The Fribourg Management Model for NPOs (FMM) is a standard reference work for the management of associations and other private Nonprofit Organizations. It is the result of 40 years of theoretical and empirical research at the Institute for Research on Management of Associations, Foundations and Cooperatives (VMI) of the University of Fribourg/Switzerland. It is based on the extensive experience of a group of leading academics in education and consultancy work and is designed for practitioners in the Nonprofit Sector in German-speaking Europe (Switzerland, Germany and Austria). Given its unique and pioneering approach, the model has been well received by its target groups and has already been published in its eighth German edition. This success has therefore called for an English translation. For this first English edition, the terminology has been adapted to better suit an English speaking audience, while staying as true to the original as possible. Furthermore, the original cases and practical examples from the German version were partly replaced by more generic examples. Given these adaptations, we hope this English version will be as well received as its original German.
NPO Management – A European Approach
The Fribourg Management Model for Nonprofit Organizations

1st English edition
(based on the 7th, completely revised German edition)

In cooperation with:

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Robert Purtschert
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Haupt Verlag
Preface to the First English Edition

Translating a successful management textbook from one language and cultural setting into another often proves to be challenging. This certainly holds true for the Fribourg Management Model for Nonprofit Organizations, a management textbook that was originally developed for scholars, students and management practitioners of NPOs in the German-speaking parts of Europe. Given its unique and pioneering approach, the model was well received by its target groups and has therefore already been published in its eighth German edition. Its success has, time and again, called for an English translation. Translating the model, however, meant a challenge in two ways:

1. Language and terminology: German science-based textbooks, such as this one, tend to be written in complicated language, making them difficult for the wider public to read. Moreover, they often use a specific, home-grown terminology that differs considerably from the one used in Anglo-Saxon textbooks. The English translation therefore needed to provide a simplified text and an adapted terminology, while still trying to remain as true to the original as possible.

2. Examples and cases of organizations: The original textbook refers to a number of cases and examples of organizations from German-speaking Europe that are of only limited relevance to English-speaking readers. All the examples and cases with too narrow a scope therefore had to be eliminated or replaced by something more generic in the English text.

Given these adaptations, we hope this English version will be as well received as its original German editions. The authors would like to thank Ania Dardas for her careful copyediting and Katherine Corich for a diligent and thoughtful review of the entire manuscript. Furthermore, the authors are also indebted to Peter Suter, Remo Aeschbacher and Elisabeth Homberger for their technical support. Any remaining errors are the sole responsibility of the authors.

Fribourg/Switzerland, December 2017

Prof. Dr. Urs Bumbacher
Prof. Dr. Markus Gmür
Prof. Dr. Hans Lichtsteiner
Preface to the Seventh German Edition

Every standard work of business administration was created by authors who, at a given moment, put some new, ground-breaking ideas and concepts to paper. Over the years, they subsequently refined their work and adapted it to new circumstances. This usually continued until they withdrew from science. If such a work is not continuously looked after, it remains at a given stage of development, may be overtaken by new developments, turns into a milestone in the history of business administration and eventually risks becoming entirely obsolete.

The Fribourg Management Model for NPOs (FMM) is such a standard work of business administration. Created back in the 1980ies, this work has set essential tones in management theory for NPOs. As authors, Peter Schwarz and Robert Purtschert were instrumental in creating this innovative and pioneering work. For many years they fostered and updated the model, additionally extending it by way of complementary volumes. Today, the complete FMM comprises more than 1,800 pages of insights, tools and methods on how to lead NPOs to success.

Adhering to their own management principles, the authors of the FMM made provisions to ensure that the model would not – as standard volumes sometimes do – turn into a memorial. Thus the rights to the FMM were transferred to the Ernst-Bernd Blümle Foundation. This helps to ensure that the model will continue to be updated and continuously developed. It is a great pleasure and honor for us to have been entrusted with this important task. As evidenced by this present 7th edition of the model, we are determined to approach the task thoughtfully and diligently: essential elements that have proven their worth over decades remain unchanged, while adjustments are continuously made where progress and gains in knowledge have been achieved.

Thus, in the chapter on fundamentals (as in others), we have additionally integrated the systematics and the findings of the Johns Hopkins Comparative Nonprofit Sector Project (CNP) into the points of view. The basic views of an NPO as a starting point for model design were complemented by those regarding the NPO as an object of diverse interests, a micro-political arena as well as a strategic project. As regards the guiding principles and design criteria for System Management, we have assigned importance to the aspect of equilibrium between internal and external, between conservation and change as well as between centralized and decentralized. The three levels of planning have been maintained; they have,
however, been newly defined in terms of content and terminology and therefore now correspond to the terminology predominantly used in business administration theory today. The chapters on leadership and human resources were also fundamentally revised, as in these areas scientific research has gained substantial new insights in recent years. And lastly, we have departed from certain terms such as “professional officers” (or “Profis” in German) and “amateur officers” (“Milizer” in German). As much as these terms may have been original and thus closely linked to the Fribourg Management Model, they have nonetheless frequently been a source of unnecessary misunderstandings and confusion.

Beside numerous changes and additions to the content, the visual form – the layout – was also fundamentally revised and modernized.

We would like to thank everyone involved for their contribution, in particular our two co-authors Reinbert Schauer and Charles Giroud. We would also like to thank Irène Weber, who was instrumental in developing and realizing the new layout, as well as our publisher Matthias Haupt, and our proofreaders, for the successful outcome of this 7th edition. We hope it will be as well received as the prior editions.

Fribourg/Switzerland, March 2013

Prof. Dr. Hans Lichtsteiner  Prof. Dr. Markus Gmüür
Director of Continuous Education     Director of Research
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1 Fundamentals on the Management of NPOs

Business and trade associations, trade unions, chambers of commerce, health leagues, relief organizations, self-help groups, sports and leisure organizations, environmental and consumer protection organizations, political parties, cooperative building societies, churches, idealistic communities: the shapes and activity fields of private nonprofit organizations (NPOs) in Europe are as varied as their numbers are impressive. In Switzerland, as well as in Austria, for example, there are approximately 100,000 active private organizations, while in Germany the number of registered associations alone has passed the 600,000 mark. These organizations, which are often collectively termed the Third Sector, constitute a central pillar of modern western societies. They deal with concerns and cover needs that are not addressed in the form required by enterprises, nor considered by the state to be part of its task. And yet these needs are so important and vital for groupings of individuals within society, that they judge these organizations to be indispensable. As a consequence, and in line with a liberal societal notion of personal responsibility and self-organization, people join together in NPOs to address their specific needs. Thus, a (third) sector has emerged with institutions that – given their characteristics – can neither be attributed to the state nor to the classical market sector, but which are in close contact and exchange with these sectors and assume an intermediary position. They form the organized citizens’ or civil society.1

1.1 Definition and Characteristics of Private Sector NPOs

From a civil society perspective, this economic “three-sector” view needs to be additionally complemented by the sphere of those organizational forms that provide benefits to a community, namely families and clans (illustration 1). Such a “four-sector” view seems justified, since the questions “whether”, “where” and “to which extent” NPOs are emerging in a society can be answered from at least three different perspectives:

- **The role of the state and its bodies**: The fewer societal tasks the government assumes, the greater the need for NPOs to provide additional services that complement the state’s offering. The scope of governmental services in democratic states is determined by political will, formed through majority decisions, and by the budgetary constraint of tax income. Finally, a permissive (as opposed to an authoritarian) state system is an indispensable prerequisite for civil society organizations to operate under legal forms compliant with the law.

---

1 Throughout the book we have tried to use gender-neutral formulations. We would like to explicitly point out that where for reasons of simplicity only the male form was chosen, the female gender is meant to be included on equal terms.
Characteristics of the economic system: The economic system and conditions affect both the supply of resources and the service demand. On the supply side, a certain degree of prosperity in a society is a prerequisite to making time and financial resources available to allow for engagement in civil society. In addition, enough personal freedom is needed for everyone to be able to decide independently on the use of their time and money. On the side of the service offerings, a substitution relationship can often be found between civil society and services provided commercially, as seen, for example, in the competition between amateur sports clubs and for-profit fitness centers. In other areas, the services of private NPOs are a reaction to the negative societal effects of economic activities, with examples including trade unions or environmental and consumer protection organizations.

The influence of family structures: In modern societies, private NPOs take the place of family and clan community structures, with their mostly local networks. NPOs organize communal life and replace or complement traditional family-based solidarity communities.

It can be said that all three influence factors mentioned above decisively affect the resource supply of NPOs (particularly in terms of financial funds and work input), as well as the demand for their services.
For NPOs, the boundaries between the three spheres of state, market and family are mostly fluid, as shown in the Evers and Laville (2004) model. State authorities, for example, take over services from NPOs and finance them, but also assign or transfer services to NPOs that were originally within the authorities’ scope by way of purchase-of-service contracts. Enterprises, in turn, enter activity spheres historically covered by NPOs, such as refugee support or nursing care, while NPOs have started offering classical personal services such as counseling or travel. And finally, in the sphere of families and communities, club-like structures have been around for a long time that range from neighborhood help to alternative sports leagues. In practice, these fluid boundaries make it difficult to gain a detailed overview of the NPO sector and categorize it definitively.

1.1.1 Definition of NPOs

In the context of the Johns Hopkins Comparative Nonprofit Sector Project (CNP) that was launched at the beginning of the 1990s by the University of Baltimore, Salamon and Anheier (1992) identified five criteria that each need to be fulfilled by organizations to be included in the NPO sector according to international standards:

1) **Degree of institutionalization**: The entity must provide evidence of a certain amount of formal structuring (e.g. statutes, governing rules and procedures), although the existence of a legal form and identity is not stipulated.

2) **Private ownership**: The entity must be institutionally separate from the state and must also not be subject to a dominant state influence.

3) **Profit-non-distribution constraint**: Profits may be earned, but must not be distributed to owners or those who control the use of organizational assets. Profits must be reinvested to accomplish the non-profit purpose of the organization.

4) **Self-governing**: The entity must – from a legal as well as an organizational point of view – be governed autonomously and must not be under the control of a profit-seeking enterprise or a governmental body.

5) **Voluntary**: There must be a meaningful degree of voluntary involvement in terms of contributions, membership or participation in the organization.

Originally, these criteria corresponded to a predominantly Anglo-Saxon understanding of NPOs, with a strong focus on the charity sector in the form of aid and relief organizations, for a common or communal benefit. To make this system transferable to other countries and thus applicable to international comparative studies, Salamon and Anheier tried to empower the system with flexibility by using relatively loose definitions for the criteria. In spite, or due to, these fuzzy definitions, ample room for debate has emerged as to which types of organi-
organizations should be attributed to the NPO sector. In other words, chambers, churches, region- 
al self-governed bodies such as homes for the elderly, museums and theaters, cooperatively 
organized insurance associations and societies for the operation of wind farms, are just a few 
examples of institutions that can only reservedly be included in the NPO sector on the basis 
of this international definition, while nonetheless representing an essential part of non-profit-
centered organizations in non-Anglo-Saxon countries. Yet, it seems quite reasonable to in-
clude them in reflection and consideration of the development of an NPO-specific manage-
ment theory, since the management challenges for these organizations are comparable to 
those of organizations that are traditionally categorized as within the NPO sector. Thus, 
deviating from Salamon/Anheier (1992) we are keeping the definition and delineation of 
NPOs correspondingly wide.

For the context of this book, nonprofit organizations (NPOs) are thus defined as all those 
entities located somewhere between the state, the familial communities and private enterpris-
es that:

1) are privately owned (by persons, companies or other NPOs) and constituted predomi-
nantly in the legal form of an association/club, foundation, cooperative society or by law 
as a self-governing body (mostly with compulsory or legally required membership);

2) as systems do not primarily pursue a profit-making purpose, but – in line with their mis-
   sion – provide specific services to identifiable beneficiaries to cover certain needs. They 
   are therefore also called need-covering entities. Their missions are self-determined or 
   have been transferred or assigned to them – at least partially – by the government;

3) have been constituted either as mutual-benefit (member-serving) NPOs with the 
   purpose of advocating the interests and fulfilling the needs of their members, or as third-
   party-serving NPOs, to offer services to third parties in the form of aid, support or 
   promotion, based either on an ethical, religious or ideological mission (e.g. welfare institu-
tions or charities), or simply to spread an idea or influence other people’s behavior. Even 
in this latter case, membership-based ownership structures are possible, whereby third 
parties, such as clients or external target groups, are addressed as beneficiaries of the or-
   ganizations’ services in lieu of members;

4) advocate the interests of their members or clients vis-à-vis the state and other organi-
zations (advocacy, lobbying);

5) provide services to individuals (so called individual goods) and / or make an impact and 
   achieve benefits for entire groups or populations (so called collective goods);

6) are characterized by the voluntary work of their members or other engaged persons in 
   their highest governing bodies (e.g. boards of trustees, governors or directors). This vol-
Definition and Characteristics of Private Sector NPOs

Voluntary activity of members and others in decision-making and on advisory boards is one of the main characteristics of NPOs;
7) in many cases recruit members or others as volunteers, who contribute to the NPOs service operations mostly free of charge (e.g. transportation services for disabled people).

Thus, all productive social systems will be termed nonprofit organizations that – complementary to the state and to market-driven profit-seeking enterprises – strive to cover specific needs, lend their members (mutual-benefit) or third parties support or offer advocacy in regard to changing perceptions or behavior (dominance of the nonprofit purpose). As associations, clubs, self-governing bodies, cooperative societies, foundations or nonprofit corporations, they are governed by elected voluntary board members and can be supported in their work by paid staff and volunteers. They finance their services (individual goods, meritorious goods or collective goods) through membership fees, donations, contributions, prices or fees. Occasionally achieved financial surpluses are non-distributable as cash returns to members or owners in any direct way. Certain refunds relative to service consumption are, however, possible. Transition from private autonomy to state control or market control is possible or even frequent in certain limited areas (e.g. purchase-of-service contracts).

The wording “nonprofit” used in the definition underlines the crucial importance for these organizations to focus on covering specific needs or to advance a common interest in contrast to the profit or return-on-investment goals of enterprises. This does not preclude NPOs from also achieving a profit. Such a revenue surplus, however, would only be a means to fulfill the organization’s purpose and not, in itself, the purpose of the organization. Therefore the term “nonprofit” is also coupled with the profit-non-distribution constraint: Profits are to be used for the benefit of the targeted service recipients, be it through internal investments in the development of the service offering and its quality, by passing them onto members, clients or users in the form of reductions in contributions and fees or refunds (e.g. with cooperative societies), or through internal subsidizing, in the sense of funding non-self-supporting service areas (such as charitable offerings or advocacy/campaign work). NPOs, too, have to strive for a balanced account, as the pursuit of their aims is also only possible within the limits of the funds that can be raised.
### Illustration 2: The Diversity of Nonprofit Organizations

The term NPO was originally coined by business administration theory. This research discipline traditionally dealt with profit-seeking enterprises. However, once business administration theory began to develop an interest in non-profit-seeking organizations, this new area of study needed delineation from the existing one. Since a positive generic term could not be found for these organizations, the negative term “nonprofit” was chosen to create a clear
demarcation. It has meanwhile become common in science and practice, thus largely supplanting other terms such as not-for-profit organizations or non-commercial organizations. At the same time, attempts to replace negatively defined terms by ones that make use of positive characteristics (e.g. social-profit organizations, social-value organizations, civil society enterprises) have been unsuccessful to date.

Another name that is also used for organizations in the third sector is the term non-governmental organization (NGO). It covers all those organizations that assume public tasks mostly on an international level, which, however, are legally independent and, as self-governing bodies or organizations with a legal form under private law, assume outsourced (or transferred) state tasks. This term thus includes globally active humanitarian organizations for development cooperation that provide services co-funded by the government, as well as politically active associations that take a critical and thus regulating stance towards the policies of governments and supranational organizations (e.g. UN and its sub-units).

As illustration 3 shows, the distinction between for-profit and non-profit organizations is not just a matter of theoretical, terminology-related discussions but is also actually firmly rooted in reality. The illustration compares for-profit and non-profit organizations on the basis of a number of essential features and highlights the significant structural differences between these two organization types. At the same time, it points to the fact that the special properties of NPOs, and the associated significant challenges, also require specific theories and curricula in order to offer the practitioner adequate problem-solving tools.
### Illustration 3: Ideal-typical differences between private enterprises and NPOs

<table>
<thead>
<tr>
<th>Structural features</th>
<th>Enterprises</th>
<th>Mutual-benefit NPOs</th>
<th>Third-party-serving NPOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Main purpose</td>
<td>Achievement of a return on invested capital has priority over a certain market offer (dominance of the formal goal)</td>
<td>Provision of specific services for members has priority over profit achievement (dominance of non-profit goal)</td>
<td>Provision of specific services for third parties has priority over profit achievement (dominance of non-profit goal)</td>
</tr>
<tr>
<td>2. Needs covered, customers</td>
<td>Cover the demand of customers on markets</td>
<td>Cover the demand of their members</td>
<td>1) Cover the demand of clients  2) Influence third parties</td>
</tr>
<tr>
<td>3. Decision-making and control of organization</td>
<td>Oriented towards markets, customer needs and competitor behavior</td>
<td>Members decide democratically or enforce by indirect behavior (selection of bodies, provision of financial means, entry/exit, apathy) member-serving decisions of the governing bodies; the behavior of competing service providers is only of secondary concern</td>
<td>Members decide either democratically or enforce decisions of the governing organs through indirect behavior; or the state decides, controls by way of purchase-of-service contracts. The behavior of competing service providers is only of secondary concern.</td>
</tr>
<tr>
<td>4. Produced goods</td>
<td>Predominantly private, marketable individual goods</td>
<td>Primarily collective goods to the benefit of a group and sometimes also of parties not paying for them; private goods in form of services</td>
<td>Collective goods in the form of fostering and promoting advancement, advocacy or influencing third parties, but also services to clients</td>
</tr>
<tr>
<td>5. Financial means</td>
<td>Equity, debt and direct individual revenues (prices) from the sale of goods</td>
<td>Membership fees as lump-sum payments; prices and fees for some services</td>
<td>Membership fees, donations, grants, bequests, investment income, income from service contracts (government) and from direct service sales</td>
</tr>
<tr>
<td>6. Labor input</td>
<td>Predominantly paid managers and employees</td>
<td>To an essential extent voluntary participation of members in governing bodies, committees and grassroots groups; at best some paid staff</td>
<td>Paid staff, voluntary members in governing bodies, but also voluntary staff</td>
</tr>
<tr>
<td>7. Success evaluation</td>
<td>Review of market-related measures such as profits, ROI, sales revenues or market shares</td>
<td>Achievement of operationalized non-profit goals; measurement of benefits</td>
<td>Achievement of operationalized non-profit goals; measurement of benefits</td>
</tr>
</tbody>
</table>
1.1.2 Typologies of NPOs

In addition to defining and delineating NPOs, the creation of sub-categories and typologies for associations, federations, foundations, chambers, charities, welfare institutions (in the health care and social area), churches, political parties and clubs, in all their multiplicity, is equally challenging. Starting from the cluster formation in illustration 2, NPOs will be grouped and delineated according to various additional criteria.

One criterion that has a strong influence on management challenges is the question of the primary beneficiary of an NPO. Illustration 3 shows a breakdown of NPOs according to their main service recipients or primary beneficiaries; it also features the essential differentiating characteristic of whether an NPO's members are at the same time also its customers and service recipients (mutual-benefit) or whether the services are provided to third parties (third-party-serving). The NPOs in the second group can, in practice, take the legal form of an association, foundation and in some countries even of a non-profit limited-liability company or a non-profit joint stock company.

Many of the mutual-benefit NPOs are also perceived as self-help organizations, a term that typically applies to cooperative societies and associations: people and organizations join forces in a cooperative entity to jointly fulfill a task via the operations of this organization. The necessity of such self-help organizations results from the fact that only through the cooperation of partners in the form of a new entity is it possible to fulfill a particular task at all, or at least in an efficient and effective manner. Combining forces may generate power for the members, be it relative to the suppliers in the procurement market (e.g. purchasing cooperative), relative to the competitors, or in the political arena (e.g. advocacy associations or political parties). Or it may be that only the cooperation of members allows for the collective actions necessary to cover the needs in question (e.g. sports clubs or societies in the cultural domain). Due to this overlap between the owners and the primary beneficiaries or service recipients of the NPO, "customer" needs and demands related to the NPO may feed directly into the management processes.

This is in contrast to third-party-serving NPOs whose beneficiaries are usually outside of the NPO and receive services free of charge or at terms below the going market rates. As a consequence, the beneficiaries may voice their wishes and concerns towards the management only indirectly and in an unobtrusive way, to avoid any risk of losing the privileges granted to them. Should the NPO fail to fulfill its purpose effectively and efficiently, the service recipients would most likely intervene only belatedly and in a less determined manner. Seen from a management perspective, third-party-serving NPOs therefore need different and more detailed monitoring and controlling mechanisms than mutual-benefit NPOs.
In addition to its basic character, the activity area of an NPO is also a commonly used criterion for categorization. The classification of Salamon/Anheier (1992), which is based on 11 major activity groups, further divided into one to four subgroups and a catch-all “not classified elsewhere” category, has thereby become the international standard (Illustration 4).

Illustration 4: International Classification of Nonprofit Organizations (ICNPO)

Moreover, the specific characteristics of NPOs also become evident through a juxtaposition of business enterprises, governmental institutions and private NPOs (Illustration 5). The categorization of individual organizations into one of these three subsystems of society is carried out based on their main purpose, their associated control mechanism, as well as additional structural features.
Illustration 5: Control mechanisms (types) and their features

Business enterprises are subject to *market control*, under the conditions of which they try to achieve profits and a maximum return on their capital. Governmental institutions (administrations), on the other hand, fulfill public tasks within the framework of political decisions made by state bodies (*political control*). Private NPOs, in turn, aim to cover the needs of members and others and to influence third parties, mostly under a *non-market constellation*. Such a constellation is characterized by:

1) Service recipients and payers not being identical (e.g. in health care: the relationship between the patient as contributor to the health insurance, the medical doctor as a service provider to the patient and the health insurance as service payer to the doctor, partly subsidized by the state);
2) Services that are provided free of charge or for a fee that does not cover full cost (e.g. charitable support), whereby the costs incurred need to be covered by other sources of funding such as donations, leading to internal subsidizing;

3) Production of collective goods that are beneficial for an entire group (e.g. an industry), and thus also for the so-called free riders who do not contribute to sharing the costs of producing the goods (e.g. non-members of a professional association). Control of the corresponding service production is exerted via the decisions of the owners of the NPO and via the bodies and representatives elected by them, empowered with the corresponding decision-making competencies.

Finally, NPOs are also fundamentally affected by their legal forms as reflected in different basic structures (organizational charts). Illustration 6 shows the organizational structure of the “federation/association” type on the base of a multi-level system, i.e. an entity that has mostly been organized according to regional criteria with a central head office on one side and decentralized, grass-roots units (e.g. at the local, district and county level) that look after their members or clients, on the other. Multi-level associations thus become decentralized systems, with all the problems pertaining to a suitable division of tasks and competencies between centralized and decentralized levels, as well as to the safeguarding of highest-level, overall coordination and control and thus of a corporate identity (CI). Analogous to complex cooperative society systems with decentralized structures and commercial units on various levels, such association conglomerates may also be referred to as compound structures or – deliberately kept in quotation marks – as a “concern”.

The legal form of the foundation stands apart from membership-based legal forms of associations or cooperative societies. As a purpose-bound endowment or principal fund, the foundation is owned by itself. Neither the members, nor the directing bodies, can decide which purpose a foundation should pursue; this role belongs exclusively to the founder who establishes the foundation’s purpose in its charter. In general, a distinction is made between grant-giving and operational foundations, whereas in practice mixed forms are commonly found. While grant-giving foundations pursue their purpose by supporting the activities and projects of third parties, operational foundations develop their own activities to achieve their purposes. Depending on how precisely and in what detail the foundation’s mission has been spelled out, the room for maneuver of the board of trustees may be quite limited. The purpose of a foundation could potentially be modified at the request of the board of trustees, but only if the foundation’s environment changes considerably.
Illustration 6: Basic structure: federation/association and foundation with multiple levels
Ultimately, the foundation supervisory authority will have to decide, following a request by the board of trustees, whether – given recent developments and the current situation – fulfillment of the foundation’s purpose is still possible and reasonable, or whether a readjustment to the purpose seems appropriate. Lacking an ownership body, such as members, the foundation supervisory authority therefore assumes the role of the supervisory organ and monitors the sensible and economic implementation of the foundation’s article of purpose as an NPO. Since the foundation has no members, the structures are usually significantly less complex. Thus an NPO’s legal form also exerts a certain influence on the management of the NPO.

Summing up, it can be stated that the Third Sector formed by private NPOs is characterized by a multiplicity of features and a wide variety of organizations. While pure NPO types may exist, hybrid forms with market and state elements are observed more frequently. This variety of entities, and of the overall sector, poses a particular challenge for NPO management – be it for research and theory, or practice. It requires differentiated introspections and statements, according to the character and combination of the features of the individual NPO types, setting clear limits to generalized statements.
1.2 On the Business Administration Theory of NPOs

The subject matter of business administration theory is structures and processes of formal organizations – regardless of whether they are oriented to profit or non-profit. From the systems theory perspective, the concept of a formal organization comprises the following features (Illustration 7):

1) Organizations are **purpose-driven**. They pursue a particular mission, which they try to accomplish by providing specific services.

2) Organizations are **productive systems**. They procure resources, such as funds and human labor, and employ them according to a plan in an organized way, using processes characterized by a division of labor to devise and provide services to their target groups (service recipients such as members, clients and customers, termed overall as stakeholders).

3) Organizations are **social systems**. They are sustained by humans, and human labor is the crucial production factor. In contrast to machines and financial funds, recruitment and deployment of human resources can only, to a limited extent, be rationally controlled. People have to be guided and motivated, as well as nudged towards goal adoption and work performance. They are willing to concur, as long as the organization satisfies their individual needs (such as reputation, collegiality or career). In contrast to technical systems, organizations as social systems are non-trivial: Structures and resources do not predetermine the behavior of an organization (as opposed to a machine, whose behavior can be predicted by its user based on the in-built mechanism and the energy supplied, provided it is not deficient).

4) Organizations are as much **open, environmentally dependent systems** as they are **operationally closed**. They are open due to their dependence on external relations, purchasing their resources in markets, providing their services to the outside and orienting themselves to the circumstances and developments of spheres and environments that are relevant to them. At the same time, they are operationally closed, because the way they handle these external relations is only understandable and explainable in terms of the organization and its identity. Creating and preserving an identity which delineates the organization from the external environment, is therefore one of the main tasks of management.

To be capable of functioning as an institution, an organization needs a **constitution**, in the sense of a body of policies and rules which determines the structures, rights and obligations of the participants, as well as the purpose and policies of procurement, production and marketing, be it in the form of statutes, ordinances, a foundation charter or a law. Consequently, the organization needs several people to dedicate themselves to this task of formulating
management principles and policies. In a first approximation, the term management, which will still have to be defined in all its details, thus comprises the tasks of designing, directing, controlling and further developing the overall organization, as well as the people acting in it and on its behalf.

**Common characteristics**

<table>
<thead>
<tr>
<th>For-profit economy, enterprise</th>
<th>Nonprofit organization</th>
</tr>
</thead>
</table>

**Purpose-oriented systems**
- Meaningful, purpose-oriented action
- Orientation of the organization towards certain goals
- Success through goal achievement and benefit creation for members, customers, clients, third parties

**Productive systems**
- Sourcing and administration of scarce production factors, resources (financial means, labor)
- Combination (planned use) of factors to produce goods
- Delivery of goods to members, customers, clients

**Social systems**
- Human cooperation as main factor
- Motivation to cooperate and provide services
- Development of capability potential
- Group dynamic and leadership processes
- Non-triviality

**Open, environment-dependent and yet operationally closed systems**
- Exchange relationships with a multiplicity of stakeholders
- Securing of system boundaries
- Change in the environment provokes internal system changes
- Identity-creation as existential challenge

**Common problem**

<table>
<thead>
<tr>
<th>For-profit economy, enterprise</th>
<th>Nonprofit organization</th>
</tr>
</thead>
</table>

**Management**
- Effective and efficient fulfillment of management functions:
  - Setting goals, planning, initializing processes, motivating, monitoring, coordinating

Illustration 7: Common properties and problems of enterprises and NPOs
Illustration 7 specifies these tasks by pointing out what managers do in practice: establish goals and objectives, plan activities, coordinate the interaction and cooperation of employees and motivate them to perform their tasks. In parallel to enterprises and governmental administrations, state-owned corporations or operating units, NPOs also have to fulfill management tasks or stewardship functions, making all organizations comparable from this perspective.

The management tasks are dealt with in the management and leadership theory field of business administration. From its beginnings, this scientific discipline has primarily been interested in for-profit enterprises. If NPOs are now also construed as purpose-driven, productive, social and environment-dependent systems, does this mean that knowledge gains in management theory can be transferred from profit-seeking enterprises to NPOs as well? In principle, this ought to be the case. However, since for-profit and nonprofit organizations only share some generic characteristics, while they differ in others (as shown in Illustration 3), this transferability of knowledge is limited. Therefore the management theory of nonprofit organizations needs to be conceptualized as a special management theory, which adopts what is applicable to NPOs, but also develops and incorporates additional knowledge and directions for all those problem areas in which the for-profit-centered theory cannot make any appropriate statements. Among these specific problem areas are, for example: members, voluntary executives, voluntary staff, federation-like organization structures and decision-making processes, unique services and activities in the area of marketing and more.

Prior to developing a management theory based on its own research and insights, it seems advisable to first consult other scientific disciplines for useful approaches and solutions. Helpful knowledge can be found in political science, sociology or in communications science. It seems advisable to adopt what suits the case of NPOs, be it directly and unaltered or with modifications and adaptations, and then only as a second priority to close the gaps which still remain through additional knowledge. Illustration 8 shows which disciplines, for example, have contributed to the theory of association management (and thus to NPO science). The management theory of NPOs can draw knowledge from these sources, evaluate the findings and insights for the specific situation of NPOs, and modify them accordingly.

Today, various handbooks and compilations on NPO management exist that have conducted such a knowledge-transfer and have also created new insights (cf. literature references in the appendix). However, these books quite often consist of individual contributions, treatises on specific problem areas and case studies. Their content has, only in the rarest of cases, been integrated systematically into an overall context, i.e. embedded and interlinked within a generic overriding model. The Fribourg Management model for NPOs addresses this deficit. It is meant to provide a framework, a system with the help of which existing NPO
knowledge can be structured according to its fundamental traits and principles, and placed into understandable, logical interrelationships. In this way, it should serve on the one hand as a **theoretical framework** that offers an introductory overview (at the same time allowing for the integration of new knowledge), while on the other hand, it should also provide the executive governance officers, who carry the responsibility for daily NPO operations, with a **manual for the actual design of a management system** adapted to their organization.

<table>
<thead>
<tr>
<th>Scientific discipline</th>
<th>Selected topics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political science</td>
<td>- Association as a party in the political system: factors, addressees, tools,</td>
</tr>
<tr>
<td></td>
<td>effects; consensus-based decision-making in the association</td>
</tr>
<tr>
<td>Public and administrative law</td>
<td>- Democracy in associations, association entry, jurisdiction of associations</td>
</tr>
<tr>
<td></td>
<td>(association law)</td>
</tr>
<tr>
<td></td>
<td>- Public tasks and functions of associations</td>
</tr>
<tr>
<td></td>
<td>- Questions of legal form, taxation and specified purpose</td>
</tr>
<tr>
<td>Economics</td>
<td>- Material (topical) changes and developments in economic policy induced by</td>
</tr>
<tr>
<td></td>
<td>the influence of associations (concrete achievements, transfer payments, laws)</td>
</tr>
<tr>
<td></td>
<td>- Effects of associations on the economic order (market structures,</td>
</tr>
<tr>
<td></td>
<td>competitive situations)</td>
</tr>
<tr>
<td></td>
<td>- Effects of associations on market processes (collective bargaining,</td>
</tr>
<tr>
<td></td>
<td>agreements/collusion, structuring policies)</td>
</tr>
<tr>
<td>Finance</td>
<td>- Public revenues and expenditures under the influence of associations</td>
</tr>
<tr>
<td></td>
<td>- Associations as financial intermediaries</td>
</tr>
<tr>
<td>Economic theory of politics</td>
<td>- Behavior of in collectives: negotiation, choice, game theory, entry/exit,</td>
</tr>
<tr>
<td></td>
<td>selective incentives, constitution theory</td>
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<tr>
<td>Business administration theory</td>
<td>- Association polity: collective decision-making processes</td>
</tr>
<tr>
<td></td>
<td>- Goal formation, planning and control, efficiency measurement</td>
</tr>
<tr>
<td></td>
<td>- Organization: structures, processes, reorganizations</td>
</tr>
<tr>
<td></td>
<td>- Financing, contribution systems, accounting</td>
</tr>
<tr>
<td></td>
<td>- Provision of services, marketing</td>
</tr>
<tr>
<td></td>
<td>- Association administration (IT systems, archiving)</td>
</tr>
<tr>
<td></td>
<td>- Leadership, personnel issues</td>
</tr>
<tr>
<td>Sociology and psychology</td>
<td>- Behavior of association members and employees: roles, conflicts,</td>
</tr>
<tr>
<td></td>
<td>motivation, leadership</td>
</tr>
<tr>
<td></td>
<td>- Structures and processes of groups, organizations</td>
</tr>
</tbody>
</table>

Illustration 8: Disciplines contributing to a theory of association management
1.3 Development Directions in NPO Management

While, for a long time, profound expertise and strong engagement of the persons involved were deemed sufficient prerequisites for the management of an NPO, the insight has come to prevail that – in line with enterprises – these organizations need to have solid knowledge and experience in the application of management methods and tools, if they want to achieve success and ensure the quality of their services over the longer term. What is asked for, in practice, is an increased management orientation of everyone carrying leadership responsibility, be it on the side of voluntary executive positions (board of governors, executive board, board of trustees) or on the side of paid managers. This management orientation manifests itself in three necessary development directions (Illustration 9), which are to be understood as concrete requirements for success- and quality-driven management:

1) Marketing Perspective

For a long time NPOs were characterized by a strong inward orientation to their purpose and task fulfillment. An outwardly oriented service attitude has, however, become increasingly necessary; management processes should begin with the needs and expectations of the service recipients and process addressees, the stakeholders. Moreover, NPOs should systematically orient their activities towards these markets and create benefits for their members and clients. They should devote heightened attention and professional capacities to communication with their surrounding spheres in sourcing (e.g. for fundraising or for the acquisition of grants), as well as in service provision. Only through effective management of these exchange relationships and clear positioning of the NPO and its services within its environment, can optimal fulfillment of its purpose be ensured.

