

Hearts and minds

Non-profit organizations need to adapt their strategies and structures.



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The non-profit sector is an important part of the international economy, one that is continuously growing. However, many charitable organizations are facing major challenges. Having transitioned from local societies to international enterprises, they now face increasingly tough competition for funds, forcing them to alter their strategies and adopt more effective management structures.

THE ECONOMIC IMPORTANCE of the non-profit sector is often overlooked by the public. In some countries such as Germany, the major non-profit organizations (NPOs) employ more personnel than the largest industrial companies. But while NPOs do profit from considerable public generosity in terms of donations, this doesn't mean they enjoy a carefree existence.

Substantial growth and the increased competition for donations and government funding have left NPOs facing major challenges. In response, the organizations have worked hard to adapt their strategies and optimize their management structures. Increasing numbers of NPOs have professionalized their approach to talent management; in the recruitment and professional development of their executives, they now consistently target the specific management competences that are crucial in the non-profit sector.

In what follows, we take a look at the most significant challenges facing NPOs today, using the case studies of SOS Kinderdorf International – the umbrella organization of all SOS Children's Villages associations – and the Save the Children Alliance to demonstrate what solutions are feasible in practice. Egon Zehnder International has served as an advisor to both organizations. Then we look at the demands facing top management at NPOs and examine how charities can professionalize their talent management.

SOS Kinderdorf, based in Austria, was founded in 1949 by Hermann Gmeiner. His primary goals were to



create family-like structures in which every child could feel secure and to alleviate the suffering of the many orphans following World War II, thereby laying the foundation for world peace. Today these goals are more pressing than ever. Around the world, some 145 million children live without parental support. SOS Children's Villages has grown significantly over the years. It now has some 30,000 employees in 132 countries, providing support to more than one million people.

The Save the Children Alliance is also a children's aid organization with similar goals to SOS Children's Villages. The organization was founded in 1919 by Eglantyne Jebb, a teacher and nurse from the UK. Today, Save the Children runs projects in 120 countries that assist children and their families and improve their living conditions. The Alliance employs around 15,000 people.

Strategic challenges

The most significant strategic challenge faced by NPOs is the increasing competition for funds. To survive in this environment, organizations need to develop a unique selling point. Not only do they have to set themselves apart from their established competitors – they also face new competition in the form of corporate social responsibility (CSR) initiatives, industrial associations, and government social campaigns. These groups are encroaching upon what was formerly the territory of the NPOs – ecology, child protection, sustainability, disaster

relief – and are attracting considerable funding. “Life used to be much easier,” says Charlotte Petri Gornitzka, Secretary General of the International Save the Children Alliance. “The sector wasn't as competitive as it is now, with non-governmental organizations competing for funds from donors who want measurable results and full accountability.”

Donors require convincing arguments to persuade them to hand over money to an NPO. Where do organizations start in differentiating themselves from the competition? Important strategic points might include effective use of donations, recognized expertise, the longevity of the program, an international network of activities, as well as clear and transparent positioning.

A further strategic challenge is establishing and maintaining close relationships to the many key policy-makers and opinion leaders. This calls for the tight networking of all external communications activities. Professional cooperation with the media and the public is essential to the success of NPOs. They must also ensure maximum transparency and the highest degree of compliance with applicable standards – as a result of recent scandals involving the misuse of donations, verifiable and recognized credibility and trustworthiness have become pivotal criteria for their success.

The SOS Children's Villages organization has undergone strategic repositioning, focusing its spectrum of services on three areas internationally. Its core competence has always been providing children in difficult

circumstances with family-like surroundings. Out of this grew its Family Support Program, designed to strengthen existing family structures and enable children to grow up in secure relationships. The third service is child advocacy, which also reflects the founding principles and fundamental mission of the organization. One important aspect of the strategic transformation of the organization was the positioning of SOS Children's Villages as a global brand. In addition, local efforts had to be globalized using best practices, and international quality standards had to be established.

Structural challenges

Non-profit organizations are facing significant structural and organizational challenges on many levels. Once it has reached a certain size, an NPO cannot avoid setting up modern organizational structures and processes. It is important to establish clear decision-making processes and structures as well as clear-cut boundaries between different functions. In their everyday work, NPOs often need to decide fast. So short decision-making paths are essential.

In the late 1990s the Save the Children Alliance had to radically change its organization, which had become unwieldy over time. After World War II it had fragmented into national organizations that operated autonomously and rarely coordinated their work. In the 1980s and 1990s, the 28 national organizations grew in size and impact, but their growth was largely in parallel and little was achieved at overarching level. This led to inefficiency. In response, in the late 1990s a program called Unified Presence was put in place to coordinate the activities of national members.

