

Turnarounds

What Can Nonprofits Learn from the Private Sector?

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Abstract

There is little agreement on what strategies lead to a successful turnaround in the private sector. Case studies of turnarounds in nonprofit organizations, however, suggest that leadership, building an appropriate team, and mobilizing and garnering support from stakeholders are key elements of a successful strategic approach. A review of the literature on reinvention and capacity building in nonprofits suggests that leaders should not adopt private-sector solutions indiscriminately, without taking into account the strong value-based culture and commitment of nonprofit staff and volunteers. The change management strategies that seem to work best are those which respect nonprofits' organizational and sectoral culture, while mobilizing resources and linking stakeholder support to the vision and mission at the heart of every nonprofit enterprise. These participatory strategies are also more likely to build capacity – a major challenge throughout the nonprofit sector. Finally this review identifies several questions, including nonprofit crises, retrenchments and specialist roles, which merit further investigation.

Introduction

When I look at efforts to create change in big companies over the past ten years, I have to say that there's enough evidence of success to say that change is possible – and enough evidence of failure to say it isn't likely.

– Peter Senge, *The Fifth Discipline*

The failure of companies in the private sector has often made the news, and now that the economy seems to be slipping toward a recession the news of companies in decline seems more frequent. The *Toronto Star*, for example, recently ran a two-part series on John Roth and the decline of Nortel Networks. While news about troubled companies in the private sector makes headlines, there is very little news about the decline of nonprofit organizations. Individual nonprofits may never have as large an impact on the economy as Nortel does; yet the sector contributes significantly to the economy and touches all of our lives in some way. According to the report of the federal Panel on Accountability and Governance in the Voluntary Sector (PAGVS 1999; also known as the Broadbent report) there are approximately 175,000 nonprofit organizations operating in Canada, of which 78,000 are registered charities. Altogether the voluntary sector, with 1.3 million jobs, annual revenues of \$90 billion and assets of \$109 billion, is comparable in size to the entire economy of British Columbia.

Nonprofits have long been overlooked and little understood. Until fairly recently, a poorly run or even highly dysfunctional nonprofit, as long as it did not go bankrupt, could continue to operate for years. In the past few years, however, the social, political and economic context in which nonprofits operate has changed dramatically. The numbers and size of nonprofit organizations involved in international relief and development, for example, have grown substantially in the past few decades (Siciliano 1997). Nonprofits face both increased competition for funding, and reductions in funding. Years of government restructuring and retrenchment have resulted in reduced funding for nonprofits and increasing demands for programs and services. Increasing demands for transparency and accountability from funders and donors have put additional pressure on nonprofits to find ways of improving accountability and performance (Siciliano 1997;

Hall 1999). In this increasingly competitive and challenging environment, many working in the field know that change is inevitable – that those who are not able to increase their impact and efficiency “run the risk of bankruptcy and irrelevance” (Lindenberg 2001, 1).

The growth, development and evolution of nonprofit organizations are a distinctive part of the history of the twentieth century (Nanus and Dobbs 1999), in the last decade of which we witnessed also the growth of research and study about the voluntary sector, concurrently with (and perhaps not unrelated to) the increased professionalization of leadership within the sector. However, despite these advances in knowledge, we seem still to know very little about nonprofit organizations or the sector in general (Light 2000, Lindberg 2001; Hall 1999; Nanus and Dobbs 1999), and even less about how to prevent nonprofits from failing. This may be symptomatic of certain limitations in the research being done on the sector overall; but it may also be related to the fact that it is harder to measure success or failure in nonprofit organizations. For the private sector, the bottom line settles most arguments as to how well a corporation is doing. For nonprofits, there may be a variety of possible indicators, but there are fewer obvious signs, and there is little agreement among those in the sector on how success or decline ought to be measured.

The study of turnarounds in the private sector is still relatively new, having begun in earnest only about two decades ago (Pandit 2000). Nonetheless there is quite a bit of literature available, and there seems to be a growing interest in the field. There are books on how to turn a small business around, and prescriptions for engineering a marketing turnaround. There are turnaround experts, and consulting companies that specialize in “turnarounds,” with their own Web sites devoted to the topic.

Given the increasing pressures on nonprofits and increasing interest in the exploration of new management frameworks, it seems timely to explore the topic of turnarounds. Are there lessons to be learned from turnarounds in the private and public sectors that would be of value to nonprofits? Are there transferable strategies and lessons learned?

To explore these questions, I reviewed the literature on turnarounds in the private and public sector, focusing primarily on case studies of complete turnarounds – that is, those companies that were turned around successfully. I stayed away from the myriad of

individual prescriptions and looked for some common strategies and themes in these case studies. I also reviewed the literature on reinvention, renewal and capacity building in the nonprofit sector. Although there is little agreement in the literature on turnarounds and turnaround strategy, a few central themes and strategies did emerge. Throughout the paper I have made recommendations where further research may be useful to the sector.

1

Defining Turnaround

“No One Saw the Red Flags,” screams the headline of an article in the *Toronto Star* business section, commenting on the failure of the board of directors at Nortel Networks to see the serious signs that the communications technology giant was in trouble. If Nortel’s directors couldn’t tell the company was in serious decline, then how can we expect that volunteer directors of nonprofits will know if their organization is in trouble? Can they expect the company to turn around? And just what would constitute a turnaround?