2) Future and Goal Perspective

The bodies responsible for NPO management (board of governors, board of paid managers) are entrusted with comprehensive problem-solving responsibility. This includes the earliest possible detection of emerging problems, the efficient initiation and organization of problem-solving processes and effective implementation of the decisions taken, together with the evaluation of the results achieved. Strategic thinking, planning and proactive setting-in-motion are required to counteract short-term reactions and improvisation under circumstantial and time pressure.

3) Effectiveness and Efficiency Perspective

In line with enterprises, NPOs always only have a limited resource potential at their command. They, too, are therefore permanently subject to the general imperative to achieve the set goals (effectiveness), while realizing the intended result with the least possible use of resources (efficiency). This economic principle is subjugated to the marketing
and future perspective; processes, structures and resources have to be adapted innovatively to changes in needs, expectations and environmental conditions. As a result, a successful and highly respected fulfillment of the NPO mission can be achieved, creating the benefits expected by members or clients.

The management model to be presented here has to integrate these three development directions listed above. Therefore, a marketing, future, effectiveness and efficiency perspective are the building blocks of the following considerations and model descriptions.

**Illustration 9: Target directions of a management orientation**

**Management orientation**

- **Marketing orientation**
  - Consistent orientation to the needs and expectations of stakeholders through
    - Service orientation
    - Outward orientation
    - Benefit creation
    - Impact achievement
  - Systematically integrated planning and design of exchange relationships in the service and communication area

- **Future and goal orientation**
  - Prospective problem-solving on the basis of environmental and NPO-internal analyses
  - Design and use of a comprehensive planning, controlling and quality management system

- **Effectiveness and efficiency orientation**
  - Ensuring the continuous adaptation and innovation of processes, structures and resources under increasingly more complex environmental conditions
  - Design and deployment according to the criteria of effectiveness (impact) and efficiency (costs)
2 The Fribourg Management Model for NPOs

2.1 Purpose and Importance of the Model

The management task in NPOs is multi-layered and complex. To make this subject matter accessible, transparent, understandable and thus learnable, it is necessary to create systematic order, i.e. a framework. The Fribourg Management Model (FMM) serves this purpose by providing a reduced-to-the-essentials overview of the NPO management’s task area that is at the same time comprehensive, i.e. covering all NPO-specific issues, and not too detailed. It divides the overall NPO management task into the three task areas of “System Management”, “Marketing Management” and “Resource Management” (sections 2.3 and 2.4) and attributes all different management tasks to one of these areas. The three categories, including their tasks, will be discussed in greater detail in chapters 3, 4 and 5. Thus, a framework is offered within which terms, concepts and theory content can be presented and classified.

In its original version, the model was developed in 1986/87 by Peter Schwarz, Robert Purtschert, Charles Giroud and Reinbert Schauer as the basis for the Diploma Course for Association- and Nonprofit-Management at the University of Fribourg, Switzerland. Since then, the model has been continuously expanded and further developed, with numerous scholars and NPO management consultants contributing useful additional knowledge. Yet, the introductory model volume presented here should not be seen as a complete NPO management theory; rather it gives an overview of the essential elements and components of such a theory. It thus offers some valuable first insights, helping the reader to gain a basic understanding of the NPO management task and how NPOs function. However, recommendations telling the reader how to manage an NPO efficiently in a given case, can be found only sporadically. Detailed discussions of individual topics, as well as design recommendations, are the subject matter of the associated complementary volumes on this model.

Each theoretical model, such as the FMM, usually builds on a paradigm or a basic view of the subject matter. Basic views work like metaphors, offering a quick, intuitive understanding of the field of research in question, by allowing analogies to be drawn from other fields of research that are already well-known and thoroughly analyzed. Such analogies offer guidance, a perspective and first clues on potential cause-and-effect relationships in the subject matter, leading to initial hypotheses and rules which then can be tested in real life. The six basic views of an NPO on which the FMM is built will be described below in section 2.2, which also discusses the question of how these views may help to further our understanding of the various management tasks in an NPO. This is then followed by a description of the FMM’s design logic and an overview of the model and its components in sections 2.3 and 2.4.
2.2 Basic Views of the NPO as a Starting Point for the Model Design

2.2.1 The NPO as a System

Starting from the characterization of an NPO as a purpose-driven, productive, social, while at the same time open and environmentally dependent, as well as operationally closed system (presented in section 1.2), these features need to be concretized for the NPO context:

1) The NPO as a Purpose-Driven System

Essentially, the idea and raison d’être of any NPO is to fulfill its given purpose, its assigned mission. According to the structure types shown above (illustration 3) NPOs have the purpose:

   a) in the case of mutual-benefit NPOs, to satisfy the needs of their members and to create benefits for them by:
      - providing services to them, also in the sense of organizing the members’ collective actions;
      - representing the members’ (and the NPOs’) interests vis-à-vis authorities, politicians and other organizations. For it is precisely in this task area of exerting an influence on the relevant environmental spheres, that individual persons (e.g. citizens, employees, sick people) or organizations (e.g. nursing homes or museums) find themselves powerless. In other words, they are accepted as negotiating partners only in the form of an organized group;

   b) in the case of third-party-serving NPOs, to fulfill the needs of clients or third parties through services, and to represent the interests of the NPO and, if applicable, also of their clients.

The statutes or the articles of association form the core element of this stated NPO purpose. They usually also entail a variety of additional arrangements, particularly in the areas of members’ rights and obligations, as well as structures (bodies). According to common understanding, the statutes or articles of association are attributed a constitutional character. Under certain circumstances, however, they may become subordinate to the NPO’s mission statements. This aspect will be discussed in more detail later on.

2) The NPO as a Productive System

NPOs provide specific goods (services) to fulfill their purpose. Depending on the target population, these goods are termed “individual goods”, if they are received or used by individual members or clients, and “collective goods”, if a group as a whole (e.g. indus-
try, occupational group, client segment) profits from them, or – in a negative sense – is affected by them. Given the way they are produced, the vast majority of these goods need to be attributed to the **service sector**. Not only do most of an NPO’s individual goods (i.e. the ones directed towards individual members and clients) have a service character, so too, do those activities related to advocacy and interest representation that target a collective impact.

In contrast to industrial products, services are characterized by **certain specific properties**: the most important element in this context being the inclusion of the service recipients in the service provisioning process. Services are delivered by people for people, whereby the producer and the recipient interact in an exchange process. To turn a service, such as a seminar, into reality, the NPO member or client has to participate in the offered seminar and has to listen and interact with the speaker, e.g. ask questions. For the NPO, this service element has two major consequences. Firstly, it has to establish a **standby capacity for service delivery**, in the form of employees, infrastructure, management and financial means and has to win over the members or clients as partners, before the actual service can be provided at all. Secondly, the **quality of the service** crucially depends on the quality of the NPO’s staff (know-how, motivation) and the behavior of the involved members or clients, since both factors shape the process and outcome of the service to a decisive degree.

3) **The NPO as a Social System**

When looking at an NPO as a social system and service organization, the fundamental importance of human resources as the dominant production factor for service operations moves to the center of attention. NPOs live predominantly off human labor; the **human resources** (motivation and qualifications of their service providers) are their key assets. People have to be induced to cooperate, have to be motivated and nudged – as employees, volunteers or active members – to contribute and apply their skills in the service process and to optimally exploit their scope for discretionary action for the benefit of members and clients. Moreover, staff have to be trained and developed, offered satisfying working conditions and empowered to thrive in their activities. This leadership function is presumably the most important management task, and it is the decisive factor for an NPO’s success. As social systems, NPOs are what we call “non-trivial”. Non-trivial systems such as living organisms and organizations differ fundamentally from trivial systems, such as watches, machinery or vehicles, that are operated in a deterministic way to produce the desired results. In non-trivial systems, such as social systems, the inner structure is so complex that predicting their behavior and their performance is only possible to a very limited extent. The practical consequence of non-triviality can be shown with the example of an association that persistently generates deficits. Simply modifying its inputs
and outputs, i.e. supporting it with additional financial means, decreeing a streamlined service range and stricter controlling, does not usually guarantee its transformation into a self-supporting organization. Only through in-depth reflection on the decision-making structures and processes, as well as the beliefs, attitudes and values that buttress the organization, can a change process be initiated that might lead to sustainable viability.

4) The NPO as an Open While Also Operationally Closed System

Understanding the NPO as an open system means to demarcate the entity “NPO” and its own identity from its environment and to create an inside and an outside. The outside area of the NPO system will – for the purpose of this book – be termed its surrounding or environmental sphere. Since open systems are, by definition, dependent on their surrounding spheres and thus cannot exist in isolation or autarchy, they need to maintain a variety of interrelationships with the outside world, depicted usually in the form of input-output models. Illustration 10 shows such an input-output model for the case of a mutual-benefit NPO. Unsurprisingly, the NPO-related input-output model has some very specific properties that need to be discussed here in more detail.

The model shows that NPOs as service providers are interconnected with their surrounding sphere on the output side through their service deliveries and on the input side through their sourcing efforts. To be able to provide their services, NPOs have to raise, procure and recruit the necessary resources (e.g. funds, production factors), for example, on the donation or labor market. These service provisioning and sourcing efforts take place in what we call the exchange sphere. Outside of the exchange sphere we find other environmental spheres of relevance to NPOs, which we call the explorative spheres. In these explorative spheres, situations and facts emerge about which an NPO needs to be informed, since they may become meaningful for its decisions and activities in the shorter or longer term, or may entail regulations that need to be taken into account for the operation of the NPO. An example of this can be seen in societal expectations of organizations to act either in an environmentally friendly way or in a considerate way, towards social minorities. As will be shown in section 3.1.3 under the heading “responsiveness”, an NPO can accept the values of its explorative sphere as binding, consciously adhering to them in its decisions and behavior, even though they are not actual demands.

Like any open system, NPOs have boundaries that separate the inner from the outer area. This demarcation is not unequivocal, it follows practical considerations. The NPO-related input-output model of Illustration 10, for example, introduces the distinction between a wide and narrow system boundary. Illustration 11 shows these two different boundaries in more detail, for the case of an economic association (a membership-based, mutual-benefit NPO).
Illustration 10: Environmental spheres of the NPO and the service provisioning process

In this association model, the wide system boundary is drawn in such a way so as to include the members – in their roles as suppliers of input for the association’s operations – as elements of the system. Equally, the delivery of services to the members is understood to be a transaction within system boundaries. Thus membership represents a particularly close relationship with a different quality and intensity to the transactional relationships with partners outside the system (e.g. non-members). For third-party-serving NPOs without membership, on the other hand, such a distinction between a narrow and wide system boundary may not make sense. In such a case, clients and third parties are seen as belonging to the outer area, which has been called the exchange sphere, above.

While in terms of their exchange relationships NPOs should be seen as open systems, they are, on the other hand, operationally closed in terms of the way they process information. Decisions that are taken in the organization are not the result of an exchange with its environment, they are a reflection of an inner decision-making logic to which the organization adheres, not least with respect to its identity. This explains, for example, why organizations confronted with the same changes in the market for donations, react quite differently to the challenge.
The basic view, described here, of an NPO as a purpose-driven, productive, social, open and also operationally closed system in terms of its environmental spheres, forms the **most important paradigm of the Fribourg Management Model** and thus shapes the design and structure of the model.
2.2.2 The NPO as an Object of Diverse Interests

The openness of the “NPO” system on the sourcing and the service provision side, as well as vis-à-vis its explorative spheres, means that outside persons and organizations active in its exchange and explorative spheres may take an interest in the NPO. If they maintain exchange relationships with the organization and harbor certain demands and expectations, we call them interest groups or stakeholders. Given that an NPO is usually involved in many different exchange relationships, it can be seen as the object of various differing interests. As a result, some of its actions may reflect the strong influence of certain stakeholders.

From this perspective, it is necessary for an NPO to legitimize or justify its existence vis-à-vis influential stakeholders. Organizations gain legitimacy if they meet the expectations of their surroundings in regard to the organization. This can be achieved in four different ways:

1. **Direct legitimacy through purpose:** this form of legitimization emerges when an organization provides services that create an immediate benefit for a certain group of people or organizations. This form is of crucial importance to mutual-benefit NPOs. For third party-serving NPOs, it plays an important role in the relationship with its clients.

2. **Indirect legitimacy through purpose:** this form is characteristic, above all, of charities, educational institutions and other third party-serving NPOs, whose donors and supporters are not identical to the beneficiaries of the primary organizational services. The legitimacy is based on creating benefits for people to whom others ascribe the right to receive such benefits (e.g. legitimation towards donors that support the organization in its work for third parties that require help).

3. **Legitimacy through values:** this form of legitimization results when an organization pursues its goals in a manner that corresponds to values held by the legitimizing groups. The ensuing legitimacy is independent of the achieved results. Legitimacy through values is closely tied to the persuasiveness of the norms and the value system on which an NPO is built, and to the degree of its congruence with its counterparts in society.

4. **Legitimacy through tradition:** this form manifests itself from the strong degree to which an organization is embedded in society and is usually the result of many years of institutionalization, during which the organization and its activities become an integral part of social reality. The stakeholders cannot imagine that one day the organization might no longer be part of this reality.

Each organization has a certain leeway as to the form of legitimacy it wants to build on vis-à-vis each of its stakeholder groups, to secure its existence over the short- and the longer-term.

The necessity for legitimization goes back to the fact that an NPO is dependent on the actions and behavior of its relationship partners to continue operating and surviving. This de-
Dependence can be described and explained with the help of the **inducement-contribution theory**. The theory is, essentially, based on the idea that an organization has to come up with an offering for its members, participants, relationship and negotiation partners, which they perceive as a positive-enough inducement for them to provide the desired contributions to the organization in return. The concept of “contribution”, in the sense of a counter-offer, thereby needs to be understood in a broad and comprehensive way. It refers to any form of a partner’s behavior of positive value to the organization – it may even simply stand for ascribing legitimacy. Motivation theory can typically be categorized under this conceptual model (the NPO offers inducements such as salary, career opportunities, praise from superiors etc., to enhance the motivation of employees). But the model can equally be applied to the inter-relationship between members and the NPO (illustration 74), fundraising (a good conscience in exchange for a donation), lobbying or collective bargaining. In the case of the last two examples, calling off a strike or a protest action may be seen as an inducement for cooperation.

Accordingly, the equilibrium mentioned above between the sourcing realm (or input realm) and the service provisioning realm (or output realm), is always also to be perceived as the creation of an **inducement-contribution-equilibrium**. Only if the NPO succeeds in creating inducements for its relationship partners time and again, will it be in a position to receive the various contributions it needs. Therefore the relationship partner is a potential prospect for inducements offered by the NPO. The partner expresses his or her demands on the exchange relationship and is only willing to make his or her contribution when these demands are met. Therefore striving for an exchange-equilibrium also means balancing inducements among the multiplicity of stakeholder interests. This, in turn, is closely linked to the **quality orientation** of an NPO. An NPO generates quality with its services by adequately satisfying the needs and demands of as many relationship partners as possible.

Openness, environmental dependence and exchange relationships with the exchange partners point to an additional aspect of great relevance for the management of NPOs: **the high sensitivity of an NPO to change within its environment**. The interests and needs of stakeholders are subject to permanent change. Markets, politics and society constantly generate new values, norms and conditions. These transformations require adaptive actions from the NPO, given that such changes may push the exchange or inducement-contribution equilibria off balance. As a consequence, overall equilibrium needs to be sought on a permanent and recurring basis.

This pressure to adapt to change can also be viewed with the help of the **stimulus-response-theory**, which has its roots in psychology. This theory interprets behavior as a response to certain environmental stimuli that impinge on the individual, whereby the stimuli
can be of a positive (rewards) or of a negative (threats, punishments) nature. Complementary to these stimulus-response models, cognitive theories have gained prominence, explaining behavior as a result of cognitive processes (mental insight into problem structures). When applied to NPOs, these theories entail three aspects:

1) Developments in the relevant surrounding spheres of an NPO need to be screened for stimuli that the organization might deem significant, interpreting and recognizing them as potential problems that lie ahead of the organization. These, initially, still external events, i.e. happening outside of the NPO, are then internalized as a problem of the organization. In response to these stimuli the NPO might decide – now in form of an operationally closed system – on system-internal directives for action to confront or solve the corresponding problem.

2) While the stimulus-response model – from a purely terminological view – implies an immediate sequence of actions, the intelligent (cognitive) organization learns, based on its experience and insights, to detect emerging stimuli that might point to potentially relevant problems as early as possible (early problem detection), since it needs time to prepare its response behavior to develop an appropriate solution. The earlier problems are detected, the better they can be dealt with. Thus, the NPO may heave itself out of short-term, reactive “fire-fighting” behavior into active-prospective (proactive) maneuvering and rebuild the potential to secure its existence and success.

3) The early detection of stimuli does not trigger any automatism regarding corresponding reactions. An organization would simply get overwhelmed, were it tempted to try to master every problem it considered to be fundamentally significant. Resource constraints limit its ability to adapt and to react. An NPO therefore has to make a selection among the stimuli in the course of internal decision-making processes and has to additionally establish priorities that are as clear as possible to deal with the problems.

The mere detection, definition and selection of the problems that are relevant to the NPO already represent an extraordinarily difficult task. An NPO’s surrounding spheres are in constant flux and therefore assume, over time, a large number of different states. Problem selection, therefore, always forcibly involves a certain abstraction from this diversity. To come to grips with reality and its complexity at all, an NPO, therefore, has to construe a simplified image, as for example, in forecasts and scenarios on future developments in the NPO’s environment. Nonetheless, the amount of relevant information and the complexity of the facts threaten to overwhelm. Moreover, determining the relevance of a problem and setting priorities also involve considerable difficulties. The opinions of internal and external stakeholders may diverge completely. For this reason, the newer system theory emphasizes inner-organizational decision-making processes. With respect to internal communication,
it considers the system “NPO” as closed. All the occurrences in the surrounding spheres are mere data, possibilities, of which the NPO has to take note, but from which no automatic reactions are derived. Only when this information becomes subject to system-internal communication, can it be transformed through decision-making processes into problems and priorities. It is obvious that, at one or point or another, an NPO has to take note of the potential of threats and opportunities that come along with changes in the environmental spheres, meaning that it is forced to absorb the corresponding information as part of internal communication and to decide on reactive or proactive measures if it wants to survive.

Correspondingly, the more complex the environmental spheres are, the more demanding the requirements become regarding the problem-solving capacity of an NPO. Such increasing requirements can be countered by an NPO, in many cases, only through an increase in its auto-complexity. This could mean building up more specialized know-how for early problem detection, quality management, controlling, or an increase in the degree of self-organization of decision teams and work groups, etc. But it also includes strengthening the learning ability of an organization. An NPO has to permanently upgrade its problem-solving capacity through improved acquisition, storage, dissemination and use of knowledge (and experience), and thus through systematic knowledge management, in order to be able to stand up to and confront the increasing complexity of its environmental spheres and its own internal reality. Hence, the learning capability becomes a crucial survival and success factor and an indispensable precondition for development of the capacity to achieve equilibria in the exchange relationships.

The stakeholder model highlighted here in its various facets shows the challenges arising for an NPO’s management from the numerous societal interconnections, and thus from its high dependence on developments in its surrounding spheres. It forms a central foundation for the understanding of the entire management model and will hereafter always have to be included in the considerations.

2.2.3 The NPO as a Micro-Political Arena

As much as an organization – being an object of various interests – is exposed to different external interest groups influencing its options for action and decisions, it is equally characterized by an increasing diversity of internal interests. Even if the purpose and goals of the NPO are clearly defined or at least delineated in the foundation charter, statutes, articles of association, by-laws or mission statement, their concretization remains subject to negotiation processes, in which different internal and external stakeholders are involved. Since each stakeholder group represents a certain point of view and the various points of view will rarely
be congruent, such micro-political processes belong to the daily management reality of NPOs.

Essential actors in the micro-political arena found in many NPOs are the members or member groups of the organization and their delegates, the voluntary executives, the paid managers, paid staff and voluntary staff. These actors may themselves pursue homogenous or heterogeneous interests. Thus, the members on the board of governors of an industry association may, for example, represent different member groups (individual entrepreneurs, small businesses, large companies), and the members on the foundation council of a charity may represent different donors.

To assert their interests, the actors may make use of their power. Since the pioneering work of the sociologist Max Weber (1922), power can be seen as the opportunity of an individual (or also a group or entire organization) to realize their own will in a social action, even against the resistance of others who are participating in the action. Power means a possibility to exert influence; and influence is the result of using power. It is helpful to distinguish between a number of different sources of power that are categorized into the four different types below:

1) **Power based on organizational position.** Once an NPO is organized to the point that individuals have been assigned certain tasks, competencies and responsibilities, they are also provided with the means to put their ideas into action: managers can have their own way in regard to their employees, who might otherwise fear negative evaluations, no support in their professional development or even losing their job. In the same way, the board of trustees can assert itself vis-à-vis the management it appoints. Finally, organizational positions may occasionally also provide opportunities to influence decision-making processes: who controls access to the board of managers? Who determines which items and issues go on the agenda (and which ones do not), and in which sequence they are dealt with?

2) **Power based on control of resources.** To realize their goals, NPOs need a plethora of resources that, quite often, are not readily available or not easily secured over a longer term. Those who can ensure that the NPO receives the resources that are critical to its success and survival, can therewith assert their own goals and interests more easily. Examples of this are influential donors and their representatives in the governing bodies, or persons with close contacts to decision-makers in politics, public administration and media.

3) **Power based on information.** Information is a particular kind of resource. Information can stem from social contacts, but also from acquired qualifications. Formal social contacts emerge from hierarchical positions and structures; but in any organization there al-
ways also exist informal contacts and channels for the dissemination of information. Those who have access to information on the one hand and, on the other, the opportunity to control the access other people have to information – be it through formal or informal channels – are able to influence decision-making processes. A second source of power based on information results from expertise. Along with formal qualifications (e.g. a professional certificate or an academic degree), expertise can also be the result of long years of experience in an organization or in a professional field.

4) **Power based on charisma.** Personal persuasiveness as a source of power is most closely associated with an individual’s personality and the strength of his or her corresponding aura. In its strongest form, it is also termed charisma. But weaker forms of persuasiveness, based on an attributed trustworthiness or remarkable rhetorical skills, would have to be included here as well.

These sources of power are largely independent of each other. On an individual basis, a person can have one or several sources. The chairperson of the board of governors of an association, for example, makes systematic use of his or her powers of influence stemming from the statutes, by-laws or internal regulations, has important contacts to politicians, is an acknowledged expert in the field of activity of the organization and is additionally very persuasive, thanks to the force of his or her personality, applied in speeches or personal conversations.

It is not just that different interests meet and collide in a micro-political negotiation process, but also that their representatives may possibly make use of entirely different means of power to assert them. Which actors will, in the end, assert themselves with which concerns and on the basis of which power base, is a question that can only be answered with an in-depth knowledge of the initial conditions, and even then remains subjected to the vagaries of a complex negotiation process.

Outer boundaries for the use of instruments of power are set by the organizational structure at the operational level and by the structures of organizational governance at the strategic level. From a micro-political perspective, this latter term stands for the entirety of rulings and ordinances, with which the behavior of the actors in the governing bodies and the way governance decisions are made, are guided along a specific track. From this perspective, the various expressions of organizational governance can be likened to the different forms of government at the level of societal policy, also referred to as the different forms of rule. The most important expressions are the following:

1) **Direct democracy:** In such a system, the final decision-making body is the membership base, whereas the elected governing body only has limited decision-making power. Such a system can be found in the third sector, particularly in small and young associations
and clubs, but it can temporarily also be used when the organization, and especially its management, finds itself in a crisis of confidence.

2) **Representative democracy**: In this system, an intermediary level between the membership base and the governing body is established. Thus the concerns of the base are bundled, and the delegates become a player that acts independently. The representative democracy type can often be found in the federal structures of umbrella associations or federations that are formed out of a larger number of regional or specialized sub-organizations.

3) **Autocracy**: We speak of an autocracy when the organization is dominated by one single person and occasionally by a management group tightly connected to that person. Its foundation may be based on various, entirely different sources of power, but is often linked to the charisma of the dominant individual.

4) **Oligarchy**: Oligarchic structures are characterized by the dominance of a relatively small group, in which individual personalities do not necessarily have to carry much weight. Group cohesion may emerge from personal allegiance, identification with a shared value system, or simply from a restrictive selection procedure. Due to the missing member base, foundations generally tend more towards oligarchic structures than associations, federations and cooperative societies, without, however, excluding corresponding tendencies for the latter. Hence, based on the example of socialist parties and unions, the sociologist Robert Michels showed already, at the beginning of the 20th century in his “Iron Law of Oligarchy” (1911), why **associations tend to concentrate power at the top**.

5) **Bureaucracy**: With increasing size and growing pressure to professionalize the organization, the weight of its influence usually shifts in NPOs from voluntary to paid management and from an engagement based primarily on identification with the organization’s purpose to paid task execution. At the end of such a development, bureaucracy emerges as the form of government where the experts rule the committed volunteers.

6) **Adhocracy**: Whereas the systems of governance listed above are characterized by a consolidation of influence that favors one particular group of persons, an adhocracy is conversely characterized by an absence of power concentration. The rules of decision-making are set as required and may also change over time. There may be different impulses initiating the emergence of an adhocracy: it offers a flexible alternative to direct democracy in young and small organizations, but it can also emerge during a period of transition from one form of government to another, as a result of an organizational crisis. Ultimately, an adhocracy also reflects modern ideas about management, building on
the basic principles of self-organization and continuous adaptation to changed environmental conditions.

Each of these expressions offers an organization’s various groups of actors other options to assert their own interests within the frame set by the organization’s purpose. It opens up some sources of power and, in turn, hinders others.

2.2.4 The NPO as a Service Operation

NPOs fulfill their purpose by providing an output to certain addressees. To produce this output they have to source and ready the required resources. In contrast to business enterprises, which in the process of product manufacturing or service delivery are primarily confronted with the problem of finding customers and thus ultimately of finding markets for their services and tangible goods, the challenge for NPOs mostly consists of sourcing the necessary input factors to provide the services at all. This is because they often do not generate the funds needed for their inputs from the proceeds of their service deliveries, but from alternative sources of income such as membership fees, subsidies, or donations, which help them provide their services to their addressees at preferential terms. This means that the price for the services often lies well below the full cost or the going market rate, or that the services are even provided to a target group free of charge. Hence, many NPOs tend to face excess demand rather than problems with sales.

Illustration 12: Manufacturing and service version of the input-output model

The outputs provided by NPOs are predominantly of the service kind. As displayed in a comparison of characteristics (illustration 13), services differ fundamentally from tangible goods. The main characteristics of services are considered to be intangibility and the inte-
gration of an external factor. Services are intangible, because prior to their consumption they cannot be physically touched nor can they be seen. Moreover, they cannot be produced in advance, as they emerge only through an interaction between the service provider and the consumer, and can ultimately only be judged on the basis of the effect achieved thereby. The degree of the integration of the external factor stands for the intensity of the involvement of the service consumers in the process of service delivery: the more intensive this involvement is, the more important becomes the way in which the interaction unfolds between the two partners. As an involved party, the service recipient becomes a co-producer; the recipient is therefore also referred to as “prosumer” (producer and consumer). What can be seen here is the so-called Uno Actu principle, meaning that production and consumption coincide. Consequently, and unlike with tangible products, the quality of a service does not solely depend on the producer, but is significantly co-shaped by the consumer.

<table>
<thead>
<tr>
<th>Tangible good</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is tangible</td>
<td>Is intangible</td>
</tr>
<tr>
<td>Can be perceived, sensed in an objective way</td>
<td>Is perceived subjectively</td>
</tr>
<tr>
<td>Can be displayed and tested prior to sale</td>
<td>Cannot be demonstrated or tested prior to sale</td>
</tr>
<tr>
<td>Ownership: Change of ownership following the purchase possible</td>
<td>Use: No change in ownership possible</td>
</tr>
<tr>
<td>Can be resold</td>
<td>Cannot be resold</td>
</tr>
<tr>
<td>Production can take place without involvement of buyer</td>
<td>Buyer is involved in the production process</td>
</tr>
<tr>
<td>Product gains its definite shape as a consequence of production process</td>
<td>The design of the “good” emerges continuously, especially during service delivery process</td>
</tr>
<tr>
<td>Production and marketing are separate</td>
<td>Production and consumption take place at the same time</td>
</tr>
<tr>
<td>Product can be inventoried and transported</td>
<td>Is perishable; cannot be inventoried or transported</td>
</tr>
<tr>
<td>Production quantity and quality are measurable</td>
<td>Service quantity and quality are difficult to measure</td>
</tr>
</tbody>
</table>

Illustration 13: Differences between a tangible good and a service

Typical service delivery unfolds on two parallel levels:

1) on the operations’ level where the capabilities, know-how and skills of the service provider determine quality;

2) on the communications’ level where behavior, emotions and the attitudes of the provider and consumer meet and the resulting interaction process conveys a positive or negative experience to the consumer, with a corresponding effect on quality.
The dual-track nature of the service process underlines the importance of the human resources: to increase the service quality means to advance and develop the employees’ technical expertise as well as their social and communication skills, while at the same time ensuring a consistent and convincing service, member and client focus. This task is assigned to internal marketing.

The intangibility of services creates two additional problems:

1) Since services cannot be produced in advance, but can only be provided through interaction with the client, the NPO needs to ensure a standby service delivery capacity in advance, in the form of personnel and infrastructure. This causes a block of more or less fixed costs, independent of the extent of recipient demand.

2) For the service recipient, the intangibility of the goods represents a risk. A service is – prior to its delivery – a mere promise about a potential interactive process. The prospective recipient therefore relies mainly on the image, the good reputation of the supplying organization and/or on the experiences of other clients. Services thus become credence goods. It is the task of marketing to profile the NPO to its members and to the relevant markets (e.g. donors’ market or opinion market) as trustworthy and to build up a so-called positive sender image.

The integration of an external factor – the involvement and participation of the client – in turn complicates standardization and thus quality assurance of the service delivery process. The reason for this lies in the individuality of the provider and recipient. For this reason an environment needs to be created in which each service recipient is perceived as an individual client, so that the NPO’s employees conduct each interaction based on its own individuality rather than on conditioned behavior.

For this, structures and organizational settings for a service-friendly environment are necessary, that allow a certain degree of personal leeway for the employees to make optimal use of their own individuality, allowing them to cater to the individuality of the clients. At the same time, an efficient and cost-conscious management of the service process also needs to be implemented. Thus a field of tension emerges between rational management requirements and interaction-related demands of the individual case. Solving this dilemma is a system-inherent challenge for the management of services.

NPOs provide individual and collective services. The discussion so far has referred to individual goods and thus to the typical face-to-face interaction between provider and client. For collective goods, it is necessary to broaden the perspective. This can be illustrated by the example of advocacy. For an association, its members are the mandators and beneficiaries of its lobbying activities. The lobbying or influencing process, however, does not take place
between the association and its members, but between an association representative (e.g. the chairperson) and a third party, the lobbying addressee (e.g. a cabinet member). Direct interaction partners might be the chairperson and the government representative, whereby the former tries to persuade the latter of a behavior (e.g. awarding grants or subsidies), to the benefit of the association’s members. Thus, the chairperson’s service delivery is ultimately only truly accomplished once the minister disburses the grants and the association members become indirect beneficiaries of this interactive process.

In practice, many services are coupled with material goods and the service delivery process often includes tangible and intangible components. Examples would be homes for elderly and disabled people, in which the services “living, support, care, employment” largely depend on the physical infrastructure and the technical facilities. Hence, the exchange involves not just individual material goods or services, but actual bundles of services and products. This, in particular, holds true for the physical component “ambiance”, as can be experienced in the reception area of an association or a therapy room. As a consequence, the two service levels, operations and communication, need to be complemented by a tangible environment level, to which the above mentioned infrastructure and ambiance, etc. belong.

The view of the NPO as a service organization helps illustrate certain specificities of its operations. As a result, particular challenges emerge for the management of NPOs that are particularly felt in the area of marketing management.

2.2.5 The NPO as a Value- and Culture-Driven Community

The attempt to devise a management model that can apply to a multiplicity of NPOs and can be used in many NPOs stems from the conviction that these organizations have to overcome broadly similar or even identical management problems. This picture of similarity now needs to be contrasted with one of diversity: regardless of their type, the entire NPO population needs to be broken down into individual entities according to aspects of their own specificity.

Every NPO has its own story of genesis and evolution whose foundation already rests on specific interests and values that are reflected in its statement of purpose, its mission. Typical examples include, for instance, church-related organizations, unions created around an ideology or religion, ideologically-oriented parties, civil rights organizations and feminist or ecology-oriented associations. These values and value systems are largely supported by those who join the organization as members or employees and also act according to its ethical-moral value system. The NPO is thus inspired by collectively shared values (value community), which have their origin in societal ideologies, religions or ethics that reach beyond the organization and are therefore called external factors. They constitute building blocks
within the construct of the organizational culture, complementary to internal factors such as norms, attitudes or codes of conduct, that develop individually within each NPO and which are equally reflected in the actions and behavior of the organization’s participants and thus of the entire organization. The shared values influence the way the people in the organization treat one another (in leadership and cooperation), how they respond to their members or clients and how they approach negotiation partners or how they orient themselves towards the public interest (common welfare). Value systems belong to the so-called soft factors that are often difficult to comprehend and assess in their effect, to which, however, a high importance is attributed with respect to the individual functioning of an NPO (also in the sense of an operationally closed system). The shared values become evident and understandable when they are codified, stated in documents and thus explicitly formulated as behavioral norms or expectations. Besides being spelled out in the organization’s statement of purpose in the statutes or articles of association mentioned above, they can be found mainly in mission statements and trade or professional codes of conduct, they are part of the selection criteria in personnel recruitment, are officially included in decision-making processes, provide guidance on how to deal with conflict and can lead to sanctions (e.g. ostracism, dismissal) in cases of non-observance. Hence, in the realm of explicitly stated values, a deliberate nurturing of this culture seems possible and sensible, quite in contrast to the implicit values which tend to operate under the surface, can have spontaneous effects and can both manifest themselves and change informally and in an unguided way.