In the case of SOS Children's Villages, the need for structural adjustment resulted from global expansion. In the past, one of the strengths of this aid organization has always been identifying the needs of children and working within local conditions to meet those needs. In a global organization, however, these local strengths must be enhanced by a global structure, as this is the only way to leverage synergies and maximize efficiency.

With the support of Egon Zehnder International a matrix organization was set up, with SOS Kinderdorf International in the role of global service center. Its core functions are global project management, human resources management, communications management, and global fundraising. The main challenge of this structural transformation was the precise definition of local

and global responsibilities. Competences had to be assigned and interface management set up.

Cultural transformation

NPO employees normally have a major emotional commitment to their organization. However, their zeal and motivation can sometimes compromise the organization's speed, efficiency, public image and ability to act. The challenge is to balance passion and philanthropy with efficiency and performance management, emphasizes Charlotte Petri Gornitzka. In their cooperation with the business and political sectors, NPOs also have to find a sustainable means of communication. Developing from an action group or citizens' initiative to a recognized partner in dialogue and cooperation is the biggest cultural challenge facing many NPOs.

The task confronting SOS Children's Villages was to transition from evolved hierarchical structures into a team culture. To resolve this challenge, a ten-member general secretariat was formed as an organ of SOS Kinderdorf International. Under this model, each member of the team is responsible for one global area of operation. The next step was to establish a culture in which independent decision-making – in proactive agreement with global and local management – became routine.

The organization also had to define the basic values that make up its global corporate culture and put in place conflict resolution mechanisms to preserve and strengthen these aspects of its culture. At the same time, it had to determine what core competences were needed by executives throughout the organization. Important criteria included teamworking skills, self-reliance and the ability to make decisions independently.

Egon Zehnder International helped to guide SOS Children's Villages through this process, before conducting a Management Appraisal to evaluate the skills of managers being considered for key functions and compare them with the defined core competences. We then helped to recruit suitable candidates for a series of key positions, including several highly qualified executives from the industrial sector.

Save the Children was also strongly committed to establishing a system of talent management. Many of the national organizations have put HR systems in place that help them monitor and develop talent within the organization. But there is, as yet, no global system covering all 15,000 people who work for the Alliance's 28 national organizations. "We will probably begin to

put in a harmonized global HR system in a year or so,” says Ms. Petri Gornitzka.

For Save the Children, professionalizing the organization is a challenge that starts at the top. “Many of our boards contain people who have a wealth of experience in program work, but lack depth in other skills that are important to us, such as marketing, business strategy, and large-scale operations,” says the Secretary General. “We are seeking to address this over time.” Egon Zehnder International assisted Save the Children in the appointment of Peter Woicke, former head of the International Finance Corporation under the World Bank, as the new chairman of the Alliance.

The redirection of the two organizations was very successful. SOS Children’s Villages rapidly set up its new service and put the matrix organization in place. At the same time, cultural change was driven forward through the appointments to key positions. As a result, today 40 percent more children are being cared for than just four years ago and fundraising has risen 54 percent.

Professional talent management

What SOS Children’s Villages and Save the Children have done in their HR policies can serve as an example for other organizations. Increasing numbers of non-profit organizations are recognizing the strategic importance of professional talent management and turning to outside experts to appraise, develop, and recruit executives. This leads us to the question of which management competences are especially prized in organizations that work for the public good. In our experience as consultants, we have found three skills to be essential:

First, an executive in a non-profit organization should be a good strategist. Strategic thinking and action are necessary to develop a unique selling point and position the organization in the market in the medium and long term. Ideally, executives will have developed and proven these strategic skills outside the non-profit sector.

Second, executives need the ability to conceptualize and manage change within the NPOs. This applies to structural change within the organization as well as to cultural transformation. Executives must be able to sell employees on the new strategies, visions, processes, and structures so that the organization can move forward in the right direction. Additionally, good change managers must be empathetic, taking employee motives into account. They also need the determination to push through the required changes, thereby setting a positive example.

Third, today’s non-profit organizations require executives with strong leadership skills. Of course executives must command the standard repertoire of management tools. However, character is the decisive factor; qualities such as integrity, authenticity, and openness are what make an outstanding leader. NPO managers must also be good team players. If they make their decisions in isolation, they risk damaging employee motivation and identification with the organization.

Executive values in transition

The demand for highly qualified executives at NPOs has risen dramatically in recent years. Fortunately, the willingness of executives to switch to the non-profit sector has also grown. “We are able to attract talented young people to our organization much more than we were able to twenty years ago,” says Charlotte Petri Gornitzka. Many candidates who have only ever worked in the private sector are now actively seeking positions in the non-profit world. These are often individuals with impeccable CVs and enviable track records – which makes the trend all the more amazing, since the remuneration offered by NPOs is usually way below the executives’ previous salaries. This signals a transition in values among the management elite. Compared to more material concerns, candidates’ moral and ethical expectations of their potential employers are clearly gaining ground.

THE AUTHORS

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