

## Module 2 Reading

### The Nonprofit Bottom Line

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By Peter F. Drucker

There are few differences between business and nonprofit institutions, but they are important. Perhaps the most important is in the performance area. Performance is the ultimate test of any institution. Yet nonprofit institutions tend not to give priority to performance and results. If that doesn't change, the industry's future will be bleak indeed.

In the nonprofit organization, there is no bottom line. Perhaps as a result, there is a temptation to downplay results. Someone will typically say, "We are serving a good cause." Or, "We are doing something to make life a little bit better for people, and that is a result itself." That is not enough. Results can be defined. Some can even be quantified.

The discipline of thinking through what results will be demanded of the nonprofit institution can protect it from squandering its resources. The Salvation Army is fundamentally a religious organization. Nevertheless, it knows the percentage of alcoholics it restores to mental and physical health and the percentage of criminals it rehabilitates. Its evaluations are highly quantitative.

However, for many organizations in the nonprofit sector, results are not defined. Some believe that their work can only be judged by quality, if at all. I sometimes have to remind them: your job is to invest the resources you have—people and money—where the returns are manifold. And that's a quantitative term.

#### EVALUATING NONPROFIT WORK

If the nonprofit's bottom line is to change lives, can changed lives be measured and monitored? Are there guiding principles that will help in this measurement? These questions are often raised when I

work with churches. People ask, "How do you measure results when you know our rewards are in heaven?" While the ultimate measurement is clearly not of this world, some measures are possible. To the extent that a congregation is willing to take an active part in the work of the church as unpaid staff, teaching Sunday school or Bible studies, or working with the homeless, the church has made a difference in their lives. The organization has changed lives.

The first measurement may be the level of new membership and the church's ability to hold them and keep them coming and becoming more involved as unpaid staff. These may not be precise measurements, but they are meaningful. So in your organization you think through what in this activity are the meaningful criteria? And you ask, "What in this activity are prerequisites for success?" And these can be measured.

#### CUSTOMER FEEDBACK

I have been teaching a long time, more than 60 years. Once a year over the course of a few days I telephone students who graduated 10 years earlier—a random sample of 50 or 60. I ask them, "Looking back, what did we contribute in this school? What is still important to you? And then I say, "What should we do better?" "What should we stop doing?" This feedback has been absolutely essential in those areas where I had some leadership responsibility.

And so you focus on measurable results while also taking into account feedback from your customers—from your donors, your volunteers, all your constituent groups.

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### MEANINGFUL RESULTS

You shouldn't try to measure results exactly the way a business does. However, some things you can and should quantify. If you run a public library, you must know how many library cards you issue, how many people come in, how many children visit the story hour. Those are quantitative, and they are important. But first you have to define which children you need to attract, and so you have to make a judgment. You need to talk to those who are not coming in and ask why. So qualitative feedback is important, as well.

How, for instance, in a mental health clinic, can you judge the effectiveness of a strategy or whether you're doing better this year than last? How can you define what "better" means? I know one major mental health clinic that does a tremendous job in an area in which results are terribly hard to achieve—paranoia cases. The director told me, "We have a simple goal. We don't know how to cure paranoia. We don't understand it at all. But there is the possibility of helping people who are sick with paranoia to realize they are sick. And that is a tremendous step forward. Because then they know that they are sick, not that the world is sick. They are not cured, but they function."

Again, that is a qualitative goal. So you can also set goals that are not measurable quantitatively but that can be appraised and judged.

You have to ask, "What are the specific results I want?" Whether it's for a church, a hospital, a YWCA, or a public library, your strategy will have the same structure. Your goal must fit your mission, but it also has to fit the environment in which you work.

### A LACK OF RESULTS

If you reach the decision that "We are not fulfilling a function," or that "We have reached our objectives," or "We have worked hard and nothing happened," then perhaps you should say, "Let's liquidate and devote our energies to other things." This self-assessment is always very painful and difficult, especially for nonprofits. In the

business world, the market puts you out of your misery by not buying your products. No such luck in the nonprofit sector.

### DEFINING RESULTS

The nonprofit manager has to think through how to define results for an effort and then report back to the donors to show them that the organization is achieving those results. You have to educate donors so they can recognize and accept what the results are. This is perhaps the newest development—this realization that a donor doesn't automatically understand what the organization is trying to do. Donors today are too sophisticated for organizations to appeal to them simply on the basis that education "is good" or health "is good." They ask who you are educating and for what.

We can no longer raise money simply by expressing a need. A friend of mine who heads a very well-known nonprofit talks of "compassion fatigue." There's a limit to the public's willingness to give, and we are reaching it. You need to stress now what you do and what that means to your donors. And you have to consider carefully to whom you address the appeals for support.