Management Report

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Successfully applying profit-oriented business principles to non-profit-making organisations

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MASTERS IN BUSINESS ADMINISTRATION

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Executive summary

If an organisation does not seek to make monetary profit, what does it do and why does it exist? A not-for-profit organisation, or non-profit organisation, exists to provide value to a particular constituency and, generally, it provides this value by offering a set of services. Examples of not-for-profit organisations are: public schools, most colleges and universities, government agencies, social and human service organisations, some hospitals, religious organisations, sports clubs, community theatres, symphony groups, charities and others.

Chapter 1 is a summary of the problem statement, methodology and research in this paper. Chapter 2 will discuss definitions and strategies. Chapter 3 examines for-profit organisations, their management characteristics and the strategies they apply. Chapter 4 goes on to discuss not-for-profit organisations and how they are managed. Lastly, Chapter 5 reviews the findings in the previous chapters and makes recommendations.

As the cases will reveal, the differences between not-for-profit and for-profit "business decision making" are sometimes subtle, but it is clear that not-for-profit organisations cannot blindly apply business methods and principles without appropriate adaptation.

This necessary caution applies to a wide variety of decisions which include pricing, investment of funds, the outsourcing of tasks, deciding whether to undertake a commercial venture, deciding whether to collaborate with a business corporation, determining employee compensation levels and investment in fund raising operations.

Conventional business principles help organisations to run efficiently and effectively, but they are built on the underlying assumption that the purpose of the organisation is to make as much money as possible.

Not-for-profit organisations must also be efficient and effective in their use of resources, but they must do so in a way that maximises the impact of their social missions, and at the same time ensures their financial survival.

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Chapter 1

Introduction

1.1 Introduction

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1.2 Problem statement

There are expectations, inspired by budget constraints, subsidy cuts and efforts to economise and cut overheads, that not-for-profit organisations must become commercially profitable. The question then arises: Can the business principles of a for-profit organisation be successfully applied in a not-for-profit organisation?

1.3 Research objectives

This report will look at the possibility of applying the business principles of a for-profit organisation to a not-for-profit organisation. Valuable suggestions can be borrowed in

order for not-for-profit organisations to function better, and to assist them to manage their businesses in a profitable manner.

1.4 The importance of the problem

Several years ago, the University of Pretoria adopted the total cost approach. This meant that every academic and administrative department had to pay out of its own budget for the use of University facilities and equipment.

As a support unit of the University, can the Academic Information Service justify the value of its expense to the University? It has been said that it is a very expensive service and should generate profits on its own behalf. Can the Academic Information Service successfully apply business principles, and how important will they be to the financial security and survival of the AIS?

The importance of the problem is that:

- the dilemma and plight of the not-for-profit unit within the larger for-profit organisation is widespread
- the survival of not-for-profit organisations and units, which deliver valuable services, is under threat from the expectation that they generate commercial profits
- it will be valuable to discover if business principles have the answer.

1.5 Conflicting measures of success

It is easy for a for profit organisation to measure its profits and to evaluate if the principles that it uses are correct. The problem in a not-for-profit organisation is: How do you measure your less tangible "profit" or success in monetary terms?

1.6 Assumptions

If the principles of a for-profit organisation were applied to a not-for-profit organisation, it would help that organisation to turn its business into a financially profitable one.

1.7 Preliminary review

All the sources that have been used concentrated solely on for-profit organisations, and their management and principles, or, solely on not-for-profit organisations. No literature could be found on these subjects which gave any findings.

1.8 Research design

1.8.1 Description of the method of study or research design

Definitions of business principles, strategy, for-profit organisations and not-for-profit organisations are given. The main purpose is to compare the different business and management styles, and principles, and to argue that the principles of a for-profit organisation can be used to good effect in a not-for-profit organisation.

1.8.2 Method of data collection

References and articles that were found in the Academic Information Service were used, as well as articles that were found on the Internet.

1.9 Expected nature of results

It is anticipated that the results will show that the business principles of a for-profit organisation can be successfully applied to a not-for-profit organisation.

1.10   Brief introduction of chapters

Chapter 1 is a summary of the problem statement, methodology and research in this paper. Chapter 2 will discuss definitions and strategies. Chapter 3 examines for-profit organisations, their management characteristics and the strategies they apply. Chapter 4 goes on to discuss not-for-profit organisations and how they are managed. Lastly, Chapter 5 reviews the findings in the previous chapters and makes recommendations.

1.11   Summary

Definitions of business principles, strategy, for-profit organisations and not-for-profit organisations are given. The main purpose is to compare the different business and management styles, and principles, and to argue that the principles of a for-profit organisation can be used to good effect in a not-for-profit organisation. It is anticipated that the results will show that the business principles of a for-profit organisation can be successfully applied to a not-for-profit organisation.

Chapter 2

Background and theory

2.1 Introduction

Not-for-profit organisations use winning business strategies similar to those used by for-profit organisations. Despite a lack of emphasis on profit generation, not-for-profit organisations need to generate enormous amounts of revenue to continue offering quality products and services and to compete in an increasingly crowded business environment. The strategies of several not-for-profit organisations, especially the Academic Information Service of the University of Pretoria, and a church, are examined in Chapter 4.

Peter (2001:147) stated: "winning strategies include a focus on customer service, identified core competencies, outsourcing non-core activities, creating alliances with market rivals and investment in media awareness campaigns. The roles of coalition builder and policy formulator join the more traditional roles of service provider and policy advocate". These emerging roles forge new relationships between the not-for-profit organisation, for-profit organisation and public sector. Not only has there been an intermingling of public and not-for-profit organisation decision making, but there has also been an increase in the degree of coordination between not-for-profit organisations and for-profit organisations. There is little doubt that not-for-profit organisations are stepping into the political fray in new and important ways.

2.2 Background to the problem

In recent years, there has been an increase in the role and influence of not-for-profit organisations in local and regional policy decisions. Often, these organisations assume a quasi-governmental role in pursuit of their mission.

Every organisation is, usually, set up with a specific mission and mandate. It therefore becomes the primary duty of those charged with the implementation of that mandate to ensure not only that the mission is made possible, but also that the goals are achieved. The people responsible for ensuring that the goals of the organisation are achieved are the employees. These employees are usually structured into top management, middle management, line or lower management, and the general workforce.

The aim of management in any organisation is to solve problems and thereby ensure that the mission or objective of the organisation is attained. In business organisations, in particular, where the role of management originated and is most pronounced, management is aimed at minimising loss and maximising profit. However, even in not-for-profit organisations, management practices are very important, since without them the goals of such organisations might not be achieved.

Galaskiewicz & Bielefeld (1998:2) stated: "Intangible goals such as education, social services, public protection, and recreation are often the primary aims of not-for-profit organisations". Although these and similar organisations may not need to be financially profitable to attract investors, they must still employ sound management practices if they are to survive and work toward their goals.

In this context, it is interesting to note that librarianship has decided to move with the times. Management courses are taught in library schools and management principles are practiced in libraries, although few library management positions carry the title "manager". The people who are placed in these managerial positions invariably apply management principles and practices in their work. In the university library system in

particular, the post of director, deputy director, heads of divisions, and heads of sections are management positions.

Although the urge to make profits does not exist for the library, the need for good managerial skills is just as critical in the library as it is in a profit-making organisation. Management functions like planning, staffing, influencing, controlling and coordinating are the cardinal principles of management and occupy most of the working time of managers of not-for-profit and for-profit organisations alike.

2.3 Definitions of business principles

Just as every individual must learn to live with others, and adjust to the world around them, so too must business firms learn to cooperate with others, with customers, employees and other business firms, and to operate within an environment that includes a social system, a legal system and an economic system.

Drucker (1986:26) stated: "the first social responsibility of business is to make enough profit to cover the costs of the future". In other words, the creation of wealth is of paramount importance, but in addition to this focus on the bottom line, Drucker believed that the truest business success comes when social problem is turned into an economic opportunity and has such beneficial outcomes as increased productive capacity and human competence, and the creation of well-paid jobs and wealth. His understanding of corporations was drawn primarily from his observations of General Motors and General Electric. Through careful observation within these organisations, he identified those management strategies that worked and those that did not. In both corporations he found success was rooted in the ability of top executives to work as a team, and in decentralisation as a distinct principle of organisation.

A business is a process which converts a resource, distinct knowledge, into a contribution of economic value in the marketplace. The purpose of a business is to create a customer.

The purpose is to provide something for which an independent outsider, who can choose not to buy, is willing to exchange his purchasing power.

2.4 Definition of strategy

Strategy is a large scale, future orientated, plan of action, initiated and sustained by top management to beat the opposition.

Strategy is: How to compete?

Strategic management is: How to go about deciding how to compete? In other words: What must I do to be competitive?

There are two dominant perspectives on strategy as stated in Table 1:

Table 1 Dominant perspective on strategy

Hard Perspectives	Soft Perspectives
• Process	• Leadership
• Models	• Creativity
• Tools/Techniques	• Visionary
• "Rules of the game"	• Entrepreneurial
	• Intuition
	• Passion
	• Integrity

Created by own source

There are three major elements in strategic management:

1. Strategy formulation.
2. Strategy implementation.
3. Strategy evaluation control.

2.5 Description of not-for-profit organisations

The not-for-profit organisations (NFP) can be divided roughly into two distinct groups of organisations. The first encompasses government organisations and the second includes all other (NFP) organisations. The differences among these organisations are probably greater than the differences among companies in the private sector, as diverse as they are. The government spectrum includes state and local government, and may range from the Reserve Bank to the Supreme Court.

Other organisations in the NFP sector include savings and loan associations, trade associations, chambers of commerce, professional societies, farmers' cooperatives, trade unions, private colleges and universities, foundations, hospitals, churches, sports clubs and museums. These organisations are like private institutions in that they are not a part of government. However, they perform a public service and do not operate as for-profit organisations, which of course, make them different from private firms. Some of these institutions do operate as for-profit organisations, such as savings and loans enterprises, private colleges and universities and hospitals. If they operate for-profit then they are properly included in the private sector, and not the NFP. Some of these institutions are quite similar in structure and operations to private enterprises, for example, the transportation systems of cities, toll roads, and state hospitals among others. Many of these organisations have boards of directors similar to those of private companies.

Galaskiewicz & Bielefeld (1998:176) views on not-for-profit organisations have changed considerably over the years, from the belief that staff consider the not-for-profit organisation as an end in itself to the view that not-for-profit organisations have worked out practices that business has yet to master. Not-for-profit organisations have changed during this time, but the evolution of not-for-profit management practices is also rooted in increased interest, research and understanding of the field. The scope of not-for-profit organisations is broad, including schools and universities, research laboratories, public utilities, hospitals and other health care institutions, professional, industry and trade associations, churches and sport clubs. One thing these diverse public service institutions

have in common is that they cannot be made subject to the performance test of market competition. As with business, not-for-profit managers need to think through their specific function, purpose and mission in order to derive clear objectives and goals that can be used to set priorities and standardise performance measurement. Not-for-profit organisations likewise focus their attention on customers and evaluate performance in terms of customer satisfaction.