Broadly speaking, turnarounds are organizational recoveries from declines. However, a review of the literature on turnarounds in the private sector demonstrates that there is little agreement on what actually constitutes a corporate turnaround (Khandwalla 1992). Pandit (2000), in a review of turnaround studies, notes that “logically, any definition of turnaround should address two issues: the definition and measurement of performance; and, the definition of a turnaround cycle, that is, a period of poor performance (the decline phase) followed by a recovery in performance (the recovery phase).”

Khandwalla defines a corporate decline as “a loss situation” and turnaround as “equivalent to reaching at least a break-even from a loss situation” (1992, 16). Many other studies define performance in terms of profitability and even distinguish between pre-tax profit, or use other profitability accounting ratios such as return on assets or return on investments.¹

Others point out that defining turnarounds on the basis of profitability alone is problematic, as it does not take into account a gradual loss of competitiveness or other

¹ Pandit (2000) notes that “Seven (Schendel and Patton, 1976; Schendel et al., 1976; Hamermesh, 1977; Bibeault, 1982; Slatter, 1984; O’Neill, 1986; and Thain and Goldthorpe, 1989) use nominal pre-tax profit and five (Graham and Richards, 1979; Hambrick and Schecter, 1983; Pant, 1991; Chakraborty and Dixit, 1992; and Chowdhury and Lang, 1996) use profitability indicating accounting ratios (either return on total assets [ROA] or return on investment [ROI]).”

signs of failure. Pandit (2000) also points out that accounting-based figures are unreliable, as they are susceptible to managerial manipulation.

Other studies use human judgment to supplement accounting-based definitions of bad or good performance. Zimmerman (1989) requires consensus among stakeholders: investors, board members and managers. Robbins and Pearce (1992), on the other hand, require only agreement from a company executive that a turnaround has occurred. While the latter approach has the advantage of being able to take into account differences in context (whether, for example, is the firm a high performer in a weak industry, or a weak performer in a strong industry), its weakness is that such an isolated judgment has the potential to be highly subjective (Schendel et al. 1976, cited in Pandit 2000).

There also seems to be a lack of consensus on the definition of “turnaround cycle,” and at least as many problems with the various criteria for assessing declines (for example, between those declines which are considered to be normal, and more permanent and damaging declines) and for measuring recovery (Pandit 2000).

The definition proves to be even more challenging for the nonprofit sector and highlights some of the distinct challenges facing nonprofit organizations in decline. In the first place, the term does not seem to have been picked up or used in the sector. If we wanted to adapt the term for use in the sector, any definition based on measures of profitability would need to be ruled out. We then need to look for other measurements of performance; but there is very little agreement at this point on how to measure successful performance in the sector (Light 2000; Nanus and Dobbs 1999). Given that each nonprofit has a distinct mission, it is difficult to develop a common set of indicators. Nonetheless, some general indicators of organizational capacity and overall health have been developed in recent years,² which hold some promise. For example, Grantmakers for Effective Organizations defines organizational effectiveness as “the ability of the organization to fulfill its mission through a blend of sound management, strong governance, and a persistent rededication to achieving results” (Connolly 2002).

² See McKinsey and Company, “Effective capacity building in nonprofit organizations” (2001); also the Broadbent report (PAGVS 1999). McKinsey and Company have created a “capacity framework” for nonprofits and a comprehensive capacity assessment grid, a diagnostic tool that organizations can use to measure their strength in terms of each capacity element.

In a review of the various waves of nonprofit management reform in the United States, Paul C. Light cautions the nonprofit sector to “avoid the wasted motion” and mistakes that have plagued so many government and private-sector reform efforts. He concludes by noting that “the first step is simply to recognize that not much is known about what makes organizations more effective, especially if they happen to exist in the nonprofit sector” (Light 2000, 100).

Despite all the research on turnarounds in the private sector, there is very little agreement on the conditions of success; indeed, it seems that there is still a great deal we don’t know about what makes for effective change in the private or nonprofit sectors. For example, when Harvard Business School researchers tracked the impact of change efforts among the Fortune 100, they found that each of the companies invested, on average, \$1 billion in change programs over a fifteen-year period; yet only 30 percent produced an improvement in their bottom line (Pascale et al. 1997, 86). A study by the Society for Nonprofit Organizations likewise found that more than two-thirds of organizations’ change efforts collapsed. Clearly, further research is needed on turnarounds, recovery, decline and change in all sectors. While there is much we can learn from the private sector, it is important that we recognize that the private sector hasn’t quite figured out the secrets to a successful turnaround. More research and discussion on performance and decline in the nonprofit sector in particular is required.

2

Will That be Harsh or Humane? Choosing an Approach

Whatever we know of turnaround management suggests that turnarounds are time warps in the life of an organization: the organization enters the turnaround process in one form, usually high entropy, and emerges in another, of a taut boxer, ready to take on the world, muscles rippling. How is this transformation achieved?