Culture and value systems are never set for eternity, but can and must alter, adapt to societal change or internal circumstances. Difficulties arise then, when such value systems become rigid traditions or immutable doctrines, which lead to discrepancies and disturbances in times of societal disruption, when the values are no longer shared by everyone. Such frequently diagnosed incompatibilities between tradition and modernity – potentially virulent in the case of the attitudes and expectations of younger members, employees or clients – force NPOs, time and again, to critically question and further develop their systems of values and norms.

Another incompatibility needs to be discussed with respect to these systems: that between ethics/morals and rational management, expressed for example in the dichotomy between humanity and efficiency. In ecclesial, social or ideologically bound organizations, for instance, the application of rational management methods was therefore rejected over a longer period of time on principle, considered incompatible with the prevailing values. With increasing financial pressure, this attitude has, meanwhile, given way to efforts to create a synthesis between these two poles. Given that the resources at the disposal of an NPO are always scarce, effectiveness and efficiency demand nothing other than to deploy these resources in a reasonable, economical and effective way for its given humanitarian, social purpose. This, of course, does not exclude the fact that some NPOs will always try to expand
their resources by political means to finance an increase in the social services offered. However, even such lobbying can be conducted in an amateur or professional way, which again speaks in favor of the use of rational marketing and communication methods.

To look at NPOs as value-based, cultural communities ultimately means to understand them in their individuality and to accept that their shared values demand or allow certain design measures and interventions, while at the same time (if it is not a case of simply rejecting the rational approach of the above mentioned sense) simply prohibiting others or excluding them on the base of morally-ethically motivated decisions and actions of the NPO or of its employees. This has implications for the management of the purpose and goal perspective of the NPO in particular. But it also has implications for the use of external management consultants who may struggle to understand the impact of the shared values on the functioning of an NPO.

2.2.6 The NPO as a Strategic Project

Strategies are the medium- to long-term action programs of an organization in competition for scarce resources and advantageous positions. This definition applies equally well to NPOs as to business enterprises, as profit orientation is not a prerequisite for the point and purpose of strategic management. The most important gauge for strategic decisions in a business enterprise, however, is economic success. To achieve this success, core competences and other enterprise resources are deployed in regard to current and anticipated market opportunities. In NPOs, their nonprofit purpose and shared values have to be included as additional points of reference for the choice of the strategy.

Strategies are needed wherever the organization competes with third parties for critical resources and positioning in the market. By way of a strategy, an organization makes decisions on measures targeted to achieve medium- or long-term advantages for the organization. Advantages can be considered long-term if, at a later point in time, competitors cannot match them or only with excessive effort. In such a case, they are termed strategic success potentials. The markets in which NPOs operate under competitive conditions are individually different; the following, however, are often included:

1) The market for the organization’s services: Third-party-serving NPOs offer their services, in most cases, in competition with other NPOs or increasingly also with business enterprises.

2) Competition for members: Mutual-benefit NPOs, in particular, depend on asserting themselves over competing organizations or over potential members’ disinclination to commit themselves.
3) Competition for voluntary executives and voluntary staff: Given the clearly increasing difficulties to recruit voluntary officers and staff, NPOs find themselves in competition also in this area. They need strategies to nudge hitherto inactive persons into assuming office and other tasks.

4) Labor market for specialists and leadership personnel: Whenever NPOs look for persons with certain professional qualifications or experience in management for which there is high demand, the question arises which incentives or inducements will help an organization position itself as an attractive employer.

5) Reputation and mobilizing power on the donation market: NPOs not only have to prevail against other fund-raising organizations, but also against alternative uses of potential donation money (e.g. consumer goods, travels or investments).

6) Access to purchase-of-service contracts of the public sector: The transition from traditional subsidies to government purchase-of-service contracts creates new competitive conditions for NPOs and a necessity to adjust to these for the long term.

7) Influencing potential in political competition: Lobbying work in the political discourse and participation in opinion formation among the wider public, also represent a strategic challenge for many NPOs.

The pressure on an organization to pursue a medium- to long-term competitive strategy in lieu of reacting to change in a short-term, improvisational manner depends on the so-called “competitive forces”. According to Porter (2010) these include the threat or likelihood of new competitors entering the industry and of the organization’s services being provided in novel, alternative ways (threat of substitute services). With a trade union, for example, a substitute service for the collective representation of the employees’ interests could be seen in an individual insurance policy, while for a museum it could be a virtual presentation of the museum’s exhibits on the internet. Moreover, the bargaining power of the exchange partners is – according to Porter – an additional force driving competition. In the case of government purchase-of-service contracts, this bargaining power is quite high due to its monopoly of the public sector. The last essential driver of competition is the rivalry among existing competitors, which, for example, could express itself on the donation market with fundraising organizations trying to undermine the image of the competing organizations.

Organizations pursue corporate strategies with the idea to align all activities to the organization’s top-level goals. The range of services offered by larger NPOs, in particular, is often highly diversified. It includes a plethora of services for different stakeholders; or the organization raises or procures the necessary resources in diverse fields. In such a situation, it may be sensible or necessary to differentiate the strategic perspective accordingly.
NPOs frequently tend to underestimate their freedom with respect to strategic choice. They perceive themselves as heavily dependent on external financial and regulatory restrictions. This might possibly be due to the fact that the common concepts of strategic management, such as market-oriented stewardship, are not sufficiently taken into account in the Third Sector. The different perspectives presented in this chapter should therefore be understood as an invitation to NPO managers to gain clarity on the multiplicity of strategic options and – based on this – to make strategic decisions that strengthen their own organization and make it viable and capable of continuous development in the longer term.

### 2.2.7 The NPO as a Learning Organism

It is evident that individuals have to learn how to do certain things right, well or even better. Similarly, we can assume that organizations of every kind would also want to promote their employees’ individual learning to a greater or lesser extent and to support their training and continuous development. In fact organizations such as NPOs – in this context also termed “corporate actors” – can be seen as aggregations of several to many individuals mastering such learning processes either alone or in groups. However, simply putting these individual learners together does not form a learning organization. In order to enable the corporate actor to learn as a whole entity, additional dimensions, measures and procedures are needed to interlink and make collective use of this potential.

In order to come closer to organizational learning, one therefore has to go back to the term “knowledge” as the end product of the learning process. Knowledge results from:

1) spotting and collecting data in the sense of figures/facts/indicators on certain topics;
2) personally processing and morphing data into information which is meaningful to and applicable by the individual;
3) transforming information through human cognitive processes into new individual knowledge in the sense of interlinking, embodying und storing it. This new knowledge thus replaces or complements the old one, while at the same time opening ways for novel, improved action options or for a better understanding of facts and cause-effect relationships.

Knowledge of this kind rests in the minds of the individual employees as a product of personal learning processes. It is called implicit or tacit knowledge that, although it exists, is not yet at the disposal of the organization as a whole. In order for a learning organization to emerge, this knowledge has to be externalized, i.e. transformed into codified explicit knowledge that can be communicated, and thus internalized or absorbed and utilized by other individuals in the organization. Only by converting individual into collective or shared
knowledge does an organization, as a whole, start to learn. Hence, to become a learning organization, the NPO has to operate systematic **knowledge management**.

Learning processes and knowledge generation can take place on several levels. In general, three learning levels can be distinguished. The corresponding terms have entered the management theory with the seminal work of Argyris and Schön (2008).

1) **Adaptive or “single-loop” learning** builds on the so-called gap or discrepancy analysis, i.e. on the detection of discrepancies between an actual and a targeted state or outcome. This discrepancy asks for adaptive or corrective measures such as the elimination of sources of failure without thereby putting the desired target states (objectives, values, norms) into question.

2) **“Double-loop” learning** goes beyond asking whether something is being done correctly (error-free, goal-driven), to actually questioning whether the right thing is being done, for instance, whether the underlying objectives, values and norms have become obsolete or are in need of change. To this end, the organization has to acquire new knowledge about what might be the right thing. This new frame of reference confronts everything that up to now was deemed “right” (so-called target-target comparisons), and new goals and strategies can arise out of potential discrepancies, which should enable the NPO to better survive in a difficult environment.

3) **“Triple-loop” learning** means learning how to learn. It includes, on the one hand, the ability to know in which situations adaptive learning is sufficient (e.g. improving standardized procedures) and knowing when more fundamental reflections for more profound change are necessary or even urgent (e.g. change of strategy, comprehensive structural changes). It includes, inter alia, the continuous development of knowledge management.

**Knowledge Management**

Learning in an organization is closely tied to the way the organizational knowledge base is made available, utilized, modified and further developed. Knowledge thus becomes an object of conscious design, control and development tasks.

The starting point is the basic hypothesis that learning is always an individual process. Systematically fostering and also rewarding this process of knowledge acquisition is undoubtedly one of the central tasks of knowledge management and is termed **knowledge generation or production**. In a next step, measures have to be taken to turn this individual knowledge into one that is commonly available or shared (explicit) knowledge, i.e. to externalize it. To this end, the knowledge needs to be stored to enable those who need it to retrieve it, but its target-centered dissemination also has to be organized and ensured. Even if such a transfer has
been successfully accomplished, the loop only becomes complete when knowledge application develops through communication, action and decision-making and when – due to this additional knowledge – problem solving on the part of the involved people is improved. Knowledge management relies on numerous well-known instruments and methods that are often multifunctional, in the sense that they contribute to the fulfillment of two or more of these tasks:

1) One of the core problems of knowledge management is making tacit or implicit knowledge explicit. Therefore an important management task lies in determining which tacit knowledge should possibly be codified and thus become commonly accessible. The elaboration and dissemination of management tools such as mission statements, leadership principles or planning systems serve this purpose. As a result, democratization is achieved, letting members and other stakeholders know what the NPO wants and does.

2) In the context of human resource management, recruitment, training, further development and employee performance appraisals are critical for the knowledge available to an NPO. Job profiles should thus define, as clearly as possible, which education and practical (experience-based) knowledge is relevant for the selection of new employees. Based on the job profile and depending on the task, contextual and boundary-spanning knowledge is required in addition to expertise, to enhance the understanding of associated tasks in the sense of a generalist function. Such knowledge can also be used to solve all those problems that require more than simple expertise. Newly arrived employees need to be introduced to their tasks and to the prevailing culture (norms, values and customs), a process also termed socialization. They are being familiarized with their tasks, their environment and their organization. All targeted measures in the realm of qualifying training and continuing education serve this purpose. Qualification serves knowledge generation, but equally enables knowledge transfer, if the knowledge available in the NPO is integrated into the course and teaching content.

3) Methods of work organization can exert a lasting influence on the way those involved learn. Examples include working at several workplaces (job rotation), increasing the number of tasks associated with a job (job enlargement) or the enrichment of operational tasks with decision making and control authority (job enrichment). Through a systematic application of these principles, heterogeneous knowledge can be generated. If, in addition, acknowledged role models are involved, then the transfer of knowledge is further enhanced. As part of the process, standardized workflows, routine decisions and the elimination or avoidance of errors or sources of failure are also learnt. Overall, this results in a broadening of horizons that enables employees to achieve more effective, cross-functional problem solving. Project management also falls in this area, being a
structured and planned methodology particularly for dealing with longer-lasting, complex problems. In projects such as the development of a mission statement or a strategy, learning processes are equally stimulated through the application of certain problem-solving methods. Those involved learn how to deal with new situations, as well as to understand, accept and implement new (innovative) solutions.

4) The problem solving methods mentioned above include, among others, the portfolio method, scenario-based brainstorming, morphology (i.e. morphological box) and techniques for effective problem-solving in larger teams, which can all initiate learning processes and create new knowledge in the form of new, hitherto unknown approaches and solutions.

5) In quality management, the principle of continuous improvement applies in view of a consistent member or client orientation. The implied permanent correcting and avoiding of mistakes and failures requires typical single-loop learning (“learning from your mistakes”). In the context of Total Quality Management (TQM), all employees should adhere to this principle. Moreover, TQM also demands a permanent questioning and scrutiny of the services provided, in terms of their member or customer orientation (double-loop learning). Moreover, quality circles are created and learning processes – including knowledge generation and transfer – are institutionalized, particularly for this purpose. Quality management also demands that process steps and structures be recorded in the form of a QM manual or IT-solutions. Thus, the tacit knowledge existing in the heads of the process participants becomes codified and stays within the organization as explicit knowledge, despite changes in staff.

6) In the context of controlling, an information system is established which supports the decision-making and control processes. This system provides information on the operational and strategic level, information on the degree of achievement of objectives and standards, on deviations and situation changes in the NPO and in its environmental spheres (early problem-detection). Controlling thus makes an important contribution to the generation and diffusion of knowledge to then be applied in adaptation and change processes.

7) For knowledge storage and transfer in NPOs, information technology’s capabilities offer support. Its potential applications cover internal database and exchange systems as well as internet-based communication systems.

This brief outline illustrates that knowledge management rests largely on well-known and proven tools and methods taken from other management areas. Its specific contribution, therefore, lies in systematizing and conceptually interlinking these knowledge-centered efforts.
Basic Views of the NPO as a Starting Point for the Model Design

**Prerequisites for the Learning Organization**

There should be no doubt about the fact that, today and tomorrow, knowledge constitutes one of the most important, if not the most important resource of an organization. This holds particularly true for service organizations such as NPOs that are forced into learning and thus adaptation and change processes on all levels, while providing services through interactions with their members and clients. Only continuous learning and further development of the knowledge base can ensure the survival and success of an NPO. This, first of all, involves the requirement that neither the access to knowledge nor the opportunity to learn should be the privilege of some individuals. When TQM demands that all employees should play their role in quality assurance, then this unequivocally points to the fact that everybody must be involved in learning and have access to knowledge management measures.

In addition, it should have become clear that a learning organization, as outlined above, requires a particular culture. In a structured context, as represented by institutionalized NPOs, numerous obstacles stand in the way of learning that are commonly called barriers to learning. As long as access to knowledge is associated with power potential, existing routines create security and thus inertia. Adjustments and changes threaten established job positions and demand additional efforts. Thus, learning processes are blocked and innovation efforts are thwarted. The NPO culture should therefore not only be open to learning, but it should demand it on principle and provide the necessary framework for learning. What is required, therefore, is sufficient leeway for every employee to acquire knowledge, to reflect upon adjustments and changes, to generate innovative solutions and a boundless culture of communication enabling the exchange and joint processing of new knowledge. The NPO needs to be conceptualized and designed as a learning organization. To this end, several preconditions need to be met: a learning-driven culture, knowledge as an outcome of the above-mentioned management instruments and methods, the individual and collective capability to learn, and finally determination as a result of insight into the necessity of learning, as well as the significant motivational power of better solutions and problem solving processes.

In hierarchical structures bound by tradition, which by nature are rather hostile to innovation, such a concept can hardly be realized. In many NPOs, the transition to a learning organization is therefore likely to be a profound change process, involving learning how to learn and developing those instruments that form part of effective and efficient knowledge management.

From the perspective of management, the notion of the NPO as a learning organization thus implies that the existing and newly generated content and process knowledge in the NPO’s social system should be managed and made available in such a way that it will remain firmly embedded in the organization for the long run, regardless of the individuals within it.
2.3 The Design Logic of the Management Model

The combination of the previously discussed basic views, models and theoretical approaches can now be condensed into an overall model, displayed in illustration 14 in its aggregate view, as well as in more detail in illustrations 16 to 19.

In the left-hand column of illustration 14, the basic view of an NPO is displayed in a schematic way. Fundamental to the model, and thus at its uppermost level, is the general view of an NPO as a purpose-driven, productive, social, equally open and operationally closed system. This system can be divided into the following three basic tasks:

a) accomplishment of the NPO mission through fulfillment of the given purpose,
b) fulfillment of the purpose by provision of services,
c) sourcing, deploying and administering resources for service provision.

The right-hand column of illustration 14 displays how this basic notion is concretized in the form of management tasks and thus in the management model: The model is divided into three main areas, each of which is marked with a given color and includes or covers a part of the management tasks taken on by the NPO, corresponding to the elements of the basic notion:

1) All formal, highest-level tasks that concern the NPO as an overall system are attributed to the task area called system management. These include, for example, the definition of the management philosophy (mission statements), the strategic perspective, the design of structures and processes of decision-making and consensus-building, of planning and controlling, the leadership style and the principles of quality management and innovation. All illustrations relating to system management are subsequently displayed in green.

2) Marketing management is responsible for the task of orienting the services and communication to the fulfillment of the NPO purpose, the creation of benefits for its members and/or clients and the influencing of third parties, whereby marketing tasks have to be mastered in sourcing as well as in service provision. All illustrations associated with marketing management are subsequently marked in red.

3) Finally, resource management deals with all the resources required for NPO operations such as members, employees, financial funds or material input and production factors. These are to be sourced outside of the narrow NPO system boundary and to be deployed, administered and further developed in the inner area. All illustrations on resource management are marked in blue.
The Design Logic of the Management Model

Illustration 14: Design logic of the Fribourg Management Model for NPOs
The model’s design logic as displayed in *illustration 14* can be interpreted in two directions:

1) **Marketing perspective** (from top to bottom) places the primary focus on the needs of the target groups and environmental spheres: The demands of the environmental segments to be covered initiate the services and offer indicators for their qualitative and quantitative design, which in turn defines the need for resources.

2) Conversely, **resource-driven perspective** (from bottom to top) assumes that as a service organization, the NPO first of all has to design its operations plan, source its means and establish its potential prior to providing the services and thus fulfilling its purpose within the relevant environmental spheres.

These two perspectives play a decisive role in strategic management. Marketing-driven strategies look for the positions and action areas in the markets (client needs, competing offerings) that are likely to promise success. In contrast, resource-driven strategies see the human and technical resources as the key potential, out of which innovative and successful products and services can be developed.
2.4 Structure of the Model

One purpose of a management model is to systematically structure and categorize the diversity of knowledge and the complexity of management problems in a way to turn it into a useful instrument for scholars, students and practitioners. To fulfill this purpose, the three management areas mentioned in the model design are further broken down and their content described in more detail in the following illustrations. Firstly, illustration 15 offers an overview in the form of a broad structure of the three management task areas, which are then detailed further in illustrations 16 to 18. The numbering system established in these illustrations will, from here on, be used for the design of the subsequent chapters of this book, as well as for the in-depth descriptions of the three management task areas.

As a principle, the following two dimensions of management theory and general business administration theory will serve as starting point:

1) The formal-generalized dimension, covering the theory of so-called general management tasks such as planning, decision-making, leading and motivating, organizing and coordinating or controlling. The corresponding topics and issues are attributed in the model to the area of system management.

2) The material-operational dimension, covering the theory of functional management tasks or operational functions, such as the sourcing, deployment and administration of means (employees, funds or material resources) needed for production, as well as the marketing necessary for the design and provision of services and communication. These topics fall under the task areas of marketing and resource management.

In order to delineate and to define system management in terms of its content, it makes sense to rely on the concept of general management theory. General management theory aims at researching (or transferring and integrating from other disciplines) all those insights, methods and /or directives that paid or voluntary leaders might need to shape their organization in a purpose-driven way, and to steer or develop it in its entirety or at least in certain sections. As part of this insight, all available interdisciplinary knowledge will be included that is able to offer a contribution to the solution of the practical problem of how to successfully manage an organization.

The task area of marketing management is construed on the basis of an encompassing view of marketing, whereby its task is not only seen as dealing with the design and delivery of services, but also in the sourcing of inputs. This, in view of the fact that essential parts of the sourcing task in NPOs can nowadays only be mastered efficiently and effectively with the help of marketing methods. Typical examples are fundraising, i.e. the sourcing of financial funds from donation markets, or the recruitment of new members.
Illustration 15: An overview of the Fribourg Management Model for NPOs
In this sense, marketing becomes the **comprehensive management of exchange processes** per se, which also means that associated measures in the inner area of the NPO, such as informing and servicing existing members, implementing the marketing concept in a multi-level association, etc. also have to be added to the marketing tasks.

In the **resource management** task area, numerous important business administration disciplines, such as human resource management, finance and accounting and IT management, come into play. In the model outline (*illustration 18*), all these topics are listed for the sake of completeness. The detailed model description, however, focuses on those problem areas that are **NPO-specific**, such as the recruitment, deployment and development of voluntary executives and voluntary staff members, or the design of a finance and accounting function that meets the NPO’s needs. Areas to which the enterprise-centered general business administration theory can equally be applied on NPO issues (such as the use of technical information systems) will be treated, if at all, only in a cursory way. Moreover, it has to be pointed out, once again, that in the sourcing task area, “resource management” and “marketing management” partly overlap, whereby resource management covers the material-operational dimension, whereas marketing management deals with the aspects of communication. Lastly, the model also considers co-operations or cooperative solutions, in the form of work-sharing agreements or federations in which the NPO is a member, to be resources. For an NPO, such solutions likewise represent means or instruments, with the help of which certain tasks can be fulfilled in cooperation with other NPOs.

These brief descriptions of the three management task areas provide a general overview of the model structure. The details of the model will now be discussed on a chapter-by-chapter basis.
3. System Management

3.1 Fundamentals

3.1.1 Definition of Management: Tasks, processes, persons involved, instruments

3.1.2 Management philosophy: Total Quality Management (TQM)

3.1.3 Design criteria: Fulfillment of NPO purpose

<table>
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<tr>
<th>Formal objectives</th>
<th>Effectiveness</th>
<th>Efficiency</th>
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<tr>
<td></td>
<td>• Problem-solving capability</td>
<td>• Cost-benefit ratio</td>
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<td>• Learning capability</td>
<td>• Productivity</td>
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<td>• Responsiveness</td>
<td>• Efficiency</td>
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<td></td>
<td>• Historic, structural, process-related</td>
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<td></td>
<td>• General, individual</td>
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<td></td>
<td>• Wholeness, inducement/contribution</td>
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<td>• Process orientation, continuous improvement</td>
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<td>• Internal vs external</td>
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<td>• Preservation—change</td>
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<td></td>
<td>• Centralized vs decentralized</td>
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3.1.4 Design model: Management by Objectives and by Exception (MBO+MBE)

Management Tasks

3.2 Decision-making and consensus building, implementation:

- Decision preparation
- Decision-making/consensus, resolution
- Setting into motion/implementation
- Control

3.3 Planning:

- Normative
- Strategic
- Operational

3.4 Controlling:

- Information system for the support of planning/control (instruments, processes)

3.5 Quality management:

- Determining
- Ensuring
- Developing … quality

3.6 Leadership:

- Leadership style, motivation, interaction, group dynamics

3.7 Organization:

- Structures (overall NPO, NPO operations), processes

3.8 Innovation:

- Adaptation/change/innovation (a/c/i) processes, project management

3.9 Management style:

- The normative values shaping the Fribourg Management Model

Illustration 16: System management in the Fribourg Management Model for NPOs
### 4. Marketing Management

#### 4.1 Fundamentals of Marketing Management

<table>
<thead>
<tr>
<th>Exchange partners</th>
<th>Exchange systems</th>
<th>Control mechanisms</th>
<th>Marketing instruments tool kit</th>
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#### 4.2 Marketing Approach for NPOs

<table>
<thead>
<tr>
<th>Marketing maxim</th>
<th>Marketing perspective</th>
<th>Quality philosophy</th>
<th>Communication</th>
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#### 4.3 Marketing Concept (Strategy)

**4.3.1 Structure and Content of the Concept**

**4.3.2 Overall Positioning of the Organization: CI and COOPI**

#### 4.3.3 Areas of Marketing Application

<table>
<thead>
<tr>
<th>Input relations</th>
<th>Output relations</th>
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<tbody>
<tr>
<td><strong>External area</strong></td>
<td><strong>Internal area</strong></td>
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<td>Sourcing from third parties, outside</td>
<td>Marketing in the NPO, members</td>
</tr>
<tr>
<td><strong>Input-sourcing marketing</strong></td>
<td><strong>Output-delivery marketing</strong></td>
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**Member marketing**
- New members
- New voluntary executives
- New voluntary staff

**Finance marketing**
- Fundraising
- Sponsorship
- Government grants

**Personnel marketing**

**Cooperative solutions**
- With federation
- With similar associations
- With members’ suppliers

**Procurement**
- Cooperative solutions for procurement

**Member activation**
- Information
- Contributions
- Participation, cooperation

**Self-marketing**
- Internal marketing
  - Personnel
  - Voluntary executives
  - Voluntary staff
- Membership relations
- Marketing transfer
- Coordination services

**Advocacy**
- Public relations
- Social marketing

**Services marketing, Product marketing**

**Marketing as mandate execution**
- Cooperative communication
  - Products / labels
  - Evoking changes in attitudes and behavior
  - Memberships / professions
  - Industries / regions
- Association marketing

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<th>Output delivery to third parties, outside</th>
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<tr>
<td><strong>Output-delivery marketing</strong></td>
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*Illustration 17: Marketing management in the Fribourg Management Model for NPOs*
### 5. Resource Management

#### 5.1 Fundamentals
of sourcing means of production/resources of administering and developing resources
- Elements
- Goals and objectives

### Human Resources

#### 5.2 Members
- Owners and service addressees in mutual-benefit NPOs
- Owners in third-party-serving NPOs

#### 5.3 Voluntary governance executives
- In organs
- In commissions, committees

#### 5.4 Paid managers
- With management tasks
- With operational tasks

#### 5.5 Paid staff

#### 5.6 Voluntary staff

### Operational Resources and Cooperative Solutions

#### 5.7 Financial resources
- Contributions
- Prices and fees (charges for services)
- Donations
- Government subsidies and grants, government service compensation
- Investment returns

#### 5.8 Equipment/administrative tools
- IT (hard- and software)
- Administrative tools
- Infrastructure (buildings, equipment)

#### 5.9 Cooperative solutions
- Central federation/umbrella associations
- Working groups
- Cooperative enterprises

Illustration 18: Resource management in the Fribourg Management Model for NPOs
3 System Management

3.1 Fundamentals

3.1.1 The Concept of General Management

System management encompasses all formal top-level management tasks that affect the NPO system as a whole. The point is to show how an NPO can be designed, governed and developed in a purpose- and future-driven way, while ensuring its effectiveness and efficiency. While the terms “leadership” and “management” are often used interchangeably, the following discussion will consciously focus on the term “management”, as “leadership” refers exclusively to the process of personally guiding and influencing people – employees.

Based on the categorization scheme displayed in illustration 16 (lower half), the task of system management is defined in the sense of the general management tasks and characterized as follows:

1) System management stands for the set of general management tasks, also called stewardship functions, which can be condensed into five interrelated task areas, as shown in illustration 19 and briefly described in illustration 20.

Illustration 19: An overview of management tasks in system management
| Decision-making, consensus-building, implementation | • Responsibility of decision-makers for *early detection* of emerging problems and for their resolution (problem-solving responsibility)  
• Systematic process of *consensus-building* and *consensus-implementation*: involvement of concerned parties with the goal to reach *general acceptance*  
• Phases: decision-preparation, decision, implementation, control |
| Steering: Planning  
Controlling  
Quality management | • Future-oriented planning of goals, measures and means for different ranges of temporal impact (policy, strategy, operations)  
• Supported by information and methods of controlling, used for analyses, decision-making and monitoring  
• Definition, assurance and development of quality in all processes and structures  
• Ensuring the satisfaction of external and internal clients as well as other stakeholders (outcome quality) |
| Leadership | • Interpersonal relationship between leaders and followers  
• Problem of motivating the participating parties (voluntary executives, employees) to achieve their best possible performance and highest possible satisfaction through leadership behavior and work design |
| Organization design | • Establishment of structures through the  
- creation of organizational units (positions, organs, groups)  
- allocation of tasks, competencies and responsibilities  
- determination of hierarchical, communicative and cooperative relationships  
• Design of processes related to  
- consensus-backed decision-making and implementation  
- information and communication  
- activity execution |
| Innovation | • Adaptation to changing environmental spheres, requirements and circumstances with the help of the  
- elaboration of goals, services, procedures and resources new to the NPO  
- coupled with the removal of resistance on the side of the concerned parties and the achievement of their support regarding change and implementation  
- by acceptance-oriented process and outcome promotion |

Illustration 20: Brief description of management tasks in system management

2) The fulfillment of these various management tasks is spread among several to many involved parties (persons, positions, committees). In other words, system management requires a **division of labor** (division of tasks, competencies, responsibilities). Depending on the type of NPO, members, voluntary executives and employees may also be involved. *Illustration 21* portrays this: System management tasks are executed along the entire NPO hierarchy by many, if not most of the people involved; albeit to a differing de-
gree. Managers, however, are defined as those persons dealing *predominantly* with management tasks, that is being in charge of a department, a regional or head office (CEO) or the entire NPO (management board or board of trustees). To structure the task area of system management, all the activities that form part of general management tasks need to be considered and integrated. This refers, in particular, also to all those decision-making competencies which on principle tend to be delegated to lower-level positions or bodies, usually entrusted with operational tasks, as well as the participatory involvement of those positions in decision-making and consensus-building. The degree of delegation of, or participation in, decision-making is an essential characteristic of system management.

Illustration 21: System management as a task area characterized by division of labor

Given the prevailing division of labor in the overall management task, it makes sense to imagine the act of system management as a **process of decision preparation, consensus-building and decision implementation**, i.e. a sequence of process steps, from problem detection to safe implementation of the solution agreed on *(illustration 22)*. Regardless of the decision content (e.g. elaboration of a marketing concept, redesign of an organization chart), such a problem-solving process runs through certain phases, with the cooperation of several participants in diverse subtasks. The sequence of six steps displayed here corresponds to a systematic approach. In practice, deviations can occasionally be found, for which good reasons may exist in each individual case: A systematic approach requires, above all, that the
decision-making team always possesses all the necessary information and sufficient time. If these preconditions cannot be met, for example, in a crisis situation or in an unclear, confusing micro-political setting in the NPO, then a procedure following trial and error might also be effective. In that case, initial steps will take place without a full clarification of the original situation.

Illustration 22: Management as a systematic problem-solving process

3) The labor-divided general management process in its systematic sequence is not just linear, but – particularly in NPOs with their wide variety of people involved – equally circular (illustration 23). Initiatives often start from the (member) base, are brought forward to and dealt with by the management board and the board of governors; solutions are subsequently implemented across the organization and then arrive at the base, where, as a reaction, a new process might potentially be set into motion.
4) System management tasks can be executed in different ways, depending on the underlying value system or principles. Each NPO, therefore, has to express the management philosophy that corresponds to its value system in an explicit and binding way. The Fribourg Management Model is based on the concept of Total Quality Management (TQM). This concept postulates the primacy of member-client orientation, together with striving to satisfy the needs of all the other exchange partners. Quality, seen as benefit creation and the achievement of desired outcomes, becomes the comprehensive objective for the design of services, processes and structures, accompanied by the formal objectives of effectiveness and efficiency. This applies to the external areas (sourcing, service delivery) as well as internally.

5) As a technical governance model for system management, the FMM endorses the principle of “management by objectives and by exceptions” (MBO + MBE). This principle corresponds to a leadership style that understands participation and delegation as its essential components; it aims at promoting quality and innovation through individual, personal responsibility. This represents a form of leadership and cooperation that suits NPOs, with their low emphasis on hierarchy, quite well.

6) Finally, the fulfillment of the system management tasks also requires methods and instruments, which we call tools. A number of such tools are listed in Illustration 24, with reference to our model. It is not assumed, however, that each NPO has to put together and use the entire tool kit.
<table>
<thead>
<tr>
<th>Tasks</th>
<th>Contents</th>
<th>Tools and methods</th>
</tr>
</thead>
</table>
| Decision-making, consensus building, implementation | Decision preparation, Decision/resolution, Setting in motion/implementation, Control | • Consensus-building procedures (hearings/consultation, splitting, cooperative interaction)  
• Decision support tools (e.g., evaluation tables and grids)  
• Problem-solving methods (e.g., morphological box) |
| Planning                          |                                                                          |                                                                                  |
| 1. Normative                      | Elaboration of highest-level, long-term planning foundations              | • Member/Industry/professional vision/NPO vision and mission (NPO policy)  
• Charters/statutes, by-laws  
• General Management concepts  
• Marketing concepts  
• Resource Management concepts |
| 2. Strategic                      | Break-down of fundamental plans into multi-annual plans                   | • Development priorities  
• Projects, programs |
| 3. Operational                    | Concretization in annual and short-term plans                            | • Activity plans  
• Budgets  
• Time tables, flow-charts  
• Implementation and progress plans and reports (e.g., for instruments) |
| Controlling                       | Information system supporting planning and control                        | • Environmental analysis and forecast (opportunities, threats, risks)  
• NPO analysis (strengths/weaknesses, efficiency)  
• Accounting (operational, cost)  
• Statistics, key measures, indicators, benchmarking  
• Reporting |
| Quality management                | Definition, assurance, development of quality                             | • Quality/performance standards  
• Quality measurement, outcome and performance evaluation  
• Quality circles  
• Process analysis and design (services, resources)  
• Process/quality manual |
| Leadership                         | Leadership style, motivation, interaction, group dynamics                 | • Leadership guidelines  
• Objective setting and agreements  
• Performance appraisal |
| Organization design               | Structures (overall NPO, NPO operations), projects                        | • Rules of procedure and regulations  
• Function diagrams  
• Job descriptions  
• Project management |
| Innovation                        | Adaptation/change/innovation (a/c/i) processes                           | • Change management  
• Organizational development |
3.1.2 **Total Quality Management (TQM) as Management Philosophy Aiming at “Management Excellence”**

Management concepts that build on quality as a primary reference criterion have, in recent years, become widespread in the business sector (initially, namely in industrial production), as well as in the nonprofit economy of NPOs. However, it is necessary to adapt the mainly business-centered quality theory to the specific characteristics of NPOs with their voluntary executives and staff. Whereas the principles presented on the level of quality philosophy might thereby still be valid for all organizational types, the specific characteristics of NPOs will need to be taken into closer consideration in the discussion of the actual task of quality management in chapter 3.5.

An NPO can be called “high quality”, when it succeeds in fulfilling the prioritized needs and expectations of all stakeholders to their satisfaction, in an effective and efficient way. The satisfaction of the NPO’s members, clients and employees is thereby pivotal. This definition entails a number of crucial elements:

1) Quality is not only seen as the characteristic of a product, service or behavior, but as the property of the entire organization. In the sense of “total”, quality becomes a requirement for the entire NPO and thus an issue or challenge for each **individual employee**.