A great deal of attention is paid to innovation and entrepreneurship in not-for-profit organisations. The belief is that not-for-profit organisations need to be fully entrepreneurial and innovative as much as any business does, but the understanding is that most innovations in public service institutions are imposed on them by outsiders or by catastrophe, as typified by the New Deal being the American response to the Depression. Working more closely with not-for-profit organisations has lead to understand many of the constraints that make innovation and entrepreneurship in the not-for-profit environment different from the business setting. The organisation's resources are based on a fixed budget rather than on income from fluctuating profits, which means that success is measured by having bigger budgets. Not-for-profit organisations are dependent on a multitude of constituents, while business needs only a selected share of a market to be successful and not-for-profit organisations cannot afford to alienate constituents as they exist to "do well". This altruistic mission is seen as a moral absolute, rather than as an economic prerogative subject to cost/benefit calculus (Bennis, Covey & Goldratt. 1997:177).

2.6 Summary

Drucker has focused on the strengths of not-for-profit organisations of shared usefulness to both types of organisation rather than on what makes a not-for-profit organisation different from business. In "What Business can Learn from Not-for-Profit Organisations", he identifies two areas where not-for-profit organisations are practicing what most businesses only preach, namely, strategy and the effectiveness of the board. He reckoned that "not-for-profit organisations need management even more than business

does, precisely because they lack the discipline of the bottom line" (Drucker 1989b:89). He states that not-for-profit organisations start with mission rather than profit as a motive and this starting point leads to a clearer understanding of what the organisation is about. The motivation for citizens to participate and to pull in the same direction differs from one sector to the next. In business, employees are there to earn a living by achieving a specified goal and productivity is defined by the corporation as will be seen in Chapter 3. In not-for-profit organisations, workers and donors contribute their efforts in order to fulfil a mission as described in Chapter 4.

Chapter 3

For-Profit Organisations

3.1 Introduction

A business is any firm that strives for profits by providing goods and services that meet customer needs. Although this definition is basic, it can be seen how rich and complex it really is. A business deals with a fundamental exchange of products and services for money. The business must manufacture and offer products and services that customers need and desire. If the business does not manufacture and offer satisfactory products and services, customers will not exchange their money for these products and services. In the same vein, the business must receive a fair and reasonable amount of money for its products and services, or it will see little value to be gained through the exchange. A business is an integrated process in which value is exchanged between a business enterprise and its customers.

A successful, or healthy, business is defined as one that excels over time. A business that happens to make a lot of money in the short-term and later fails its objectives is not successful. Neither is a business that makes great financial returns, but at the expense of staff morale, quality products or ethical behaviour. To be truly successful, a business must excel, and it must excel over the long run (Fry, Stoner & Hattwick 2001:10).

3.2 Business

Everard & Shilt (2001:33), states that the first "social responsibility" of business is to make sufficient profit to cover the costs of the future. In other words, the creation of wealth is of paramount importance. In addition to this, it must focus on the bottom line.

As mentioned earlier in Chapter 2, Drucker believes that true success for business comes when a social problem is turned into an economic opportunity and leads to economic benefit so that productive capacity and human competence are increased, well-paid jobs are created, and wealth is produced.

Everard & Shilt (2001:33) placed primary importance on the setting of objectives and using them to measure or indicate performance. Toward this end, he felt that the first responsibility of top management is to ask: "What is our business?" and to make sure that it is correctly answered. Then, ask: "Who is the customer?" "What does the customer buy?" "What is value to the customer?" "What will our business be?" As he discusses the centrality of objectives in "The Practice of Management", he states that objectives should reflect the functions of the organisation: "Objectives are needed in every area where performance and results directly and vitally affect the survival and prosperity of the business".

For most people the word "business" brings to mind visions of budgets, climate-controlled offices, and the bottom line. However, for many owners and employers, the word "business" now includes concepts such as water conservation, energy efficiency, waste recovery, and employee wellness. As businesses reshape their goals to include the health of their employees, the community, and the environment, they often prosper in unexpected ways. In short, this new bottom line reflects a sustainable ethic, one which places value not just on the product but also on the process (Reinhardt 2000:10).

Businesses which embody principles of social and environmental awareness experience opportunities to create new models of practice. Traditional business models, which often neglected resource consumption and the welfare of their employees, failed to protect the natural environment, are being replaced with models which reflect alternative ideas and approaches. Accordingly, many businesses today strive to be more sensitive to how they acquire and use resources, the health of employees and communities, and their interactions with the environment.

Sustainable businesses embody eco-friendly ways of providing goods and services, and reflect a re-conceptualisation of what business is and how it should be conducted. Sustainable businesses assume responsibility for meeting the needs of people in ways which enhance rather than degrade social, economic, and environmental contexts and futures. A sustainable business remains viable and community-based, and takes responsibility for its resources and relationships.

3.3 Vision and mission .

The first decision that the key people in a business must make is the direction they wish the business to take. Here leaders present the big picture of what the business actually will do and what they hope it will become. Two popular themes emerge. First, leaders should indicate a desirable and possible future for the business. This is a broad statement of what they would like the business to achieve. This statement is termed the vision of the business. Armed with a broad vision, leader's next spell out why the business exists and what the business will do. This more specific statement is referred to as the mission of the business. The vision and mission statements are critical as they set the tone and conscious direction of the business. These statements also suggest the relative emphasis that will be placed on each of the five key indicators of business success (Fry **et al** 2001:13).

3.4 Indicators of success

Decision makers in business must begin by looking at the desired results, or indicators of success. Figure 3.1 shows five major indicators of the success of the outcomes managers strive to achieve. Decisions are made with these indicators in mind. Each indicator is important, as a business cannot be truly successful unless it achieves adequate results in all five areas.

According to Fry **et al** (2001:13) the following five indicators of success are the most important indicators for businesses in general. It is important to emphasize that specific types of businesses will emphasize some indicators more than others.

The five indicators are:

Figure 3.1 Indicators of Success

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┌─────────────────────────────────────────────┐
│        Achieving financial performance        │
└──────────────────────┬──────────────────────┘
                       ▼
┌─────────────────────────────────────────────┐
│            Meeting customer needs             │
└──────────────────────┬──────────────────────┘
                       ▼
┌─────────────────────────────────────────────┐
│     Building quality products and services    │
└──────────────────────┬──────────────────────┘
                       ▼
┌─────────────────────────────────────────────┐
│      Encouraging innovation and creativity    │
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                       ▼
┌─────────────────────────────────────────────┐
│          Gaining employee commitment          │
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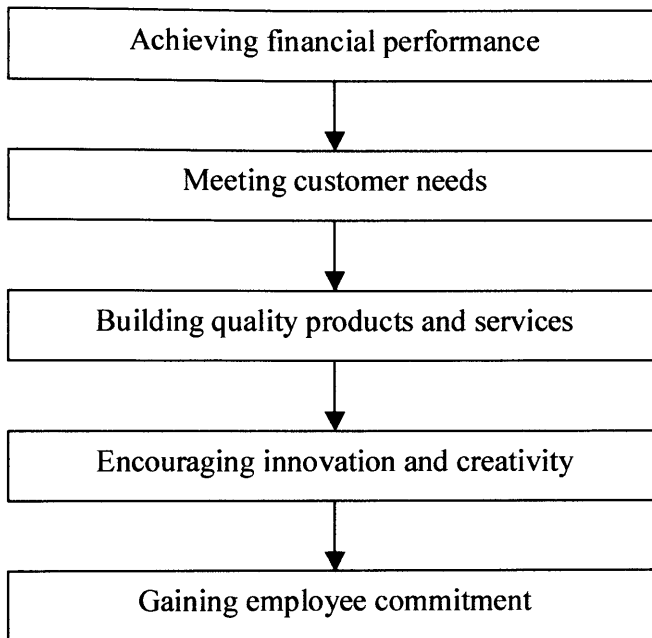
Source: Fry *et al* 2001:13

3.4.1 Achieving financial performance

Perhaps the single most dramatic measure of organisational health and business success is financial performance. This is the bottom line mentioned so often. Regardless of how well the business performs in other areas, if its financial performance is poor, the business will not survive.

The most direct indicator of financial performance is captured in the concept of profit. Indeed, the managers of successful businesses constantly strive to make a profit, and

thereby add value to the firm. Profit is the amount of money left over after the business records all its revenues (the amount customers pay for the goods and services they purchase) and subtracts all its expenses (money a business must pay out in order to make its products and provide its services). It is only when revenues exceed expenses that the business realises a profit or, in other words, makes money (Fry et al 2001:32).

3.4.2 Meeting customer needs

Every business has customers, regardless of whether it manufactures a product or provides a service. The amount of profit a business makes is ultimately determined by how well it meets its customers' needs over the long run. There are many different kinds of customers. Some customers are other businesses. Some are individuals. Some purchase goods or services from the business only once, others purchase often and repeatedly. Some purchase products costing a few cents. Others spend thousands of Rands for a single product. They may be next door to the business or thousands of miles away. They may talk face to face with a sales representative or order via direct mail or the Internet. Whatever the nature of the customer, the key to business profits is to satisfy customer needs over time (Fry et al 2001:34).

Many businesses recognise this relationship and focus their efforts on customer satisfaction. Many say they want to not only meet but exceed customer expectations. Some even talk about delighting the customer. Many organisations are quite creative about how they approach the customer and try to satisfy customer needs. Some organisations even "guarantee" customer satisfaction.

3.4.3 Customer sensitivity and service

Fry et al (2001: 34 - 35) reckon that customer sensitivity is about awareness. Customer sensitivity means being aware of customer desires and needs, and anticipating changes in

customer preferences. Customer sensitivity leads to customer service, which is action oriented. Customer service is the set of actions a business takes to meet customer needs and preferences.

This approach to customers is proactive instead of reactive. Reactive businesses wait until customer shifts have occurred to change their patterns of approach. They may be so out of touch with customer preferences that they are forced to change. That is, they face markets and customers that demand change if they are to survive. Customer service is an ongoing process, a goal that is never fully realised. As soon as customers' needs are met, their expectations rise. The bar on customer service is raised ever higher and higher. Clearly, a business without a proactive awareness of customers will not remain healthy for long.

3.4.4 Encouraging innovation and creativity

In today's volatile business setting, the only constant is change. Customer tastes and preferences are constantly changing. Employee demands are always shifting. Competitors are always searching for new ways to edge rivals out of the market. Organisations are always looking for methods of operation that will bring greater efficiency and productivity. New technologies are always being developed. The only way a business can stay on top and compete is to be creative and innovative. Without the ability to change, a firm's success will surely be short-lived.

