

TOM KINGSTON KEYNOTE ADDRESS
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Not Making Money is More Challenging than it Looks!
The Three Disciplines of Successful Non-Profits

Thank you Dean Davis-Blake, and thank you all for coming. This is the first time in the Carlson Lecture Series of over 175 speakers that someone was asked to speak specifically on the non-profit sector. Frankly, I was a bit nervous about attendance, so Wilder reserved two tables for staff and partners to conduct an off-site meeting—just in case no one showed! I am really excited by your interest in this topic.

Thank you, also Dean Davis-Blake, for that introduction, but what you forgot to mention is that I finished fourth in my MBA class. Well, in fairness, I guess I should also mention there were only nine students in that pioneering group.

Normally I'm not that honest, but at my table is Dr. Roger Upson, who knows all the facts. He was the Director of MBA programs at that time, and honestly one of the best teachers I ever had. He got an old social worker like me to love finance.

The nine of us enrolled in the Executive Program because we knew there were lessons Carlson professors could teach us that would be truly valuable in our careers. One of the first things we learned, however, is that some of those most valuable lessons were not always taught in the classroom, but afterwards in a little establishment across the street called the Triangle Bar.

I'm sure you've all had a Triangle Bar in your collegiate experience!

As some of you know, this particular establishment no longer exists. I hope that somewhere in the hallowed halls of the Carlson School there is a plaque that pays due homage to that little gathering place. You see, it was at the Triangle that we solved ALL of the business and management problems facing our respective organizations...and then some.

In my case, I was the Chief Operating Officer at the Wilder Foundation. I used to tell my classmates that I was proud of how the Wilder Foundation was run. The Foundation was created by the fortune of Amherst Wilder. At that time, Wilder was one of St. Paul's most successful businessmen and he and the subsequent trustees insisted on a culture of good business practice. So, I knew, I just KNEW that if we could turn that culture up just another few notches, it would really transform the Foundation. It would make our good work great.

But today, when thinking of the experiences of my successful non-profit counterparts and reflecting on our work at Wilder, I have come to believe that good business practice is merely a pre-requisite to success.

Once non-profits learn to manage well, they become just like their for-profit counterparts. Why would we aspire to be just like business, if you agree with Jim Collins, that the path to greatness is to not become more like a business, because most businesses are mediocre to good? There are not enough great businesses. And there are not enough great non-profits.

That raises the question, what are the disciplines to greatness in our sector? My personal experience suggests there are three fundamental disciplines non-profits must have to produce superior performance over a long period of time.

They are simply:

- Obsession with purpose or mission,
- Moving beyond good business practices to sustained transformation, and
- Engaging the social capital of this community.

These three disciplines are even more important than ever because of some new challenges non-profits face. But before I get to that, let me ask you a basic question:

Why should any of you here today even care about the quality of nonprofit organizations?

If you listen to public radio, belong to an HMO, attend the Guthrie, or were once a scout, participated in a neighborhood renaissance, had a child with a learning disability, an uncle with alcoholism, a parent with long-term aging issues, you, most probably, have been a beneficiary of a non-profit. And, chances are you have been the direct beneficiary of dozens of non-profits.

If you reflect on your life for a moment, I will bet there is at least one experience you've had with a non-profit that has impacted your life forever—something that transformed you. Perhaps it was the life skills you learned in the Boundary Waters with the YMCA's Camp Widjiwagon, the new perspective on life gained from volunteering at the Dorothy Day Center for the homeless, or possibly even your marriage was saved by working through problems at a non-profit counseling center.

The Twin Cities is in the top ten, if not at the very top, of almost every national "quality of life" survey. A healthy, diverse, enterprising economic environment is our first explanation. But when you look at the other related indicators—health care, the arts, education, the environment, safety, and safety nets—our non-profit sector is the major contributor to that success. The fact that Minnesota has such a high quality of life, and such a high number of quality non-profits, is not a coincidence.

Last year in Minnesota, non-profits employed almost 10% of the workforce and reported almost \$30 billion in revenues. Today, according to estimates from the Bureau of Labor Statistics, non-profit employment is larger than the transportation, agriculture, finance and insurance sectors. A closer look shows that the most of the growth is in healthcare, which accounts for more than 60% of the sector. Healthcare industry issues have been highlighted at these lectures before. I would like to focus my comments on the social service and education portion of the sector that makes up most of the rest.—Here are some related, overriding key challenges I'm concerned about.

- ***First, the high number of low wage workers.*** Enough has been documented about the loss of middle income employment to lower income service jobs, so instead of rehashing the big picture for you, let me talk for a moment about a small picture.