2) As a system-spanning philosophy, TQM postulates the orientation of all services, processes and structures towards the **expectations of the exchange partners**. Quality thus becomes the guiding organizational and design principle.

3) According to the inducement-contribution principle, the success of an NPO depends on whether it can create and uphold exchange equilibria with all stakeholders. In the TQM definition, this is reflected in the measure of the stakeholders’ satisfaction. In this respect, prioritization might, at times, be needed (meaning not all the needs of all stakeholders can be satisfied): seen from the perspective of the NPO purpose, the **orientation towards members and clients** should be at the **center of attention**. Parallel to that, NPOs as service providers also have to strive for the highest possible employee satisfaction, given the fact that service quality depends, to a decisive degree, on it. Prioritization however, should in no way mean other stakeholder groups are neglected. Depending on the NPO, some of them may be of similarly high importance to the NPO, as seen, for example, in the donors to a charitable NPO, or in the wider public, in the case of a consumer protection agency.

Moreover, TQM is closely tied to some additional principles:

1) TQM puts a strong emphasis on **process view**, which focuses, in particular, on the sequential, step-by-step unfolding of services, and postulates – on the level of marketing
management – the labor-divided nature of quality generation as the central contribution to increases in effectiveness and efficiency. At the same time, process view also has implications for the design of the organization (structure and processes). It demands interdisciplinary, often cross-departmental team structures, for the optimization of core processes. Employees involved in a process (a service) are combined into permanent or ad-hoc groups with the task to solve the so-called interface-problems, to gain an understanding of each other’s contribution and to optimize coordination and interaction. Especially for NPOs, this entails the significant requirement to break free of vertical-hierarchical structures (“thinking in the box”) and to unite persons involved in a process, regardless of their department or section affiliation, in a horizontal process team or service provision team.

2) Client orientation and process view are combined in TQM by also applying the quality concept to **internal client-supplier relationships**. In many labor-divided processes, the work of one position builds upon the input of another. This leads to the emergence of internal client-supplier relationships in the process chain, whereby the work or output quality of the “up-stream” supplier contributes to the satisfaction of the “down-stream” client. This principle can reasonably be applied wherever several positions work for one another and their activities are mutually dependent, or where the contributions of each are essential to the high quality of the final product or outcome. Again, we deem this principle primarily applicable to marketing processes. However, this internal customer orientation is similarly indispensable in positions with internal service functions (cross-section functions), such as the department of finance and accounting, the head of human resources or a position in controlling.

3) An essential element of TQM forms the philosophy of **continuous improvement**. A permanent concern for more effectiveness and efficiency should be part of the NPO culture. This culture element entails a fundamentally positive, welcoming stance towards changes, rationalization or performance improvements. A requirement on this path is that the philosophy needs to be supported by the highest-level management (board of governors and management board) and carried out by all leadership persons as role models. Suggestions for improvement or development are to be welcomed instead of being hastily pushed aside as a disruptive factor. Tied directly to this, is the promotion of the individual and **organizational learning capacity**, and ultimately the institutionalization of a functioning knowledge management.

4) What applies to managers must also be mirrored on the level of employees: Quality in the broadest sense and its advancement must be the concern of all the parties involved and thus a part of the organization’s everyday life. This also favors **dealing constructively with mistakes, mishaps and malfunctions**. Such occurrences are then inter-
interpreted not so much as human errors or dysfunctions, but rather as a failure of structures and processes and can thus be tackled more easily without personally motivated resistance. Continuous improvement will then be seen as a steady stream of efforts to increase efficiency, running parallel to the day-to-day business. Beyond this daily and incremental improvement, NPOs, however, have to deal from time to time with more profound innovations that significantly exceed the problem-solving potential of continuous improvement and need – according to chapter 3.8 – a specific process design.

Correspondingly, the assessment model created by the European Foundation for Quality Management (EFQM), which forms the base of the annual European Quality Award, likewise relies on a TQM philosophy. The structure of this model, which was initially developed for profit-driven enterprises, is shown in the upper half of illustration 25. In the lower half of the illustration, a version can be found using the terminology of the Fribourg Management Model. The most important difference between the two versions is the altered position, content and meaning of “key results”, such as profit, return on investment or market share.

For an enterprise, these measures represent the ultimate purpose: customer, employee and society-related results (satisfaction) are only means to achieving this purpose. In an NPO, this ranking order obviously has to change: the main and ultimate purpose of the organization lies in fulfilling the needs of certain target groups, in terms of their satisfaction with the services and results of the NPO, and thus in the results that have been achieved for the stakeholders. In addition, resource management in the FMM version can be usefully divided into personnel or human resource management (as a core task area), and into management of all other resources according to the original EFQM model. The EFQM model itself can be applied as a gauge for an external assessment (auditing through external specialists) or for self-assessment, thus turning it into another controlling instrument. In terms of its philosophy, the model reaches beyond a narrow quality perspective in the direction of the more comprehensive concept of “management excellence”.

An appreciation of TQM as a comprehensive management philosophy offers the following picture: the consistent member or client-orientation emphasizes the marketing perspective and provides it with more weight as compared to the traditional internal perspective of service production. However, the application of TQM or benefit creation through quality in internal client-supplier-relationships or management processes, for example, comes up against certain limits: specifically in system management, where the effectiveness and efficiency of structures, processes and instruments is at stake, the unspecific quality criterion is often not very helpful and should be concretized more specifically by efficiency and effectiveness goals. The strength of the TQM approach lies, above all, in clearly emphasizing
essential (some familiar, some new) core elements and in weaving these criteria and guidelines into a systematic, comprehensive inter-relationship.

Illustration 25: The EFQM model in its original version and adapted to the FMM

Today, the discussion has developed to speak more holistically of a philosophy of management excellence. While this philosophy includes the above-mentioned fundamental
principles of TQM, it opens up the perspective to go beyond the discussion of quality to a societal stakeholder satisfaction view, with a keen eye on the effectiveness and efficiency of all NPO activities. The concept of quality is thus reduced to its original meaning, namely a feature of service provision processes. This approach has the following consequences:

1) Quality remains the **design criterion of choice** for the services provided by the NPO that, to a certain extent, directly affects the resources required (e.g. know-how of the employees to be recruited)

2) For the other activity areas of the NPO, quality as a goal may be more **difficult to define** (e.g. in the case of democratic consensus building processes); the design of those areas should follow the criterion of how efficiently and effectively the chosen activities are able to achieve the set goals derived from the purpose of the organization.

An NPO can be said to have achieved a high degree of **management excellence** when it consistently and continuously fulfills the NPOs purpose, in an efficient and effective way, by providing quality services (benefit generation, outcome, impact) to its members and clients and meeting the expectations of employees and other stakeholders to their satisfaction.

### 3.1.3 Design Criteria in System Management

As organizations, NPOs are by definition purpose-driven, goal-oriented systems. Goals are targeted ends, i.e. desired states and impacts, which are planned to be achieved using appropriate measures based on the deployment of the available resources. The **system capabilities** are essential prerequisites for an NPO to enable it to reach its goals in the longer term. The **general goals in system management** of an organization can be subsumed under the two main categories of effectiveness and efficiency. Success in system management is made up of the developmental state of the system capabilities and the degree to which system goals are achieved, measured in terms of effectiveness and efficiency. Success in this sense is achievable, as long as the NPO-typical **system conditions** are taken into consideration. Together, these three elements form the system management design criteria, from which the governance model in the following chapters is derived.

**System Capabilities**

System capabilities are the characteristics of an organization that enable it to achieve its given goals, largely independent of the individual capabilities of managers, paid and voluntary staff. The most important of these capabilities are outlined in *Illustration 26*. A distinction is thereby made between top-level (ultimate) capabilities and the underlying instrumental capabilities of a system. The problem-solving, learning and responsiveness capabilities are instrumental in the sense that they form the prerequisites for the capacity of an organization to survive and
develop. At the same time, they are also the primarily designable capabilities: structures, processes and resource endowment are to be designed so that the problem-solving, learning and responsiveness capabilities can be achieved. The capability to achieve its purpose, survive and develop is top-level or ultimate in the sense that it results from the underlying capabilities, but can hardly be directly created through structure and process decisions. The relationships can be illustrated by the following example: An NPO sets itself the goal to improve its decision-making and action-initiation capabilities within the next couple of years in order to arrive at qualitatively good decisions more quickly. The measures to achieve this could, for example, be increased delegation of competencies by the voluntary board of trustees to the professional management board, or the establishment or further development of a controlling system to generate meaningful and quickly available decision information. Such measures can contribute directly to a better problem-solving capability and indirectly to an improved survival capability.

This catalog of system capabilities can also be used to assess present and planned structures and measures. Thus, a board of trustees composed of ten members with a heterogeneous professional or technical background could be judged by how far it corresponds to the criteria of having capabilities to initiate action, to make decisions and to respond flexibly.

The top-level goals of purpose-achievement, adaptability and ability for progress are derived from system-theory considerations: An NPO is able to fulfill its purpose, adapt and survive in the long term, if it is capable – in the sense of the stakeholder model and the induction-contribution principle – to continuously master changes in its environment anew and to achieve the required equilibria in its exchange relationships. This rather reactive notion is complemented by the evolutionary view: An NPO is successful, if it not only survives, but does so in an increasingly better and thus more effective and efficient way. Learning capability is thereby of crucial importance as it refers to all aspects of the NPO activity: It refers, for example, to learning how to become better able to make decisions, as well as how to conduct more effective fundraising or to avoid poor decisions in personnel recruitment. A prerequisite to this is the ability to collect, store and internally disseminate information, knowledge and experience from within the NPO and from its environment, thus ensuring that this pool of knowledge and experience will not get lost and will always be available to all those who need it for (further development) decisions. To achieve this, systematic knowledge management is necessary, especially in larger NPOs.
1. Top-level system capabilities

1.1 Capability to survive
System-theoretical goal of maintaining inducement-contribution-equilibria in stakeholder relationships, thus safeguarding existence (survival).

1.2 Capability to develop
Evolutionary system goal of continuous development of basic capabilities, resulting in the fulfillment of system tasks on a higher level of aspiration.

2. Underlying system capabilities (basic or core capabilities)

2.1 Problem-solving capability
Composed of:
1) **Capability to anticipate:** Detecting changes in the relevant environmental spheres early (early problem detection).
2) **Capability to act/take decisions:** Dealing with identified problems, making problem-solving decisions and achieving acceptance of parties involved.
3) **Implementation capability:** Implementing approved decisions appropriately on schedule with minimal follow-up problems.
4) **Innovation capability:** Developing and implementing novel solutions for the NPO.
5) **Flexibility:** Responding quickly and appropriately to emerging problems (disruptions, crises).

2.2 Learning capability
To put to use the NPO’s knowledge base for problem-solving; to change and develop it. To promote tacit and explicit knowledge.

2.3 Responsiveness
To perceive and include in decision-making existing and emerging needs, interests and expectations of stakeholders, of participating and affected parties as well as the wider public.

Illustration 26: System capabilities

The **responsiveness capability** is understood as the ability to perceive, understand and include the needs, interests and expectations of stakeholders and the wider public as criteria in the organization’s actions, along with general social trends. Responsiveness is tied to sensitivity, mindful attention and social responsibility. To be receptive to such influencing factors also means absorbing new ideas and world views and reaching a better fit with the environment. As discussed in chapter 2.1, this also includes values from the explorative sphere (e.g. ecological sustainability) to which an NPO voluntarily commits itself. The call in terms of business ethics, for example, for organizations to orient themselves in a fundamental and comprehensive way to the common good (good corporate citizenship) aims in this direction. Undoubtedly, taking stakeholders’ needs into account is a fundamental element of responsiveness, but covers it, however, only in part.
With the concept of **fundamental or core capabilities**, a bridge is being spanned to strategic management: highly developed problem-solving, learning and responsiveness capabilities create the foundations for ensuring the success of an NPO in the long term. It is these abilities that enable NPOs to always generate innovations, to solve problems in a better way and to assert and develop themselves in a changing environment.

The development level of an NPO, in terms of its system capabilities, is a crucial component of **system success**. Success – from this perspective – means that an NPO succeeds time and again in achieving an accord with the stakeholders and with all its surrounding spheres by way of inducement-contribution-equilibria, continuously developing this capacity even further. Success assessment is complemented by the level of achievement of the system management goals.

**System Management Goals**

In general, the basic goals of an NPO’s system management are **effectiveness** and **efficiency**, independent of its actual area of activity. The foundation to these goals may thereby be laid by the individual goals of an NPO in the area of marketing and resource management that are discussed and formally defined in the course of decision-making processes. For the system overall, successful goal achievement depends on whether the goals of effectiveness and efficiency are achieved in totality or to a defined aspiration level through the actions of the NPO. In any NPO, numerous goals and objectives exist whose achievement however would only be assessed as a sectorial or partial success (e.g. the return on a fundraising campaign), as they do not represent an NPO’s overall success. Overall goals, however, are found quite rarely in NPOs; rather, we deal mostly with a set of goals pursued in a parallel fashion, which are measurable, but only to a limited extent, and which are difficult to aggregate as an overall success.

Of primary importance for **effectiveness** as an overreaching goal in system management are the sub-goals of the service delivery area, where a distinction is made between output or performance goals on the one hand and outcome goals on the other. Output or **performance goals** capture the service output of an NPO, often in quantitative terms or measures, e.g. by the number of clients advised per year. **Outcome goals**, on the other hand, focus on the effects of the services, such as the degree of independence enjoyed by the residents in a home for the mentally handicapped on a daily basis, to be seen as an outcome of the overall service package offered by the institution. The goals are, however, an expression of autonomous decisions made by the NPO involving distinct definitions of what needs to be done and achieved.
In direct contrast to this stands the *impact (success)*, which is assessed from the point of view of the service recipients, rather than that of the NPO. Impact, in this sense, stands for the effects of a service as perceived by the NPO’s members or clients. What counts here is how the recipients perceive and evaluate these services. It can be measured, for instance, through the level of satisfaction established via a survey. This success component is of particular importance when the outcome stipulated and realized by the NPO is not in line with the needs and expectations of the service recipients. In this sense, impact is to be understood as realized outcome quality, provided that the addressees actually assess the effect and benefit of the services as positive and satisfactory. Effectiveness would thus imply that an organization is achieving complete coverage of the goal-related success component – the NPO’s target outcomes – by way of impact success, i.e. by measuring how the recipients assess the impact of the NPO service. If such coverage can be achieved in all important exchange relationships, then inducement-contribution-equilibria will result, and a high likelihood of survival will follow.

With *efficiency* as a goal, beyond the degree to which outcome and impact goals have been achieved, the cost perspective comes into play as a criterion. In all decisions and problem-solving activities, scarce resources have to be taken into account, which limit the boundless pursuit of effectiveness goals. The decision maker must always reflect on cost-benefit considerations and find an optimum path between costs and impact, thus in many cases forgoing maximum effectiveness. Or for a given effectiveness degree, rationality, as an economic principle, demands that it be reached using the minimum possible resources. *Illustration 27* shows this interdependence from the perspective of a holistic notion of success.
Effectiveness and efficiency are not simply goals in the sense of a target specification. They also serve as decision criteria in the area of planning, as well as in the measurement and assessment of processes (standards), outputs (services), outcomes (consequences) and impacts (effects perceived by the service addressees), as shown in illustration 28.

**Illustration 28: Assessment of success on the level of planning, implementation and control**

**System Conditions**

Each organization is an individual entity with its own traditions, values and characteristics. These conditions, whether they have emerged through a historical process or as a result of a temporary constellation, also shape the way system management is designed. Certain properties and characteristics, that have either emerged over time or are dependent on the particular
type of NPO, do not allow for certain structural solutions or procedures (activity sequences, processes), or they require certain specific solutions while excluding others from the very beginning. These individual system conditions need to be taken into account by the NPO management.

Nonetheless and despite its individuality, every NPO always also finds itself in a situation that is characterized by certain general features, shared with many or all comparable organizations. These are the general system conditions that are constituted by the legal form or the societal roots of organizations from the third sector. The general conditions create bipolar fields of tension and typify the structures and processes of NPOs. This does not necessarily mean that they need to be present in each and every NPO, but there is a high likelihood of their presence and they are widespread throughout the entire third sector. To these general system conditions belong, in particular, the ones discussed below:

1) The field of tension between central and decentralized units: This condition is characteristic especially for multi-level NPOs with an umbrella association (federation) and independent regional units or units with affiliated, legally independent operations. The tension manifests itself, particularly, in a confrontation between the efforts of the decentralized units towards autonomy and the countervailing efforts of the central unit for coordinated control of all the activities within the organization.

2) The field of tension between staff and line: With increasing size and complexity, coexistence between decision-making and implementing functions (line), on the one hand, and decision-preparatory functions (staff), on the other, takes on more importance in many organizations. Decision preparation is thereby increasingly assumed by entire organizational units such as committees, commissions, working and project groups or by departments made up of specialists. This leads to a tension between the principle of “completed staff-work” by the decision-preparatory functions and the political leadership claim of the higher-level decision-makers and their subordinated line functions. Accordingly, there arises a danger of dominance and manipulation by the decision-preparatory functions, at least from the line managers’ point of view. This contrasts with the no less great danger that – incited by the mistrust of the line managers vis-à-vis the decision-preparatory functions – expert judgments become subordinated to the line’s claim to asserting its power.

3) The field of tension between voluntary governors and paid managers: The staff-line problem accentuates itself to a high degree at the interface between voluntary governance bodies (usually the board of governors or board of trustees) and the paid management board. On the one side we find the voluntary executives with their limitations or deficiences in terms of the available time, information relevant to decision-making or know-how as regards the NPO reality and management, set against the other side, the paid managers
with the power of their expertise based on their advantage in terms of information and know-how. According to experience, this tension – in combination with the staff-line problem – leads to one of the biggest challenges for system management.

4) The field of tension between democracy and oligarchy: As pointed out by the sociologist Robert Michels, already at the beginning of the 20th century, associations in particular tend to form oligarchic conditions, in which a small group of administrators and experts guides the destinies of the organization. Such a tendency towards oligarchy exists even in associations where the participation of the organizational base has been formally secured. The tendency may not be solely attributed to individual claims to power, but may also have an important function for ensuring effective and efficient association action. In system management, a continuous review is therefore needed in respect to achieving the necessary acceptance as to when and where participation via grassroots-backed consensus-building and decision-making processes is not only desirable, but imperative, and in which situations, and which constellation of problems, satisfying solutions depend more on a high ability to act and on the decision-making competence of the oligarchic core groups.

5) The field of tension between private autonomy and (governmental) external control: As mentioned already under the characterization and delineation of NPOs above, many of these organizations fulfill public tasks, assigned or left to them by the state according to the principle of subsidiarity. The tasks are mostly also coupled with financing by the state or by a public-law social security institution. However, the closer a NPO is bound to the state through purchase-of-service contracts, tariff systems and controlling regulations, the narrower is its scope for autonomous action and decision-making.

6) The field of tension between individual services and collective services: Beside collective services (e.g. collective advocacy or public relations), many mutual-benefit NPOs also provide marketable individual services, such as advisory services, training and continuing education. In third-party-serving NPOs, services are often provided that – while only marketable to a limited extent – are still quite similar in character to the products and services offered by profit-driven enterprises, but are not tied to profit-oriented goals and structures, as evidenced, for example, by the offerings of welfare institutions owned by clerical entities or trade unions. Here, a field of tension arises from the overlap or the interference coming from the owners’ politically motivated control of the organization and the market’s control in the area of service provision (supply, demand, and competition).

7) The field of tension between internal and external perspective: An essential peculiarity of NPOs lies in the fact that due to their nonprofit-purpose orientation, they have to strive continuously for balance between the various stakeholder groups. These are mainly the owners of the organization on the one side and the surrounding spheres of external
sponsors, competitors and service recipients on the other. Since their various requests can in many cases not readily be fulfilled simultaneously, the following question arises, for example, when establishing long-term activity plans or making fundamental decisions regarding the service offering: should the organization be guided in its fundamental strategic decisions by its principles and traditions (internal perspective), or should it orient itself above all towards the market and the needs of its service recipients or donors and sponsors (external perspective)?

8) The field of tension between preservation and change: Apart from the question concerning internal and external perspective, the nonprofit-purpose orientation of the NPO has a second consequence: In a changing environment, a permanent tension exists between the persisting element of the organizational value base (including the structures and networks built upon it), on the one side, and the confrontation with changing opportunities and requirements the organization is faced with, on the other. This leads to the following question: Should the NPO remain the same in what it does, implying a focus on preservation and reliability, or should it adapt to current or anticipated changes, implying a focus on flexibility and innovation?

The last two fields of tension mentioned can be displayed in a coordinate system as shown in illustration 29. This leads us to four basic orientations of NPOs:

- The mission-driven orientation is characterized by the fact that the NPO is always aware of, and pays heed to, its original goals and principles when it comes to strategic decisions. Even in a changing environment, the organization will, time and again, find ways to reconstitute or redesign its services to pursue the fulfillment of its original mission and goals.

- The market-driven orientation is also characterized by a high degree of flexibility in structures and processes. Stimuli from the surrounding spheres of the organization, however, may induce far-reaching changes, even new strategic directions. The original goals and principles of the NPO may constitute a basic framework for decisions, but may still be put into perspective and even adapted, if and to the extent required by the market or the competitive situation.

- The reputation-driven orientation is equally focused on the surrounding spheres and influential exchange partners of the organization. Changes are, however, not perceived as opportunities to generate new services, but evaluated to see if they pose a potential threat to the current status quo. Such potential threats would, for instance, be blocked through the use of existing networks or lobbying.

- The structure-driven orientation takes its lead from proven structures and processes that are firmly anchored in the organization. As in the mission-driven strategy, legitimacy
is derived primarily from the mission statement of the organization. However, in addition we find a core in these NPOs that supports and values stability and continuity in organizational activities.

Illustration 29: Generic basic orientations of NPOs

Orientations in neighboring fields always show some congruence in the sense of overlaps. In contrast, fundamental differences exist between the organizations in diametrically opposite fields. This not only holds true for their decisions regarding the service offerings, but also for the prevailing culture in their organizations: In a market-driven NPO, the decision makers and employees are conscious of the fact that the organization has to assert itself over its competitors. The support of the organization by the members, owners and donors is tied to its persuasiveness in the changing environment. In a distinctive competitive culture, setbacks are reckoned with and compensated by successes. In contrast, a structure-driven organization shields itself against possible criticism from the outside by elevating its own nonprofit purpose and guiding principles above the competitive pressure. This pattern is more commonly found with NPOs than with business enterprises, because often monopoly situations exist in the provision of barely marketable services.
Mission and reputation focus form another contrast in terms of basic orientations: In the first case, the nonprofit goals (whether they have not yet been achieved or are basically not achievable) constitute a permanent cause for questioning the daily work of the organization. In the case of the reputation focus, in regard to the NPO’s well-functioning network as well as its positive image and appearance, which need to be upheld by every thinkable means, change should be avoided wherever possible. In this case, the organization is always striving to save face, while in the case of the mission focus the NPO strives continuously to renew and rejuvenate its appearance.

The eight fields of tension outlined have a structural character, as we are dealing primarily with the question of the allocation of tasks, competencies and responsibilities of the parties involved and of the instruments available (particularly in planning and controlling). At the same time, they also have a procedural aspect, as they also always express themselves in the consensus-building and decision-making processes and often manifest themselves in imbalances when it comes to influencing the content of decisions. In these processes, two additional system conditions play a role:

1) The **information-gathering problem**: Decision-making is based on gathering, interpreting and combining information. The intensity of information work, and therefore its costs depend largely on the extent to which decision-makers are ready to accept the potential risk of a faulty decision: Are they satisfied with a tolerable level of information or do they aim for the highest possible certainty and security, thus taking into account immense costs for information?

2) The **resistance problem**: Those who are affected by a decision (e.g. by a reorganization) and who must fear a worsening of their personal situation will be inclined to put up resistance to the decision-making, or at the latest, to the decision-implementation process. Depending on the situation, decision-makers have to find a balance between:
   - **participatory involvement** of the persons affected to achieve the necessary acceptance. This may be associated with the disadvantage that unplanned concessions may potentially have to be made or that a process that has been initiated might come to a halt and the targeted solution can no longer be achieved.
   - **authoritarian imposition** of an oligarchic resolution coupled with an effort to advance the implementation by means of threats and exercising power.

It is the task of system management to successfully maneuver within these fields of tension and to master the corresponding challenges with suitable methods and tools.
3.1.4 The Governance Model for System Management: Management by Objectives and Exception (MBO + MBE)

The governance model suggested here is based on a number of normative principles, to be applied to all decisions and measures in system management. These principles help to bridge the structural fields of tension and to achieve effectiveness and efficiency goals.

1) **Principle of holistic thinking and action**

   In its general sense, this principle requires systemic, networked thinking and problem solving. In a more specific sense, this principle stands for a holistic view of multi-level NPOs in particular, striving for the realization of a coordinated management approach comparable to one in a corporate (concern-like) organization. It postulates that the central and the decentralized units of an NPO form an entity that functions internally in a cooperative manner and outwardly presents itself as a clearly recognizable unit, thus creating a corporate identity.

2) **Equilibrium principle**

   This principle demands that no element of the entire NPO should dominate any other or that each element has sufficient weight to efficiently execute its task or function. A balance of power has to be ensured through structures, procedures and the use of control instruments. If, in a field of tension, one side dominates the other disproportionately, then a balance should not be primarily sought through explicit disempowerment (e.g. of the overly powerful management board), but rather by rebalancing or increasing the power of the other side (e.g. strengthening the board of trustees) by way of adequate tools and methods.

3) **Inducement-contribution principle**

   This principle was outlined in its general form in the introduction and is valid without reservations throughout system management. Of particular importance is the way the parties concerned are included in task execution (through competency assignment or decision participation), as this has an immediate influence on their commitment.

4) **Principle of process view**

   This is one of the fundamental principles of TQM. Of crucial importance in this context is a dynamic-holistic notion of processes as interlocked activity sequences of several involved contributors, designed to achieve a desired result. The result may be a desired customer benefit or the achievement of the management goals defined above. The analysis and design of processes require specific methods that will be discussed in chapter 3.5.
5) **Principle of continuous improvement**

This principle, too, is a component of TQM. It needs to be seen primarily as an element of the NPO culture, because it concerns attitudes and behaviors in the area of innovation and change. One of the management sub-goals is the innovation capability which – in our model of management capabilities (*illustration 26*) – has been defined as the know-how to design and successfully implement new, i.e. in the NPO to date, not yet known or realized solutions. Equally important is the willingness to innovate, meaning the openness of the system and its participants to novel ways and ideas, the willingness to try something new and to tackle change. Creating a corresponding climate that permeates the entire NPO is a challenging task for all managers. As is often the case, this principle also has its downside: As long as an innovation is merely about improving workflows or a modification in small steps, those involved might be only marginally affected and therefore not object. Innovations, in contrast, that go deeper with more far-reaching consequences, may provoke unrest that is for the most part creative, but can also drain energy. Therefore the maxim applies that a system such as an NPO ought not be permanently exposed to substantial transformation processes; rather, periods of rest are necessary from time to time for consolidation.

6) **Principle of Management by Objectives (MBO) and by Exception (MBE)**

This principle originally corresponded to an Anglo-Saxon understanding of leadership, but has been spreading for quite a while in management practice throughout the Western world as well. The principle builds on the basic idea of the cybernetic model shown in *illustration 30*. According to this principle, a higher-order authority or position steers a subordinate body or position that is endowed with all necessary competencies and responsibilities for action via objectives, i.e. setting targets and monitoring progress and results. The objectives and control instruments are, in general, jointly elaborated and agreed upon by the higher-level and the lower-level body. In the framework of MBO + MBE, the term “objectives”, in the sense of targets and measures, is to be interpreted broadly. It includes objectives in their proper sense, which at the same time can also be components of plans and orders. Quality standards for processes are also to be seen as such potential objectives, along with policies, guidelines and other rules. Taken together, these objectives map out the area within which the subordinate body can act and control itself autonomously. These action objectives are supplemented by individual development objectives, as the higher-level and the subordinate position also establish and review personal qualification and improvement objectives within the framework of the annual review.
Illustration 30: The cybernetic model
1. **Core elements of the method**

- Participation in the formulation of planned targets, objectives (in the place of authoritarian order giving)
- Delegation of accomplishment of objectives (choice of measures and means) to the subordinate body or level. Limitation of the superordinate instance to progress monitoring and namely result assessment (goal achievement, task fulfillment, quality compliance)
- Obligation of the subordinate instance to redelegate important cases or decisions in exceptional situations to the higher-level instance

2. **Leadership responsibility of the superordinate body or level**

- Selection of the subordinate instance, which must possess the required capabilities
- Clear, unambiguous formulation of objectives, precise definition of assignments
- Provision of the necessary means for the task fulfillment (time, funds, human labor, organizational arrangements, information)
- Having confidence in the subordinate instance and its capabilities to use the delegated room for action appropriately
- Definition of exceptions as precisely as possible
- Conduct of progress monitoring and result assessment along the methods and criteria previously agreed upon

3. **Task fulfillment responsibility of the subordinate body or level**

- Effectiveness of the self-determined measures
- Efficiency (cost-effectiveness) of the completed tasks
- Compliance with and assurance of quality goals, standards and norms
- Identification and redelegation of exceptional cases
- Transparency, traceability of procedures and suggestions, if the task is to prepare decisions for superordinate instance
- Provision of standardized information to the superordinate instance (reporting in controlling)

Illustration 31: Management by objectives and by exception (MBO + MBE)

The principle of MBO+MBE – in the sense of a comprehensive model – extends beyond the mere design of the leadership relationship, as it can equally serve as a governance model for the entire organization. It requires the establishment of certain planning and controlling instruments and is closely linked to quality management, including quality standards and their measurement, as well as outcome and impact evaluation. In addition, it also has consequences for the design of the organizational structure, requiring the assignment of competencies in a comprehensible and manageable form (volume, degree of concentration): Each body or entity should be endowed with those steering tools (decision competencies) it needs to guide and control the subordinate entity, coupled with delegation of action competencies (realization, implementation) as far as possible to this subordinate body. Finally, the MBO + MBE principle is also of importance for innovation management in NPOs, particularly when change objectives or project plans are agreed upon and included in the definition of the desired objectives and targets. All these references will be explained in more detail in the paragraphs below.
As compared to a traditional leadership principle that is based on ongoing guidance, the principle of MBO + MBE offers a number of advantages:

- Holistically-interconnected governance of the NPO system with the optimal association across decision stages and levels, particularly also at the interfaces between voluntary bodies or offices and paid, professional bodies or offices;
- A continuous stimulus, triggering future-oriented thinking, planning and action;
- The efficiency-enhancing release of higher-level bodies from the burden of everyday operations by allowing the voluntary board of governors, the board of management and leadership personnel to focus on the more essential aspects of their tasks;
- Capitalization on the human resource pool (its motivation and qualifications) through a pronounced focus on performance and results, as well as by providing room for autonomous action within the framework of the objectives and the realization of an individual sense of achievement.

The six principles of the governance model discussed in this paragraph are directly interlinked and are in part also mutually dependent. The isolated use of individual principles makes little sense, nor does it allow for the realization of the anticipated positive effects.
3.2 Consensus-Backed Decision-Making and Implementation

3.2.1 Structural and Process-Related Aspects

Consensus-backed decision-making and implementation, also termed the problem-solving process, is a management core task, as all management tasks are predominantly characterized by decisions. Whether a membership recruitment campaign needs to be designed or a new department structure established, whether additional personnel need to be employed or a new service developed, for each of these tasks decisions need to be made.

Given the specific nature and characteristics of NPOs, decisions have to be taken and implemented in a collaborative, labor-dividing way, with the participation of several or even many bodies and positions. Therefore, reaching and implementing a decision has two aspects:

1) From a structural-organizational point of view, tasks and competencies need to be assigned to bodies and positions. Decision competencies play a pivotal role in this division of labor, as does the right of certain positions or bodies to be involved in a participatory manner in consensus-backed decision-making. This structural aspect also includes the allocation of decision preparation, decision-making and -implementation (monitoring) to different positions and bodies.

2) This static view of task allocation needs to be complemented by the aspect of decision-making that evolves through a process that follows its own rules and which needs to be designed according to specific criteria.

The structural and process aspects are closely interwoven. Structurally, one has to determine who would, in general, participate in decision-making and which contribution would have to be made. From the process point of view, decision phases and steps have to be defined following a specific logic and in a way that the participating and involved parties can cooperate optimally, guaranteeing that decisions are made and implemented. A general procedure model for a comprehensive consensus-backed problem-solving process that goes in this direction is shown in illustration 32.

This ideal typical problem-solving process model needs to be qualified in various respects. Firstly, it is applicable to problem situations characterized by complexity, difficulty and a great number of individuals and groups, with mostly diverging interests and different degrees of concern. Such situations are found in large change, innovation and development projects. They will be shown in more detail in chapter 1.8 on innovation. Apart from that, there are also problems to be continuously dealt with that are more easily manageable. In such cases,
decision-making follows established routine procedures according to clearly defined criteria, such as in the case of staff recruitment.

### Illustration 32: Phases and activities in an association’s overall problem-solving process

Between highly complex innovation processes and such routine decisions, we find additional decision-making processes of a not-so-everyday nature. For such processes, a systematic approach as shown in illustration 32 is useful; a rational selection among rated alternatives
Consensus-Backed Decision-Making and Implementation

appears feasible. This holds true, for example, for the development of a new service or for a larger construction project. The process model shown is technical and methodical. It shows a logical, linear sequence of individual steps as a heuristic process, i.e. an aid to and aide-memoire for the design of such processes to achieve the best possible solution. However, especially in the more complex situations listed above, the decision-making process will rarely – if ever – proceed in such a straightforward way. Accordingly, the model does not reflect the quantities of participant activities that take place during the process.