A fundamental way to think about creativity and innovation is to look at how the two terms are related. Creativity is a process; innovation is an outcome. This means that creativity is new and results in different patterns of thinking and behaving. Innovation is the result of what is manufactured through these creative activities. Innovation deals with new approaches and options. In short, creativity leads to innovation. Innovation is quite difficult, because it requires a business to think about change and improvement even when it is successful. Indeed, one of the biggest barriers to innovation is success. The

argument goes, "Why should a business change when the bottom line looks so good?" Innovation is not done just to be creative. Innovation can yield profits. It can help meet customer needs. It can add to the quality of products or processes (Fry **et al** 2001:40).

Recently businesses have been encouraged to operate as learning organisations. Fry **et al** (2001:41) say that learning organisations are those that not only adapt to change, but creatively search for new and better ways to operate and meet the needs of their employees and customers. A learning organisation is highly proactive. It is ripe with creativity and is more likely to produce useful innovations. Increasingly, this focus must be present if a business is to be considered truly healthy.

3.4.5 Gaining employee commitment

A successful business is composed of employees who care about the jobs they do. They are proud of their work and they feel a sense of commitment to their jobs and to the business. They are dedicated and concerned, not simply going through the motions. Committed employees are motivated to do the best job possible.

Companies have to treat their employees well and see that they continue to develop. Progressive, healthy organisations invest considerable time and effort in finding ways to build greater employee commitment. Many have formal programmes to provide more opportunities for employee participation and involvement in decision making. Many give employees opportunities for growth through company-supported training efforts. Many offer creative benefits and work options. Many give workers more discretion and more power to do things that were previously done only by their managers. This process of giving more decision-making authority and responsibility to workers throughout the organisation is known as empowerment (Everard & Burrow 2001:337).

Although not labelled as such until years after it had been introduced, Drucker was the primary proponent of management by objectives (MBO). One of the major contributions

of MBO is that it substitutes management by self-control for management by domination. For MBO to work, each manager must be able to measure performance against a goal. This leads to evaluative self-control. Senn does not like the notion of empowerment. He does not see it as progressive to take power out at the top and put it in at the bottom. It is still power. To build achieving organisations, you must replace power with responsibility. He insists that there must be a partnership, with a manager responsible for some things and workers for others, all working toward a common goal (Senn 1995:17).

3.5 Assessing the environment and its impact

Once the indicators of success for a particular business have been determined, the next step in the process is to research and study the firm's environment. This step is shown in Figure 3.2. It gives the managers the information they need to make good decisions. The environment of business consists of those factors or influences that affect the business but over which the firm has little control. Decision makers must understand the nature of the environment in which their business operates. They must be aware of critical forces in the environment and recognise the shifts and patterns that occur.

Managers must not only be aware of environmental forces but be able to assess the potential impact of forces on the business. A business that lacks this environmental sensitivity is severely handicapped. It is unlikely to be able to make good decisions and continue to survive. Six key environmental forces influence business decisions (Fry **et al** 2001:13).

Figure 3.2 Assessing the environment and its impact

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┌─────────────────────────────────────┐
│       Diversity trends and issues   │
└─────────────────────────────────────┘
                  │
                  ▼
┌─────────────────────────────────────┐
│           Economic forces           │
└─────────────────────────────────────┘
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┌─────────────────────────────────────┐
│          Global influences          │
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┌─────────────────────────────────────┐
│     Financial markets and processes │
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│       Legal and regulatory forces   │
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│          Industry structure         │
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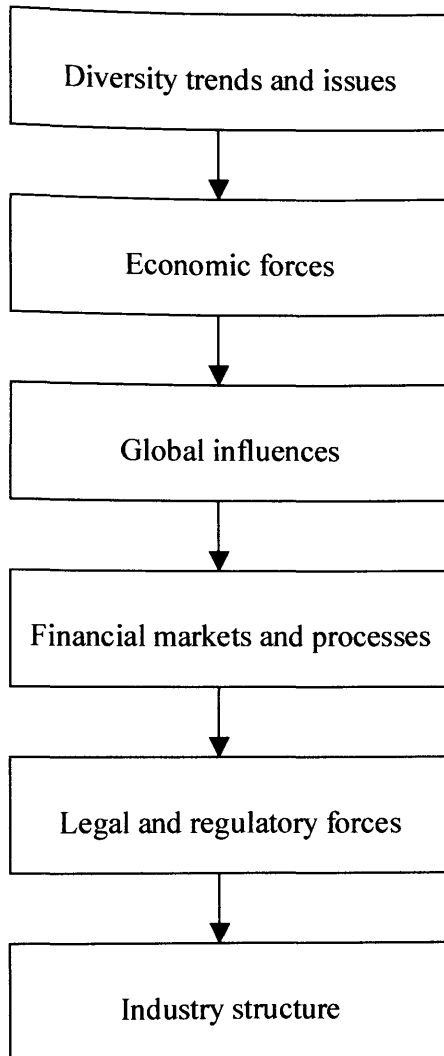
Source: Fry *et al* 2001:14

3.6 Providing excellence in products and services

Once decision makers have a sense of the business environment, they can begin the process of providing excellence in goods and services. These activities and decisions must be performed to get things done and keep the business moving toward the indicators of success. This process is shown in Figure 3.3.

Managers must begin to think strategically. A strategic direction does not just happen. For the successful business, this direction follows a careful analysis of the environment, with one eye always on the indicators of business success. With the strategic direction of the company in mind, business leaders can turn their attention to creating value for their customers. First, leaders must learn about their customers in order to produce products or services that best meet customer needs. This requires careful study of their customers (and potential customers), analysis of existing products manufactured by the firm and its competitors, and a determination of the potential for each product or service. A central focus in product development is the quality of products and the quality of the processes necessary to make the products. Many of the decisions that are made have a quality impact, and these can affect a firm's ability to compete effectively.

In addition to providing value for customers, managers must communicate that value to the customers. The best possible product may fail even if customers are made aware of its existence. To grow, a business must acquire the resources necessary to produce products or provide services. Generally, businesses are concerned with four types of resources: human, physical, financial, and information. These resources become the inputs needed to manufacture the products and services that customers desire (Fry **et al** 2001:15).

One key issue of contemporary management is the use of technology, which is changing at breakneck speed. The prevailing technology in an industry may be obsolete within a few years. If a business is going to succeed, it must remain technologically competitive. This means it must not only be aware of technological changes, but must constantly upgrade. Technology falls into two broad categories, namely, information technology and production technology. Both are necessary for the business to operate effectively and efficiently. In addition, exchanging information and processes between businesses, and businesses and customers, is a growing need. This process is known as e-commerce or e-business (Fry **et al** 2001:15).

Figure 3.3 Providing excellence in products and services

Thinking strategically

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Providing value through quality products and services

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Enhancing value through communicating with customers

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Acquiring and using resources

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Integrating activities and encouraging commitment

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Using technology in a competitive environment
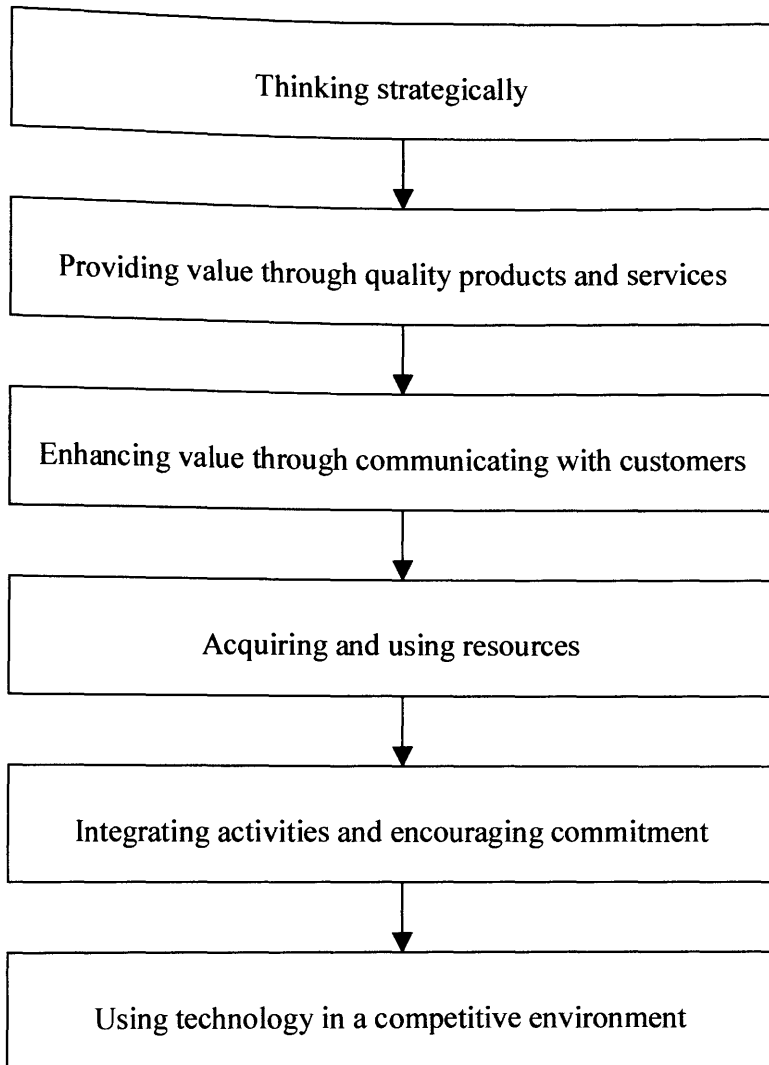
Source: Fry *et al* **2001:15**

