, organization's abilities to accomplish its mission, collaborate with other organizations 	Leadership Strategy Planning	STRATEGY
<ul style="list-style-type: none"> - Cost cutting, deploy those resources efficiently, finance - Are good fund raisers, fund raising, generate at least some unrestricted income, generate the tangible and intangible resources to advance that mission, have a diversified funding base, sustainable - Management, management systems, sound management, technology upgrades, use information technology such as email and the Internet to enhance performance, use data to make informed decisions 	Budgeting Fund raising Management	OPERATIONS

(Continued)

TABLE 1.1 (Continued)

Advice	Levers	Uses
<ul style="list-style-type: none"> - Board development, governance, bylaws containing a statement of purpose, board manual, have a clear understanding with their board about their respective roles, hold regular board meetings (at least four times a year), leadership recruitment, list or calendar of board development activities, strong governance - Encourage staff to work in teams, executive transitions/successions, foster open communications, give staff authority to make routine decisions on their own, have a participatory style of management, know how to motivate people, leadership/mentoring/coaching, have few barriers between organizational units, have few layers of management between the top and bottom of the organization, have position descriptions for their staff, have programs or resources for staff training, organizational assessment and development, training programs 	<p>Board</p> <p>Staff</p>	<p>GOVERNANCE</p> <p>Delegation</p>
<ul style="list-style-type: none"> - Independent financial audit - Description of or form used in CEO performance appraisal evaluation have experienced significant growth in demand for their programs and services over the past five years, measure the results or outcomes of what they do, outcomes oriented, programs, regularly survey clients regarding programs and services, report on most recent needs assessment, use of form or instrument to measure client satisfaction, operate-sustain-improve-grow 	<p>Finance Assessment</p>	<p>Accountability</p>