– P. N. Khandwalla

What do private sector companies do when their organization is in decline and in need of a turnaround? Many choose to call in a turnaround specialist, a consultant who is often armed with both an iron will and a series of prescribed strategies aimed at turning the organization around. A quick search on the Internet will reveal a number of firms specializing in corporate turnarounds. The profile of one such specialist, found on the Web site of *The Industry Standard*, is typical:

Bettina Whyte: The Turnaround Artist

In her first day at the helm of Fairchild Aircraft in 1991, Bettina Whyte pink-slipped 350 people just to make payroll. Later that year, as part of a housecleaning at a West Texas oil and gas company, she received death threats aimed at dissuading her from disclosing unsavory business practices. All in a day's work for Whyte, a turnaround specialist who is called in to fix an ailing company by its board of directors. (Krieger 2001)

The article goes on to note that such specialists are now in very high demand. The Chicago-based Turnaround Management Association noted that many of its members have reported the biggest spike in work in ten years (*Industry Standard*, 2001). This is not surprising. Strong economies can hide bad management practices; but when the economy slows down, poorly managed firms soon become vulnerable. For firms in serious trouble, where the survival of the business is at stake, a turnaround expert may be the only cure – the tough medicine for a life-threatening illness. As one theorist noted, “Retaining a turnaround specialist has been analogized to having a heart transplant, an

experience few would undertake without much trepidation. But just as heart transplants are necessary to save the life of the patient, corporate turnarounds are very often what is needed to keep a business alive” (Webb, 6).

In principle, the actions required for a turnaround are the same as in any organizational change, re-engineering, or development effort. The difference is in the time frame: when the consequences of the impending disaster are clear and visible, whatever must be done must be done fast – or so it seems.

A number of corporate CEOs have become well-known figures, famous for their work in having turned companies around in the 1980s and 1990s. In the United States, Roger Smith at General Motors, “Neutron” Jack Welch at GE and Lee Iacocca at Chrysler have become legends, modern-day corporate heroes. All three have published books outlining their secrets for successfully turning a corporation around; and they share a similar hard-nosed approach. Jack Welch’s approach is typical: “When Neutron Jack hits a GE plant town, they say, the people disappear, but the building still stands.” While he was at GE, over 100,000 of the 400,000-member workforce lost their jobs. At Chrysler under Iacocca, half the staff disappeared (Khandwalla 1992, 74).

The “Surgical” Approach

In a comprehensive review of forty-two complete turnarounds – that is, those companies that were successfully turned around – in the private and public sectors, Pradip Khandwalla found this “slash and burn type of turnaround,” which he labels “the surgical turnaround,” to be most prevalent in the West (Khandwalla 1992, 33). Of the twenty-two “surgical” turnarounds he reviewed, Khandwalla found that, despite the diversity in approach, there were five actions in common which lay at the heart of the process:

1. Significant retrenchment (downsizing, layoffs, plant closures) (100%)
2. Diversification, product rationalisation, expansion and related actions (99%)
3. Changes in top management (91%)
4. Marketing related actions (73%)

5. Miscellaneous cost-reduction measures other than retrenchment (64%)

As Khandwalla notes, the emphasis here is clearly on “chopping, trimming, and regrouping, with some marketing aggressiveness thrown in” (1992, 78). The focus is on fixing the bottom line, and what some refer to as “stopping the hemorrhaging,” which often translates into large-scale layoffs and the sale or closure of facilities.

That is not to say that all surgical turnarounds are this harsh. There are many examples of “surgical turnarounds” that also included more humane approaches, such as participative management, human resource development and other incentives; but these actions occurred in less than 30 percent of the cases studied (*ibid.*).

Michael Beer and Nitin Nohria also identified two major archetypes or theories of corporate transformation: Theory E, a “hard” approach similar to Khandwalla’s “surgical approach”; and Theory O, which is similar to Khandwalla’s “non-surgical approach.” Theory E stands for economic value, “where shareholder value is the only legitimate measure of success, and often involves heavy use of economic incentives, layoffs, downsizing, and restructuring.” This approach is very top-down, and often involves the use of outside consultants. Theory O is change based on organizational capability, “where the goal is to build and strengthen corporate culture.” Beer and Nohria confirm that the Theory E strategies are more common than Theory O strategies in the United States, “where financial markets push Boards for rapid turnarounds” (2000, 1–2).

Dramatic retrenchment strategies may make sense in the private sector, where shareholders put enormous pressure on corporate executives to ensure a healthy return on their investment, or at least to show a profit, and where any substantial losses must be stopped as quickly as possible. While very few nonprofits can afford to lose any money, they are not driven by the profit-making motive. Some retrenchment strategies may be useful, especially for nonprofits facing repeated and spiralling deficits; but even then, organizations would do well to tread carefully.

Durst and Newell found that some nonprofits do resort to downsizing. But it is not the restructuring tool of choice, as it seems to be in the public sector. They note that this may be due to the fact that government organizations tend to be much larger, and have more fat to trim. However, they note that this may also reflect “the relatively greater

participatory role that employees (paid and unpaid) play in a nonprofit” (Montes 1997; Siciliano 1997, cited in Durst and Newell 2001, 5).

This finding is reflected in much of the literature on reinvention in the nonprofit sector, which suggests that top-down approaches borrowed from the private sector tend to clash with the particular culture of nonprofits and do not work well in the sector (Lindenberg 2001; McPeak 2001). In an article on the relevance of private and public sector strategic management frameworks for NGO repositioning, Lindenberg noted that, “Purely abstract but sound frameworks for rationalizing resource use will be rejected out of hand unless they are blended with the sense of mission and strong value orientation of the staff. A clear recipe for failure is mixing resource maximization techniques with top-down approaches to change” (Lindenberg 2001, 16).

Both Lindenberg and McPeak note the importance of recognizing the values and different motivations of nonprofit staff members, which appear to be different from the motivations of those working in other sectors. As Lindenberg notes, “[nonprofit staff] have been willing to trade salary dollars for organizational participation and the satisfaction of working for a better world” (ibid.).