Figure 3.4 Model of the path toward a successful business

Vision and Mission

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Indicators of          Assessing          Providing          Evaluating
business               the                excellence in      results and
success                environment        products and       making
desired                and its            services           changes
performance            impact
```

| • Achieving financial performance
• Meeting customer needs
• Building quality products and services
• Encouraging innovation and creativity
• Gaining employee commitment | • Diversity trends and issues
• Economic forces
• Global influences
• Financial markets and processes
• Legal and regulatory forces
• Industry structure | • Thinking strategically
• Providing value through quality products and services
• Enhancing value through communicating with customers
• Acquiring and using resources
• Integrating activities and encouraging commitment
• Using technology in a competitive environment | • Measuring performance
• Promoting change |

Source: Fry *et al* 2001:18

3.7 Dimensions of diversity

One of the problems of studying diversity is the complexity of the concept itself. There are so many ways in which people can be different. Some of these differences, such as gender and race, are easy to recognise. Others are subtle.

According to Fry **et al** (2001:138), there are six areas to be considered as primary dimensions of diversity. They are primary because they represent dominant ways of looking at differences in people.

- Age
- Race
- Ethnic heritage
- Gender
- Mental/physical abilities, attributes and characteristics
- Sexual orientation.

The secondary dimensions of diversity are:

- Work experience
- Income
- Family status
- Military experience
- Religion
- Communication style
- Work style
- Geographic location
- Education
- First language.

Unlike the primary dimensions, these areas can be acquired and changed.

When dealing with the topic of diversity, it is important to avoid stereotypes. Stereotyping occurs when people are placed in broad social groups, generalised about and labelled because they are part of a given group. Stereotyping ignores individual variation and difference. It is a shorthand way of categorising people, but it ignores the uniqueness of each person.

3.8 Defining diversity management

It is now recognised that the management of human resources is central to success of winning companies and winning nations, and although it is also recognised that valuing equity and diversity are a crucial component of the people management process, in reality these processes are often managed discretely rather than in an integrated way. Thus, because of the strategic need to effectively manage people in general and diversity and equity in particular, it is crucial that these problems with understanding and managing the people management process be solved. To this end, one of the central philosophies of the New Programme is that diversity, dignity and equity are not issues which can be 'tacked on' to the traditional people management model; rather they are interwoven, overlapping and integrated aspects of a general approach to managing people. One of the major objectives of the New Programme is to alert employees to the role of the New Programme initiative in facilitating the kind of organisational transformation, which will lead to the valuing of diversity, and ensures the proactive yet equitable management and development of competent people. This objective thus places the emphasis on integration but also proactively in the sense of not losing the necessary focus on headcount in order to achieve the necessary diversity for the business to prosper.

3.9 Cultural differences

Figure 3.5 Determinants of culture
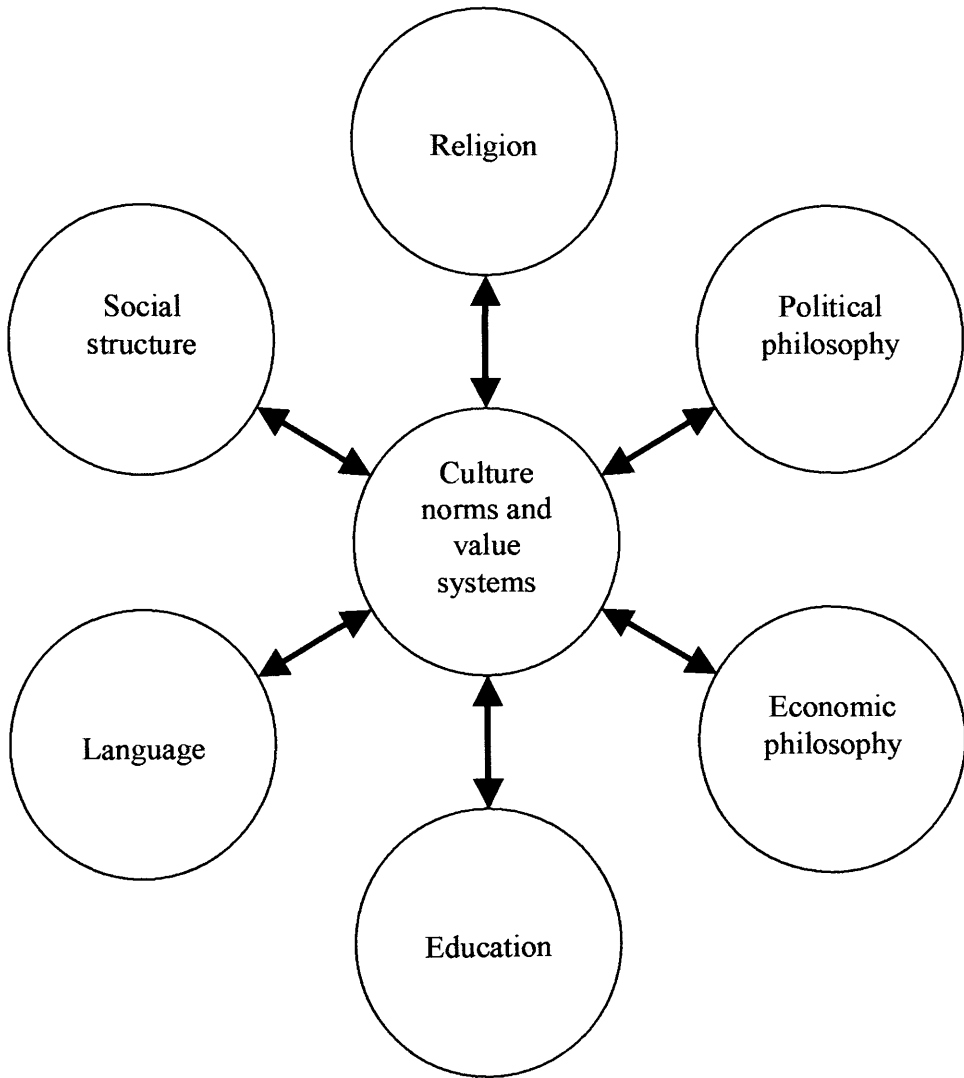
Source: Fry *et* al 2001:217

Culture is the result of many factors in a society. As shown in Figure 3.5, political and economic philosophies play a significant role. Religion also plays a significant role in a country's culture. Language, educational differences, and social structure also have important effects (Fry **et al** 2001:217).

3.10 Communicating value through mass media

Mass communication media are an excellent means to communicate a company's message to a large number of people simultaneously. As a result advertising is the most frequently used method of communicating with customers. It is also the one in which companies invest the most money in order to get their messages to their customers. Advertising is any paid form of presentation or promotion of ideas, goods and services by an identified sponsor to a targeted audience and delivered primarily through the mass media.

Advertising typically falls into two categories: institutional advertising and product advertising. Institutional advertising is communication about the firm itself rather than about the firm's specific products.

Product advertising encourages customers to buy specific products or services. The idea is to get them to buy the firm's products or services rather than those of competitors. Product advertisers often use catchy slogans or subject matter with a strong visual impact to get the customer to remember – and be influenced by – the advertisements.

3.10.1 Communicating value through direct marketing and the Internet

Communicating value through direct marketing is any attempt to sell a product directly to customers without going through intermediaries such as dealers or other retailers. Direct marketing can use direct mail, the Internet or television.

Internet marketing communicates product information through the company's interactive website and encourages customers to order online (Fry **et al** 2001:372).

3.10.2 Communicating value through one-on-one interaction

A company communicates with its customers in a number of ways. We have already discussed mass media, direct mail, the Internet and television-based direct marketing. We have also made the case that the message must be consistent regardless of the media used. This same caveat applies when the communication is with the individual customer. One-on-one communication with customers is often referred to as personal selling. Personal selling is the face-to-face communication between a company representative and the customer (Fry **et al** 2001:375).

3.10.3 Indirect communication with customers

The communication methods we have discussed so far use direct methods of getting the company's message to customers. In addition there are at least two other ways to reach customers indirectly. These methods, while they seldom display a measurable relationship between the communication and the company's sales, do help to maintain the image of the company in the minds of customers. The two most significant of these are sponsorships and publicity.

3.11 Sponsorships

Anyone who watches sports on television is quite familiar with sponsorships. Similarly anyone who works with a not-for-profit organisation knows the importance of sponsorships as a funding mechanism. Sponsorships are investments in special events or causes for the purpose of building awareness of the firm and its products. They provide firms with significant exposure in a venue where thousands of people might watch an

event. In addition, the event often includes participants or celebrities who may wear the sponsor's clothes, or have the sponsor's logo splashed across a racing car or bicycle, or the logo may appear on an arena wall or the outfield fence of a baseball stadium. This advertisement creates positive associations that the sponsor hopes will linger until customers purchase its product (Fry **et al** 2001:376).

3.12 The allocation of resources

The third challenge is to allocate available resources so they can be used most effectively by the business. Resource allocation is the division of authorised resources among the various units under one's command. This problem can sometimes be even more difficult than the others. While obtaining sufficient funds overall is a problem, allocating these funds to lower-level units can be extremely difficult. It is human nature for employees in each department or unit to think that their unit is most deserving of the scarce resources. Claims of favouritism, playing politics and arbitrariness may occur among lower-level managers who think their colleagues got an unfair share of the resources. Thus a business manager must tread a fine line: help one department without hurting another (Fry **et al** 2001:388).

3.13 Forecasting human resources needs

Forecasting human resources needs follows the logical process outlined in Figure 3.6. Firstly, managers must predict where the business is headed and the impact that movement will have on human resources needs, for example, they must decide how many employees the business will need to make its strategies succeed. They must also decide on the type of backgrounds and skills those employees will need to possess. Managers ask a basic question: "What type of workforce do we need to reach our goals?"

Secondly, managers analyse the characteristics of their available workforce. They examine the number of workers they have, know their skills and their abilities to perform needed tasks. Managers must also determine whether this available workforce will be

sufficient to meet the needs of the future. To do this they must predict the number of retirements, promotions and terminations of employees. They also try to gauge whether the existing workforce can be trained in the needed new skills. Through this process managers are trying to determine: "Is there a gap between the available employees and skills we have and those we will need?"

Finally, managers ask: "If there is a gap, what types of people do we need to bring to the business?" The answer may simply be that we need more people, but increasingly the answer is that the business must bring in people with new talents, skills and backgrounds (Fry **et al** 2001:390).

Figure 3.6 Overview of human resource forecasting

```
┌─────────────────────────┐      ┌─────────────────────────┐
│ What type of workforce do│ ───▶ │ What are the characteristics of│
│ we need to reach our goals?│      │ our available workforce? │
└─────────────────────────┘      └─────────────────────────┘