I want to talk about a single mom—let's call her Rachel. She has two young daughters in school. She makes the minimum wage working at the convenience store in her neighborhood. That comes to about \$13,000 a year. Rachel and her children live in a two bedroom apartment on the East Side. She pays \$855 a month in rent, which is average for the Twin Cities.

How much do you think she has left over for food, clothing, and health care? I'm not even going to talk about transportation—a used car or bus fare. And even though it's the season, I'm not going to talk about holiday gifts. She has \$2,500 for the entire year. That's about \$200 a month for everything else.

Let me go back to the bigger picture. In St. Paul alone over 12,500 families are paying more than half of their income on housing. Non-profits don't have anywhere near the sheer capacity to solve this issue and the related problems.

- ***Second, the growing educational disparities for low income kids.*** Simply, our kids today, especially low income kids like Rachel's daughters, are not achieving at a level that will meet the employment demands of our local economy and maintain our current quality of life.

The cost of falling behind is devastating. And when I say the cost is devastating, I'm not just talking about the cost to those individuals or those families—I'm talking about the cost to those of us in this room.

Eleven percent of our children who enter the 9th grade in a St. Paul public school will drop out. That means in the next four years 1,000 children will drop out. 1,000 kids. The Rand Corporation estimates that each dropout costs \$300,000 in public assistance, prisons, and other costs. That's a public cost of \$300 million dollars to our community every four years.

- ***Third, the obsession with no new taxes.*** Some of you may be thinking, "Okay, here it comes. Sooner or later, the non-profit folks always talk about more government spending." But I'm really talking about less government spending long-term. Remember the old Fram oil filter commercial? The one with the mechanic who says, "You can pay me now, or you can pay me later."

The resolve to cap government spending has two unintended consequences: First, from a strictly humanitarian viewpoint, government caps ultimately have an adverse effect on the vulnerable. This year local food shelves are reporting a 25 to 50 percent increase in demand. Second, from an economic viewpoint, these caps are simply shifting our cost problems on to future generations. The cuts to juvenile corrections services only delay the future higher costs. The failure to pass school referendums in our wealthiest suburbs ultimately leaves all kids behind.

- ***Finally, less civic engagement of youth.*** Perhaps most subtle but still significant are preliminary signs identified by the Citizens League of the disappearance of younger generations in the Minnesota culture of civic engagement. Minnesotans often debate about how best to invest in the future, but if the future doesn't invest in Minnesota, we're in real trouble.

So with these selected trends as the backdrop, how will non-profits continue to improve the quality of life in spite of these and many more challenges? Let me share with you the three disciplines I think are key.

The first discipline is absolute obsession with mission.

One hundred years ago, Amherst Wilder gave us our organizational purpose, “to serve the poor, sick, and needy of St. Paul by all appropriate means.” While perhaps not as precise as “to return shareholder value”, it is nonetheless quite clear and has served us well for over a century.

Organizations that are truly obsessed with accomplishing their mission will find service approaches that work, establish performance standards, measure their outcomes, and implement management structures that support their employee efforts. Having this obsession would seem to be obvious but, believe me, in the throes of day to day operations of maintaining revenues, managing staff, and meeting client expectations, it’s easy for management to lose that focus.

The successful non-profit has a culture of constantly honing and refining its mission. If you don’t respond to changing needs, you become obsolete. But conversely, “mission creep” is our enemy. Mission creep is the practice of gravitating to programs that are marginally aligned with one’s mission, usually are associated with the hot issue of the day and, subsequently, easy revenues. And they are tantalizing solutions to cash flow problems.

Historically, our organization has insisted on not allowing this “mission creep.” For example, in the attempt to help other organizations improve their management, Wilder developed what became a very successful national publishing house of non-profit management tools. In the final analysis, it had very little to do with the poor, sick and needy of St. Paul, so we spun it off to keep both Wilder and that business better focused.

Over the past 24 months, we have sold, spun off, or shut down 25% of our operation because those programs were not “laser focused” on our mission, or we believed they would not remain viable in the long run. It was extremely tough to let go of some very exciting programs, say goodbye to 25% of our workforce, and step away from \$18 million of revenues. But we did it because we know if we stay focused on the best way to accomplish our purpose, then effectiveness, efficiency and sustainability, will follow.

The second discipline is moving beyond good business to sustained transformation. Having good business discipline is essential to the success of the non-profit industry. I understand there is a debate on campus at this time as to whether the Carlson School should start an undergraduate program for non-profit management, which is great.

But the key to remember here is that business skills are not enough. There is a basic difference that separates the private sector from non-profits. The purpose of businesses is to increase shareholder value through financial returns. The purpose of non-profits is to accomplish a specific mission through an end product of a transformative experience: a child learns, a museum attendee is inspired, a once jobless person pays taxes, a neighborhood reduces crime, or a community improves its school system. This difference in purpose makes the playing fields quite different.