This is supported by a study of nonprofit executive directors in the United States, which found that “overwhelmingly, respondents took their current jobs because of the mission of their agencies as well as their own desire to help others and to give back to their communities. The anticipation of finding meaning and contributing to others was significantly more influential than more traditional factors such as salary and benefits” (Peters and Wolfred 2001). These findings point to very strong value-based cultures within the nonprofit sector, with greater expectations around employee participation and involvement. At the very least, leaders in the nonprofit sector need to recognize that people working in the sector expect to be consulted (Nanus and Dobbs 1999, 60).

Lindenberg (2001 11) speaks directly to the “culture clash” the type of retrenchment strategies common to “surgical” turnarounds would meet with in the sector:

The special culture of NGOs and the value orientation of their staff members make some of the tactics recommended by consultants with private sector experience both ineffective and dangerous. For example, some private sector analysts recommend closed-door

management analysis and then mass reduction in workforce initiatives, whereby employees are told without warning that their job has disappeared and are asked to clear out their desk and leave immediately. Although, in theory, some argue that this is more humane than “death by continuous participative analysis,” such approaches have doubly destructive effects on NGO culture.

Similarly, in a case study examining the reinvention efforts of an international nongovernmental organization (INGO), Mark McPeak noted that “because INGOs strive to create a better, fairer, more just, and more sustainable world, an emotional association is formed between the self-image of staff members and their day-to-day work” (2001, 2). In reviewing the various change strategies employed by Plan International, he found that their efforts “were more successful when the emotional nature of the staff’s attachment to their work was taken into account” (ibid., 10).

Salipante and Golden-Biddle also caution against wholehearted adoption of private sector practices. They argue that because of “the enduring nature of social needs and the importance of public trust, the advocacy-based missions of nonprofits, compared to the profit-based missions of business organizations, call for greater continuity and less sweeping changes” (cited in Wilson 2001, 14).

These studies raise some important questions for the sector that merit further investigation. None of the studies I reviewed on the nonprofit sector looked at organizations that were considered to be in a crisis, which may again be due to the fact that it is harder to tell whether or not a nonprofit organization actually is in crisis. Would nonprofit organizations that are in serious trouble benefit from swift retrenchment strategies? Could these strategies be mixed with or tempered by more facilitative approaches?

The Humane Approach

While the “surgical approach” is very common to the private sector, Khandwalla also uncovered a large number of “equally dramatic turnarounds from comparably appalling corporate sickness, in which virtually no one was fired and no plants were closed.” He labels this more humane approach the “turnaround without tears” and suggests that its

prevalence outside of North America may in fact lead to a reappraisal of the surgical method for corporate turnarounds (Khandwalla 1992, 33).

There are a wide range of actions and approaches used in “non-surgical” turnarounds. In fact, Khandwalla found “non-surgical” turnarounds to be more complex and multi-dimensional than “surgical” turnarounds (ibid., 103). The seven most common features of a “non-surgical” approach were:

1. Diversification, product-line rationalization, expansion, etc. (100%)
2. Change in top management (95%)
3. Marketing related actions (90%)
4. Restructuring (80%)
5. Plant modernisation (75%)
6. Cost-reduction measures other than retrenchment (65%)
7. Better organizational integration, participative management, emphasis on core values (65%)

This approach is similar to Beer and Nohria’s Theory O approach – a “soft” approach to change, most often adopted by managers who “believe that the Theory E approach would harm their organizations in the long run.” The goal of Theory O is “to develop corporate culture and human capability through individual and organizational learning – the process of changing, obtaining feedback, reflecting and making further changes” (Beer and Nohria 2000, 4).

Beer and Nohria point out that both methods are valid and that each has its own set of costs. Perhaps the most obvious costs to organizations employing Theory E approaches are the loss of trust and commitment of their employees. While the “hard” approach produces some immediate benefits, it does not build the capacity of organizations in the long run. With pure Theory O methods, CEOs may find that “their commitment to their employees can prevent them from making tough decisions. The temptation is to postpone the bitter medicine in the hopes that rising productivity will improve the business situation” (ibid., 12).

It is not that companies don't ever mix these approaches; in fact, most do; but few do it well. The reason is that the styles are so contradictory that they create a sense of distrust and uncertainty. Beer and Nohria found that "haphazardly" mixing the two approaches "proved destabilizing to the organizations in which this was imposed" (2000, 13). Jack Welch is one exception. After his "Neutron Jack" phase at GE, where he sold or closed less successful units and laid off close to 60 percent of corporate staff, he adopted a Theory O strategy, designed to change GE culture. Declaring that the company had to become "boundaryless," he encouraged open communication and feedback, which eventually eroded the hierarchy. Beer and Nohria believe that companies that mix both approaches can benefit from the best that each has to offer; but this mixing must be done carefully and must explicitly acknowledge the tension between Theory E and Theory O goals (ibid., 15).

One might assume that the choice of approach should be linked in some way to the problems or cause of the decline – or even to the size of the organization. However, the literature suggests that the approach tends to be most strongly linked to culture (Khandwalla, 1992, 152–153). As I noted earlier, both Khandwalla, and Beer and Nohria found the "surgical" approach to be most pervasive in the United States, and the "non-surgical" approaches to be most often found outside of the United States – in Asia and Europe, due to the fact that they place a high value on employee commitment (ibid., 4).