┌─────────────────────────┐      ┌─────────────────────────┐
│ Is there a gap?          │ ───▶ │ What types of people do we│
│                          │      │ need to bring to the business?│
└─────────────────────────┘      └─────────────────────────┘
```
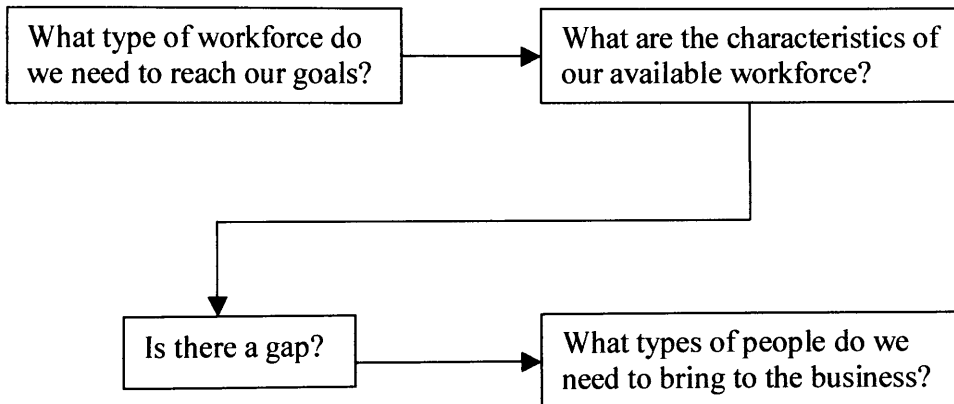
Source: Fry *et al* **2001:390**

3.13.1 Training and developing employees

It is also important for managers to know how best to utilise those resources once they are acquired. Thus training and development are ongoing activities for successful businesses. Since technology and other forces are constantly changing and creating new challenges, training and development become important ways for the business to keep pace with the dynamics of its environment.

3.13.1.1 Training

Training of employees involves two tasks: orientation and skills training. Orientation aims to ensure that employees understand and accept the norms and culture of the organisation. Managers must work with new employees to clarify the rules, policies and values. This is not an easy task, especially if the workers are accustomed to a different kind of organisational culture.

Skills training is undertaken to make sure the employee has the skills needed to perform work in the manner the business desires.

One type of skills training is known as on-the-job-training (OJT), and this occurs when employees are given instructions on how to do a job while they are working on it. Typically this instruction is conducted by an experienced employee who does similar work. The experienced employee coaches the new employee. One advantage of this training approach is that employees can contribute to the organisation even while they are being trained.

A second type of skills training is off-the-job training, which occurs when employees are taken away from the job and offered education that will improve their job performance. This training may be done through lectures, videos or experiential activities that emphasise the development of skills that are important in the job. In many businesses employees receive numerous hours of off-the-job training each year. They may listen to experts discussing proper safety procedures, watch a film on the proper way to interact with customers or go to the local college to learn how to use a new computer program.

Decisions regarding the type of training depend on the job being done. Training for some jobs may be technical in nature and aimed specifically toward skills development. Other

training may be motivational in nature or aimed at improving interpersonal relations (Fry **et al** 2001:396-398).

3.13.1.2 Development

Development differs from training in one major way. Whereas training is geared to improving employees' skills so they can perform their jobs as effectively as possible, development focuses on the future. It helps employees acquire the background and skills they will need to continue being successful as their careers progress. Development is more educational than skills oriented. Often businesses spend considerable amounts of money sending their managers to development programs to help them stay apprised of new theories and technologies in their fields (Fry **et al** 2001:398).

3.14 Business units

There is a growing tendency, particularly among very large businesses, to reorganise their overall operations into business units. For many businesses this represents a significant change in the way they group their activities. Business units are unique product or market groupings that are treated as self-contained businesses. Typically this means that each business unit has its own performance goals. Accordingly each business unit can focus careful attention on its products and its customers. This type of arrangement gives the business as a whole more flexibility and helps to assure sensitivity to customers (Fry **et al** 2001:436).

3.15 The virtual organisation

One of the newer structural models is the virtual organisation. The virtual organisation is a combination of parties (people or organisations) who are geographically dispersed and electronically linked so that, although physically far flung, each can contribute their unique competencies to achieve a common goal. A virtual organisation allows each party

Chapter 4

Not-for-profit organisations

4.1 Introduction

In Chapter 3, it was stated that the driving force of a business is to make a profit for its owners. It is also noted that some organisations do not operate to make a profit. So they cannot, technically, be considered businesses. If an organisation does not seek to make a commercial profit, what does it do and why does it exist? A not-for-profit organisation, or non-profit organisation, exists to a certain set of constituents. Generally, not-for-profit organisations offer value by providing a set of services. Not-for-profit organisations include: public schools, most colleges and universities, government agencies, social and human service organisations, some hospitals, religious organisations, sports clubs, community theatres, symphony groups and others.

Even though they are not driven by profits, not-for-profit organisations are extremely concerned with resources and money. They must rent or buy facilities, pay utilities, hire people, pay salaries, carry out valued programmes, activities, or events and pay a range of expenses in the process. Accordingly, they must find ways to generate sufficient revenue to allow them to cover expenses while meeting the needs of their constituents. Not-for-profit organisations generate revenues in a variety of ways. While not-for-profit organisations generate revenues, those revenues seldom cover all their overheads or realise a profit. In some cases, constituents pay directly for part of the services they receive, for example, when a student pays to take classes at a college or university. In some cases, constituents pay indirectly for the services they receive. This is the case with public schools, for which every taxpayer contributes funds. Not-for-profit organisations rely mainly on contributions, subsidies and donations as is the case with religious organisations. Other not-for-profit organisations rely on membership fees or ticket sales

for at least part of their revenues. This is probably the case with a community symphony orchestra or an amateur rugby team. In most cases, not-for-profit organisations rely on more than one type of revenue-generating activity. As can be seen, money, cash flow and careful financial management are critical to the very existence of not-for-profit organisations. In fact, most not-for-profit organisations of any size have employees designated full-time to fund-raising and to the allocation of those funds.

After the discussion of not-for-profit organisations two examples of not-for-profit organisations will be examined, namely the Academic Information Service of the University of Pretoria, and a Church.

4.2 Not-for-profit organisations

Callahan (2001:177) view of not-for-profit organisations is broad, including schools and universities, research laboratories, public utilities, hospitals and other health care institutions, professional, industry and trade associations. One thing these diverse public service institutions have in common is that they cannot be made subject to the performance test of market competition. As with commercial managers, not-for-profit managers need to think through their specific function, purpose and mission in order to derive clear objectives and goals that can be used to set priorities and standardise performance measurement. Callahan feels that not-for-profit organisations, as businesses do, should focus their attention on customers and evaluate performance in terms of customer satisfaction. He pays a great deal of attention to innovation and entrepreneurship as they relate to not-for-profit organisations. He believes that "not-for-profit organisations need to be entrepreneurial and innovative fully as much as any business does", but he understands that most innovations in public service institutions are imposed on them either by external development or by catastrophe.

Reinhardt (2000:89) focused on the strengths of not-for-profit organisations rather than on their differentness from business. In "What Business can Learn from Not-for-Profit Organisations", he identifies strategy and the effectiveness of the board as areas where

not-for-profit organisations practice what most businesses only preach. Not-for-profit organisations start with mission rather than profit as a motive, and this starting point leads to a clearer understanding of what the organisation is about.

Not-for-profit organisations can be classified into four characteristic groups:

1. Degree of tangibility, namely:

- product
- service
- organisation
- person
- place
- idea.

2. Organisational structure, namely:

- government
- private
- corporate.

3. Overarching purpose, namely:

- health
- education
- spiritual
- welfare.

4. Interest groups, namely:

- users

- contributors
- beneficiaries
- clients.

A good example here is an AIDS baby clinic. The babies are more beneficiaries of the service than the users. The exchange of value is non-commercial even though it all cost money.

Dividing segments of a not-for-profit organisation are shown in Figure 4.2:

	Private	Community
For-Profit	I	II
Not-for-Profit	IV	III

They can also be divided in the following way:

Figure 4.1 Dividing segments of a not-for-profit organisation
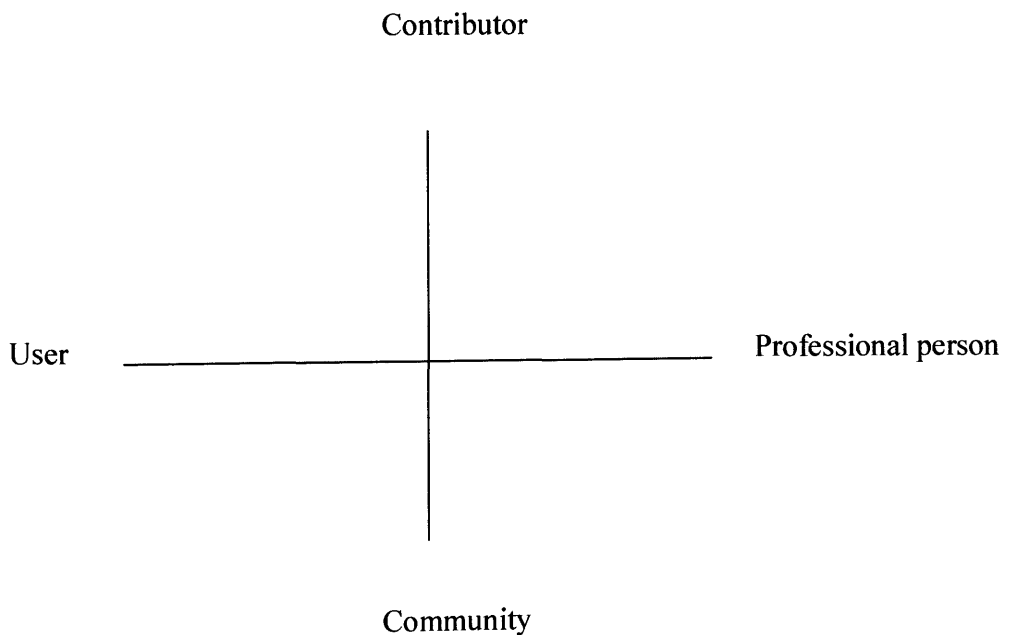
Own source

The classification to work in the community would be as follows:

Figure 4.2 Classification to work in the community

	Private	Community
For-Profit	I	II
Not-for-Profit	IV	III Contributor Users ———————— Professional Professional work in the community Community
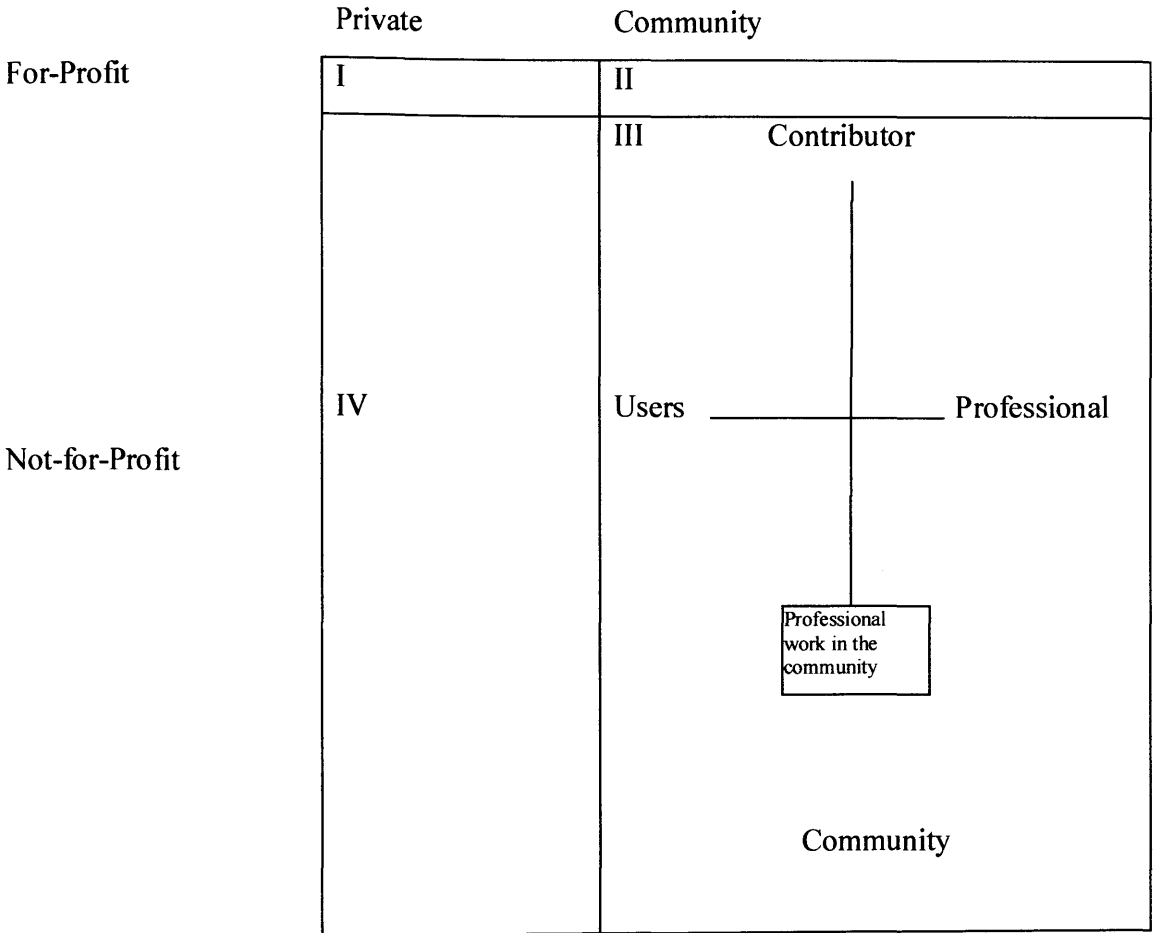
Own source

4.3 Two examples of Not-for-Profit Organisation

4.3.1 Vision

The vision of the Reformed Church Verwoerdburgstad is: to develop a network of trained community members to assist troubled families, to enhance networking between families within the community and to support each other and promote Christian family life. Capacity building programmes are provided to the various helping professions and to religious and community leaders to enable them to deal more effectively with families in need.

The vision of the Academic Information Service (AIS) of the University of Pretoria does not exist explicitly but can be summarised by Figure 4.3. It is more in the form of a framework for strategic planning.

Figure 4.3 Strategic planning framework: AIS