Non-profits have more difficult access to working capital because of typically low assets, chronic “hand to mouth” cash flow, and relatively few investors. Maintaining quality staff is always a challenge, given compensation is 13% less than that in the private sector. Often, measurement of success is not simple. How do you completely measure the impact of a particular service for a child who has been abused and neglected for 10 years?

One final difference in the playing fields: the dependence on multiple public and private partners requires leadership through “persuasion and coalition building” rather than “command and control”.

Imagine yourself taking the lead on a massive educational reform effort that requires the long-term commitment of the governor, mayor, superintendent, and numerous non-profit leaders? This isn't the environment of corporate America. You don't just tell the Mayor to “get on board!” This type of leadership calls for persistent inspiration.

My father was a successful banker and he'd ask me, “Why would you dedicate your life to a business that has those leadership challenges?” My answer: “Because I'm in a business where the end product is ultimately transforming lives.”

Let me show you just one example of what that means. I have a brief video clip about a program called Project KOFI. KOFI is for young African American boys who are facing serious behavior issues and who are struggling in school. It is part of our large school reform effort with the St. Paul Public Schools called Achievement Plus.

The story is about a boy by the name of Darryl, who has had the odds stacked against him from the beginning of his life.



[Darryl video clip](#)

That video was shot more than two years ago. Last week I checked up on how Darryl is doing. He's living with his father and is maintaining good grades—in honors classes.

In the non-profit sector, that kind of transformation occurs every day. It's why I've stayed at Wilder for as long as I have. Non-profits are truly in the business of transformation, in many cases, transformation against all odds.

Successful non-profits will be those who not only have the discipline to create those transformations effectively over the long run, but also have learned how to engage the community to make them happen. And that leads me to the third required discipline.

Engaging the Social Capital of the Community. As I mentioned, non-profits have difficult access to working capital, and it's anticipated that government will no longer be the same substantial force in funding this sector as it once was.

The successful non-profits of the future will be those who align their agenda with the tremendous social capital of our community. That social capital lies in the desire of so many citizens to give

of their time, talent, and resources to maintain our extremely high quality of life in the Twin Cities.

Our community has a tremendous legacy of getting involved in non-profit challenges. The Twin Cities United Way is a barometer of that legacy. Its President, Lauren Segal, who is with us today, shared with me that contributions were up to an all time high of \$90 million last year, the second highest giving in the nation.

Equally as important as giving, is the leadership role many groups are taking to educate, inspire, and engage community members to get involved. The Citizens League has come alive with renewed enthusiasm to bring awareness to and action about critical quality-of-life issues.

Jim Campbell, the retired CEO of Wells Fargo, recently spoke here about the Itasca Project, initiated by corporate CEOs, that is working on closing the educational gap. This confirms a key point of authors Michael Porter and Mark Kramer. They maintain that corporations can take a strategic approach to their charitable efforts, something that “brings social and economic goals into alignment.” The Itasca Project makes the point that closing the education gap benefits both the community and the corporate sector.

I could go on with other examples. My point here is simple. The successful non-profit of the future is one which will not only take advantage of aligning their agenda with this wealth of civic energy, but will find ways to promote expanded civic interest in their particular mission.

I'd be happy to take questions in a moment but, before I do, I'd like to close by going back to the Triangle Bar.

In those after class sessions at the Triangle, there really was an energizing and valuable exchange of ideas. I know I valued the insights and advice my professors and classmates provided me. I can tell you I have used and still use many of the lessons learned. And I'd like to think some of the advice I gave to my classmates was useful to them in their jobs—even those three darn classmates who finished above me!

But there's something I didn't tell them, because I didn't know it at the time. And so, in the spirit of fellowship of the Triangle, I'd like to tell you now what I didn't know then.

There are more than 6,000 non-profits in this state. They come in many shapes and sizes with many important purposes. Yes, they need to keep their eye on the financials just like any business. But having the smartest MBA in the world isn't enough—not near enough—to be successful.

The additional leadership skills needed to run the successful nonprofit of tomorrow require

- the obsessive preoccupation with adherence to mission,
- implementation of sustained transformational activities, and
- engaging the good will and rich assets of our community.

And that is where you come in. I know it's not very “Minnesota Nice” to put people on the spot. But in this case, it is “Minnesota Smart”. I am challenging you to get into the business of transformation, to engage in your community even more than you do now.

At Wilder, we invite people to come in to our senior centers, our housing, our schools, our children's residences—even our research office—to learn more and get involved.

Whether it's at Wilder, your favorite charity, your workplace, your faith community, or your neighborhood, the Rachels and the Darryls in our community need us.

And frankly, we need them.

Thank you for your time!