Although more research is needed here, it does suggest that culture is an important factor in choice of approach, and that it should be a major consideration for nonprofits. This tends to be supported by the literature on reinvention in the nonprofit sector. "For nonprofits," according to McKinsey and Company, "culture plays an even more vital role than it does for businesses. The culture holds the organization together, an important reason why nonprofit employees are willing to accept relatively low pay and work so hard. Because of its pervasiveness and importance, nonprofit culture is difficult to change" (2001, 63).

McKinsey and other authors³ point out that culture can be strengthened, just as they can strengthen any of the other components of organizational capacity. "The trick lies in

³ See Pascale, (1997).

making changes to the culture in a way that builds positively on a shared commitment of staff and volunteers to the mission ” (ibid.).

The lesson here seems to suggest that leaders in the nonprofit sector would do well to ensure that the process they choose for their change efforts recognizes and builds on the strong value base and commitment of volunteers and staff in their organization.

3

Changing Leaders, Leading Change

Most turnaround literature suggests that a change in top management is essential to successful turnarounds (Bibeault 1984; Khandwalla 1992; Pandit 2000). A study of 30 successful British turnarounds found that in all but two of the cases there was a change in management (Slatter 1984). Similarly, Bibeault found that there was a new chief executive officer in 59 out of 81 cases that he studied. Further, in some 20 reported cases of successful turnarounds in India, there was a change at the top in 19 firms (cited in Khandwalla 1992, 67). In fact, both Pandit and Khandwalla note that they found little agreement or convergence in the literature on turnarounds in the private sector “beyond change in top management.” Khandwalla also found that a change in top management was a significant factor in both “surgical” and “non-surgical” approaches.

Why is a change in management so important? Some authors point to the need for fresh thinking and the ability to break with past practice (Khandwalla 1992). Bibeault suggests that the need for a new chief executive is essential if the reasons for the decline are internal to the organisation, which he found to be the case more often than not (cited in Khandwalla 1992, 67). In his survey of 81 chief executive officers, Bibeault found that 52 percent of all corporate declines were the result of internal problems within management’s control. “In a similar study, it was found that seven out of ten turnarounds are management process turnarounds, and in about 90 percent of these there is change in management at the top” (Bibeault 1978, cited in Pandit 2000).

The importance of leadership in change efforts is also supported by research in the nonprofit sector. For example, Durst and Newell found that “the key to whether reinvention takes place in a nonprofit organization is executives’ personal belief in the idea of reinvention . . . reorganization is unlikely to occur without strong executive leadership, even if the other internal and external demands for change exist” (2001, 9).

Nanus and Dobbs also highlight the importance of leadership in the nonprofit sector: “Look at any successful organization and the answer will be much the same. They couldn’t have done it without effective leadership, the great enabler that energizes an organization, allowing it to attain its full potential and make a real difference in its community” (1999, 5). Durst and Newell also note that the importance of leadership to reinvention efforts in the nonprofit sector is not surprising, “given the fundamental role that the executive plays in determining the mission and agenda of a nonprofit organization” (2001, 9).

While the literature on the nonprofit sector points out the critical role that the chief executive plays in change efforts, it does not link successful turnaround efforts to new leadership. This is an area that might merit further study. If the problems that have led to an organization’s decline are within management’s control, then it is not surprising that the directors might hire a new chief executive officer or else call in a turnaround specialist and grant them the mandate to make whatever changes are necessary. But because the culture of nonprofits is so value-based, it would appear unlikely that most organizations in the sector would welcome outside turnaround experts.

If, however, a nonprofit organization is in such terrible shape that tough decisions must be made, there may be a strong need to bring in an outsider. Beer and Nohria point out that few turnaround managers survive restructuring, “partly because of their own inflexibility and partly because they can’t live down the distrust that their ruthlessness has earned them” (1999, 14). By the same token, it may be too difficult for an existing manager to make tough restructuring decisions. Again this is an area that merits further study, which could begin with a review of any existing models in the nonprofit sector.

For example, a number of churches – Roman Catholic, Unitarian Universalist, United Church of Christ and United Church of Canada – have developed “interim ministry” programs for addressing transition and renewal efforts, which could be compared to the turnaround specialist model used in the corporate sector. The United Church of Canada has a fairly well-developed model. They will provide an Interim Minister for congregations or Pastoral Charges in trouble or dealing with difficult transitions. The Interim Minister agrees to work with the congregation (or congregations) for up to two years to help turn things around; but he or she cannot apply for a permanent ministry

position with the same Pastoral Charge at the end of the interim period. This allows the Interim Minister the freedom to make changes that might be more difficult for a minister who was planning to stay for the long term. The Church Board and/or a committee of the Presbytery helps the congregations determine if their Pastoral Charge needs an Interim Minister and then works with the congregations to determine what they most need from that person. The United Church provides training and resources to those interested in Interim Ministry, focused on understanding transition, systems theory, helping congregations to grieve and setting new goals. While the Interim Minister does have quite a bit of latitude in trying to resolve or fix problems, their role is quite clearly focused on working with congregations, in a facilitative role, to help them fix problems or set new goals.