```
┌─────────────────────────────────────────┐
│            Vision & Mission              │
└─────────────────────────────────────────┘
          ╭───────────────────────╮
          │   Strategic analysis   │
          │           &            │
          │        choice          │
          ╰───────────────────────╯
┌─────────────────────────────────────────┐
│           Long-term objectives           │
│ (Profitability, ROI, Competitive         │
│  position, Employee relations)           │
└─────────────────────────────────────────┘
┌─────────────────────────────────────────┐
│        Generic and grand strategies      │
│ (This statement indicates how the        │
│  long-term objectives are to be          │
│  achieved: e.g. through innovation,      │
│  strategic alliance, consortia)          │
└─────────────────────────────────────────┘
┌─────────────────────────────────────────┐
│              Action plans                │
│                  &                       │
│          Short-term objectives           │
│ (Action plans translate generic & grand  │
│  strategies into action by means of the  │
│  following elements)                     │
├─────────────────────────────────────────┤
│            Tactics & Actions             │
├─────────────────────────────────────────┤
│               Time frame                 │
├─────────────────────────────────────────┤
│               Action Plan                │
├─────────────────────────────────────────┤
│             Accountability               │
├─────────────────────────────────────────┤
│        Outcome generated by actions      │
└─────────────────────────────────────────┘
┌─────────────────────────────────────────┐
│        Policies that empower action      │
│ (Policies that facilitate speed and      │
│  responsiveness are needed. These could  │
│  provide the framework that allow        │
│  decisions to be taken speedily at the   │
│  lowest possible level)                  │
└─────────────────────────────────────────┘
```

Own Source

4.3.2 Mission

The mission of the Reformed Church Verwoerdburgstad is:

To achieve the mission by integrated services that will assist:

- parents and children
- young people and families
- to develop protective or resiliency strengths which will promote:
  - positive growth
  - health
  - well-being
  - personal and family success
  - which will ensure that the family remains the cornerstone of the community and broader society.

The mission of the Academic Information Service (AIS) of the University of Pretoria does not exist explicitly, but it can be summarised by Figure 4.3. It is more in the form of a framework for strategic planning.

4.4 The not-for-profit sector

Organisations in this sector are known as non-profit corporations, volunteer organisations or not-for-profit organisations (NFPs). The terms are used interchangeably.

Table 4.1 shows a number of not-for-profit organisations. Not-for-profit organisations are typically in six industry groups: health services, social, legal and fraternal organisations, arts and cultural organisations and foundations. Health services include hospitals, nursing homes and drug treatment centres. Social and legal services include non-profit legal

services, family service centres, day care services and job training. Education and research include higher education, elementary and secondary education, libraries and research institutes. Religious organisations include churches, temples, synagogues and other related organisations. Civic social and fraternal organisations include chambers of commerce, business clubs and lodges. Arts and cultural organisations include museums, galleries, symphonies and not-for-profit theatres. Foundations are established to collect and distribute charitable contributions (Lesky, O'Sullivan & Goodmon 2001:28-32).

Table 4.1 Non-profit Organisations

• Hospitals *	• Botanical and zoological gardens
• Elementary and secondary schools	• Business associations
• Colleges and universities*	• Professional organisations
• Libraries	• Labour organisations
• Individual and family services*	• Civic and social associations
• Job training and related services*	• Political organisations
• Day care services for children*	• Religious organisations
• Museums and art galleries*	

* May be either for-profit or not-for-profit

Source: Fry *et al* 2001:301

4.5 The impact of not-for-profit organisations

It is important to understand the magnitude of not-for-profit organisations. In 1994 they employed almost 10 million people in the USA alone. Growth in paid employment in the NFP sector has been 3.4 per cent a year while growth in business and government sectors has been 1.9 per cent and 1.4 per cent respectively. In addition, millions of people volunteer in NFP organisations. All not-for-profit organisations together bring in contributions of over $500 billon per year for worthy causes. Volunteers play an extremely important role in not-for-profit organisations (Fry **et al** 2001:302).

4.6 Important concepts in not-for-profit organisations

A few concepts that are of importance to non-profit organisations have been considered. Note that due to the great variation in sizes and types of organisations some concepts are more relevant for some NFPs than for others (Fry **et al** 2001:303).

4.6.1 The nature of competition among not-for-profit organisations

Not-for-profit organisations compete with each other on two separate fronts. The first is competition for customers. The second is competition for funding. The amount of competition for customers depends on the industry. In the hospital industry, for example, competition is fierce. Universities compete with other universities for students. Even churches compete for members to some extent. In the case of charitable organisations the competition is less pronounced because each organisation has a different mission and may serve different constituencies (Fry **et al** 2001:303).

Not-for-profit organisations compete directly for funding with other organisations within their industry group. They also compete indirectly with all other not-for-profit organisations because each relies on individuals, corporations and the State for funding. Charitable organisations like the Salvation Army, Goodwill Industries, Habitat for Humanity the United Way, the American Red Cross, the American Heart Association and the American Cancer Society are all very aggressive in their fund-raising (Fry **et al** 2001:303).

In South-Africa, there is fierce competition amongst CANSA (the cancer society), AIDS society, churches, social welfare and various sports clubs. The competition among rugby clubs is particularly fierce and intense.

4.6.2 The relationship between revenues and cost

Not-for-profit organisations, especially charitable organisations, have a unique characteristic not shared by for-profit businesses. This is the relationship between the recipients of services and the people who pay for those services. In a for-profit business the two are typically the same. In other words the customer pays money and receives a product or service. In not-for-profit organisations a customer receives a product or service that is often paid for, or provided by, a stranger (Fry **et al** 2001:303).

Universities also operate in this manner. Even though tuition fees may appear to be high, they underwrite only a small portion of the total operating budget of the university. Taxpayers foot much of the bill for universities. Private universities depend heavily on endowments and other contributions from foundations, alumni and friends of the university. Thus, students are only partially paying customers and are partially recipients of the contributions of others.

4.6.3 Sources of revenue

Funding for NFPs comes from four primary sources:

1. earned income
2. contributions
3. grants
4. tax breaks

Nearly all not-for-profit organisations use these four sources although the ways they are used may vary (Fry **et al** 2001:303).

The first source of funding is earned income. The revenue sources may be different for each NFP, for example, a hospital's main source of revenue or earned income is payments by patients. A symphony orchestra's earned income is primarily from ticket sales and memberships of the organisation. A university's earned income is from tuition fees. Habitat for Humanity's earned income is the sale of the houses that volunteers build or rehabilitate.

The second source of funds is contributions from local individuals and corporations. Often a not-for-profit organisation's board of directors includes key employees from major corporations in the area and well-known community residents. These individuals can be counted on for substantial contributions. The not-for-profit organisation also sends fund-raising letters to community residents and companies in the hope of meeting annual fund-raising goals. Cultural organisations depend heavily on advertising in programme booklets by corporations in the community. The church also relies on contributions from the community.

The third source of funds is grants from foundations, the government, arts organisations and national corporations that have a history of contributions. These sources are extremely important, because they often provide large amounts of funding. However, the NFP can be vulnerable if the attitudes or giving patterns of these groups change.

The fourth source of funds is state-supported organisations such as universities and high schools who receive a considerable amount of their funding through state funds and taxes. This source is not available for the vast majority of organisations (Fry **et al** 2001:303 - 304).

4.6.4 Cost

Cost is an important concept in every industry, be it manufacturing, distribution and service industries. It is also important for not-for-profit organisations to guard against

unnecessary rises in costs because the relationship between cost and revenues is not close. As mentioned, much of the revenue of NFPs comes from sources that are not related to their programmes or missions. Also many of the managers and staffers in charitable organisations come from disciplines other than business. Their background, experience and knowledge are often in programme-related skills rather than business skills (Fry **et al** 2001:304 - 305).

4.6.5 Volunteers

Not-for-profit organisations live or die by the loyalty of their volunteers. Since the volunteers do disproportionate amounts of the total work in a not-for-profit organisation it is imperative for the board and staff to keep the volunteers happy and motivated. This is a key difference between NFPs and for-profit businesses. In businesses employees are motivated at least in part by their pay cheque.

In not-for-profit organisations volunteers receive no salary. They contribute their time solely because they want to support the organisation. There is little incentive other than personal satisfaction to work diligently. Many volunteers have full-time jobs and volunteer in their spare time. If they are not treated well they may leave and spend their limited spare time doing other things (Brooks & Lewis 2001:765-769).

4.7 Decision makers in not-for-profit organisations

A primary difference between a for-profit and a not-for-profit organisation is the ownership and top management. Businesses are usually owned by individuals, either directly or through stock. A not-for-profit organisation has no such ownership. No one "owns" a not-for-profit organisation. They do have a top management in the form of a board of directors, although it is almost always a volunteer board. Large non-profit organisations may have a president, a full set of vice presidents, and many paid staff employees. Smaller not-for-profit organisations may have only an executive director and

perhaps a secretary as paid staff. Volunteers handle all the other work (Fry **et al** 2001:90).

4.8 Academic Information Service (AIS)

4.8.1 Application of modern management philosophy and practices

The AIS transformed the conventional university library into a client-focused network-oriented organisation. After studying the characteristics of highly successful companies and organisations worldwide, key success factors in state of the art management philosophy were identified. The main drivers of transformation were:

- moving to a non-hierarchical organisational structure
- defunctionalisation by transforming a departmental structure into process-owned, client-focused and multi-skilled teams
- creating market driven service units
- replacing senior managerial functions by leadership roles
- providing cross-functional teams
- strategic leadership through strategic coordinators
- achieving control by internalising a vision and value system.

4.8.2 Changing the name