These various aspects and realities are aptly displayed in the phase model in illustration 33. It shows that only part of the process activities are directed towards solving the factual problem. Interwoven with these activities are manifold acts of interest representation and of exercising power that in turn require phases of conflict resolution and consensus-building. In this context we speak of decision-making arenas, in which all those people operate who are formally involved or who try to intervene as directly or indirectly concerned parties. The circles in the phase model symbolize the fact that in the entire process, numerous decision phases flow into one another. Individual steps may have to be run through several times, to the point that, in reality, a straight process sequence can rarely be found. As a general rule it can be assumed that (1) the problem definition itself might be interpreted differently by various interest groups, (2) the target direction for the solution to be developed will remain vague or even ambiguous and (3) the conditions and parameters as defined during the analysis phase will change in the course of the process and require course corrections etc. Moreover, individuals involved may actually act irrationally when faced with a factually obvious solution. They may pursue their own personal interests, expectations and emotions, thus trying to realize their own advantages or ward off threats such as a loss of power. This tactical maneuvering, blocking, coalition-building or foiling is addressed and researched by behavioral sciences as micro-politics. For NPOs, this means that the understanding of what is happening in the course of complex consensus-backed decision-making processes should be increased, and options for handling such processes should be figured out. Ways have to be found to advance problem-solving processes in a manner that leads to factually reasonable solutions while generating the maximum possible acceptance. When it comes to dealing with complexity, what is required are high action and decision-making capabilities, as well as a pronounced degree of responsiveness in terms of grasping the variety of interests and including, or at least considering them, in decision-making. Where it is possible to achieve acceptance early on, numerous problems that might subsequently emerge in the implementation phase can be avoided, because conflicts of interests that might arise from structural fields of tension will already have been explored and resolved in this consensus-building process.
At any rate, the complexity of developments such as the micro-political behavior of the parties involved does not obviate the need for efficient and effective process management in consensus-backed decision-making and -implementation. In this respect, the processes have to fulfill two functions:

1) On the objective, factual level, the **best possible solution** to the problem at hand should be aimed for and formally decided upon.

2) On the socio-emotional level of individuals and groups, conflicts should be anticipated and opponents and their potential for resistance should be identified at the initiation and design stage of the problem-solving process. Concerned parties should become involved parties, in order to achieve **consensus** and create **acceptance** wherever possible.

Overall, the responsible bodies and positions must ensure the **earliest possible detection of problems relevant to the NPO**, efficient initiation and design of the problem-solving processes and realization of the adopted solutions.
3.2.2 Methods and Procedures in Consensus-Backed Decision-Making

The preceding discussions have shown that in complex problem-solving processes, the two top-level system capabilities of action-initiation and decision-making are endangered time and again; the lower-level design criterion of responsiveness therefore gains crucial importance. To strengthen the two fundamental system capabilities, it seems sensible to use some rational methods as presented below.

1) **Splitting:** The splitting method is also known as the iterative procedure. The more complex a problem is, the more difficult the necessary mental work for its solution becomes. For complex problems involving a great number of people in the problem-solving process, it may, therefore, be more expedient and functional to deal with the problem in two rounds or stages. In a first round, the principles constituting the solution (“cornerstones”) are discussed and adopted. In a second round, the details and intricacies regarding the concretization of these principles are spelled out and brought to a decision. An example would be a merger of two NPOs, where broad agreement will be reached in a first round, which will then be concretized in increasingly more detail. In NPOs, such complex problems include comprehensive structural reorganizations or completely new strategic directions. In these cases, the people involved, particularly the members and voluntary executives, will most probably be overwhelmed and overtaxed. In a worst case scenario without a splitting procedure, for example, fundamentally revised statutes and by-laws might be submitted for acceptance in a final detailed form without any prior discussion and decision as to whether a body would have to be abolished, newly established or newly composed. Using a splitting method, in contrast, would allow for a focused discussion of a few “breaking points” and for a higher degree of participation of those involved who, while not possessing an in-depth understanding of the problem, still have to co-decide on the political aspects inherent in the principles.

2) **Hearings or structured large group (“townhall”) meetings** seem advisable in the initial round, especially in splitting procedures with a large number of participants: The policy papers elaborated by an expert project group are presented in draft form and then discussed in as many subgroups (owners, employees, committees, “grassroots” groups) of the NPO as possible. Their favorable or unfavorable opinions are reported back to the project group. Taking account of the views and suggestions received, the group then formulates the final text as a template and proposal for the decision-making bodies.

3) In this respect, the relationship between the voluntary governance body, such as the board of governors and the professional board of managers, needs to be seen as a particularly sensitive field of tension. By preparing the resolutions of the voluntary governance body, the board of managers is in a position to crucially predetermine their content.
and to degrade the voluntary governance body to a “rubber-stamp body”. This negatively perceived use of completed staff-work, in which professional managers tend to out-weigh voluntary governance bodies, should be mitigated through a specific decision-making procedure called cooperative interaction. The procedure is called cooperative, because decisions are prepared or elaborated jointly by voluntary governance bodies and professional managers. In doing so, the board of managers is meant to create open decision-making foundations that do not go further than to present potential solution options and list criteria that might be helpful when selecting the presumably best solution. In a workshop-style meeting, by way of an interactive process, the voluntary governance officers and paid managers then jointly develop the foundations and cornerstones of the solution under discussion. As in splitting, this procedure relates to the first round of fundamental decisions, forming the basis for a final resolution proposal that is polished by the paid managers. The resolution is then adopted in a second round by the voluntary governance board that now has an increased understanding of the problem. This method of cooperative interaction was developed by the VMI, jointly with a consulting company, at the beginning of the 1980s. In business enterprises, the underlying problem of professional managements increasingly outweighing governance boards has, meanwhile, become acute to such an extent that, under the term of Corporate Governance, comparable procedure recommendations in the form of “Codes of Best Practice” have been defined, resulting even in legally binding regulations. Corporate governance not only addresses questions of transparency and management compensation, but above all an actual core problem: How should decision-making processes be designed to help the supervisory bodies keep the completed staff-work of the managing board in check? To that purpose, the corporate governance theory has issued recommendations and rules that have already long been incorporated as components in the cooperative interaction method. It is evident that the concept of corporate governance as Nonprofit Governance can be perfectly well transferred to NPOs. In organizations with mostly voluntary governance bodies, the staff-line problem is at least as widespread and harmful as in enterprises. Seen as a method of nonprofit or better cooperative governance, cooperative interaction thus inevitably assumes a pivotal role in NPOs. This will be discussed in more detail in paragraph 5.3.4., “Professionalization of Voluntary Governance Work”.

4) If the splitting procedure is used with hearings in the first round, then an additional problem may occur in the second round of decision-making, in regard to work on the details. In the fewest of cases will the final proposal be able to take into account all the concerns and any objections expressed during the hearings. There will always be groups that, even in the resolution-making phase, may still put up resistance to certain provisions or that will want to assert other solutions. To prevent chaotic developments in the
resolution-making assembly, a **petition procedure** should be introduced that requires written amendment requests prior to the assembly, thus excluding all oral amendment motions at the meeting. Unless a corresponding provision already exists in the charter or the by-laws, the body concerned (e.g. the assembly) has to explicitly adopt this procedure prior to the petition period.

The procedures described above in regard to the participation of members and voluntary executives in fundamental governance decision-making are also readily applicable to the decision-making processes of NPO operational units. In NPO daily operations too, the splitting method, the cooperative interaction procedure and employee hearings are suitable for reaching decisions in a participative and consensus-centered manner. Other, more innovation-oriented methods will be discussed in chapter 3.8.

### 3.2.3 Control (Monitoring) in Consensus-Backed Decision Making

As a matter of principle, control or monitoring as a management function is directly coupled with decision-making or resolution-making. The decision-maker – whether an individual manager or a governing body – needs to ensure that those in charge of carrying out the activities implement the planned measures, advance adopted projects according to plan and achieve the goals set. Monitoring is thus to be understood as a comparison between a realized actual state and a desired, planned state. Subject to control are activities, processes in respect to meeting quality standards, products, but also results and impacts of services, as for example evaluated by client satisfaction.

According to the MBO + MBA model, monitoring is an **interactive process**. The position that carries out a certain task is obliged to give feedback or to write a report. Information that is partially defined in advance has to be delivered at the requested intervals to the superordinate body, in a form and degree of detail that is suitable to the needs and abilities of this body. This information is often jointly discussed and interpreted, whereby the resulting conclusions may – depending on the situation – lead to corrective decisions. As a result, objectives may need to be adapted or additional resources allocated.

**Monitoring tasks**, however, can also be **delegated**. In the context of MBO + MBE, the implementing body largely exercises self-control, as it is itself responsible for achieving the targeted objectives. In addition, a true supervisory body may also be used which exclusively exercises a monitoring function, such as a legally required control authority and an auditor. Finally, the monitoring processes in the line of command between a higher-level authority and subordinate body can also be supported by third parties, assuming controlling functions as described in chapter 3.4.
3.3 Steering 1: Planning

3.3.1 The Terms “Steering” and “Planning”

The term “steering” was introduced in the context of the governance model MBO + MBE (section 3.1.4). In that model, steering involves the binding formulation of jointly agreed upon objectives (targeted measures and outcomes) by a higher-level body, defining at the same time the action boundaries of the subordinate body. Within that context, the latter can independently choose the manner in which to fulfill the targeted task, while, however, being obliged to provide feedback in a predetermined and even standardized information format to the higher-level authority, in order to let the superordinate body assume its assigned progress monitoring and results’ review and, in exceptional cases, to make decisions. The steering function’s decisions and its progress and result review rely on information gathered, processed and presented by the controlling function. In this sense, system steering is to be understood as the binding formulation of agreed upon objectives and their achievement review supported by controlling, with the goal of ensuring effectiveness, efficiency, quality and thus – in a future-oriented way – the survival and development capability of the NPO. Steering is thus a fundamental building block of management excellence.

In respect to the formulation of the objectives (targeted measures and outcomes), planning takes a pivotal position; it is to be understood as the systematic process:

1) of making all decisions in regard to the establishment of objectives
2) that steers the future actions and behavior of the NPO in a coordinated way in terms of content, sequence and organizational effects
3) based on structured analyses aimed at the early detection of opportunities and threats in the environment, as well as the determination of the NPO’s actual status quo in competition (strengths, weaknesses).

Thus, planning is one of the crucial tasks of voluntary and professional management bodies. By way of anticipation, it allows them:

1) to identify future developments that may turn into problems for the NPO;
2) to gain time to tackle problems early on and take proactive decisions, thus avoiding action under situational constraints and time pressure in the sense of continuous firefighting;
3) to coordinate the complex relationships and dependencies between tasks, activities, projects and campaigns, between bodies and members, in terms of content and sequence, in a fruitful and conflict-free way.
The various aspects of planning can be illustrated in the so-called planning cube (illustration 34).

Illustration 34: Extended planning cube

**Illustration 34** is to be interpreted as follows:

1) Planning needs to be conducted on several **levels** in order to establish a comprehensive and inherently consistent planning and controlling system, thus forming the building blocks of the system of management instruments as specified in **illustration 35**. The content dimensions of the planning levels are the management system, the marketing system and the resource system.
2) **Goals, measures and resources** have to be determined as formal planning content on every level. While in principle established in a logical sequence, setting of goals has, at least, to simultaneously take into account whether there are adequate measures and sufficient means to achieve them. In other words, goals and objectives cannot be formulated out of the blue, but have to undergo a reality check relative to a draft of potential measures and a realistic evaluation of available resources. Correspondingly, goals are to be seen as components (content) of planning, rather than predetermined parameters superordinate to planning.

3) Planning unfolds as a **decision-making process**. Plans and their goals, measures and resource deployment are adopted as binding targets.

### 3.3.2 Design of the Formal Planning System as a Component of the Steering Tools

*Illustration 35* shows the individual management tools (and their interconnection) as components of the entire system of tools. In contrast, *illustration 36* displays a step-by-step procedure for the elaboration of these management tools with the three planning levels placed at the center. This model can be characterized as follows:

1) Planning can be seen as an **information gathering** and **information processing process**. Information creates the foundations for the elaboration of plans, allows for a periodic review of the appropriateness of the plans’ chosen directions and ensures the control or assessment of plan fulfillment. This information task, as part of the planning process, is attributed to the controlling function (chapter 3.4). At the same time, planning on all levels is also a **consensus-backed decision-making** and **implementation process**. Therefore, the discussions presented in chapter 3.2 also hold true for planning decisions. Acceptance of the plans, along with insight into their usefulness and necessity by the parties who have to implement them, is a fundamental success factor. From this point of view, the participatory involvement of concerned parties in planning and decision elaboration is not “management romance”, but a reality-proven rationality. The application of methods, such as the cooperative interaction or splitting, is imperative to ensure that owners, members and voluntary bodies can significantly contribute to shaping the “political dimension” of future-oriented decisions.

2) The succession of planning levels is based on a **hierarchy of plans**, a relationship of super- and subordination in three respects:

   a) **Temporal reach**: in the case of the normative foundations, the mission statements and concepts are valid for an indefinite time; in the case of strategies, the time hori-
zon is often defined to range from two to five years, while operational plans are intended to cover the short-term, up to two years.

b) **Degree of concretization:** With descending planning levels, the degree of concretization steadily increases, from normative principles through strategic frameworks, with particular emphases on detailed operational annual plans.

c) **Temporal logic of sequence:** The design and development of a planning system should start with the organization’s general foundations, which then have to be broken down incrementally into subsequent plans at lower levels, whereby each level is derived from the higher-order level and needs to have been covered already in terms of content.

*Illustration 35* shows a collection of potential management tools. In practice, it is up to each NPO to select the tools that match its size, complexity and needs. Smaller, more simply structured organizations will not be willing or able to afford the “luxury” of the complete sophisticated tool kit. Bigger and large-scale organizations with a hundred or more employees in NPO operations would, however, be well-advised to develop their management systems as consistently as possible according to this model.

Moreover, in urgent cases – such as a crisis situation – there may be neither sufficient time nor resources at hand to follow the inherent logic of *illustration 36* in all its steps. Hence, in such situations, as for example when it comes to the urgent redesign of an NPO’s organizational structure to increase its efficiency, the analysis phase might be reduced to a minimum, detailed mission statements may be replaced by a few concise guidelines and the strategic, as well as operational planning focused on the pressing problems to be solved. But even in such situations, the set of tools shown in *illustration 35* may offer helpful orientation for the design of the process to deal with the crisis.

### 3.3.3 Management Tools on the Three Planning Levels

#### Normative Level

The normative level is seen as the highest planning level. In management theory it is separated from the strategic level. The term “**normative**” applies to all those documents such as visions, mission statements or articles of association, statutes or bylaws that express the values/ideals and the self-concept, i.e. the identity-forming traits of the organization, mostly in only a few brief sentences. In contrast, strategies define the focus of the service offering more specifically, as well as the ways to enhance basic capabilities and the organization’s core competences. In practice though, such a strict dividing line between normative statements and strategies cannot always be easily drawn. Often, statements are developed based on
comprehensive, fundamental analyses and forecasts, which in part have a visionary mission statement character, but in part are also so concrete and specific that they can be attributed to the concepts or even strategic action plans. Nonetheless, or even precisely because of this, a differentiation needs to be established here, because in practice, use of language tends to become increasingly more fuzzy. All mission statements, visions, statutes or bylaws are included here as normative management tools, as are functional area concepts.

Illustration 35: Categorization scheme for system management tools
Illustration 36: Sequence scheme for system management
1) Visions and Mission Statements

Based on their purpose and content, two types of mission statements can be distinguished:

1) Member, Industry and Profession-related Visions or Mission Statements

These are management tools that can primarily be found in membership-based mutual-benefit NPOs, such as trade unions or business associations, but also in NPOs with a high identification potential, i.e. a strong “us” feeling. Member, industry and profession-related visions consist of a catalog of normative ideas on how the tasks and problem areas of the members should develop in the future. They entail goals, policies and principles that are to be pursued by members individually, by several members together or by the NPO. A few examples illustrate this:

- A labor union formulates a position paper on its vision of the working environment of its members in the future, for example, in respect to labor conditions, participation and social security.
- The association of master carpenters designs a picture in its industry vision of the future successful crafts enterprise, for example in respect to service offering, leadership skills and entrepreneurship.
- A mutual-benefit organization of people with disabilities makes clear statements with respect to the future integration of its members in economy, law and society.

With such statements the NPOs define the effects their activities should achieve for their members. At the same time, the documents include calls on the members themselves to strive for the realization of the targeted visions in their own domain of activities. In addition, other target audiences such as authorities or the wider public can be informed about the efforts of the NPO and its members.

2) NPO Mission Statement

Perceived as a corporate policy document, the NPO mission statement refers solely to the NPO and its self-conception as an organized service-providing entity. In this document, goals, policies and principles are formulated, though exclusively for the actions and behavior of the NPO itself. The mission statement defines the services and quality of the contribution intended to be offered by the NPO to achieve the policies specified in the member vision; which goals the NPO sets for itself as an organization (such as growth or diversification of the service offering); how it organizes itself and which resources it requires. Additionally, normative statements are included on how to deal with stakeholders such as members, exchange and cooperation partners, employees and more, combined with a clarification of the NPO’s self-concept.
In practice, the distinction between member vision and NPO mission statement is not always clear, or NPO mission statements often also entail normative statements on how the member or client environment should develop. Such combinations may make perfect sense, as nowadays, so-called visions – in the sense of core statements on future desired states, ends or effects – are often formulated in the form of a preamble to the mission statement. Such preambles frequently assume the function of member or industry visions.

3) **Statutes and Bylaws**

Statutes (or articles of association) and bylaws are mandatory legal documents. Whether they also qualify as management tools in the proper sense is a question open to debate. The provisions contained in these documents on the NPO’s purpose and tasks, and especially on membership and structure, are at any rate normative in character, intended for the longer term and usually require a qualified majority to amend them.

In the Fribourg Management Model, the statutes or bylaws are ranked subsequent to the mission statements. The mission statements are seen as superordinate, top-level management tools with a constitutional character; the statutes or bylaws, in contrast, as legally enforceable concretizations of corporate governance decisions. This hierarchical order seems justified by the fact, found in practice that in the case of reorientations, reorganizations or even crises, a discussion of the mission statement is usually considerably more fruitful and consensual than discussing the statutes or statutory provisions, which all too often get stuck in details. However, strong cultural differences exist in this respect in European countries.

4) **Concepts**

Concepts are attributed to the normative area, as they are – like all normative statements – valid for an indefinite period of time. In contrast, strategies that, for example, might be developed with the help of the portfolio method (section 3.3.5) are mostly designed for a specific time span. While the NPO mission statement and the statutes or bylaws cover the entire NPO and have a general, normative character, concepts are area- or function-centered management tools. It would be desirable to see a concept for each of the three areas of system management, marketing and resources, whereby these area concepts could additionally be subdivided and concretized in sub-concepts, depending on the size of the NPO (e.g. communication concept, fundraising concept, etc.).

Concepts, too, are binding systems of statements including goals, policies and principles; they are, however, derived from the higher order (superordinate) documents, in particular from the mission statement. Concepts already exhibit a degree of concretization that is relevant for implementation, containing leads on strategic directions which have to be
pursued in the areas covered. They are indefinite in terms of temporal reach, valid until external or internal developments require their adaptation.

Concepts are a highly suitable instrument for MBO + MBE. With their statements, they delineate the framework for action within which the NPO is to maneuver and develop, while still leaving sufficient freedom for mid- and short-term priority setting: they establish the direction and basic substance for the subsequent planning levels.

**Strategic Level**

Subsequent to the concepts mentioned above, goals and measures are normally then formulated that are called strategies and which remain valid for a limited time only. Strategies are divided into two categories:

1) **Corporate strategies** contain fundamental decisions regarding the future courses of action or directions for either the entire NPO or at least a large part of it. This includes, for example, the decision to merge with one or several other NPOs, or the conversion of the funding model for the entire area of individual services, from funding through membership fees to funding through service fees and prices. Such strategies entail fundamental reorganizations and changes.

2) **Business strategies** each relate to individual services or service groups and contain statements on goals, measures and means/resource deployments, and how the different service groups should be further developed, e.g. expanded, maintained or reduced. In the context of the portfolio analysis (section 3.3.5.), the question of how to develop such business strategies will be discussed further.

The directions established on the strategic level have far-reaching consequences for the future of an NPO. Therefore, they have to be developed in a systematic way, closely following proven methods. In principle, it is essential to identify and exploit so-called strategic success potentials. Such success potentials may lie:

1) **In the environmental spheres of the NPO**, within the sphere of its service recipients and its exchange relationships. Here, it is a matter of the early detection of changes in the needs of the service beneficiaries or of market gaps and openings, to allow the NPO to get ahead of competitors and – as defined by the marketing perspective of the Fribourg Management Model – to align its service offering accordingly. In strategic management, this procedure is called **Outside-in planning**. The NPO orientates itself towards the changes in its operating environment and responds to them with internal strategic decisions, especially in the area of services and communication, with its focus on stakeholders. The NPO strives for a fit with its environmental spheres and hence pursues the goal of adaptability and survival.
2) **In the NPO itself**, its resources and capabilities. The resource-driven perspective of the model points out that an NPO’s strategic outlook may equally be based on the special capabilities, characteristics and resources available to it. Through the target-driven use and continuous development of its fundamental skills and core competencies, the NPO can continuously generate new services and solutions, thus ensuring its success by satisfying the changing needs of its stakeholders. In this case, the strategic planning and action follows what is called the **Inside-out principle**, which typically applies to the basic capabilities described in section 3.1.3. The assumption is that a highly developed ability to act and make decisions, to learn and be responsive will enable the NPO to detect developments in the business environment and master them. This progress-driven preparation to generate solutions that might be requested in the future is also called organizational stretch, leading to the concept of “stretch goals”. The additional factors of image and culture of the NPO also come into play here and they too have the character of permanent, performance-enhancing potential.

The importance of the strategic planning stage comes from interlocking the normative statements and aspirations, which are long-term, with short-term operational planning. In strategic plans, the normative policies and principles are broken down into programs and projects with a time horizon of two to five years, which are later on broken down further into operational plans with a shorter time horizon. Strategic planning is to be used, in particular, for projects, activities and actions that will tie up a substantial amount of resources over a substantial number of years, including also the planning of sourcing and availability of additionally needed resources. Such projects are assigned to the medium-term range and include the development of a mission statement, reorganizations, the establishment and expansion of new service areas, the development of young talent for voluntary and professional executive positions, or medium-term financial plans.

Depending on their content and on the uncertainty of environmental developments, strategic multi-annual plans are often devised and revised using the method of rolling planning. Thus, a system of statements devised in principle as a 4-year plan will be extended annually, to the point that every year this plan would reach one year further. If the environmental development is fraught with risk, then often only the first two years get planned in detail, while the others are devised as broad directions which then need to be concretized on a rolling basis.

**Operational Level**

For many decades, annual budgets – as one form of operational planning – used to be the only planning instrument prescribed in the statutes or bylaws of many NPOs. Rarely ever was this financial accounting-related framework backed by a detailed activity plan. Unfortunately, the resulting “muddling-through” from one year to the next barely allowed for active
shaping of the future, so NPOs contented themselves with a focus on the daily business and reacting in the short-term. Today, annual plans with objectives and measures are still indispensable steering tools. However, they become fully effective only when linked to and derived from the higher-order planning levels, thus concretizing the implementation of the chosen strategy.

At the level of annual planning, a far-reaching **formalization and standardization** of processes is necessary, because virtually all bodies and positions are involved to some extent in this planning exercise to a varying degree. Here again, there is a real danger of completed staff-work. Accordingly, one needs to ensure that the voluntary governance bodies can participate sufficiently in establishing planning content and in the determination of priorities in resource allocation. Thus, by way of cooperative interaction, general planning guidelines and specifications should first be set between the voluntary governance body and management, to be transformed then top-down into sectorial goals. Subsequently, the individual departments – possibly supported by committees and commissions – craft these specifications bottom-up into concrete plans and budgets and introduce them into the decision-making process of the higher-order positions and bodies.

Apart from the development and setting of annual goals and activities as a means of realizing higher-order plans, additional references to the strategic and operational statements should usually also be made. On the one hand, this applies to the so-called **assumptions review** that checks whether the developments in the business environment that were forecast as highly probable in the strategic planning, have indeed taken place as predicted. If this is not the case, the higher-order plans may possibly have to be adapted and the already ongoing annual planning led into a new direction. With **rolling planning**, on the other hand, the extension of the multi-annual plan has to be included in current annual planning. Therefore, we also generally speak of the annual steering process because it extends beyond the current planning year.

### 3.3.4 Market and State Control as a Complement to NPO Autonomy

Steering and planning have hitherto been described as management tasks, which are autonomously executed by an NPO through proprietary, system-internal processes and decisions. However, few NPOs are under exclusive intra-organizational control. In reality, many NPOs are also active on markets via their services or are at least partially tied to the state. It may therefore be assumed that all these NPOs are subject to a more or less far-reaching complementary control, be it through the markets or through the state, thus setting limits to autonomous steering.
As soon as an NPO tries to sell individual services on the market at prices that cover full cost, market control starts working as an intervening variable that affects the autonomy of internal decisions. Undoubtedly, an NPO can, by way of mission statements, concepts and additional planning levels, autonomously decide on the “what” and “how” of its service production. Nonetheless, it will thereby (have to) keep an eye on the needs of the recipients and target audiences, as well as on competitor offerings. If the NPO errs with respect to the interpretation of these conditions and constraints, its service offerings will not meet the beneficiaries’ needs nor be competitive. Market mechanisms will sanction such a mistake and generate a loss to the NPO. In the realm of such a market control the need frequently arises for short-term action and reaction. However, such quick responses cannot easily be achieved in membership structures with grassroots democratic decision procedures, for which reason market-driven decisions are – at least on the operational level – withdrawn from grassroots democratic control and assigned to the voluntary governance bodies and management. Aside from legal and tax regulations, this may also help explain the management practice of transferring market activities and service offerings into legally independent entities (limited or joint stock corporations and foundations).

NPO autonomy may also be restricted by state control. The state can intervene in the sovereignty sphere of NPOs at two levels:

1) Through intensive regulation of an NPO’s service range, exceeding the usual legal framework to encompass, beside restrictions on the “what” and “how”, often also the fixing of tariffs and fees. An example of this are European government interventions in the autonomy of welfare associations and their operations, or health care insurance legislations that impose tight restrictions on health insurance companies (in some countries still mostly associations) in terms of their services and financing, in the area of basic health insurance.

2) Partly connected to the regulation regime mentioned above, but partly also independent of it, NPOs and the state may also be linked through contracting out or outsourcing, which can be found in the health care, social services and education sectors. This mechanism applies where the state leaves or assigns the fulfillment of tasks, generally acknowledged to be public, to the private NPO sector, while at the same time, however, contributing in a substantial way to its financing. Here, the administrative units are steered by the government and partially also by the parliament, according to the concept of New Public Management (NPM) on the basis of purchase-of-service contracts (a.k.a. performance mandates) and the corresponding overall budgets. This methodology ultimately is based on the same ideas and principles as the MBO + MBE management model. Under the term contracting out or outsourcing, contracts are negotiated between the state (federal,
state, commune or municipality) and NPOs which qualitatively and quantitatively define the services to be provided by the NPOs, and which determine the corresponding compensation to be paid by the state, in the form of either overall (or global) budgets or activity rates or fees. In addition, quality management and controlling regulations are established, so that these tasks ultimately are subject to an external control, too.

It should have become clear that these governmental steering mechanisms restrict the sovereignty of the NPOs’ sphere considerably and may turn autonomous internal decision-making into an external negotiating process. In such a procedure, too, internal democracy is inevitably pushed back. To keep NPOs working effectively, competencies have to be re-delegated to the executive bodies and positions.

3.3.5 Tools, Methods of Steering (Planning, Controlling, Quality Management)

In order to fulfill the steering tasks, i.e. planning, controlling and quality management, at the various levels of an NPO, an organization can rely on a variety of tools and methods offered by both theory and practice. Numerous to many of these methods cover several aspects of the steering system and can therefore be called multifunctional. Hence it appears a matter of judgment whether they are seen as analysis or planning methods or whether they are classified under the controlling or the quality management function. Thus, the portfolio method mentioned below, for example, is an instrument for analysis (actual-state portfolio) as well as for planning (target-state portfolio). And while the Balanced Scorecard (BSC) (to be described briefly later on) was conceived clearly as a planning instrument, with the purpose of implementing strategies on the operational level, it is often interpreted as a typical controlling instrument or equally claimed as a typical method of quality management. Likewise, indicator and key figure systems may have a planning as well as a controlling character.

Due to this multi-functionality mentioned above, the various methods are discussed here collectively, knowing full well that, in both theory and practice, they appear under different topics, such as controlling, quality management or even financial accounting. In Illustration 37, the most important tools and methods are listed and classified according to planning levels and characterized with respect to their functions in the steering system.
1) The tools for NPO analysis serve to self-critically identify the strengths and weaknesses of the NPO and localize those current problem areas that need intensive reworking. In addition, analytical scrutiny also needs to be directed towards the exchange sphere, particularly current and future needs and interests of stakeholders. Finally, a close look needs to be taken at the general development trends in the explorative sphere that are relevant to the NPO, such as economy, politics and society. These fundamental analyses and forecasts should precede normative and strategic planning. The so-called **SWOT matrix** (strengths, weaknesses, opportunities, threats), shows the overall results of these internal and external analyses in a compact form.
2) The **scenario technique** is a forecasting as well as a planning method. By imagining different futures for the relevant environmental spheres, possible, plausible and mostly alternative developments and their driving forces are elaborated (e.g. best and worst case scenarios), from which appropriate strategies can be derived and formulated. This incremental process of familiarization with potential future situations and the corresponding action alternatives needs to involve all internal knowledge carriers, and possibly even external experts. To generate innovative action alternatives, the technique can be combined with other forecasting methods, such as trend extrapolation or creativity techniques.

3) A suitable and frequently used procedure for the fundamental analysis of an NPO and its environment that may serve as the basis for the formulation of strategic statements is offered by the **portfolio technique**. With the help of this technique, management can gain a holistic, synoptic overview of the entire service offering in its actual state and the changes induced by environmental developments, and use this information to determine strategies regarding the target states aspired to for individual services or the strategic business units.

The following steps apply to the execution of the portfolio process:

a) Elaboration of the **SWOT analysis**, e.g. through interviews and forecasts.

b) Definition of the **strategic business units (SBU)**. Autonomous planning and control should be possible for each SBU, with its own resource pool clearly separated from those of other units. Where necessary, individual services need to be bundled into SBUs.

c) Elaboration of the **ACTUAL STATE portfolio**. With the help of a standardized form, each SBU is assessed in a matrix in terms of its **actual state**. The vertical axis of the matrix contains influencing factors that cannot be changed by the respective NPO or only to a marginally limited extent, such as demand volume, expectations of service target audiences or the offerings of competitors. These factors determine the attractiveness of the market. The horizontal axis represents those influencing factors that can be altered by the NPO itself in the short- or medium-term, depending on the choice of adequate measures. These factors reflect the relative competitive position of the NPO. For each SBU, the two axes’ values are determined by using a points-based assessment procedure (a scorecard method) to locate the units in the portfolio matrix, according to the example in *illustration 38*. Where the various influencing factors represented in the two axes differ in their importance for the positioning of the SBUs, they would have to be previously weighted, i.e. each factor’s point score would have to be multiplied by its relative weighting.
d) Creating the **FORECAST portfolio**. Based on the opportunities-threats analysis, the factors determining market attractiveness are then evaluated in terms of their future situation, using the same standardized form, possibly weighted and displayed – combined with the **ACTUAL STATE** value of the relative market situation – in the matrix.

e) **From the ACTUAL STATE/FORECAST portfolio to the TARGET portfolio.**

The positions of the individual SBUs in the ACTUAL STATE/FORECAST matrix need to be interpreted to identify and discuss possible strategic options regarding the development directions. Up for discussion are the so-called norm strategies of “expanding”, “keeping”, and “reducing/Exiting”. The selection of the strategy is co-determined by the position of each SBU within one of three zones: zone I is where the “poor dogs” can be found which have to be reduced or – possibly with the help of supporting measures – kept. The SBUs in zone II need to be assessed selectively: depending on the situation, all three norm strategies are conceivable. In zone III we find the “stars” which are eligible either for expansion or maintenance, depending on the elasticity of demand. Additional criteria that have to be taken into account when choosing the strategy are regulations such as provisions in the statutes or bylaws, NPO-political considerations (e.g., protection of minorities) and the availability of resources.

f) **Determination of the TARGET portfolio.** With all the influencing factors taken into consideration, the norm strategies then have to be determined bindingly for all SBUs, whereby these decisions need to be subjected to a synoptic, overall appraisal with respect to effectiveness and balance, but also feasibility and affordability.

g) Subsequently, **functional area strategies** and **strategic measures** have to be developed for the individual SBUs in order to move the SBUs towards their target positions (TARGET portfolio). Thus, for each unit a strategy-measure mix has to be established consisting of, among others, marketing strategies, service innovation, human resource development, influencing strategies, cooperation strategies and pricing strategies.

In the background of the portfolio technique, the **life cycle principle** is always also at work. Respecting this principle and taking a synoptic view, an NPO should be able to create a balanced service offering over the longer term, as regards “up-and-coming offerings”, “stars” and “image carriers”. The method is a tool to periodically reinterpret and concretize the general purpose formulations in the statutes and bylaws in a way that fits the changing operating environment, as well as to set long-term priorities for the allocation and continuous development of resources. The outcome of the portfolio process
can thus be integrated and reflected in mission statements, marketing and resource concepts and in operational planning.

Illustration 38: TARGET portfolio matrix including the ACTUAL and FORECAST position of SBUs

4) **Zero-base budgeting** is a planning tool that helps question, in particular, those services that have been on offer for a long time, mostly for reasons of tradition, by means of cost-benefit analyses. It is easily conceivable that the business conditions have, meanwhile, changed to the point that the provision of the service in this specific form is no
longer practical or justified. Such an analysis may release resources for new tasks, whose realization would equally have to be planned along effectiveness and efficiency criteria.

5) The **balanced scorecard BSC** (Kaplan/Norton 1997) was developed for enterprises, basically, to formalize rather vague or general strategies for operational planning. It sprung up from the experience that the strategy implementation process is often deficient or the multiplicity of measures for realization contribute only inadequately (e.g. not in a differentiated enough way) to the realization of the strategies. According to the BSC, planning on the level of strategy implementation is to be conducted from several perspectives, such as finances or service customers, internal business processes or learning/development, whereby goals, gauges (indicators) and target values, as well as measures, need to be defined for each perspective. In addition, mutual cause-effect relationships between the success factors have to be determined to highlight the interdependence between the various fields of action. With this instrument, ultimately the entire management activity range of an organization should become systematized and interlinked within an overall coordinated system.