The concept of interim ministry or stewardship appears to be similar to what Nohria and Beer found in Theory O approaches to change, where consultants “helped managers and workers make their own business analysis and craft their own solutions . . . they did not dictate any solutions, or whip anyone into line . . . they led a process of discovery and learning that was intended to change the corporate culture in a way that could not be foreseen at the outset” (2000, 11). Lessons from both of these examples may be transferable to other nonprofits.

This raises a number of interesting questions for further study. Are the reasons that nonprofits end up in trouble within management’s control? Do nonprofit organizations in crisis need new leadership at the senior staff or board level in order to manage a successful turnaround? Is there a role for the turnaround specialist within the nonprofit sector? And are there particular models that may be more effective, given the unique culture, environment and mandate of nonprofits?

4

Managing and Leading

One of the most appealing aspects of turnaround specialists' work is that their mandate is to lead a significant change effort within a limited period of time – to turn things around as quickly as possible, all the while focusing not only upon immediate challenges but also on long-term planning and the bigger picture. In other words, they must take the time to be leaders. I refer here to Warren Bennis's notion of the role of a leader, which he distinguishes from that of manager. "Leaders are people who do the right thing; managers are people who do things right. Both roles are crucial, but they differ profoundly" (Bennis 1989, 18).

While every organization needs good managers, it also needs strong leaders able to articulate a clear vision for the future. Robert Greenleaf writes: "A leader initiates, provides the ideas and the structure and takes the risk of failure along with the chance of success. A leader says: 'I will go; follow me!' while knowing that the path is uncertain, even dangerous" (1991, 15).

Organizations that are in trouble need both good leaders and good managers, but it is rare to find one individual who can fulfill both roles. For the few chief executives who possess strong leadership *and* solid management skills, it is unlikely that they have the time to do both well, as Nanus and Dobbs point out (1999, 9):

When a person is hired specifically to be a leader, such as the CEO of a nonprofit organization, he should be allowed to lead. It has been our observation that whenever a leader is asked to handle managerial responsibilities as well, the short-term demands of management tend to crowd out attempts to lead the organization in a new direction. A few are able to do it, but most find that effective leadership itself is more than a full-time job.

Leaders need the time to assess, diagnose, and plan. They need to be strong enough to make the tough decisions required; but they also need the systems and support in place to

ensure operational effectiveness. This is true for all sectors, but it is a particular challenge for the nonprofit sector.

In a study of capacity building efforts in thirteen nonprofit organizations conducted for Venture Philanthropy Partners, McKinsey and Company found that “very few individuals excel from the outset at both leadership and management . . . most organizations have a glaring capacity gap in the area of high-level managerial skills.” They conclude that “this is one capacity issue where ego often trumps effectiveness, and that should change” (McKinsey 2001, 72).

On the other hand, this may be more a matter of resources than of individual capability. It is possible that some nonprofit leaders simply lack adequate support to be good managers. As Letts and his colleagues note, “for-profit managers are not inherently better managers, they are better supported managers.” They found the critical difference to be that “the [for-profit] marketplace supports the organizational capacity of business [and] the nonprofit environment starves it” (Letts et al. 1998, 30–31).

McKinsey and Company found that what nonprofit organizations really need, but rarely have, is a “chief operating officer – a trained professional manager who can ensure that the organization functions efficiently and effectively.” And that would allow the chief executive, to “focus on promoting a common vision for the organization and on mobilizing people inside and out to take action” (McKinsey 2001, 72).

Many nonprofits prefer to invest in new programs, while trying to keep management and administration costs low.

This is not surprising given that funders are more interested in funding an exciting new idea than building an organization that can effectively carry out that idea. This must change; both nonprofit managers and those that fund them just recognize that excellence in programmatic innovation and implementation are insufficient for nonprofits to achieve lasting results. Great programs need great organizations behind them. (Ibid., 19)

Although limited resources and funder constraints provide significant and unique challenges for the nonprofit sector leader, culture and environment also play a key role here in limiting the amount of appropriate support available to senior leaders and managers. A common principle that seems to guide decisions in the sector is that it is

wrong to use resources to support infrastructure or capacity building when they could be used on direct programs.

For example, McKinsey and Company found that the value-based organizational culture of nonprofits tends to “glorify program work over ‘back-office’ functions or even higher-level institutional functions such as strategic planning” (2001, 28). This makes the job of leading nonprofits particularly challenging, a fact which is corroborated by *Daring to lead* (Peters and Wolfred, 2001), a recent study of over 1,000 executive directors in the United States. The authors found that only 59 percent of current executive directors rated the likelihood that their next job would be in the nonprofit sector, and of this only 50 percent stated that their next job would be as executive director. Respondents reported high stress and long hours, anxiety about agency finances, fundraising and managing people. Those planning to leave their jobs within the year cited lack of support as a main reason.

5

Building a Team

The old adage, “People are your most important asset,” is wrong. The right people are your most important asset.

– Jim Collins, author of *Good to Great: Why Some Companies Make the Leap . . . and Others Don’t*

Organizations need strong leaders and good managers, but they also need a solid team. Turnaround literature stresses the importance of a change in the overall management team, not only the CEO. Bibeault (1982), for example, notes that the two most important factors for a successful turnaround are: “a competent new management team with complete authority to carry through the necessary changes, and motivated personnel with a positive attitude so that a turnaround can be initiated.” Pascale, Milleman and Gioja emphasize the need to focus on changing the culture and “to shift the attention from incremental change to the tools that can transform the attitudes and behaviour of every last employee” (1997, 86).