The outcome of a comprehensive research project funded by the Human Sciences Research Council eventually led to the University of Pretoria top management accepting the name "Academic Information Service" for the Library. The real challenge is not only to manage the University Library systems as a physical entity that contains paper-based information sources, but rather the management of academic information as a resource to

facilitate training, education and high-level research. Ultimate effectiveness is not only to be judged by the number of users visiting the library (now Academic Information Centre), but also by the successful online delivery of information and access to information and databases world wide. The policy of building collections "just-in-case" their contents would be used was replaced by a strategy of "just-in-time". Access to information, not ownership, is the key.

4.8.3 Continuous transformation and strategic positioning

The extremely turbulent international information business environment that interfaces with international and national service providers, the trends in international and national economics, politics and education, all require the continuous repositioning and transformation of the AIS. Alignment with the strategic plan and other developments within the University of Pretoria, and the need to create new partnerships and take full benefit from regional and national consortia, further requires continuous repositioning of the AIS and dynamic strategic leadership. Implementing new strategies and action plans requires a human resources development strategy that drives the development of new competencies and skills. Proactive steps to create a virtual Academic Information Service were just in time to support the University of Pretoria's new strategy of telematic learning and education.

4.8.4 Management tools

Management tools such as the following are supplied to support continuous renewal and repositioning:

- a three-year-rolling strategic plan
- mind maps
- the balanced score card

- service levels
- AITO (internal alliance with the Department of Telematic Learning and Educational Development and the Department of Information Technology)
- Well designed and active websites
- Information alliances, e.g. with the CSIR.

4.8.5 Knowledge management

The mission, that is incorporated in the strategic plan of the AIS, and contracted with top management, is to support and facilitate knowledge managemet practices at the University of Pretoria. Librarians and information specialists have a long tradition of being key role players in the traditional chain of scholarly communication. This is characterised by the continuous interaction among authors, publishers, service providers for book and journal delivery and libraries. Although the management and communication of explicit knowledge through paper based and e-publications will remain part of the key business of the AIS, the challenge of energising the creation and flow of tacit or implicit knowledge is addressed. The three year rolling strategic development plan of the AIS therefore refers to issues like the following:

- The design and development of a knowledge portal
- Creating opportunities for electronic theses and dissertations to be made accessible via the Internet
- Assisting e-publishing and provision for a University of Pretoria e-archive
- Creating a text centre to make unique information sources available on the Internet
- Facilitating Communities of Practice (COP's).

4.8.6 Strategic alignment

The main challenge of the AIS is to realign itself to the new strategic plan of the University. The proactive transformation of the structure of the AIS supports the delivery of differentiated services and products to faculties as decentralised business entities. The business orientation of tertiary education challenges the AIS to find and create additional streams of income. A marketing survey of the potential external market has been done. The positive outcome offers new opportunities for generating additional income. The lower value of the Rand and fluctuations in the exchange rate pose new challenges for the import of information to the value of more than R30m per annum. Strategies and action plans are being developed to minimise the negative impact.

4.9 Value system

In view of the AIS vision and, while striving to give expression to the mission with its core values, the AIS seeks to stress, interpret and uphold, the following components of the value system:

4.9.1 Respect for the individual

With regard to decisions on, and conduct towards, business personnel each one should be capable of and willing to deliver unique contributions. It is accepted that with the necessary training and support the responsibility for this will be accepted.

Focus is placed on the creation of a safe and flexible working climate and circumstances enabling personnel to develop their own potential to the full. Human dignity is emphasised by the acknowledgement of the contributions and achievements of each individual according to their choices.

4.9.2 The client comes first

The AIS strives to pro-actively provide a service that measures up to the highest possible level of client acceptance and satisfaction. It achieves this by working together in a partnership with its clients and client groups in order to find answers to their problems with regard to classification, cataloguing, and the availability and repackaging of knowledge and information. This attitude and approach are supported by continuous monitoring and frequent control actions.

4.9.3 Strive towards success

Within an academic cultural school of thought and orientation the AIS strives to find new ideas and better ways of doing things in search of unique and excellent solutions. A high premium is placed on strategically aligned creativity and innovation in order to utilise the challenges and development opportunities of this ever changing and complex working arena. Experimentation is encouraged and tolerated. Mistakes, as part of the ongoing learning process, are allowed and rectified.

4.9.4 Integrity is a way of life

The AIS continuously strives to achieve the highest level of integrity and ethical behaviour in order to establish credibility without any doubt. Through its actions it strives towards creating trust and respect for its ideals, methods and ways of working.

4.9.5 Spontaneous teamwork

The AIS strives towards the realisation of its common vision by encouraging mutual understanding and the acceptance of co-responsibility. It focuses on participation and

involvement from everyone, which contributes to the success of its unique assignment in a complex working environment.

4.9.6 Transparent management

The value system shall be internalised by staff. This is a theme for continuous discussion and serves as an important guideline for peer evaluation and the adjudication of individual and joint operations.
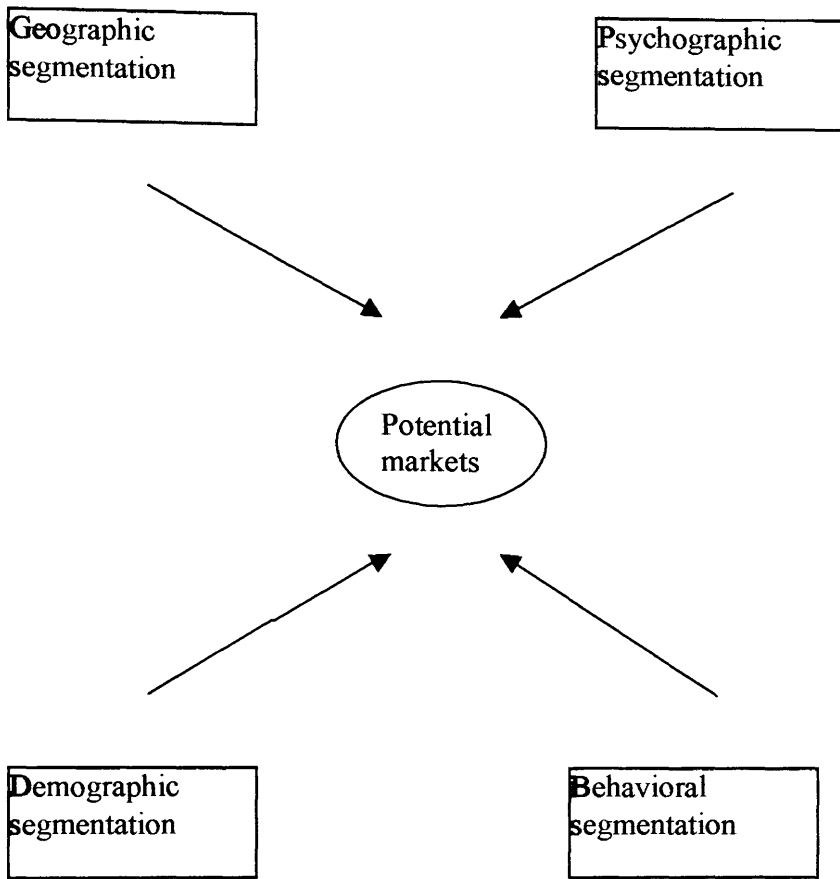
4.10 Bases of segmentation applicable for churches

4.10.1 Bases of segmentation

A segmentation base is optimal if it yields segments possessing the following characteristics:

- Mutual exclusivity – each segment should be conceptually separable from all other segments
- Exhaustiveness – every potential target market should be included in a segment
- Measurability – the segment size and profile can be readily measured
- Accessibility – the resulting segments can be effectively reached and served
- Substantiability – the degree to which the resulting segments are large enough to be worth pursuing
- Differential responsiveness – the degree to which each segment responds to different offerings and marketing program.

Figure 4.4 Bases of segmentation applicable for churches

Geographic segmentation		Psychographic segmentation

Potential markets

Demographic segmentation		Behavioral segmentation

Own source

Table 4.2 Segmentation criteria of a church

Geographic:			
	Region	Centurion	
	City	Boundaries of the Reformed Church of Verwoerdburg	
	Density	Urban	
Demographic:			
	Age	Teens and parents	
	Family size	Any size	
	Family life cycle	Single and married people with children.	
	Gender	Male, Female	
	Education	Any one	
Psychographic:	Lifestyle	Any one	High class Middle class Low class
	Personality	Specifications	Dogmatic Charismatic
Behavioural:	Occasions	Regular occasions, special occasions	
	Benefits	Quality, service	
	Readiness stage	Unaware, aware, informed, interested	
	Attitude	Enthusiastic, positive, indifferent, negative, hostile	

Own source

4.10.2 Principles

The following are characteristics of recent times:

- outward success is preferred over faithfulness
- theology takes a backseat to methodology
- preaching the gospel gives way to drama
- special music and pop psychology
- pragmatism transcends biblical exegesis
- poor doctrine is tolerable but a long sermon is not
- a sermon is judged not by its content, but by the way it makes you feel
- God must be judiciously packaged if he is to reach today's very distracted parishioner.

Meeting individual objectives:

- Implies that people should know and understand the objectives of the individuals they are trying to reach
- The needs of individuals
- What needs do the people believe they have to which the church is able to respond?

The latter question, in turn, suggests two deceptively simple but immensely important principles.

The first principle is:

- If people conclude that they are in the business of meeting people's needs, they have to systematically research what those needs are.

The second principle that flows from trying to meet people's needs is:

- That no local church can meet everyone's needs equally well
- Specialization has to take place
- Specialization in who the church is trying to reach and how they are trying to reach them.

4.11 Adapting business principles

Dennis Young is the CEO of a new organisation, the National Centre on Non-profit Enterprise, who works to adapt business principles for not-for-profit organisations to make wise economic decisions. As an illustration, consider the problem of deciding what to charge for the services an organisation provides to its customers or clients.

For a private business, it may be a technical challenge to find the right price or to determine how much to sell of a given product, but the guiding principle is clear: find the price and quantity that will maximise net revenues. Businesses do this essentially by selling as much as they can until the costs of providing another unit no longer brings in sufficient revenue to offset the additional cost.

The case of a not-for-profit organisation is different and varies with the circumstances. Consider two possibilities:

Case 1: A gift shop in a museum or a hospital may be intended purely as a revenue raising program for the host institution. In this case, the pricing of its merchandise would follow conventional business principles: find the prices that result in the most net revenue. Indeed, any operation that is viewed strictly in fund raising terms by a not-for-profit organisation should follow this principle.

However, if there are other considerations such as promoting the public's interest in art through the sale of books or inexpensive reproductions, the institution may choose to

reduce (subsidise) prices below profit-maximising levels to account for this component of its social mission.

Case 2: The mission of a neighbourhood not-for-profit day care centre may be to serve as many local preschool children as possible, at a certain standard of service, without regard to ability to pay. The not-for-profit centre's fee policy would have to differ considerably from that of a for-profit day care centre in the same neighbourhood.

If the not-for-profit centre has other sources of revenues such as grants and contributions, it can use these revenues to reduce its price below the profit-maximising rate, and perhaps impose a waiting list to account for excess demand beyond what it can accommodate within its break-even capacity. The price of a for-profit centre, on the other hand, would be high enough to "clear the market" and eliminate excess demand.

Moreover, the not-for-profit centre may wish to offer a sliding scale fee schedule so that families with limited abilities to pay could be accommodated. Some levels in that fee schedule might be set below the marginal cost of serving a child, if that was what was needed to attract children from low-income families.

A for-profit centre might also offer a multi-part price schedule if it felt it could "price discriminate" to take advantage of high income/high demand consumers, but it would be unlikely to subsidise the lower end of the scale unless the socio-economic mix of its children became a selling point to high-end consumers, or if this policy paid off in public relations benefits.