Starting from the assumption that the purpose of a management model is to offer as comprehensive a management system for NPOs as possible, the BSC in the form and application cited above brings forth few new insights. However, it can be helpful as a complementary instrument when it is used as an **assessment and controlling method**. To this end, the four perspectives mentioned above need reformulation in (1) task accomplishment (fulfillment of purpose and mission), (2) Customer orientation (comprehending the service recipients, such as members and clients), (3) employee consideration, and (4) economic viability (effectiveness and efficiency of NPO-internal processes). Furthermore, additional perspectives may be introduced for fundraising or to influence the operating environment. In practice, additional perspectives often are defined which are of relevance to the respective NPO. Smaller NPOs with no sophisticated controlling system to hand might apply this assessment scheme on their overall activity, to thus gain an evaluation of their effectiveness and efficiency.

6) For steering tools derived from **financial, inventory and profit & loss accounting**, we refer you to section 3.4.3.

7) **Key figure or performance measurement systems** capture individual activity or impact areas such, as bed occupancy rates in a home for the elderly or the return or response rates of a fundraising campaign. Such figures may be a component of the BSC or may form essential elements of the controlling system (section 3.4.3).

8) **Indicator systems** are applied in two areas: in the **early detection of problems** where they may highlight developments (opportunities, threats) in the relevant environmental
spheres and in the **measurement and assessment of outcome and impact** of NPO services (outcome indicators).

Indicators need to be looked for and used when certain issues cannot be immediately perceived, to the point that they need to be highlighted by observable gauges which by proxy can capture an issue and thus provide signals or leads on effects and developments. Thereby, the quality of the indicators is given if they measure as exactly as possible what they attempt to record (validity) and if what is measured is recorded accurately (reliability).

9) **Quality standards** can be seen as quantitative and qualitative requirements that need to be met by processes, structures and systems. Standards are meant to provide norms, whose fulfillment can be checked and aggregated to a quality judgment, such as the ISO norms for quality management systems. Standards are one of the essential elements of QM, but are also used in leadership processes and performance evaluation. As target values, their character is planning-related; however, reviewing them can be a component of controlling.

10) **Benchmarking** is an intra- and inter-organizational comparison of adopted solutions for identical problems (e.g. costs per unit of measure), with the aim of learning from the best. Benchmarking requires that defined situations or procedures are captured and measured in an equal, standardized way by the partners involved to allow for a performance comparison, typically exemplified by the traditional comparisons of operating units of enterprises. The solution rated as **best practice** serves as a role model to be achieved by all the partners, as it enables advantages related to effectiveness and efficiency. Such comparisons may relate to products, services, processes and structures and imply open, transparent information behavior on the part of the partners. In the area of social services, for example, such benchmarking systems are institutionalized and become mandatory, often at the behest of funding entities and payers. Thus, competition is created between the parties involved who – based on the ratings – try to determine their competitive position and to initiate improvement measures in accordance with the best.
3.4 Steering 2: Controlling

3.4.1 Concept and Content of Controlling

Planning and the associated implementation and realization monitoring or control are to be seen as management functions and thus as the task of governing bodies and executives. Planning and control are carried out in work-sharing processes; the competencies are assigned to various bodies and positions. Accordingly, an important need arises in respect to the coordination of the corresponding activities and to linking the information requested in the process. Moreover, the collection, processing and preparation of information relevant to planning and control require a specific kind of know-how. This information-gathering task, the coordination of the planning and control processes, along with the corresponding know-how, are summarized under the concept of controlling. Controlling can thus first of all be understood as the management of the planning- and control-related information system. The fact that planning and control call for specific information and instruments is not new to this view. What is new, however, is that they are linked within a system. Hence, measures are at stake to ensure that the necessary management information beyond the individual parts and sectors of the NPO, is gathered, coordinated, integrated and aggregated, allowing for effective steering of the entire NPO. In many cases, this calls for the transfer of controlling-related tasks to a particular position and thus for a certain degree of centralization.

Given the close interconnection of planning and control via the information system, it seems logical that the position endowed with controlling tasks (the controller) simultaneously also assumes responsibility for the management of the planning and control processes. After all, the planning and control systems, with all their instruments and processes, also require a central design and coordination body that is equipped with specialized know-how. Despite such an extended task range, the controller function, however, remains one of support, advising the decision-makers, encouraging innovations and taking responsibility for the formal framework of the planning and control system without actually making any planning and control decisions.

Illustration 39 exemplifies the distinction between the controlling and planning tasks, including their interconnection, as well as the division of labor between supporting and decision-making bodies. It shows that controlling is a steady companion of planning and control on all levels. From this notion, two application areas can be derived: the strategic controlling and the operational controlling. In sum, controlling thus has three tasks:
1) to co-design the planning and control system and the associated information system (whereby system-related decisions still remain with line managers) and to provide for their functioning and user-friendliness;

2) to perform the assigned information provision tasks, such as offering analyses and forecasts of the relevant environment on a strategic level, to induce – in terms of early problem detection – decisions regarding adaptations and innovations;

3) to support processes related to the development of the various plans through counseling and moderating, comparable to coaching the governing bodies and executives.

Given such a broad notion of controlling, it goes without saying that **steering and ensuring the NPO’s effectiveness, efficiency and quality** must constitute thematic priorities. These concern the external area of the NPO’s service beneficiaries, as, for example, in the evaluation of the member/client satisfaction, as well as its internal area, as regards the efficiency of labor-divided processes in general and of the planning and control processes in particular. Hence, in practice it may often be difficult to neatly delineate the responsibilities of the controlling and quality management positions and to avoid redundancies.

### 3.4.2 Controlling Tools

The tools and methods suitable for the fulfillment of controlling tasks are listed in *illustration 37*. We can see that some of the tools offer only information for analysis and forecast purposes, while others can be used for analysis and planning purposes, as exemplified by the portfolio technique. The strategic controlling is characterized by a very low degree of formality. It confines itself largely to the provision of a method framework that can be exploited in differing ways according to the case at hand. The methods deployed predominantly aim for a qualitative assessment of facts (situations, circumstances or issues) concerning the NPO’s future outlook and its fundamental development options, i.e. the course it sets.

On the strategic level, three main task areas are to be pursued by **strategic controlling**:

1) Supporting **strategic planning**, i.e. to be the driving force, moderator and supervisor of strategic planning efforts. Goals currently pursued, activity fields realized and measures taken to fulfill the given tasks need to be permanently reviewed and questioned. This requires that the corresponding analyses of environmental spheres as well as of strengths and weaknesses, all particularly meaningful in view of the often prevailing short-term focus (annual reports) of NPOs, are carried out.

2) Supporting the **implementation** of strategic planning projects by way of operational planning moves; assisting the setting of milestones for plan realization.
Illustration 39: Systematic supporting tasks of controlling
3) Design and implementation of **strategic control**, determination of indicators and establishment of an early warning system for the gathering of control information. At the same time, a periodic review of the assumptions regarding the presumed environmental developments on which long-term plans have been based (premise control) needs to be undertaken.

On the operational level, **operational controlling** has to support NPO management in guiding and steering the largely determined task areas, goals and activity fields, by supplying information and methodology. The controller is entrusted with the coordination of objectives-based operational planning and budgeting, the design and coordination of control activities and with the provision of management support for all functional areas. To this end, operational controlling essentially builds on a powerful accounting system which – based on a time-recording solution to measure human resource inputs per service unit – above all includes **cost center and product (or service) cost accounting** (see the following section). In addition to these quantitative tools, qualitative indicators like member satisfaction or donor motivation also always have to be captured. Finally, operational controlling also entails monitoring the fulfillment of quality standards in all processes and assessing employee performance and behavior, which is conducted in the context of MBO + MBE.

### 3.4.3 Accounting as an Information and Steering Tool

Accounting in associations and other NPOs should not be seen as a uniformly aligned numbers processing framework. It is organized through a variety of accounting tools and procedures, aiming at the systematic collection and analysis of all quantifiable transactions for the purpose of steering business operations. It simultaneously performs reporting, planning/scheduling and control functions. It assumes an intermediary function between the goal system and the performance system of an NPO and serves equally as a **steering** and a **reporting tool**. **Illustration 40** shows the relationships.

Many government-related or association-like NPOs run accounting systems predominantly oriented towards external payment flows and financial accounting (cash basis or revenue-expenditure accounting), which can only support the aspects of liquidity (ability to pay). Often they also opt for an elaborate commercial accounting. The corresponding statements primarily serve to provide **accountability to stakeholders outside** of the NPO (members, donors, creditors or the government); they are, however, by no means sufficient for a goal- and performance-oriented management. Productivity, effectiveness and efficiency of task execution can only be ensured through resource-consumption- and performance-oriented steering of NPO operations and services. In addition to a finance-related dimension, we therefore also need a **performance- and result-oriented dimension** in accounting.
Illustration 40: Function of accounting

Such multidimensional NPO accounting is sensibly designed as an **integrated system** with statements of payments received and made (cash basis accounting), financial position (balance sheet) and income. *Illustration 41* shows the structure of such a compound system.

All three sub-systems should be devised as future-oriented plan calculations and also as present- and past-oriented documenting statements, thus enabling the comparison between target and actual performance that is necessary for the management process. They form the foundation of operational controlling. An integrated accounting system of this kind underlies, for example the Swiss accounting and reporting recommendation valid since 2003 and marginally modified in 2007, called “Swiss GAAP FER 21 – accounting system for charitable, social non-profit organizations (NPOs)” of the Swiss Institute of Certified Accountants and Tax Experts. This recommendation is designed to increase meaningfulness and comparability of annual financial statements and reporting, including individual and consolidated statements. Compliance with this system should be reviewed and confirmed.
Illustration 41: System of integrated accounting in NPOs

The **statement of payments received and made** (cash basis accounting) is a period-based accounting form that relates solely to the payments to and from the NPO and thus to the streams of nominal goods. It is to be devised in a forward-looking form as the financial budget and in a backward-looking form as the revenue-expenditure statement. It starts from an initial amount of funds (cash and cash equivalents) at the beginning of the accounting period, captures all the receipts and expenditures for this accounting period and states the final amount of funds at the end of the accounting period that is adopted in the statement of financial position as (financial) assets for this period.

The **income statement** (or statement of operations) is equally a period-based accounting procedure that compares the resource consumption (utilization of means) with the resource intake (means accrual) from the services and activities provided for each accounting period. Utilization and intake of means are first captured in quantitative terms and then, for the purpose of the aggregate statement, converted into monetary units; a procedure commonly referred to as “valuation”. If the valuation is carried out on the basis of nominal goods’ flows (payments), resource utilization is stated as an expense and resource accrual as income. The balance between income and expenses should be considered a substance gain, if it is positive, and a substance decrease, if it is negative. Here, we find a great similarity with the commercial (for-profit) income statement in the sense of a **profit-and-loss account**. However, in contrast to the profit-driven accounting practice of businesses, NPOs’ provision of public goods does not allow for a material connection between utilized and accrued means, as the
intake of means in the form of funds flowing from members, donors or subsidy grantors has no direct link to the goods provided. In other words, members or donors rarely make donations for a specific advocacy measure or activity. Also, since NPOs are, by rule, not faced with profitability goals, the term “profit” or “loss” should be avoided for the resulting balance. Instead, the terms surplus, net income or substance increase and net loss, deficit or substance decrease seem more appropriate. The future-oriented statement is usually called the planned, prospective or targeted income statement; the one covering the past the actual income statement. The balance of an accounting period enters the statement of financial position at the end of the accounting period and increases or diminishes the position of net assets (total assets minus liabilities) shown there.

The two period-related statements – the statement of payments (received and made) and the income statement – are linked to the statement of financial position that, by definition, relates to one specific reporting day. The statement of financial position represents a comparison of assets on one side and liabilities plus net assets (i.e. NPO equity, including capital paid in by the founders, members or donors plus reserves and surplus/deficit of the year) on the other. Given the juxtaposition of assets and liabilities, the term balance sheet is often also used for matters of simplicity. The cash balance from the statement of payments is added in the statement of financial position under the position financial assets, while the balance of the income statement increases or diminishes the position net assets. To signal that one is not dealing with profit-seeking owners’ equity, the net assets of NPOs should preferably be termed “capital of the organization” or its “net worth”.

If the valuation procedure applied in the income statement is not based on payment flows, but relates to the stream of real goods and thus to the utilization of production factors and the performance provided, the use of means – in this case termed costs – is then compared to the value of the performance provided. When oriented towards the future this method is called a performance budget; when oriented to the past the customary term is (actual) cost and performance accounting. In this case, a link to the statement of financial position in the sense of compound accounting is – due to differing valuation principles – no longer meaningful.

The statement of payments received and made (cash basis accounting) serves to ensure liquidity and should, at any rate, offer a separation between current (operating) accounting and investment accounting. Expenditures for current operations, such as personnel and administrative expenditures, are of a consumptive character and should thus sensibly be financed only from current (operating) revenues, i.e. from revenues out of the provision of marketable services, membership fees and donations. Normally, a surplus of current (operating) revenues over current (operating) expenses can be expected, leading to a positive cash-
flow or surplus contribution. This surplus should – in the longer term – finance necessary investments; in the short to medium term, loans for that purpose might be taken out instead.

The public or common benefit orientation of NPOs leads to specific service expectations that – expressed in numbers and accompanied by the corresponding necessary resource deployment – are reflected in the performance budget and constitute the **income statement**. Separating quantitative volumes and price factors for resource consumption is of importance to NPOs, because only a part of all the services offered, namely the **individual goods** provided in the form of marketable services in exchange for a fee (e.g. courses, counseling, literature, printed material), are amenable to a market-based notion of success, in which the costs incurred should be covered by corresponding revenues or even a fair surplus be gained. This applies mutatis mutandis to **meritorious goods** where cost-covering service fees are forgone for socio-political considerations. The other area, **collective goods** (e.g. advocacy) generally provided by the NPO on behalf of the targeted community, is subject to budgetary coverage criteria that exclude deployment-result-relations on a monetary level.

The income statement is to be developed separately for each task area in the form of an **impact statement**, leading to the determination of success ratios derived from the comparison of service or activity impacts with costs. This **success ratio** can be seen in terms of a productivity analysis, when, for example, the planned or achieved reduction in the spread of infectious diseases is weighed against the costs incurred for public relations work and vaccination measures. Often the impact assessment can be carried out only rather imperfectly through continuous observation of indicators that are mostly based on the findings of empirical social research.

Fulfillment of the NPO tasks requires, in part, rather substantial stocks of tangible means (e.g. buildings, schooling facilities, workshops) and intangible assets (e.g. rights, financial assets) as well as borrowed funds (debt) necessary to finance some of the assets. An orderly inventory and reporting of these stocks and their changes over time, by way of the **statement of financial position**, correspond to important information need. It is thereby safe to assume that the assets would not primarily have been financed by profit-seeking “earning-capital”, but by the “**designation-capital**” of founders, members and donors, with the goal to enable the NPO to fulfill its tasks (capital of the NPO). Whether an NPO wants to strive for mere capital conservation or – in the long run – even for a capital increase, allowing for an expansion of its service capacity, depends on its specific goals. Even a capital reduction is conceivable and may be in line with the goals, if some tasks – limited in duration – do not require renewal of the already used capacities, thus not requiring any replacement investments.
While the three-pillar accounting system (statement of payments, financial position and income) captures and compiles primary information, NPOs also work with processed secondary information. In the form of key figures or key performance indicators, such processed information illustrates, in a condensed way, quantifiable facts relating to an organization, such as the capital structure, structure of expenses, the coverage and liquidity ratios. Such key figures are systematically arranged in a **key performance indicator system**. While performance measurement schemes, known from for-profit enterprises, focus on formal goals (e.g. the profitability-driven return-on-investment scheme) and thus are in the given form not suitable for NPOs, an indicator system built on the NPO management model is clearly helpful (*illustration 42*).

**Performance-oriented planning** of activities in NPOs has, by nature, to be developed beyond the bounds of financial funds budgeting. Performance considerations have to be primarily oriented to the qualitative and quantitative dimensions of performance goals, performance process and resulting outcomes or effects. They should be guided by the metrics of effectiveness and efficiency.

The corresponding **performance-oriented information system** called for in this context, first of all needs to take into account that most of the costs arising in NPOs are primarily driven by the establishment of operational readiness (stand-by service capacity) and only secondarily by the actual service utilization. In other words, and in common with all service organizations, only a small part of the costs incurred are directly driven by the service volume.

It should thus have become clear that the evaluation of the **economy** (efficiency) and **efficacy** (effectiveness) of an NPO cannot be gained via a juxtaposition of costs and revenues, but only through a comparison of planned versus actual costs and performance, by way of a deviation analysis. Due to the lack of an overall success gauge in NPOs (equivalent to the measure of profitability in for-profit organizations), monitoring and controlling the final result cannot be achieved with the help of the net income balance, but has to be done through comparisons of planned and actual measures. Hence, the efficiency achieved is always only to be seen in relation to the measure planned and thus to the performance planned.

**Value-for-money-reporting** may be initiated through the claim of a stakeholder (a member, donor, etc.) to receive appropriate value from an NPO in exchange for the delivered contribution (membership fees, donations etc.). Colloquially, one might speak of the NPO having done a “good job”.
**System Management**

**Illustration 42: NPO-specific key figure system**

<table>
<thead>
<tr>
<th>NPO management model</th>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>System management</strong></td>
<td><strong>Marketing management</strong></td>
</tr>
<tr>
<td>Determining purpose, areas of activity, structures and processes of decision-making, planning, controlling</td>
<td>Determining services to be provided/measures to be taken, service beneficiaries</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NPO goal system</th>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Goals</strong> (tasks)</td>
<td><strong>Services, action</strong> (measures)</td>
</tr>
<tr>
<td>Effectiveness, efficacy (nonprofit goal)</td>
<td>Efficiency, economy (formal goal)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NPO key figure system</th>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Outcome/impact measurement</strong></td>
<td><strong>Performance measurement</strong></td>
</tr>
<tr>
<td><strong>Objective key figures</strong></td>
<td><strong>Collective and internal services</strong></td>
</tr>
<tr>
<td>Key figures from economic and professional official statistics</td>
<td>Productivity</td>
</tr>
<tr>
<td></td>
<td>Activity volume</td>
</tr>
<tr>
<td></td>
<td>Employment level</td>
</tr>
<tr>
<td><strong>Subjective key figures</strong></td>
<td><strong>Market services</strong></td>
</tr>
<tr>
<td>Key figures from performance measurement value-for-money reporting</td>
<td>Surplus/contribution margin</td>
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<tr>
<td></td>
<td>Productivity</td>
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<tr>
<td></td>
<td>Market share</td>
</tr>
<tr>
<td></td>
<td>Minimal revenue</td>
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<tr>
<td><strong>Structure comparisons</strong></td>
<td><strong>Financial means</strong></td>
</tr>
<tr>
<td>Services structure</td>
<td>Financial controlling</td>
</tr>
<tr>
<td>Income/cost structure</td>
<td>Security</td>
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<tr>
<td></td>
<td>Liquidity</td>
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<td></td>
<td>Coverage levels/ratios</td>
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<td></td>
<td><strong>Results controlling</strong></td>
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<td>Cash flow</td>
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<td>Profitability</td>
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<td></td>
<td>Funds accounting</td>
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<tr>
<td></td>
<td><strong>Structure comparisons</strong></td>
</tr>
<tr>
<td></td>
<td>Expenditure/revenue structure</td>
</tr>
</tbody>
</table>

Illustration 42: NPO-specific key figure system
Steering 2: Controlling

Value-for-money in an NPO can thus be ensured through a thrifty, economic and purpose-driven execution of measures towards the achievement of the target performance. However, it must not be ignored that between the postulates of economy and purposefulness, a goal conflict may emerge. The thriftiest solution will often not be sufficiently useful and vice versa. If in doubt, priority should – within the existing resource constraints - be given to the usefulness and purposefulness; the economic principle should, in this case, serve as a discriminator: Achieve a certain performance goal with the least possible use of resources or maximize the services provided or the benefit generated on the basis of the available personnel, material and financial resources.

Evidence of value-for-money is, on the one hand, provided by cost accounting, which offers the possibility to verify efficiency and thriftiness. Reporting and measuring effectiveness, which indicates to which degree the services provided contribute to the achievement of the desired effects, on the other hand, can be conducted through performance accounting in the wider sense. In the English-speaking literature, this entire computational framework goes under the term of performance measurement and can – in terms of its target goals – be likened to performance controlling.

At the forefront of every NPO’s actions stand its nonprofit goals. Formal goals such as liquidity, efficiency, but also achievement of a surplus (substance gain) merely work as constraints to safeguard the NPO’s existence, and should, however, not be the focus of management decisions. Nonetheless, more importance has so far been ascribed to capturing and reporting formal goals, specifically in the framework of cost accounting, than to controlling the achievement of nonprofit goals. This can – on the one hand – be attributed to easier capture of the exclusively quantitative data in cost accounting and – on the other hand – to the, as yet, still unsophisticated monitoring and evaluation criteria (in quantitative and qualitative terms) for the provided services. Hence, comprehensive value-for-money-reporting has to put special emphasis on performance monitoring and analysis and thus pay attention to the nonprofit goals and their achievement.

Reporting and measurement of the effectiveness of NPO actions will – in matters of the internal NPO steering – lead to the topic of performance measurement and – in matters of external accounting – to the topic of social cost-benefit accounting (social performance reporting, intellectual capital reporting, public-value-reporting, member-value-reporting).

The basic elements to measure and control performance are primarily all the organizational features or characteristics contributing to the achievement of goals, such as the service program, the NPO’s strategic positioning, the marketing concept’s dimensions, leadership style, qualifications of employees or the funding structure. These characteristics can be termed performance drivers. The task of controlling the NPO’s performance is supported by all
the processes and tools (e.g. MBO + MBE, balanced scorecard, EFQM, inducement systems) that help ensure that the success factors are optimally aligned with the NPO’s goals. Their effects are reflected in **performance measures**, whereby output gauges measure the performance of an NPO, e.g. reliability, speed of execution, while outcome gauges show the effects achieved by the services with the essential target groups (service recipients), such as satisfaction levels, levels of information and awareness. **Illustration 43** shows the relationships.

**Illustration 43: Basic elements of performance management**

Potential challenges to measuring and controlling performance are, for example:

1) How can the outcomes of NPO actions be measured meaningfully, reliably and with an acceptable effort (e.g. how can one measure whether the members’ interests are represented successfully)?

2) How can the outputs of NPO actions be measured in a motivating way, safe from manipulation and without risking efficiency losses (e.g. can employee performance be evaluated on the basis of visits to members, and what would this measurement method initiate)?

3) Do the outputs reliably contribute to the achievement of the desired outcomes (e.g. is the number of visits to members really decisive for high member satisfaction)?
The following dimensions can be used to measure the effectiveness of an economic association oriented towards the benefit of its members (illustration 44):

Illustration 44: Dimensions to measure effectiveness in an economic association

The following indicators are possible:
- Service evaluation
- Service and program innovation
- Personnel development measures
- Web-service access or user frequency
- Media publications and how they are received
- Visits to member companies
- Workshop and conference attendance
- Enquiries and feedback

Conventional accounting, with its focus on meeting the provisions of commercial law, captures economic gauges that merely cover the relationships of an organization with its procurement and sales markets. Reflected therein are neither an organization’s relations with the so-called socio-economic environment, nor the intangible assets created within the organization, e.g. qualifications of personnel. The limits of conventional accounting are thus reached whenever it is necessary to establish a comprehensible and verifiable record of the social responsibility of an organization for internal (employees, volunteers etc.) and external (service recipients, wider public etc.) interested parties. In contrast, a balanced overview of the interests of all the persons and groups affected by the activities of an organization, the so-called stakeholders, should stand at the forefront. To these stakeholders belong the ser-
vice recipients, customers, suppliers, financiers (donors and lenders), state agencies and media, as well as the workforce and the population in the vicinity of an organization. This so-called stakeholder approach leads many NPOs to voluntarily complement their reporting – hitherto based on financial figures in accordance with legal requirements – with statements commonly referred to as *society-related reporting* (*social balance sheets or social performance and impact reports*).

Social balance sheets usually take either the form of a *social report* or a *social indicators account*. The social report is a predominantly verbal presentation of qualitative performance and impact dimensions, supplemented by meaningful illustrations and statistics. The social indicators account relies on key figures which – working as indicators – highlight social conditions and changes. They depict objectively measurable facts, such as nursing activities in a home for elderly people, as well as only subjectively perceived judgments, such as satisfaction levels, and bring issues to our attention that generally elude direct measurement.

The increasing importance of intangible assets, mainly of experience and accumulated knowledge in organizations, that are not adequately reflected in traditional annual financial reports, is leading to the development of an improved format of information on intangible assets and value-adding potentials, in the form of a knowledge account or *intellectual capital reporting*. This report is to be formally structured as an indicator account.

Fulfillment of a public service mandate is the subject of the *public value report*. Such reports follow the logic that public institutions, but also private organizations fulfilling a public service mandate, create value for the community. As statements of accomplishment, they either take the format of social reports, such as with public-service broadcasting corporations, or of social indicator accounts, such as with shared-benefit building cooperatives. For the cooperative sector, the measurement of an organization’s effectiveness focuses on the promotion of the cooperatives’ members in the economic and non-economic area. Economic promotion is covered by way of *member-value-reporting* that communicates the cooperative’s unique selling proposition as a special form of shareholder value (Theurl 2005).

\[
\text{Member Value} = f(DB, IB, PB)
\]

**DB:** Direct, real benefit to the member through service interactions with the cooperative enterprise on the basis of agreed conditions and standards;

**IB:** Indirect benefit to the member on the basis of his or her function as owner and financier, e.g. interest payment on his or her equity share, inter alia;

**PB:** Potential for a long-term, sustainable benefit based on investments to secure the economic future (asset value or earnings value).
3.4.4 Organizational Integration of the Controlling Function

There is a wide range of organizational options for carrying out controlling tasks. This may range from assigning all of the tasks to existing organizational units to establishing a multi-level, subdivided controlling body.

Assigning the tasks to existing positions in the organizational chart is particularly recommended for smaller and medium-sized NPOs. In the first instance, controlling tasks can be assigned to a staff position reporting to the management board or to the person responsible for looking after accounting and reporting. With such a solution, however, controlling tasks will usually only be partially accomplished, namely mostly in the area of operational controlling. Planning a comprehensive, systematic controlling concept requires the corresponding professional specialization and thus can only be expected from larger organizations. If the controlling function is to fulfill its comprehensive information and coordination tasks, it needs to be assigned to the highest NPO-management level. In those cases where the steering information to be gathered is predominantly quantitative in nature, this will mostly be the head of accounting and reporting. Equally, a staff position directly reporting to the management board could be established for the controlling function, whereby, in both cases, service functions may additionally be performed for the higher level voluntary governance bodies and the subordinated management areas of the head office. If, on the other hand, an organization’s employees are considered the most important resource in the provision of its services, then the controlling tasks could also be taken on by the head of human resources. If, in contrast, the exchange relationships with clients, members and donors are seen as the core of the service performance potential, then the controlling tasks could be given to the head of marketing. Since the marketing function assumes vital strategic tasks, it is conceivable that, while operational controlling is assigned to the head of accounting, strategic controlling is assigned to the head of marketing, coordinated directly by top management (board of governors, management board, head office). Illustration 45 shows the various organizational options.
3.4.5 Organizational Requirements for an Effective Use of Controlling in NPOs

When introducing a comprehensive, systematically-executed controlling concept, the following organizational requirements and conditions have to be taken into consideration:

1) Within the framework of a management concept, a clear division of tasks needs to be determined between planning (decision-making) and controlling (support). The fundamental role and the tasks of controlling within the NPO need to be clarified.

2) Effective controlling is based on the model of management by objectives and by exception (MBO + MBE). According to this concept, objectives as well as the reporting task are anchored as important building blocks for the controlling function.

3) The introduction of controlling may be met with reservation, criticism and fears from the outset. Hence, accompanying measures have to be taken at an early stage regarding information, involvement of affected people and consideration of the needs and objectives of the various parties.

4) The introduction of controlling instruments would be served by a thorough analysis of already existing tools used for controlling. Tools that have proven their worth would not have to be newly invented, but could be integrated into the controlling concept.
3.5 Steering 3: Quality Management (QM) as a Building Block of Management Excellence

3.5.1 Terminology, Overview

The concept of Total Quality Management (TQM) as a basic philosophy of the Fribourg Management Model was already introduced in our discussions of the fundamentals of system management in chapter 3.1, which outlined TQM’s essential principles. At the same time, TQM’s role was relativized, construed as an essential building block of management excellence. In this section, how we see TQM needs to be concretized, its importance clarified and its specific tools and methods discussed. The starting point for this is the definition of quality according to DIN EN ISO 9000, which describes quality as the “ability of the sum of inherent characteristics of a product, a system or process to meet the requirements of customers and other interested parties.”

This rather general definition entails, first of all, an ends-means relationship. Meeting certain requirements represents the ends that are to be achieved through sets of means, such as activities, products or a certain behavior. The primary goal of QM is client satisfaction or, in the case of mutual-benefit NPOs, member satisfaction. To achieve this satisfaction, service offerings need to be designed and provided in a way to meet the needs and expectations of the clients and / or members to the greatest possible extent. Quality in this original sense is thus the ability to design and provide services in a way that leads to the needs of certain target groups being satisfied. As services are provided through interactions between employees and recipients, the skills and motivation of employees are equally crucial to service quality. Employee satisfaction thus becomes an objective equivalent to quality-centered workflow and process design. Moreover, NPOs are in relationships with numerous other spheres and exchange partners. Their expectations always also need to be taken into account in an NPO’s actions and behavior, potentially leading to goal conflicts.

This argumentation makes it clear that quality refers to, or is construed primarily based on, the so-called business and service delivery processes. For these processes, member and client satisfaction, or the effects to be achieved for the other stakeholders of the influencing environment, constitute the focal point from which workflow designs are to be derived. However, for the processes in system management, as well as for all resource and supporting processes, this implies that they need to take their guidance primarily from the criteria of effectiveness and efficiency, given that their contribution to service quality is only indirect. Thus, it seems justified to opt for the more comprehensive philosophy of Management Excellence (as compared to service quality). In other words, system management strives for an interlinked design of management systems, in which processes constitute just one building
block alongside tools, methods etc. Likewise, the processes in resource management orient themselves towards result criteria other than product or service quality. Only in certain cases can NPO-internal “customer-supplier relationships” be identified, whereby even in these cases it remains questionable whether “customer” satisfaction should be the decisive gauge or whether the processes involved should heed other effectiveness principles.

Based on this reasoning we can conclude that service quality is useful as a criterion of orientation for only one part of all management tasks, while for the others, task fulfillment should be driven by traditional effectiveness and efficiency principles. This is also the point of view from which our approach for the integration of quality management into the Fribourg Management Model has been derived: The **Quality Management System** is an integrative compilation of principles, standards, tools and methods, which traditionally belong to other management disciplines. The QM system thus forms a set of tasks that run vertically through all three management task areas of the model structure, as schematically shown in illustration 46 and further detailed in illustration 47.

**Illustration 46: Quality management in the Fribourg Management Model**

Based on the model’s logic, this would imply that the corresponding quality aspects would have to be discussed for each management area (e.g. marketing management, resource management). However, for didactic reasons and to take account of the importance of QM in reality, the various quality aspects are grouped together and comprehensively discussed in this chapter 3.5. In the literature, QM tasks are structured in rather different ways, from Q planning, through Q control and Q assurance to Q improvement and Q measurement,
whereby these subtasks frequently tend to overlap. For the FMM, the topic is structured along the tasks of Q steering (planning and control), Q process management and Q organization.

As already discussed, QM tasks permeate planning and control and thus the controlling of all other NPO tasks. Thus it seems justified to consider QM a superordinate dimension of steering both in terms of form as well as content, to be integrated accordingly into system management.

### 3.5.2 Quality Steering (Q Planning and Q Control)

All the tools and activities for the planning and controlling of quality are subsumed under the term “quality steering”. Its core is formed by strategic quality principles, the design of quality-driven services and communication (including their processes), as well as monitoring of quality implementation and its effects. The process of conceptualizing quality thereby needs to follow the planning logic, as shown in illustration 36: Fundamental analyses of surrounding spheres and markets, as well as NPO-internal aspects, provide the basic information for the normative foundations. According to ISO standards, it is the task of the highest level bodies to establish the principles of quality policy and client-member orientation. In NPOs, these bodies are responsible for the mission statements that should therefore include quality-related principles, such as the basic principles of the TQM philosophy or of Management Excellence.

The general principles formulated in mission statements then need to be concretized at the level of management or functional area concepts with a long-term perspective. Depending on the size of the NPO, either a section on QM would have to be introduced in the general management concept, or a proper QM concept would have to be formulated on its own for those cases where each system management task has its own independent concept (e.g. planning and controlling concept, organizational design concept, etc.). The QM section or concept would preferably deal with methodological-technical aspects, whereas the practical aspects of how member or client satisfaction and service quality should be achieved in a given case, would be presented in the marketing concept. For resource management, quality-related principles would, above all, be formulated in the human resource concept.

Another decision to be taken at the concept level concerns the approach and importance of quality-driven process management: there needs to be a statement in either the management or the organizational design concept, on whether the existing processes in the NPO should be optimized in the context of the established structure or whether a radically new process-based structure in the sense of Business Process Reengineering should be aimed for.
3. System Management

3.1 Fundamentals
Total Quality Management (TQM) as underlying philosophy with
- Member and client orientation
- Employee involvement and consideration
- Process view
- Continuous improvement

3.2 Consensus-Backed Decision-Making and Implementation
Design of decision-making and problem solving processes

3.3 Planning
including QM-related statements in
- Mission statements
- Management, marketing and resource concepts
- Operational plans (design and implementation of QM-tools)

3.4 Controlling
- Analyses of environmental spheres, markets (market research, also attributable to marketing) and the NPO itself
- Process / performance accounting (also attributable to accounting / resource management)
- Comparisons of planned and real values (quality standards)
- Evaluations of achieved results (output, outcome and impact) and satisfaction

3.5 Quality Management
(figuring here for didactical reasons)

3.6 Leadership
- Quality-related objectives for employees and their (performance) assessment
- Innovation-friendly work climate

3.7 Organization
- Process analyses and process designs
- Team structures (Q teams, Q circles)
- QM responsibilities, competencies
- Process descriptions/quality manual

3.8 Innovation
Project management for adaptation and change processes

4. Marketing Management
- Consistent outcome and impact orientation (benefit, satisfaction, acceptance) for the design of services and communication, including the corresponding provision processes
- Establishment of quality standards for services and communication
- Requirements profile for employees and service providers

5. Resource Management
- Recruitment of employees in line with marketing policies (requirements)
- HR development in the areas of service and communication capacities

Illustration 47: QM tasks in the Fribourg Management Model
Ultimately, the latter does not seem to be a particularly suitable option for NPOs, notwithstanding perhaps the case of important individual service delivery processes. Therefore QM tools and methods need to be chosen and implemented at the strategic (multi-annual) and operational (shorter-term) planning levels. Important undertakings, such as redesigning entire processes or formulating quality standards for the marketing area, should be defined and organized as projects, in which special attention should be paid to the innovation aspect of these changes. Finally, and in line with the cybernetic model underlying the FMM, steering quality also includes the monitoring of plan implementation or controlling. Quality control according to illustration 30 addresses:

1) the processes in respect to meeting defined standards or objectives;
2) the output that in service organizations emerges as a result of the service provision processes;
3) the outcome or impact, seen as the real, achieved final effect (benefit, influence) for the service addressees.