This seems to be supported by literature in the nonprofit sector. Eadie for example notes (1997) that, “Organizational change of any magnitude is unlikely to take place unless there is also significant change in many of the individuals who work for the organization.”

The majority of successful turnarounds have included strategies that focus to some degree on human resources management: disciplining or firing those considered incompetent, in the case of “surgical” turnarounds; or providing incentives and training, in the case of “non-surgical” turnarounds (Khandwalla 1992).

For example, Khandwalla identified a number of successful turnarounds where the CEOs chose to intimidate or order people around as a way to build their own credibility and initiate change in others. He notes that in America this strategy is backed by conventional

wisdom about the way turnaround managers need to “take charge”: “you must get everyone’s attention, and the way you do that is by rationally shocking the system. You’ve got to make everyone in the organization, from the man who sweeps your floors to your immediate staff, understand that you mean business” (Bibeault 1982, 167). On the other hand, he found an equal number of “creative alternatives to bearing fangs” – participative, “bottom-up” processes that created shared understanding of the problems and personal commitment to the solutions. Although the means are quite different, key here is the need to build a team that can carry out the turnaround. This relates to both staff capacity and performance, as well as to their overall support for any new directions.

Leaders must also garner support from their various stakeholders. In turnarounds without significant retrenchment, Khandwalla found the top two strategic elements to be “staff incentives, and garnering stakeholder support” (1992, 105). The latter, although it rated fourth, was found to be a key strategic element of “surgical” turnarounds as well (ibid., 81).

In the private sector it is critical that CEOs get support and buy-in from shareholders, creditors, investors and suppliers, regardless of the turnaround approach. Chief executives in the nonprofit sector also need to be concerned with stakeholder involvement and support. Nanus and Dobbs (2000, 16) suggest that nonprofit stakeholder relations differ significantly from stakeholder relations in the private sector and may be even more challenging for nonprofit leaders, who must often reconcile the often conflicting demands of clients, funders, public and private sector partners, donors, volunteers and other community members. And as Rugh points out, “Any stakeholder may have a great deal or nothing to say about how the group is run, who is in charge, or what the group attempts to accomplish” (1997, 307).

What is crucial here is the need to turn people around, along with the organization. Turning internal and external stakeholders, who may initially be cynical or even hostile, into enthusiastic contributors to the turnaround process is a key challenge for all leaders (Khandwalla 1992, 162). This would seem to apply to organizations in all sectors, and can be particularly challenging for larger more complex organizations.

6

Envisioning Change

Whether their methods are harsh or humane, most turnaround leaders will invoke the organization's vision or mission as a way to focus their change efforts and mobilize their employees and various stakeholders. A strong and clear mission statement or vision can help to foster unity of purpose during difficult periods (Meliones 2000, 117–118). This shared vision or sense of purpose “provides a central organizing principle for the staff, board and other stakeholders. Like a radar beacon guiding an aircraft it provides a steady sense of direction” (Campbell 1999, 6).

In his article “Mission as an Organizing Principle” (2000), William C. Pollard points out that a mission is especially important for organizations undergoing change efforts. He cautions, however, that “a corporate mission cannot be viewed as a panacea, nor applied like a mathematical formula. It can, however, provide a foundation, a reference point for action.”

Linking change efforts to organizational vision or mission may be a particularly useful strategy in the nonprofit sector, where mission is really the fundamental basis for the nonprofit enterprise (Nanus and Dobbs 1999). In fact, the literature on reinvention and capacity building in nonprofits suggests that it may be one of the most effective tools for engaging staff and other stakeholders. Durst and Newell reported that “nonprofit organizations noted greater frequency of interest in redefining their organizational mission than did government entities” (2001, 5). McKinsey and Company found that “at its core, the nonprofit sector is driven by people committed to a mission and to increased social impact. Consequently, employees, board members, and donors will almost invariably respond positively to a proposal that will clearly advance the mission, no matter how radical the proposal is” (2001, 75).

More significantly, McKinsey and Company found that the first lesson about capacity building is that “the act of resetting aspirations (which they define as vision, mission and

goals) and strategy is often the first step in dramatically improving an organization's capacity.”

The nonprofits in this study that experienced the greatest gains in capacity were those that undertook a reassessment of their aspirations – their vision of what the organization was attempting to accomplish in the next phase of its development – and their strategy. It is important to note that a new aspiration or strategy can only be transformative if it is then used to align the other aspects of organizational capacity. If done thoroughly, this alignment process provides a tight institutional focus and a road map for the organization to use with both internal and external audiences, which help keep everyone on track during the long difficult process of building capacity. (McKinsey 2001, 15)

The literature also suggests that nonprofits would be wise to consider more participatory approaches for redefining their mission. This can be especially challenging for larger more complicated organizations. However, based on his experience with the change efforts at Plan International, a very large international organization, McPeak warns: “Don't fall into the trap of managing major initiatives at headquarters, no matter how expedient this may seem at the time, because the fundamental effect of centralizing such initiatives is to obstruct organizational unity and foster conflict” (2001, 10).

However, because mission lies at the heart of the nonprofit enterprise, addressing the issue can be quite challenging. Many nonprofits are reluctant to question the purpose of their organization. However, if the mission is no longer relevant and does not guide the work of the organization in any meaningful way, then questions of purpose and identity are bound to surface. Furthermore, the literature suggests that an organization's aspirations – its mission, vision and goals – not only help to define what the organization can or cannot do, but also help to “define an organization's overall approach and set priorities for action.” Again, it seems that the more an organization's mission, values and culture are aligned with its strategy and action, the more likely it is that the turnaround process will be successful (McKinsey 2001, 37).