As these cases reveal, sometimes the differences between not-for-profit and for-profit "business decision-making" can be subtle, but it is clear that not-for-profit organisations cannot blindly apply business methods without appropriate adaptation.

In addition to pricing, this caution applies to a wide variety of decisions, including investment of funds, outsourcing of tasks, deciding whether to undertake a commercial

venture, deciding whether to collaborate with a business corporation, determining employee compensation levels and investment in fund raising operations.

Fortunately, there is a growing reservoir of expertise to help not-for-profit organisations with their economic issues. Many universities now have academic centres devoted to not-for-profit management, and there are many independent consultants working on these issues (Young 2001:1 - 2).

4.12 Summary

Not-for-profit organisations can be thought of as businesses with social missions. On the one hand, not-for-profit organisations are privately governed entities which must be financially solvent in order to survive and grow. Not-for-profit organisations participate in markets and compete for resources, just like businesses do.

On the other hand, not-for-profit organisations must not gauge their performance primarily in terms of financial success. They are entrusted by society to carry out a variety of social missions in social service, health, education, the arts, the environment and other fields, and it is their effectiveness in doing so that constitutes their true "bottom lines." Financial success is only a means to those ends, not an end in itself. This is the dilemma of the NFP. They are under pressure to deliver financial rather than social profit.

This mixed public-private organisational character raises interesting challenges for the manager of a not-for-profit organisation. Sound principles of business and economic analysis must be applied to decision-making, but these principles must be properly adapted to the not for profit context.

Conventional business principles help organisations to run efficiently and effectively, but they are built on the underlying assumption that the purpose of the organisation is to make as much money as possible.

Not- for-profit organisations must also be efficient and effective in their use of resources, but they must do so in a way that maximises the impact they have on their social missions.

Chapter 5

Observations and recommendations

5.1 Introduction

Not-for-profit organisations have unique features that distinguish them from for-profit organisations. Their methods of getting funds is one characteristic, and another is their reliance on volunteers. Typically, a not-for-profit organisation has a number of unpaid workers who contribute their time and talents to the organisation. Many not-for-profit organisations cannot operate without these volunteers. This dependence on volunteers can make management of the not-for-profit organisation difficult (Oster 2002:15).

Just as a for-profit organisation must understand its customers, so a not-for-profit organisation must seek to understand its constituents and their needs. One complication of operating a not-for-profit organisation is that there are usually many constituents, often with conflicting needs. Let's consider a not- for-profit organisation such as a public school. They operate to provide a solid educational foundation for the young people within a community. Every taxpayer contributes to the school system. Students are the relevant constituents. What about the parents, the taxpayers, the community, even society in general? If funds are to continue to flow to the school system, the needs of all these constituents must be balanced somehow. This applies for universities and churches.

5.2 Churches

The concept of marketing the church or certain aspects of the church is relatively new, especially in South Africa. Marketing the church might be aimed at: getting volunteers, attracting more parishioners, raising funds and even help in the community.

The wonder seems to be, that if the church is offering all of these benefits, e.g. sermons, help to the community, fund raising and volunteer work, for free, why aren't people lined up outside the door and down the street? The catch is that they are not free. There is a tendency to think of costs only in monetary terms, and from that perspective a church commitment might appear cheap, particularly to less committed participants. There are other forms that costs might take. In some instances the "price" of church can be very high indeed. The following is often considered:

- Time
- Social aspects
- Psychic aspects
- Sensory aspects.
- Monetary expenses

Being a Church member can entail monetary expenses, usually through tithes (or planned giving as the Roman Catholics call it) and of her calls for donations. The Church has a dilemma because it is a "Kingdom not of this world", but it still has worldly needs (e.g. the hymn books are in tatters and need replacing, the roof is leaking, the Church has bills like everyone else, water, lights, telephone etc., it cost the Soup Kitchen R3.00 per meal to feed those in need). The difficulty with marketing and fund raising for the Church is that it puts people off. It seems at odds with the spiritual mission of the Church. Money belongs to Caesar, and all that. The challenge for the Church is: How to get around this problem?

The costs, taking into account the total non-monetary price of a product or service, include:

- The time commitment associated with church involvement and attendance
- Being in church at 08:00, 09:00 or 10:00 on a Sunday morning
- Services that are poorly organised
- Variable and unpredictable length
- Poorly thought out sermons increase time costs
- Meandering board and committee meetings increase time costs
- Tightly planned events will tend to decrease the time demands upon participants.

Potential social costs of Church membership:

- It has to be explained to co-workers why they care about going to church
- Face patronizing scepticism.

There are certain aspects of the evangelical message which cannot help but produce psychological discomfort:

- Proclaiming the fallen nature of humanity
- The fundamental sickness of society
- Each individual's personal responsibility to adjust their lives
- The demands of responding to the message of Christ.

Somewhat less obviously, and perhaps more to the point in the present context, there are aspects of what is done on a typical day that can represent psychological costs that are clearly preventable, for example:

- The visitor who stands ignored in the foyer
- Fumbles with unfamiliar choruses

- Those who do not understand the approach to worship may feel embarrassed and confused.

5.3 Academic Information Service

Over three years ago, the AIS enrolled in a five year strategic plan. Recently, it changed to a three year strategic plan to accommodate the rapid pace of change that occurs at the University of Pretoria. The strategic plan of the University of Pretoria to offer full virtual access makes it necessary for the AIS to change, for example, books and journals traditionally available in print are now electronically accessible and the AIS needs to accommodate this new medium. The full cost approach of the University forces Departments to think like for-profit organisations. The AIS must protect the intellectual capital that is in its employ, and thus ensure its future. The AIS is in many ways the leader in this field. They started the web portal and was soon joint by the department of telematic learning.

5.4 Strategy

Strategy, marketing initiatives and customer satisfaction are factors that will arm a not-for-profit organisation with a larger arsenal of business techniques than the usual balls, raffles, silent auctions, and cake sales that come to mind. Why is it that many corporate planners dismiss charities, foundations, and arts organisations as sources of strategic ideas? The biggest reason seems to be that the term not-for-profit organisation misleads bottom-line-oriented business people, because not-for-profit does not mean that no profits are made. Although these enterprises do not have to show excess cash on their financial reports, but they do have to generate revenue - lots of it, and they do so successfully. In fact, the world's wealthiest organisation - and the largest land owner in the U.S. - is a not-for-profit organisation, namely the Catholic Church. Smart not-for-profit organisations have to be just as concerned with strategy, planning, and development as their for-profit counterparts, after all, they must compete with other organisations, offer quality products and services, and survive in the same tough economy.

5.5 Summary

It is exceedingly difficult to identify the factors which make not-for-profit organisations different from every other activity in society. Yet this difference is a fact and is believed to be such a big difference that the dissimilarity between not-for-profit and all other forms of social action is greater than any dissimilarity among those other forms themselves.

There are some very significant differences in formulating, implementing and evaluating policy between private and public sector organisations. Table 5.1 summarises some comparisons between for-profit and not-for-profit organisations.

Table 5.1 Comparison of for-profit and not-for-profit organisations

	For-profit organisations	**Not-for-profit organisations**
Basic purpose	Profit	Advance the public interest
Objectives	Few	Many
	Have general consensus	No consensus
Organisational structure	Decentralised in most large companies	Generally a centralised bureaucracy
	Many large companies	Many extremely large organisations
Decision-making processes	ROI a dominant standard	Evaluating tools more blunt
	Quantitative evaluating tools widely used	Qualitative evaluating tools widely used
	Economic standard dominant	Political standards dominant
	Decisions centred in one person	Group decision making predominates

	Integrated decision making	Piecemeal decision making
	Wide policy choices considered	Policy choices narrow
Dominant constituents	Stockholders and customers	Any interest group can influence decisions
Environment	Competitive and turbulent	Monopolistic and relatively stable
Implementation of decision	Lines of authority reasonably clear	Chain of command not clear and confused
	Common implementing mechanisms	Not standard implementing systems
Source of income	Satisfied customers	Budget allocations
Measures of performance	Principally economic and quantitative, e.g. return on investment	Political and not well defined, e.g. public interest, political efficiency

Source Own

Conventional business principles help organisations to run efficiently and effectively, but they are built on the underlying assumption that the purpose of the organisation is to make as much money as possible.

Not-for-profit organisations must also be efficient and effective in their use of resources, but they must do so in a way that does not compromise their social missions.

In order to succeed, the not-for-profit organisation must be able to offer the market something not proffered by the current competition. In the language of Competitive Strategy, the not-for-profit organisation must have a competitive advantage.

So, where does the typical competitive advantage come for a not-for-profit organisation? For most not-for-profit organisations, a new commercial venture will only be able to generate a profit if the new venture builds on the core mission and assets of the not-for-

profit organisation. It is most typically the connection with the core mission that offers the not-for-profit organisation the possibility of a competitive advantage over its rivals. The not-for-profit organisation's reputation is most useful when the new venture is in the same broad product area as the core mission activity. So a simple rule of thumb for not-for-profit organisations is to keep new ventures close to the mission activities.

To sum up, the not-for-profit organisation which institutes a new earned-income venture must ensure that it fits not only with the core business of the organisation, but with the character of the not-for-profit organisation structure more generally. This rule holds true even when there are plans to develop the new venture into a for-profit subsidiary, for even within this structure, it is beneficial for the heritage and influence of the parent not-for-profit organisation to be retained. As a general matter, decisions about both programme and staff will be affected by the not-for-profit organisation linkages.

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