The key task of TQM, however, lies in the analysis and redesign of processes, which will be discussed in the following section.

3.5.3 Operational, Quality-Driven Process Management

In all QM models the planning, execution and continuous development of processes takes a central role. Well-designed and operated processes increase customer satisfaction and reduce costs due to lower failure rates, savings in time or material and increases in employee satisfaction. For NPOs, as classical service providers, the quality of their processes, namely in service delivery, is of existential importance. Systematic quality-driven process management can be divided into seven steps:

1) Identification of processes and their families; determination of the process architecture

Processes are regularly conducted activity sequences with a clearly defined beginning and end, creating an output that is necessary and important to the good functioning of the NPO. The first task therefore is to identify an NPO’s processes and to attribute them to the three different management areas of system management (management processes), marketing management (business or service delivery processes) and resource management (supporting processes). The processes can be identified either inductively by analyzing the regular activities in each department and by assigning them to the processes they belong to, or deductively by deriving the processes to be conducted from the strategic concepts. All identified processes are then categorized into the three families of “management processes”, “business or service delivery processes” and “supporting processes”. Finally,
chronological interdependencies between the various processes are identified (which process needs to be terminated, before the next one can begin?), leading to an understanding and a graphical display of an NPO’s **process architecture**.

In management processes (system management) and in supporting processes (resource management), several different positions or bodies across the entire NPO are normally involved, to the point that a cross-departmental or cross-sectional understanding of the process tasks and goals needs to be reached. In the area of service delivery (business processes), some processes can be operated entirely within one department or group, while others extend across various departments. The latter occasionally span the entire value chain across different departmental boundaries and potentially even involve cooperation partners outside and often constitute the NPO’s important core business processes. Thus, they will have to be designed or improved in an interdisciplinary, interlinked manner, with the targeted benefits for the output recipients as the focal point for all the parties involved. To keep the QM effort (from analysis, to improvement and documentation) at a manageable level and to avoid overwhelming bureaucracy, smaller NPOs may limit their efforts to the more important processes (in terms of benefits and costs involved).

2) **Identification and visualization of the activity sequence (flow-charting) and other characteristics of current processes**

All activities necessary to successfully conduct the defined processes then need to be charted in their current chronological sequence (flow chart) or described in another standardized format. In addition, process goals and ownership (if defined) as well as process costs need to be identified.

3) **Survey and discussion of the target groups’ expectations and benefits**

For each process, the expectations and currently achieved benefits of the output’s recipients or target groups need to be surveyed and discussed. What do the target groups need and expect from the processes, and do they currently receive what they need and expect? In the case of service delivery processes, this step may be able to rely on the corresponding findings and surveys used to establish the marketing concept or marketing planning. The corresponding data, however, may already be outdated or not sufficiently detailed for process guidance.

4) **Evaluation of the existing processes and conclusions**

The information gathered here will help assess the quality, effectiveness and efficiency of the existing processes. Do the chosen target groups receive what they need and expect? Do the processes achieve their objectives and at what cost? Where and how many times do mistakes occur? Who is currently in charge of supervising the process? The result of
this evaluation should provide a clear idea of those processes that need to be improved and the ones that already work fairly well.

5) **New process goals and standards; process improvement ideas**

For all the processes identified as deficient, questions need to be discussed such as: How could output and recipient benefits be raised or how could costs be lowered without negatively affecting the reliability or speed of the process? Options to consider would be simplifying or even eliminating unnecessary sub-processes or including additional processes for a higher benefit to the target audience; using new technology or alternative activity sequences; introducing standard operating procedures, check-lists and other tools. Here, potential outsourcing solutions also need to be considered in all those cases where a process, hitherto conducted by the NPO itself, can be found offered in the market at lower cost or higher quality. To ensure and measure process quality, the policies and targets established in higher-order (normative) management tools, such as mission statements or concepts, need to be heeded and specific Q standards additionally defined. Moreover, measures need to be taken to ensure continuous improvement efforts for the various activities and sub-processes, enabling a more effective and cost-efficient meeting of the standards set. Failures and risk analyses may serve as a starting point.

6) **Discussion, test and documentation of model processes**

Process improvement ideas need to be discussed in the team that usually conducts or participates in the process; they need to be applied and tested in reality and evaluated in terms of their functioning. All well-functioning model processes are then documented and integrated into a quality or process management manual, preferably in an electronic form, thus easily accessible to all the workstations involved.

7) **Decisions regarding the QM organizational design**

The necessary decisions regarding the organizational arrangements for a QM system will be addressed in the next section.

The seven work steps listed above provide a brief overview of the importance of quality-driven process management, as well as its complexities and difficulties. The effort they entail forms the decisive contribution to the establishment of a QM system that ensures member or client focus, reliability and cost-efficiency for all crucial workflows.

### 3.5.4 QM Organizational Design

In terms of organizational structure, the QM is to be instituted on several levels:

1) For all essential processes, particularly core business processes, and even for vital sub-processes, process supervision has to be instituted and allocated to an individual, the pro-
Process responsibility includes periodic reviews of its practicability and monitoring of its workflow and activities, in view of their conformity with established specifications and standards, as well as the identification of mistakes and the right to suggest corrective measures to the relevant higher-level bodies. Determining one person responsible for the process is of particular importance for cross-departmental workflows, such as personnel recruitment.

2) In addition, competencies and responsibilities regarding quality and quality decisions need to be assigned. As a principle, all employees are — within their work domain — directly responsible for the quality, effectiveness and efficiency of their inputs. This also means that all line managers need to adopt these quality criteria as part of their leadership task and make the degree of adherence to them the topic of employee performance reviews within the framework of MBO + MBE.

3) In larger NPOs it may be useful, or even necessary, to assign overall responsibility for QM to a position attached to the management board. The demarcation of this position’s task area relative to other areas of competence needs to be unequivocal. The following interfaces need particular scrutiny:

a) QM and organizational office. It needs to be clearly determined whether the QM manager or an existing organizational officer is responsible for (1) the support regarding the analysis and (re-)design of processes and (2) the creation and maintenance of the quality or process manual or IT-tool.

b) QM and controlling. According to chapter 3.4, controlling is to be understood as an information system for the support of planning and control. Consequently the preparation and processing of information on quality and its control also need to be seen as a component of this controlling system. Therefore, a clear division of competencies and an ongoing cooperation between the QM position and a controlling position, that may already be established, need to become institutionalized. At the same time, it has to be taken into consideration that quality control in an NPO takes place, above all, at the level of tangible operations and not so much in the area of financial controlling.

QM managers are, above all, expected to support and advise process owners and functional-area managers on the evaluation and design of processes and the formulation of quality standards which require specific know-how in terms of methodology. The decision of what actually needs to be done in the course of a process, however, is left to the process providers themselves. Equally, QM managers have to provide for the training and development of all employees in quality-related matters.
4) The principle of continuous improvement is first of all a mandate for all employees and managers to permanently look after the continuous development of the NPO’s processes. Special organizational tools, however, can be introduced for this purpose:

a) **Quality circles** are groups of people involved in a shared process who voluntarily and regularly come together to identify, analyze and solve newly emerging problems related to the optimal process design.

b) **Quality teams** are groups officially established by the management board to solve a clearly defined quality problem. The team is often made up of representatives from various hierarchical levels and departments in a way to ensure that the entire know-how required for finding a solution is combined in the group. As compared to quality circles, quality teams can be seen as project groups established for a limited time.

As already discussed in our description of the TQM and management excellence philosophy in chapter 3.1.2, continuous improvement requires a willingness to change on the part of all those involved and those responsible for it, focused on an ongoing achievement of gains in effectiveness and efficiency. Fundamental innovations – on the other hand – which may fall due from time to time will have to orient themselves predominantly towards the criteria of systematic change management, according to chapter 3.8.

5) A **QM manual or IT-solution** should be established to document the entire QM system, preferably in electronic form, to provide voluntary executives, paid managers and staff with round-the-clock access to the QM system, from wherever they need it. As well as all the documents featuring quality-related statements such as mission statements, concepts or process descriptions, and the aforementioned organizational provisions, the manual should also include rules for the periodic review of processes and for document handling and filing. Finally, it also needs to clarify who is responsible for the maintenance, safekeeping and updating of the manual.

With its focus on processes and continuous improvement, the QM movement has triggered strong impulses for a professionalization of management practices and thus provides a crucial contribution to the striving for comprehensive management excellence in NPO.
3.6 Leadership and Motivation

Leadership is the use of a method of social influencing to achieve goals tied to the organization’s purpose. Leadership is not just confined to the relationship between a person of a higher hierarchical position and his or her subordinates; it may emerge among persons regardless of their hierarchical position, namely, when a person has certain abilities to influence other persons’ attitudes and behaviors. Thus, a colleague may be able to influence his peers by way of individual persuasion, an employee his superior based on his expertise, or a mentor her protégé in the course of a counseling session. In such cases we speak of informal leadership, as compared to the formal leadership between a superior and his or her staff, according to the actual organizational chart.

In a significant number of NPOs the variety of relationships in which leadership may evolve is clearly higher than in a business enterprise. Beyond contractually bound employees, voluntary executives and voluntary staff are also involved, leading to the following leadership relationships:

1) Leadership within a voluntary governance body between the chairperson and all other members, which can extend throughout the entire body as well as in the sub-units of committees.

2) Leadership of employees of a local head office (or its management board), by the voluntary governance body or its chair, constituting a first interface between voluntary and paid positions.

3) Leadership among the operating organization’s employed personnel, e.g. between the paid managers and the specialized staff, as part of a contractual relationship.

4) Leadership of voluntary staff by permanently employed coordinators, constituting the second interface between voluntary and paid positions.

Each of these leadership relationships is characterized by specific conditions, and the corresponding requirements for the people who lead. In the following sections, the common foundations of leadership will be at the center of the discussion, while the specifics of each individual relationship will be discussed only in selected places.

The leadership relationship will initially be analyzed from the perspective of the person leading. The discussion will touch upon the various factors influencing leadership, and the importance of a leader’s personality, as well as his or her attitudes towards the persons being led, in terms of different generic notions about the nature of human beings. Then, leadership relationships will be looked at from the point of view of the persons being led, whereby
questions of their motivation to engage, to achieve and to commit will be the focus. Finally, different leadership styles will be compared and analyzed in respect to their effectiveness.

### 3.6.1 Leadership and Power

Leadership as a form of social influencing is based on authority and power, whereby authority stands for all legitimized forms of power. The following essential **sources of power** or authority can be distinguished for those with a leadership role:

1) The organizational position with its sanctioning capacity (e.g. the right to command and discipline; the competency to give positive and negative feedback in the assessment process and the possibility to set and assert certain objectives or standards in MBO + MBE).

2) Control of resources, partly tied to the management position (e.g. control over the budget or the competency to offer rewards).

3) The information advantage (e.g. founded on expertise or the participation in the management board of the NPO).

4) Individual power of charisma (e.g. in the form of attributed trustworthiness or credibility).

The possibilities for the use of these different sources of power depend on the organization structures but also on the personalities and attitudes of the persons involved, i.e. the manager and the employees. Large hierarchical organizations generally offer managers more possibilities to lead by positional power and resource control than smaller organizations, or those where clear lines of command are not in place. Moreover, the positional power on the voluntary governance side is much less clear-cut and ascertainable than in the employee relationships on the side of the paid managers and staff. However, whether the possibilities for the use of hierarchical power really come to bear in a leadership relationship depends on the attitudes of the persons involved. NPOs differ from each other not only in size and the number of hierarchical levels, but also in how they deal with hierarchy. While in some organizations – based on their traditions or industry cultures – the directives of a superordinate position may always be carried out without objections, the employees of other organizations may expect their superiors to always discuss decisions beforehand. Furthermore, in some organizations the voluntary governance board may decree the strategy of the NPO based on its position and individual charisma, while in others such strategic decisions would be taken and possibly amended by professional experts. It is hardly possible to develop any generalized statements on the sources of power that will assert themselves the best and will lead to the best results for the NPO. The prevailing mixture of power sources used in daily management practice is an individual characteristic of each NPO.
Depending on the source of power and authority on which management tends to build, leadership is characterized by different leadership styles. Thus, a person relying mostly on his or her positional (hierarchical) power will tend to display task-oriented, authoritarian leadership behavior. In contrast, a person with a cooperative, relationship-oriented understanding of leadership is more likely to rely on his or her individual charisma or information advantage to assert his or her goals.

**Leadership Personality and Authority**

The leadership personality is an additional aspect to consider when analyzing leadership relationships. The leadership personality – seen as bundle of properties – is certainly important for managers, as it is instrumental to the ability and motivation to lead. However, empirical research on leadership has not been able to identify those characteristics or personality traits that determine the success of leadership. While characteristics such as the body size or cognitive and emotional intelligence may have a favorable effect, they nonetheless obviously do not offer a guarantee for success. This is mainly due to the fact that leadership unfolds in a social relationship in which not only the leader participates, but also the persons being led. This can be illustrated on the basis of the phenomena of charisma and trust, with charisma seen as the special presence emanating from a person. While a person’s presence or aura may be influenced favorably by certain personality traits (e.g. extroversion versus introversion) and skills (e.g. analytical or rhetorical talent), its effect is dependent on whether these traits correspond to the expectations of the people being led. In addition, the willingness to submit to the personal authority of the person in charge seems higher during crises and transitional phases than in routine situations.

This brings us to the important distinction between leadership that is aspired to, and that which is accepted. While managers aspire to exert leadership, it is the persons whom they try to lead, who decide whether to accept it. In other words: Whether leadership is effective depends not only on the skills, will and intentions of the leader, but also on his or her acceptance by those being led. This acceptance may be based on different pillars of authority (*illustration 48*).
In addition to the general characteristics of individual managers and their acceptance by the people being led, their basic motivational needs and attitude towards leadership are also an essential personality aspect. Based on the studies of McClelland (1961), three types of motivational needs with their different attitudes on how to lead employees can be distinguished:

1) The achievement-motivated type is attracted by room for maneuvering/personal scope of action and challenging work content. In leadership relationships such a person will accordingly place particular emphasis on goal achievement in his or her area of responsibility.

2) The affiliation-motivated type is looking for high social esteem and positive interpersonal relationships. Managers of this type develop more employee-oriented attitudes and are rather less assertive, as mutual respect, consideration and acceptance take higher personal priority.

3) The power-motivated type strives for personal influence, expects a clear hierarchical order and looks for formal (directive) positional authority. Managers of this type invest more time in cultivating relationships for their personal benefit (networking), while neglecting the aspect of employee-oriented leadership (i.e. motivating, handling conflict, coaching young talent).
Leadership Guidelines and Their Underlying Image of Man

Leadership guidelines are normative frameworks for the cooperation between managers and their employees. They exist, above all, in larger organizations in the form of leadership compendia or sets of policies, but also as individual ideals of managers, thus more or less consciously shaping their behavior. An essential aspect of these individual leadership ideals is their inherent image of man. This image expresses a manager’s beliefs about employee behavior in general, as well as the conclusions to be drawn for the best leadership behavior. The best-known typology of human images was developed by McGregor (1960). He distinguishes two polarized images of man, the so called Theory X and Theory Y. Managers who have adopted the Theory X view assume that their employees are generally not motivated to perform or to accept responsibility, unless they are forced to do so. As a consequence managers should not only give detailed instructions, but should also permanently and closely supervise their staff. In contrast, executives with the Theory Y view assume that employees are generally self-motivated, as long as they can identify with the organization’s goals and are given an opportunity for self-actualization. Managers who follow the Theory X notion will generally be distrustful towards their employees and will lead them accordingly, in a rather authoritarian, commanding way. In contrast, executives with the Theory Y image in mind will generally be trusting and not be shaken in their firm employee-oriented attitude, even by fleeting, disappointing experiences with their employees.

According to Quinn (1988), managers move between opposing requirements that can be illustrated in two dimensions. These dimensions are related to the essential basic principles of system management mentioned in section 3.1.3: First of all, managers have to find a balance between the requirements of efficiency/control on the one hand and flexibility/change on the other. They should achieve the best possible results under the prevailing conditions, using the available resources and keeping track of all the business processes, while at the same time also initiating change, breaking up inefficient routines and keeping the organization flexible. Moreover, they operate in a permanent area of tension between the external requirement to be able to show goals and results, and the internal requirement to respond to the needs and interests, as well as the strengths and weaknesses of their own team.

From the combination of these two dimensions and their opposing requirements emerge eight different roles, which in their entirety constitute the leadership task (illustration 49) that makes an organization or team sustainably successful.
As innovators, managers should foster new ideas from generation to effective realization; as mediators, they should represent the interests of their own and their employees’ areas of responsibility upwards along the line of command and outwards towards clients and other stakeholders. As producers, they should ensure that the team and the entire organization achieve the intended results; and as directors, they should chart a course that conveys stability and guidance. As coordinators, the managers should ensure smooth cooperation internally within their area of responsibility; and in their monitoring role, they should supervise the way their employees work and achieve their goals. As facilitators, the managers should, by way of personal relations with their employees, provide ongoing motivation for change and problem-solving; and in their role as mentors, they should at the same time help develop their employees’ personal and professional skills. It goes without saying that hardly anyone with leadership responsibility will be capable of fulfilling all these different roles to the same degree. Depending on the leadership ideals of the manager, different manifestations of the eight leadership roles and therefore variations in the emphasis on the different quadrants will be found.
3.6.2 The Followers and Their Motivation

Motivation is an emotional state in which one aims for a specific goal. Motivation is driven on the one hand by a powerful need or motive and on the other by the affected person’s sense of an opportunity to satisfy the need. A need is a general sensation of lack or deficiency. It may morph into motive that can be defined as a latent but existing willingness for goal-directed action. While, for example, the perception and experience of loneliness may be the manifestation of a need, the resulting willingness to search for social contact in order to overcome this feeling corresponds to a motive. Finally, when a motive meets an object that promises to satisfy the underlying need, we speak of a stimulus.

Demotivation is an emotional state in which the drive for action is missing. Contrary to the condition of motivation, the affected person does not perceive nor look for any opportunity to satisfy a current need. Re-motivation stands for the process of recovering lost motivation. Demotivation manifests itself in an attitude in which the potential, achievements and relationships at work are generally seen in a negative light. It may be the expression of a lack of motives or the result of frustrated motivation. In both cases, the demotivated person feels incapacitated and caught in an undesirable situation. In more detail, the following causes for demotivation can be distinguished:

- Uncertainty about the future of one’s position and the corresponding tasks, the expectations of superiors, colleagues or employees, and about one’s own capabilities and scope for decision-making.
- Isolation due to conflicts with important stakeholders (e.g. superiors or colleagues), hand in hand with a lack of support in crisis situations or low team cohesion.
- Lack of recognition of one’s achievements, or the status claimed on the part of the superiors, colleagues or cooperation partners, including a lack of or insufficient material and immaterial compensation or remuneration from the organization.
- Insufficient autonomy, as manifested in lack of decision-making powers, permanent supervision and the constant perception of being dependent on others when it comes to trying to achieve one’s own goals.
- Personal humiliation through mobbing, through the feeling of being discriminated financially or in terms of development opportunities in comparison to others.

From these demotivating factors, clues can also be derived reversely to identify working conditions that might motivate human beings. These clues go hand in hand with Maslow’s influential Theory of Human Motivation in which he formulated the Hierarchy of Needs (1943/1954). According to Maslow the human needs can be divided into five categories:
1) The base of the hierarchy is formed by **physiological needs**, i.e. the need for air, water, food, clothing, rest and sexual satisfaction. Their purpose is to safeguard a person’s well-being, and they may be negatively affected for example, by frequent disturbances from outside such as stress or excessively long working times. If they remain unsatisfied over a longer period of time, this will show in corresponding physical symptoms, such as cravings, fatigue, nervousness or serious diseases.

2) **Safety needs** include the search for protection from outside dangers or disturbances, for assurance regarding future occurrences and their negative consequences, as well as for security in one’s own goals, convictions and actions. A lack of safety can lead to the perception of vulnerability, uncertainty, insecurity or angst. If this need remains unsatisfied, we may witness for example, an increased search for assurance, a lack of willingness to commit and take risks, or low self-confidence in task fulfillment.

3) The **need for love and belonging** represents a number of the individual’s social needs and includes the search for affection, understanding and acceptance from other persons and acceptance in particular in groups. An unmet need for belonging may manifest itself in isolation, separation and open contempt for other people.

4) The **need for esteem** is, like the need for belonging, a social need. Contrary to the latter however, its aim is to seek distinction from other people in the form of one’s own valued and respected identity. A person’s need for esteem can be met for example by experiencing appreciation, receiving praise, being awarded privileges or exhibiting status symbols. In organizations, esteem as motive is, above all, aroused or frustrated through the hierarchy and the associated status differentials.

5) The highest need in Maslow’s scheme is the **need for self-actualization**. According to his conviction, it is the dominant motive of an autonomous and self-confident person who has already been able to satisfy all lower-level needs. The self-actualization need is also termed the growth need, because it is the prerequisite for continuous development. In the professional world this need is linked to leeway in decision-making and creativity, assuming responsibility and also to an opportunity to realize moral and aesthetical ideals.

The importance of each individual need may differ from one person to the next and may also change over time. Therefore, it is important for a manager to develop a feeling as to which need may actually stand behind a concern or demand of an employee, and on which level this employee should thus be addressed in a motivating way.
Motivation as a Leadership Task

The crucial challenge of leadership is to motivate one’s followers. Motivating employees means inspiring them – with the help of appropriate incentives – to adopt goals, fulfill the tasks assigned to them and make full use of their capacities (knowledge, abilities, skills, experience) with the aim of best-possible performance. An employee’s motivation is tied on the one hand to his or her motives (interests, needs, expectations), and on the other, to the degree of satisfaction or dissatisfaction resulting from the fulfillment of these needs.

The cause-effect relationships in the motivation process are displayed in illustration 50; they are largely based on the corresponding process model of Porter and Lawler (1968). The illustration shows that motivation is dependent on an entire bundle of incentives and not just exclusively on leadership behavior in the narrower sense, i.e. the way the leader relates and interacts with his or her followers. Motivation is additionally affected to a significant degree by the form of integration into the organization design (the role and job description including tasks, powers and responsibility), as well as by the terms of employment and the working conditions. The model of Porter and Lawler, who compiled and integrated the findings of various motivation theories in a single model, begins with the willingness of a person to perform. This willingness depends primarily on whether the prospective inducements and incentives offered by the NPO seem attractive and attainable in the light of this person’s need structure, whereby the essential basic needs can be expressed via Maslow’s need categories. Whether this willingness actually leads to effective action depends mainly on the abilities and the traits of the person. And whether the action that is carried out leads to satisfaction depends on the rewards given to the person as a consequence of the accomplishment. Of significant additional importance is the degree to which these rewards are perceived as adequate and equitable. The degree of satisfaction experienced will then influence whether the same prospective reward will, in future, still be perceived as attractive. It is safe to assume that for extrinsic rewards a habituation effect may take place: current satisfaction with a bonus may lead to the phenomenon that for future tasks the expectation of bonus increases may become the norm; or else satisfaction with the bonus will decrease over time. Finally, a feedback loop can be observed based on the assessment of the effort needed to accomplish the task (work execution) to the future perceived effort-reward probability. If a person sees, for example, that his or her experience and commitment turn out to be insufficient to achieve a desired result, then this person may in future be generally more cautious when it comes to accepting new tasks.
Illustration 50: Influence factors of employee motivation

One of the most important leadership and motivation tools is the periodic employee performance review. The corresponding interview between a manager and his or her direct subordinates should be well prepared by both parties and take place at least once a year and also on request. It aims at implementing MBO + MBE, i.e. to jointly (in a participative way) review successes and failures with respect to the achievement of objectives and behavioral standards, to appraise individual performance and give guidance, to define and agree upon new objectives including the associated progress and result review, to define exceptions and – finally – to determine training and development measures. These interviews depend on a culture of trust with a mutually positive attitude, honesty, reliability and transparency. Such a culture needs to be created and nurtured by daily leadership behavior and by regular and immediate feedback on the individual employee performance and behavior.
3.6.3 Leadership Behavior and Success

Leadership success should always be measured against leadership’s intended goals. These goals are, inter alia, dependent on the leadership guidelines to which an organization or an individual manager adheres. Four goal areas can be distinguished:

1) **Performance**: Leadership should aim to increase or maintain the performance of individual employees or an entire department. Leadership is successful if a manager succeeds in achieving the quantitative and qualitative goals of the NPO or the team. Those executives who move performance goals to the center of their attention often assume and are convinced of the Theory X mentioned previously. The range of performance criteria may encompass the performance volume, quality and failure rates, as well as behavior, initiative and creativity.

2) **Satisfaction**: Leadership should aim at achieving high satisfaction for the individual in relation to the task and personal work conditions. In accordance with Theory Y, satisfaction can be achieved if employees experience a sufficient degree of safety, esteem, appreciation and opportunities for autonomous work execution. In this view, performance results from satisfaction.

3) **Cohesion**: Leadership should contribute to ensuring cohesion in an NPO or work team. Cohesion is the essential basis for a team to fulfill complex tasks that require the participation of all team members, or to overcome temporary phases of crisis. By way of leadership, the manager can directly stimulate cooperation within the team, for example, by discussing decisions within the group or by deliberately assigning tasks to groups rather than individuals. Moreover, he or she can also try to strengthen self-organization within the team by delegating decisions to the team as far as possible and staying in the background.

4) **Development**: While the first three goals are aimed at achieving a stable success situation, the development goal is geared towards the change and progress capacity of organizations. This goal becomes increasingly important, as the future requirements for a team or an entire NPO become less predictable.

Leadership behavior can be mapped on a continuum between the two poles of a pronounced authoritarian style, where the manager by principle decides entirely on his or her own, enforcing if necessary employee acquiescence; and democratic leadership, where hierarchical differences become minimized. In this latter case, the executive might – if at all – use some persuasive reasoning based on his or her knowledge and experience (illustration 51).
Illustration 51: Continuum of leadership behavior according to Tannenbaum/Schmidt (1958)
The answer to the question of which leadership behavior is more successful depends – according to the studies of Vroom/Jago (1988) – on a number of situational factors, among which the following can be seen as particularly important:

- The **complexity** of the situation and the degree to which managers are well-informed, allowing them to make decisions alone without the danger of overlooking important aspects for a good decision.
- The **level of expertise** of employees, leading to their ability and expectation to participate in the decision process.
- The existence of **goal conflicts** between the manager and employees.
- The **balance of power** between the manager and employees, providing the former with more or less freedom to follow his or her preferred leadership style.
- The **leadership culture** in the organization, which establishes whether solitary decision-making of an executive is accepted at all or is rejected on principle at the outset.

Leadership behavior can also be described as a combination of task- and follower-oriented behavior *(illustration 52).*

<table>
<thead>
<tr>
<th>Task orientation</th>
<th>Employee orientation</th>
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<tbody>
<tr>
<td>• reorganize to increase efficiency</td>
<td>• encourage and actively support employees to master difficult tasks</td>
</tr>
<tr>
<td>• plan tasks</td>
<td>• express confidence that an employee will master a difficult task</td>
</tr>
<tr>
<td>• assign tasks to employees and teams</td>
<td>• build up closeness and personal familiarity with employees</td>
</tr>
<tr>
<td>• identify/clarify departmental or functional area goals; communicate them to employees</td>
<td>• acknowledge efforts and successes</td>
</tr>
<tr>
<td>• establish objectives and standards for task fulfillment</td>
<td>• be available as coach or mentor</td>
</tr>
<tr>
<td>• explain and implement goals, objectives, plans and standard operating procedures</td>
<td>• consult with the concerned employees about decisions</td>
</tr>
<tr>
<td>• supervise and coordinate task fulfillment</td>
<td>• allow employees to participate in decision-making</td>
</tr>
<tr>
<td>• monitor processes and review results</td>
<td>• inform employees on developments of concern to them</td>
</tr>
<tr>
<td>• solve problems that impede task fulfillment</td>
<td>• support employees to solve conflicts in a constructive way</td>
</tr>
<tr>
<td></td>
<td>• choose symbols, establish rituals that create team identity</td>
</tr>
<tr>
<td></td>
<td>• recruit competent new employees to the team</td>
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*Illustration 52: Dimensions of leadership behavior*
**Task orientation** is a leadership style geared towards the achievement of organizational or group goals. Important aspects thereof are goal setting, planning, task allocation and control. **Follower orientation** is a leadership style aimed at accommodating the expectations and needs of employees and creating an agreeable working climate. Important aspects are increasing employee motivation and identification as well as personal development. This means that in practice each concrete leadership behavior is a combination of more or less task-oriented and more or less employee-oriented behavior. A conclusive correlation between the two behavioral dimensions, however, cannot be assumed – task-oriented managers do not, from the outset, have to be less employee-oriented than executives with a low task orientation (*illustration 53*).

![Illustration 53: Leadership as combination of task and follower orientation](image)

A manager’s personal leadership style is expressed, for example, in how goals are set, decisions are made, the importance assigned to staff development or how conflicts among individual employees are addressed. Often the leadership style that a person exhibits under relaxed conditions may differ significantly from his or her behavior during a moment of stress or in a crisis situation. An executive needs to be capable of adapting his or her behavior flexibly to the given situation. Important situational factors to consider are the task-related maturity level of employees, the structure of the task, the quality of the leadership relationship and the positional power of the manager. As to the question of the extent to which an executive should involve his or her employees in the decision-making process, factors related to the situation as well as the acceptance and interests of the employees seem decisive.
Situational Leadership Theory

The situational leadership theory developed by Hersey and Blanchard (1969) builds on the two classical dimensions of leadership behavior mentioned above – task orientation and follower orientation. The core proposition of the theory is that a single generally most successful leadership style cannot be found; instead a manager’s leadership behavior has to be matched to the task-related maturity level of the subordinate. Depending on the maturity level, a different leadership style is necessary to enable an employee to achieve his or her performance goals, while at the same time preserving the achievement motivation and developing the employee’s skills in line with his or her potential. The task-related maturity level of an employee is defined by two largely independent components:

1) The ability to carry out a task independently. Beside professional expertise this includes work experience, social and methodological competence, knowledge of the organizational context as well as intact relationships with those resource persons and influencers deemed important for the task fulfillment.

2) The degree of achievement motivation and self-confidence in independent task fulfillment. A positive self-image and a performance-centered mindset are as important as the feeling of being accepted by colleagues and cooperating partners and the experience of past successes.

It is important to distinguish between task-related maturity and personal maturity: The personal maturing process unfolds continuously and is largely independent of any given professional tasks; task-related maturity is recreated with each new activity. An employee may, for example, have acquired a high level of maturity in his or her functional domain. If this person is then promoted to a management position, he or she will thus continue to develop personally; however, his or her task-related maturity in respect to confronting the new requirements that emerge from the leadership responsibility will initially be low. Nonetheless, a high level of personal maturity will generally allow for a faster and easier acquisition of high task-related maturity when confronted with a new type of task. Different maturity levels demand different styles of leadership (illustration 54). With a low level of maturity, typically characterized by a strong feeling of insecurity, lack of achievement motivation and deficits in professional qualification, a purely task-oriented leadership style (“telling”) is recommended. In this way, the manager can compensate for the employee’s lack of motivation and any qualification deficits. As soon as the employee feels more secure, while still not yet able to accomplish the task autonomously, the executive should apply a leadership style that is characterized by a high degree of both task and employee orientation (“selling”). The manager thus continues to provide impetus for goal achievement while focusing more closely on the employee and enhancing his or her ability to perform. Once the employee has reached a level
of task maturity that enables him or her to execute the tasks autonomously without the support of the manager, the employee may become unsettled with a corresponding disruption in motivation. This can be counteracted by the manager with a pronounced employee-oriented leadership style (“participating”). Finally, when an employee has achieved a high level of maturity and is able, motivated and confident, a delegating leadership style is recommended by Hersey & Blanchard. Thus, according to this situational leadership theory, staff leadership is then motivating and conducive to development, when it corresponds to the current level of maturity of the employee in handling his or her tasks.

Illustration 54: Maturity-level oriented leadership according to Hersey/Blanchard (1977)

Although this model, which is oriented to maturity levels, seems at first glance conclusive and easy to implement, a closer examination unveils some challenges to leadership practice: The model assumes that an executive is able to adapt his or her leadership style as required. This ability may, however, be limited due to the personal leadership notion of most managers. Moreover, the practical implementation assumes that a manager is ready and able to correctly assess the maturity level of a subordinate in order to deduce the proper consequences for leadership behavior. This readiness, however, is again linked to personal leadership guidelines and how the manager views people. A manager with a basic inclination towards cooperative behavior will try to avoid an intervention akin to a directive leadership style; he or she will tend to overestimate the maturity level of a weak employee and ignore this person’s shortcomings rather than react with directive measures. Despite these limitations the model offers some helpful clues for reflection and the review of one’s own leader-
ship behavior as well as – specifically – for the analysis and solution of conflicts in daily leadership relations.

**Transactional, Transformational and Servant Leadership**

A given leadership behavior can be described not only by behavioral dimensions, but also by the stance taken by the manager vis-à-vis his or her employees. Three approaches can be distinguished which are also particularly characteristic for NPOs: transactional, transformational and servant leadership.

**Transactional leadership** builds on the idea of the exchange relationship (= transaction). The manager tries to achieve an inducement-contribution equilibrium by offering his or her employees rewards, but also punishments in exchange for work and performance: In other words, the executive pursues the goal of inducing employees to fully engage in their tasks by offering a variety of incentives. Employees, on the other hand, pursue the goal of satisfying their own interests and needs and are willing in return to commit to the assigned tasks, as long as they deem the compensation received to be adequate. This notion also underlies the principle of MBO + MBE (section 3.1.4), whereby leadership behavior can – in the sense of a maturity-level oriented management – still vary between a rather directive, cooperative, delegating or integrating leadership style.