7

Building Capacity

The manager is not the organization anymore than a coat of paint is what holds up a building. A healthy organization does not have to leap from one hero to another; it is a collective social system that naturally survives changes in leadership. If you want to judge the leader look at the organization ten years later.

– Henry Mintzberg

Mintzberg’s point is a good one. Much of the literature on turnarounds focuses on the role of the leader, who obviously has a key role to play in initiating and leading the change efforts. But in order to ensure that the organization remains healthy beyond the change, they would do well to focus on building the capacity of the entire organization. As I noted earlier, a number of authors have pointed out how command-and-control strategies can work quite effectively in the short term, but may undermine the organization’s capacity in the long run. As Mintzberg so aptly asks, “Might not the white knight of management be the black hole of organizations? What good is the great leader if everything collapses when he or she leaves?” (1999, 4)

Leaders can help to build the capacity of their organization through strategies and activities that help to strengthen all aspects of the organization – from the human resources (volunteers, board and staff) and culture, to systems and infrastructure.

Capacity building is a particular challenge for the nonprofit sector. As I noted earlier, there is little support for infrastructure, management, administration or systems from either funders or donors, while the culture of nonprofits tends to value investment in programs over investment in capacity. Yet without adequate systems, supports and infrastructure in place, organizations may not be able to sustain quality programs or achieve large-scale or sustained impact (Letts 1998; McKinsey 2001).

The preface to the Broadbent report stresses the need for increased support for capacity building in the sector: “Capacity building is a vital component of increased accountability and improved governance. Without it, efforts to enhance accountability will fall short of their mark . . . governments need to directly [support] the development of infrastructure” (PAGVS 1999, iii).

McKinsey and Company note that “almost everything about capacity building in nonprofits (and in for-profit companies) takes long and is more complicated than one would expect.” They found that is due in part to the fact that nonprofits have under invested in capacity, to the point that “they need improvement in virtually every area.” Unfortunately, they also note that many fail to recognize their predicament (McKinsey 2001, 72). To this end they have developed a very useful framework and assessment grid, which organizations can use to assess their strengths and weaknesses, and where they stand along a continuum of best practices. A grid of this sort may prove to be very helpful to boards and CEOs for planning purposes, but it may also alert them to signs of trouble and prevent their organizations from falling into serious decline.

8

Conclusions

To turn around is to end up facing the same way. Maybe that is the problem: all this turning around. Perhaps good companies don't have to be turned around at all because leaders who have to make their marks today are not constantly thrusting them into crises. Maybe these companies are simply managed quietly.

– Henry Mintzberg

Although this review leads to a number of questions that can be addressed in further research, it does raise some important considerations for managers considering change efforts in the nonprofit sector. Overall it is clear that there is little agreement on what strategies lead to a successful turnaround in the private sector. Reviews of successful case studies, however, do highlight some common approaches and strategies, which may be useful to the nonprofit sector. Two main approaches emerge from the literature: a more harsh, top-down approach focused on quick fixes and the bottom line; and a more humane, participatory approach focused on building longer-term organizational capacity. Overall the literature suggests that leadership is a key element of successful turnarounds, which require both solid management and leadership skills. Building an appropriate team, mobilizing and garnering support from stakeholders are also emphasized.

The literature on reinvention and capacity building in nonprofits suggests that nonprofit leaders should not wholeheartedly adopt strategies from the private sector without taking into account the strong value-based culture and commitment of nonprofit staff and volunteers. Although more research is needed here, the literature does suggest that organizational (or sectoral) culture is an important factor in the choice of approach, and that it should be a major consideration for nonprofits. It does appear that strategies that respect the culture and involve staff are more likely to succeed. The literature seems to suggest that the best way to mobilize resources and build support among the various stakeholders is through more participatory approaches that are linked to the organization's overall purpose and mission. Given that mission lies at the heart of every

nonprofit enterprise, creating or reinforcing a common vision can be a powerful tool for engaging staff and stakeholders in the sector.

Capacity building appears to be a major challenge for the nonprofit sector. Participatory strategies that are aligned with an organization's aspirations are more likely to build capacity; and the more that the organization's mission, values and culture are aligned with its strategy and action, the more likely the organization is to succeed.

A number of questions that have been raised as a result of this review merit further investigation.

- None of the studies I reviewed on the nonprofit sector looked at organizations that were considered to be in a crisis. Is it possible that it is harder to tell if a nonprofit organization is actually in a crisis?
- Would nonprofit organizations that are in serious trouble benefit from swift retrenchment strategies?
- Could nonprofits' retrenchment strategies be mixed with, or tempered by, more facilitative approaches that would move organizations forward without doing irreparable damage to the culture of the organization?
- Are the reasons that nonprofits end up in trouble within management's control? If so, do nonprofit organizations in crisis need new leadership at the senior staff or board level, if they are to achieve a successful turnaround?
- Is there a role for the turnaround specialist within the nonprofit sector?
- Last but not least, are there particular models that may be more effective given the unique culture, environment and mandate of nonprofit organizations?

Overall, it is clear that more research is needed on how to measure success and failure in nonprofit organizations, and which strategies would be most helpful for nonprofits that are in serious decline.

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