**Transformational leadership** aims to shift (= transformation) the selfish goals and motives of subordinates in the direction of identification with and a personal commitment to the goals pursued by the leader and the organization. The notion of an exchange relationship is replaced by one of a shared, higher order group interest. NPOs with their distinct purpose and value orientation seem particularly predestined for such a leadership approach. According to Bass & Avolio (1994), essential elements of a transformational leadership are as follows:

- **Idealized influence**: By striving to establish an exceptional basis of trust with his or her employees, acting as a role model and conveying enthusiasm for the common goals and tasks, a transformational manager is likely to be described as charismatic by his or her employees.

- **Inspirational motivation**: The manager awakens passion within employees for their work through a compelling vision rather than through planning and organization. This can be illustrated best with the help of the following recommendation attributed to Saint-Exupéry: “If you want to build a ship, do not drum up people and do not assign them tasks and work, but rather teach them to long for the endless immensity of the sea!”
- **Intellectual stimulation**: The manager attempts to break up routines and patterns of thinking and to offer new insights into relationships.

- **Individualized consideration** for employees: In transformational leadership great importance is also attached to promoting the personal growth of each individual.

In such a charismatic leadership, where the perception of the task and the cohesion of the group are closely tied to the manager’s personality, there is a risk that the manager’s support may be lost immediately and lastingly, should this person fail to prove his or her worth. This would be the case if, for example, an executive committed a breach of trust or if it became obvious that he or she did not possess the capabilities attributed to him or her. For this reason the approach of **servant leadership** (Spears 2004) has emerged alongside the concept of transformational leadership. In this approach, managers put a similarly strong emphasis on trustful relations with their employees, but tone down their own personality in favor of the interests of the organization (illustration 55).

| Listening | Consciously putting emphasis upon listening effectively to employees. |
| Showing empathy | Needing to understand employees’ feelings and perspectives. |
| Healing | Helping foster each employee’s emotional and spiritual health and wholeness. |
| Awareness | Understanding one’s own values and feelings, strengths and weaknesses. |
| Persuasion | Influencing employees by personal persuasion, rather than positional power. |
| Conceptualization | Integrating present realities and future possibilities. |
| Foresight | Trusting one’s own, well-developed sense of intuition about how the past, the present and future are connected. |
| Stewardship | As a steward, holding an organization’s resources in trust for the greater good. |
| Commitment to the growth of people | Being responsible for serving the need of employees. |
| Building community | Helping create a sense of community among employees. |

Illustration 55: The servant leadership approach according to Spears (2004)
3.7 Organization Design and Development

3.7.1 The Term “Organization”

In business administration and management theory the term “organization” can assume three different meanings:

1) In an **institutional** sense, the term stands for a complete, structured entity: An NPO thus *is* an organization.

2) In an **instrumental** sense, the term stands for all the structures and provisions to which an NPO adheres in order to fulfill its purpose: An NPO thus *has* an organization (structure). The establishment of such structures and provisions is an essential element of the management task.

3) In a **functional** sense, the term refers to the activity of (re-)organizing and thus to the approach and methodology of designing and changing structures and processes: An NPO thus *is being organized*.

These three different meanings are summarized in the following statement: In the course of a (re-)organization project (functional meaning), an organization (institutional meaning) receives a new organization (instrumental meaning) and thus becomes a different, more developed organization (institutional meaning again).

The management task of organizing can be divided into the tasks of designing structures and processes. The **designing of structures** (**organization structure, organization chart**) encompasses the creation of organizational units such as positions, departments, bodies, grass-roots groups etc., the allocation of tasks, competencies and responsibilities to these organizational units, and their integration into an overall framework by way of defining and regulating the relationships between them (e.g. hierarchical lines of command, work and communication relations). The task of **designing processes** (**process organization**) falls into the area of managing the overall organization, particularly regarding the general aspects of planning, decision-making and control, the area of service delivery and the corresponding communication (marketing), and the area of sourcing, administering and developing resources.

This section 3.7 will deal mainly with the structures of NPOs, while the design of processes is discussed in other contexts: for example, the main focus of section 3.5 – Quality Management – was on process design, especially in the marketing area (business processes). The specific aspects and difficulties of designing and conducting organizational change processes will be treated under the heading of innovation (section 3.8), while the design of manage-
ment processes in general was already dealt with as part of consensus-backed decision-making (section 3.2).

Structures and processes are, on the one hand, consciously designed with a certain purpose in mind and then laid down in governance procedures, regulations, job descriptions, and work directives. This constitutes what we call the formal organization. However, all social systems also experience the emergence of spontaneous or habitual structures, processes, and relationships in addition or even in amendment to the given formal structures, forming what we call the informal organization. Such informal phenomena should be regarded as rather negative if they overrule formal policies and thus render generally well-functioning processes susceptible to disruption. Quite often, however, formal rules may be outdated or non-existent to the point that informal rules may fill a gap and thus offer a positive contribution to activities and processes within an NPO. If formalization is taken to extremes and reaches a paralyzing and obstructive regulatory density that inhibits any flexibility, then we speak of over-bureaucratization. Under-bureaucratization, on the other hand, is the diagnosis when rules are missing that would facilitate the functioning of the system and when the resulting gaps cannot be sufficiently compensated for by informal arrangements. Illustration 56 shows the relationship to be expected between the various degrees of organizational structuring and their implications for the effectiveness and efficiency of an NPO.

![Illustration 56: Degree of organizational structuring and effectiveness/efficiency of an NPO](image)

An important success measure of the management task of organizing consists in finding and realizing the optimal point between over- and under-bureaucratization. A vital role is thereby played by questioning how much room should be created and left for potential self-organization as an alternative to completely predetermined structures. With an increasing
size of an organization and complexity of the problems to be solved, hierarchical top-down regulation quickly reaches its limits. The overall system functions more efficiently and flexibly if its parts, the organizational units, can largely shape (organize and plan) themselves within the framework of overarching policies. This finding is reflected in the model of MBO + MBE. The under-bureaucratization consciously created by the higher-level bodies is then no longer perceived as a gap, but as an indispensable space for action and creation for the lower-level units (control and implementation system).

Closely tied to the notion of self-organization is also the term **Organizational Development** (OD). OD starts with the goal of empowering employees in such a way that they can solve the problems occurring in their activity areas largely on their own, (co-)determining structures and processes either in a participative way or even through self-organization.

Summing up, organization (design) in its instrumental meaning therefore stands for all structure- and process-related policies and rules within which management and operational tasks have to be handled. In the system management area, it comprises the allocation of planning, goal-setting and control tasks, as well as allocating leadership responsibility in the various organizational positions and the design or creation of the information, decision-making and implementation processes needed to fulfill tasks.

**Design Aspects of the Organization Structure**

The design of the organization structure entails six different building blocks, also termed design variables, on the basis of which organizations (in the institutional sense) can be described and distinguished from one another. These building blocks define – each from a different angle – the way an organization’s work is divided, organizational units are created, tasks and competencies are assigned and relationships are shaped (illustration 57).

1) **Division of work and departmentalization.** This variable has both a qualitative, content-related and a quantitative aspect. The qualitative, content-related aspect deals with the logic according to which tasks are divided and assigned to different organizational units. The different logics according to which larger NPOs can be structured are:

   a) **Task-related structuring** (in the narrower sense): Here, tasks that require similar expertise are grouped together. An example of this would be structuring the head office by creating departments for specific tasks (e.g. social politics, public relations, legal, finance and administration).

   b) **Function-related structuring:** In this solution, activity areas are structured along the decision-making process. Examples of this would be the assignment of the decision preparation function to the CEO, of the decision-making function to the management board and of the approval function to the general assembly of members.
c) **Service-related structuring:** This solution takes the entire range of services offered and divides it into individual service areas for which different organizational units or departments are then made fully responsible. An example of this would be structuring an association in departments for counselling, education and training, and information services.

d) **Professional group and target group-related structuring:** In this solution, tasks and responsibilities are distinguished – as in service-related structuring – according to different service areas; in this case, however, they are structured according to various target groups, such as the different professional groups in a textile federation (spinning vs weaving) or in an association of nursing professionals (hospital care, geriatric care, care for the disabled).

e) **Region-related structuring:** In this solution, the division of work and departmentalization is carried out according to the criteria of geography and cultural areas (for example departments for the German-, French- and Italian-speaking areas in Switzerland). This could be done by establishing decentralized, regional offices that would work more or less as independent branches of the central NPO operations.

Illustration 57: Building blocks of the organizational units
More generally, one speaks of a functional organization structure for those organizations structured according to the first two logics and of a divisional and regional organization structure for the others.

The quantitative aspect of the division of work and departmentalization captures the extent to which tasks are divided or split among the various organizational units. This includes the two different decision variables of decentralization and specialization. **Decentralization** in a horizontal sense means the outsourcing or contracting out of subtasks to affiliated, mostly legally independent entities of the NPO (e.g. a training institute or a limited company); in a vertical sense the assignment or transfer of tasks to (decentralized) regional or trade-related units, such as in federation-like systems or multi-level NPOs with grass-roots groups. **Specialization** stands for the degree to which work is divided up; it aims above all at increasing the professionalization of work execution, for example, through the establishment of specialized staff units.

2) **Delegation** means the transfer of authority and responsibility from a higher-level to a lower-level body, unit or position, for example within the framework of MBO. The so-called delegation principle stipulates that authority should be transferred as far down the hierarchy as the required know-how to fulfill the task is available and can meaningfully exploit the corresponding room for manoeuvre.

3) **Participation** means taking part in and sharing the management tasks and authority of a superordinate power by a lower-level position. Such participation may take different degrees of intensity (information, involvement, co-determination) and can involve different topics (articulating or bringing interests, needs, knowledge or experience into the decision-making process of the higher-level power).

4) The **hierarchy** and **chain of command** variable primarily comprises the super- and subordination of organizational units within a management structure, as reflected in the organization chart. These hierarchical relationships are also termed the **line organization**. A superordinate position in the line organization generally has the right to issue instructions and exercise control over the subordinate position. This authority-based hierarchy is, however, largely mitigated by delegation and participation, as for example in the model of MBO + MBE, and relaxed to a mere accountability structure.

A problem to solve in this context is the decision regarding the appropriate **span of (management) control**, referring to the number of positions reporting directly to a particular manager (or a management body) in the line. In flat hierarchies – propagated for example by the Lean Management approach – the span of control is greater than in bureaucratic structures, with numerous hierarchical levels and only few subordinate units.
Another decision to make in the context of subordination is whether a position should be reporting to just one or several managers. As a general rule, the organizational ideal from the leaders’ as well as the followers’ perspective would be: “Only one supervisor to any person, position or body”. The subordination to the line manager should thereby span the areas of work content, administration and leadership. The reality in NPOs, however, is often more complex, requiring links between organizational units on several levels to the point that **multiple-subordination** is often unavoidable. The following forms of multiple-subordination are of relevance:

a) **Membership in cross-departmental project teams:** In the case of projects, team members are usually “freed” from their regular subordination (either part-time or full-time for a certain period of time) and assigned to work under a project manager to whom they also report (at least materially).

b) **Existence of a functional competency to issue directives in the narrower sense:** For clearly defined and limited task areas such a competency includes the right to give instructions to a position with no line subordination. It can be found on two levels:
   - On the level of **material work content**, if, for example, a social institution’s central specialist services are endowed with certain rights to issue directives concerning the decentralized agencies;
   - On the level of **administration**, if central departments such as Human Resources or Accounting & Finance are entitled to make certain procedures (e.g. personnel recruitment, payment procedures) binding, either internally for the operations of the central unit, or also externally for decentralized entities.

c) The division of the **management task** into a material content lead and an administrative, HR-related lead. Such a division is found above all in sports associations and also in trade associations where technical committees provide the material work input and have – for this special area – the authority to issue directives to the head office. Such organizational arrangements come very close to the so-called **matrix structure** in which individual positions report to two different lines (e.g. functional line and service division line).

5) **Formalization** means the conscious creation and official establishment of rules, standards, instructions etc. This is also known as standardization or routinization, particularly for work processes and information flows. Here again, the amount or the density of regulation is of considerable importance.

6) **Coordination** means a mutual alignment of decisions or activities between two or more independent units. To this purpose, on the one hand, coordinative relationships are established reflecting a position’s duty to discuss the fulfillment of its task with others. On
the other hand, bodies are institutionalized that mainly serve the purpose of coordination (and mutual information), such as a conference of grass-roots presidents or coordination committees.

These six variables used for designing and defining organizational units are summarized schematically in illustration 57. How organizational units are designed and defined strongly depends on the yet-to-be described structural models.

3.7.2 Types of NPO Organization Structures

1) Association or Federation Structures

Association or federation organization structures that will be discussed further below are found with all mutual-benefit NPOs (trade associations, sports associations) and often also with third-party-serving NPOs (social and welfare institutions). For the analysis and design of an association structure, it makes sense to consider an overall-structure model (including all different levels), if the entities involved are all active in the same industry or for the same member group (e.g. paper-manufacturing industry), or if they are committed to the same purpose or ideology (e.g. Red Cross). National associations with their “multilevel association structure models” (illustration 58) build on a framework of partly decentralized and partly centralized units, which need to be connected by a task and competency allocation that is as rational as possible, regardless of whether the decentralized grass-roots groups are legally independent associations or not. In other words, it is imperative that the central head office and the decentralized units cooperate closely in numerous tasks and that decentralized activities can be coordinated by way of resolutions that are taken centrally. Only in this way will the overall organization be able to gain the corporate identity that is essential for its acceptance and success.

In this context it seems reasonable to use the term “group structure” (network or strategic alliance), as represented by – among others – large-scale cooperatives in German-speaking countries. In such multi-level group structures or associations, no entity enjoys complete autonomy. On the contrary, overarching mission statements, concepts and guidelines that are accepted as binding by all parties will always remain a necessity. This necessity to subordinate according to mutually elaborated rules holds true regardless of whether we are dealing with a federation with grass-roots associations as its member base or with an association built on dual or alliance membership, where grass-roots members (persons, enterprises) mandatorily acquire at the same time membership in a grass-roots association and in the central umbrella organization. Both of these group structures have their advantages and disadvantages. Practice shows that in the federation model we may witness higher resistance to overall group management than in the dual- or alliance model.
Particularly in larger associations with heterogeneous interests (typical of national umbrella associations), a parallel organization structure for regional grass-roots groups and for occupation- or trade-related groups (mostly national groupings or unions of grass-roots members) seems indispensable. Wherever possible, however, such a potentially conflictual dual structure should be avoided and it is preferable that professional interests be represented by committees rather than by trade associations. Where such parallel

<table>
<thead>
<tr>
<th>Decentralized grassroots groups (owners/trustees)</th>
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<tbody>
<tr>
<td>Regional chapters</td>
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<tr>
<td>- Member groups on local, regional, state level</td>
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<tr>
<td>- Associations or organized units according to</td>
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<tr>
<td>central charter</td>
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<tr>
<td>- Voluntary governance bodies, often with own</td>
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<tr>
<td>operating units</td>
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<table>
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<tr>
<th>Central (federal) voluntary governance bodies</th>
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<tbody>
<tr>
<td>Assemblies and boards of trustees</td>
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<tr>
<td>- Members’ general assembly (if grassroots groups do not exist)</td>
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<tr>
<td>- Assembly of delegates with representatives from the grassroots groups</td>
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<tr>
<td>- Assembly of grassroots presidents</td>
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<tr>
<td>Executive boards</td>
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<tr>
<td>Executive board, president’s office, board committee as voluntary</td>
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<td>governance bodies</td>
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<table>
<thead>
<tr>
<th>Operating units</th>
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<tbody>
<tr>
<td>1. Centralized units</td>
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<tr>
<td>1.1 Central NPO operations</td>
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<tr>
<td>1.2 Committees, commissions, working groups (voluntary governance bodies)</td>
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<td></td>
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<tr>
<td></td>
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<tr>
<td>1.3 Conference of the managing directors of the centralized and decentralized units</td>
</tr>
</tbody>
</table>

Illustration 58: Model of an overall structure for multi-level associations or federations
structures are unavoidable (for example, if a trade-centered member group intends to exit), a clear weighting should be established for how the seats in the assembly of delegates should be apportioned, as well as for decision-making, with a higher weight given either to the regional or the trade-related grouping.

Overall, as already pointed out in section 3.1.3, the relationship between decentralized grass-roots groups and central organizational units constitutes, in practice, one of the most common areas of tension, frequently giving rise to debate and conflicts. If an NPO succeeds in establishing clear structures and procedures for collaboration in this area, a substantial gain in effectiveness and efficiency will follow.

The design of the central governing bodies, too, can be derived from ideal-typical model conceptions such as shown in illustration 59, whereby in practice crossovers from one model to another may be found. The models differ mainly by the number and composition of the instituted bodies and are based on indirect democracy via delegates (deputies or representatives):

a) In the integration model, increasingly smaller bodies are created along the hierarchy with ever narrower ranges of authority, whereby the members of the lower-level bodies also always remain integrated into the higher-level bodies.

b) The federalist model builds on the sovereignty of the grass-roots groups (e.g. state or regional associations) whose presidents or chairpersons also form the executive board or board of governors (also called the central committee). Since the latter is frequently too big, a president’s office (or presidential committee) is often additionally instituted. This governance model is mainly found with federations and overlaps with the integration model if the chairpersons of the grass-roots groups can also be delegates.

c) The separation of power model orients itself to a particular form of state-building. As a parliament, the assembly of delegates decides matters of principle and elects a small supervisory board made up of members who do not belong to the assembly. This supervisory board acts as a voluntary governance body and is – like a government – the partner of the board of paid managers, which is a separate entity in terms of its personal composition. The conference of the grass-roots group chairs is a committee that coordinates and delivers opinions assigned to the supervisory board, possibly endowed with an exhaustive list of decision competencies.

The choice of the most suitable model depends on the history and culture of the corresponding NPO. For reasons of effectiveness and efficiency, we prefer the separation of power model. It creates clear responsibility structures, ensures democracy where necessary, and possesses with its small voluntary governance body the best possible capacity to
act. As a matter of principle, the separation of powers should also be implemented between this voluntary governance body and the paid management board.

**Illustration 59: Archetypal structural models for association governance**

- **a) Integration model**
  - Regional chapters
  - Assembly of delegates
  - Supervisory board
  - Executive board
  - Professional, trade-based units

- **b) Federalist model**
  - Regional chapters
  - Assembly of delegates
  - Supervisory board
  - Executive board
  - Chair
  - Professional, trade-based units
  - Chair

- **c) Separation of powers model**
  - Regional chapters
  - Assembly of delegates
  - Supervisory board
  - Conference of chairs
  - Executive board
  - Chair
  - Professional, trade-based units

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Hierarchical subordination
Inclusion (delegates, chairs)
At the level of these central voluntary governance bodies, the following organizational principles should apply:

a) The number of bodies should be minimized.

b) Representativeness of the grass-roots groups should be established in the assemblies of delegates or in the choice of the grass-roots group chairs.

c) Each NPO needs a comparably small voluntary governance body (seven to nine people) with its own authority, forming the top management together with the board of managers. Recruitment for this body (board of governors, board of trustees) should be based on existing and proven expertise in NPO management, while representativeness should be regarded as secondary.

Subordinate to the voluntary governance bodies we find the organization’s implementation or operating units. The term “implementation” should cover all the operational tasks to be performed by these units in their broadest sense. These NPO implementation units will be discussed in section 3.7.3 below.

2) Foundations

Foundation structures are to be found mainly in the area of socio-cultural NPOs as well as in the social services and health care sectors. A foundation’s non-membership structure has the basic advantage of a simple organization design. Many smaller and larger foundations have just a single voluntary governance body (board of trustees), to which the operating units including the management board are subordinate. This body can complement or upgrade itself through co-optation and thus assure the appointment of qualified and well-connected voluntary officers. Some foundations strive for broader support from third-party organizations by winning them over as actual co-trustees, to the point that they develop a sense of permanent co-responsibility and send representatives into the foundation’s bodies. Thus, in a significant number of such organizations, the supreme organ can also be called the assembly of foundation trustees. This assembly elects the board of foundation trustees or foundation council.

Moreover, there are some foundations that also additionally establish decentralized offices alongside head operations. Such decentralized units are established particularly, when the services have to be offered in proximity to the beneficiaries or clients (e.g. with social counselling). Optionally, each decentralized unit can also be endowed with its own voluntary governance body at its side, to safeguard regional support and to advise the local office. In some cases, these bodies are even granted some decision-making authority, leading to dual subordination of office managers that may often be difficult to handle. Where such voluntary bodies are to be involved and to participate in decision-making at the central level, their presidents or chairpersons may be summoned to consultative conferences.
or may – together with other persons (e.g. from the trustee organizations) – even be accorded a seat and a voice in the assembly of trustees. Illustration 60 shows a foundation structure of comparable complexity. Such a model gravitates strongly towards a multi-level association in its functionality and its group structure-related management problems.

While foundations are relatively free to design a suitable governance structure, they are on the other hand hampered by a lack of flexibility in the foundation’s purpose, with any modification or expansion likely to meet objections from the supervising government authorities. Thus, wherever possible, the purpose of the foundation should be formulated as broadly as possible at the point when it is established.

<table>
<thead>
<tr>
<th>Central organs</th>
<th>Head operations</th>
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<tbody>
<tr>
<td>Assembly of trustees</td>
<td>Committee/Commission activities</td>
</tr>
<tr>
<td>Board of trustees</td>
<td>Management, foundation operations</td>
</tr>
<tr>
<td>Board</td>
<td>Affiliated entities/operating units</td>
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</tbody>
</table>

Illustration 60: Model of a central foundation structure with decentralized units

3) **Health and Welfare Institutions** (Homes, Outpatient Services)

In some countries, the term “social service institutions” covers more or less all NPOs that are active as welfare organizations in the area of health care and social services (e.g. hospitals; homes for elderly, disabled, or children; outpatient services; housing institutions). Unless they are subject to public law, the ownership or trusteeship of these social service institutions has traditionally been arranged as either an association or foundation. In some countries, parts of them are nowadays increasingly spun-off as limited liability
companies or joint stock companies and managed in a market-driven way with a professional management board in a strong position. The public sector (state, local government, social security funds) thereby relies more and more on the application of the new governance or steering models (New Public Management) that were discussed in section 3.3.4 to guide and finance such institutions in a quality-centered way.

Illustrations 62 and 63 show third-party-serving NPOs that operate several institutions, supported and coordinated by the central administrative services. Such implementation units, as they are known, will be described in section 3.7.3. Under the pressure of private, profit-driven competitors, these institutions are becoming increasingly similar to for-profit enterprises, whereby ecclesiastical (Caritas) or idealistic (Red Cross) bonds may move increasingly into the background. Welfare associations and social service institutions may find it therefore ever more difficult to position themselves in the market via clearly delineated profiles and sufficiently differentiated mission statements.

3.7.3 Implementation Units, Namely NPO Institutions or Operations

The structural units subordinate to voluntary governance bodies are subsumed under the term implementation units. Implementation stands for the fulfillment of the tasks these units have to carry out in their support of the top-level bodies’ governance functions and in the execution of their resolutions. In multi-level, complex overall structures, potential implementation units could basically be organized as follows:

1) as a central management unit with vertically decentralized operating units;

2) as central management units with horizontally decentralized operating units, where certain service areas may often be affiliated with or spun-off into separate legal entities (e.g. a limited liability company);

3) as a combination of central and decentralized voluntary governance bodies (e.g. committees or commissions), where the latter assume primarily counselling functions;

4) as central conferences with representatives of the decentralized units for the purpose of information and coordination.

The organization structure and legal form of these different solutions then needs to be detailed further. In this context it seems helpful to also discuss the term “outsourcing”. An important aspect of the Lean Management approach frequently discussed in the NPO sector is the postulate for organizations to focus on their core business and buy in certain administrative processes rather than taking care of them internally. This make-or-buy decision between in-house execution and external procurement aims at streamlining structures and gaining efficiency. Examples would be: Outsourcing accounting tasks to a private-sector accounting company; purchasing all IT services from a specialized enterprise; mandating a
cleaning company to conduct periodic overall cleaning. At stake is the giving up of the execution of a task that is necessary to the functioning of the organization, but uncritical either to its image or reputation. From that point of view, outsourcing needs to be distinguished from contracting-out discussed further above, where some of an organization’s services for members or third parties are assigned by contractual agreement to other organizations. Accordingly, an NPO’s affiliated legally independent operating units, that offer services to members and third parties (to be discussed further below), are normally involved in contracting out rather than outsourcing.

Implementation Units in Mutual-Benefit NPOs

Examples of the various structural elements are shown in illustration 61 with the help of a trade association’s organization chart. They are described below:

1) The association’s headquarters or group central office (center of operations), which consists of the board of managers and the associated departments, performs several functions:
   a) It is the staff unit for bodies and committees. As such, the central office shares the responsibility for initiating and conducting problem-solving processes. In this context, the paid, professional staff needs to be capable of recognizing problems early on, initiating problem-solving processes as well as instigating and possibly supporting the generation of alternative solutions. The central office has to prepare decisions for the voluntary governance bodies by submitting precise and professionally elaborated decision platforms (keeping in mind the problem of the completed staff-work as discussed further above). It has to fulfill the coordinating task by aligning all the activities and resolutions of multiple bodies, committees, and work groups within a single, coherent NPO policy. Furthermore, the head office – as staff organ – performs a help and support function including all the work related to the planning, conducting and evaluating of the meetings and assemblies of all the bodies.

   b) It is also the implementation unit for resolutions made by the governance bodies, carrying out all their decisions within the defined areas of delegation, be it with an NPO-internal or external effect. For this purpose, it may, if need be, rely on cooperation with committees specifically set up for implementation matters, with appointed voluntary governance officers or with external consultants.

   c) It also acts as a service entity for members and third parties. For mutual-benefit NPOs these head office tasks are gaining in importance. Providing services for members such as information, counselling, education and training etc. that are largely performed by specialized, qualified staff, often absorbs a substantially bigger part of the
human resource capacity in associations, than all the activities related to interest representation (advocacy). In the area of individual services, NPOs operate under market conditions, they need to assert themselves over their competitors in terms of quality and prices and have to be managed in an entrepreneurial way. Especially in this area, a limitation of the voluntary governance bodies’ influence on matters of strategic management seems imperative, since in matters of daily business, market control has to take precedence over the NPO’s political governance.

d) Finally, it also acts as an **administration center**. The central office is responsible for the entire NPO administration and all additional association tasks (finance & accounting; membership and human resource administration; preparation of revisions of charters, bylaws or regulations; organization design; planning; reporting).

The corresponding room for maneuver of the association’s main central office, and in particular of the board of managers, depends largely on the extent of the delegation of authority by the voluntary governance bodies. The problem of allocating and executing tasks should be properly addressed and resolved using organizational instruments (rules of procedure, function diagrams). Thereby, the maxim of the MBO + MBE approach should be followed that the voluntary executive board should focus on and limit its interventions more to strategic fundamentals, leaving all operational decisions to the management board. This task allocation seems best suited to the potentials and capabilities of the two partners. At the same time, the fact needs to be pointed out clearly that organizational settings and tools can help solve only part of the problem; the coupling of the two decision-making and activity centers needs to be ensured, at least to the same extent through the management processes (procedures for consensus-backed decision-making) and the development and application of the steering systems and instruments (in particular planning and controlling).

For the **operating units** of mutual-benefit NPOs the general manager or managing director is the supervisor of the department heads. Together they constitute the board of managers, which is in charge of opinion-forming and decision-making tasks as well as of mutual information and coordination. Even if the team works in a consensus-minded way, the final decision remains with the general manager who also carries the ultimate responsibility for all service operations vis-à-vis the voluntary governance body. Nonetheless, the department heads are personally responsible for implementing all the management board’s decisions in regard to their business area.
Illustration 61: Example of a trade association structure

2) **Affiliated, legally independent operating units** as horizontally decentralized entities of the association (in *illustration 61* Consulting Ltd): Such units are often used to provide services that are entirely financed by price and offered mostly at market conditions. Services are spun-off into independent entities partly for tax reasons, partly to limit risks, partly to shield them from association democracy or to manage them in an entrepreneurial way, without any political interference by the trusteeship bodies. Limited liability or joint stock
companies, too, should be integrated as far as possible into overall governance structures, tied closely to the NPO through personal interconnections at the voluntary and the paid, professional board level as well as through strategic goals. This is because the corporate identity needs to be upheld or ensured in this area too. Apart from these entirely association-owned entities, cooperative spin-off enterprises can also be established jointly with other associations under common ownership.

3) **Decentralized agencies of the central head office** providing local services to the members (e.g. regional offices of trade unions) or regional grass-roots groups without their own legal personality and management board. Such agencies are under the direct supervision of the central head office. In the example shown in *illustration 61* this could refer to an agency in the French-speaking part of a multi-lingual country such as Switzerland (decentralized office).

4) **Committees and commissions** are voluntary governance bodies that frequently assume advisory or staff functions for the board of governors and the board of managers. Supported by the paid management and staff, they may elaborate decision platforms, or comments on drafts or propositions submitted by the management board. The board of governors (or board of trustees) may also endow them with decision-making authority, such as in the case of the wage arbitration or collective bargaining committees of employer and employee associations. A committee’s work needs to be defined precisely and included into general activity planning. *Illustration 61* shows in more detail the potential structure of a commission for the area of education and training.

5) In multi-level associations, central **conferences of the unit managers** are an important instrument for coordination and discussion (opinion making). The more autonomous and the stronger the decentralized grass-roots groups are, the more important becomes the involvement of their local managing director in the preparation of resolutions of the overall (umbrella) association, under the stewardship of the central general manager.

6) Finally, resolutions may be **implemented** in a decentralized way by the **grass-roots groups** for all cases, where the central bodies have taken binding resolutions for the overall association, and the legally independent sub-associations (e.g. regional or cantonal associations) are committed by charter and willing to carry them out.

**Implementation Units in Foundations and Institutions, in Particular in Social Service Enterprises**

For institutions and social service providers that are partly organized within larger institutions with group-like structures, some European countries such as Germany and Austria nowadays frequently use the term “social service enterprise”. *Illustration 62* shows a typical example:
In other European countries, such as France, Belgium and Switzerland, the term “home” (for the disabled, elderly, children and youth) is still quite common, as in the example given in illustration 63, which shows an exceptionally large institution. Both illustrations display a divisional or service structure with one centrally managed area in charge of all (or most) infrastructure- and resource-related tasks (central administration, commerce). Differences, however, exist in respect to the board of managers. In the home for the disabled case (illustration 63), the board of managers with its general manager and department or sector managers is structured in the same way as discussed further above for the implementation units of associations. This stands in contrast to the social service enterprise example (illustration 62), where the professional, paid management assumes the function of an executive board, endowed with an extended range of authority and responsibility. This executive board mostly acts as a collegiate body with a majority vote led by a department head or a “chairperson only”, whereby each board member reports directly to the voluntary governance body in
matters related to his or her management area. The voluntary governance body then exerts a somewhat supervisory council function; hardly, rather than any pronounced strategic stewardship. This form of division of powers between the voluntary and the paid management, however, is regarded as controversial in scientific literature and partly also in law; it represents a “denaturation” of the NPO towards a for-profit enterprise, coupled with deficiencies in the political-strategic governance of the voluntary trustee bodies. Moreover, the postulates of the “good (nonprofit) governance” movement also require that supervisory boards assume a more extended strategic management function.

Illustration 63: Third-party-serving NPO with a foundation structure (home for the disabled)

In third-party-serving NPOs, the legal form – association or foundation – has little influence on the management structure of the implementation units; in other words, the latter operate relatively independently of the legal status. However, as an institution increases in size, the traditional association form with a multiplicity of members, may frequently become critical, since the general assembly of the members with its democratic voting rights still remains endowed with essential competencies, and can thus interfere with or even block operations. To compensate for this (potential) disadvantage, the number of members may either be reduced to a manageable size or the association may be kept as an ideational (virtual), pro-forma trustee organization, while the implementation units are spun off into a charitable limited liability company with far-reaching autonomy.
### 3.8 Innovation

#### 3.8.1 Adaptation, Change and Innovation Processes

NPOs are open, environment-dependent systems. Changes in the needs and expectations of their stakeholders always affect these organizations in one way or another. For this reason, an NPO has to sense as early as possible which changes will be of particular importance and what consequences might arise from them for the organization. Problems resulting from changes in the outer spheres need to be internalized by the NPO, i.e. solutions need to be looked for and elaborated on under the organization’s own initiative. Moreover, internal adaptations may not only be called for following changes in the environment, but also following unfavorable developments within the NPO, for example, in the form of disruptions, inefficiencies and conflicts. Such developments may create problems that need to be addressed in a fundamental and thorough way. Thus, both cases may call for concerted efforts by the NPO to adapt, change or innovate (labelled therefore adaptation/change/innovation (a/c/i) processes). The three terms thereby point to the different perspectives of such endeavors:

1) **Adaptation** stands for the material, work-related side of problem-solving. The NPO reacts to an external and internal “stimulus” situation by modifying existing arrangements in view of the changed circumstances.

2) **Change** refers to the subjective, personal side. It is about the way members, clients or employees experience the transition from an actual to a planned state, including being confronted with readjustment and familiarization, but also with the loss or gain of power.

3) **Innovation** stands for the NPO’s, participating and targeted parties’ process of developing something new, for which the necessary experience, knowledge and skills are often not available at the time. Innovations may occur in all different areas, for example, in the form of new goals for a mission statement, the development of an additional service offering, restructuring or the introduction of a performance appraisal in the human resources area.

When compared to everyday problems, a/c/i problems are characterized by their complexity and lack of structure. The problem-solving process therefore requires the participation of several positions or persons; it takes a substantial amount of time and always carries the risk of an unsatisfactory outcome, of getting bogged down or even being aborted without any results. Finally, the problems and their solutions are also characterized by a high degree of novelty (no routine problems), since they ask for the implementation of a new order that did not previously exist.
A/c/i processes may trigger completely different degrees of affectedness, the number of people affected may vary significantly, and the processes also may often last years. Larger endeavors may therefore strain an NPO to an important extent and tie up resources that need to be drawn away from daily routine work. The transformation may create unrest, resistance and conflicts that might stress or even block the entire system. The NPO is intensively focused on itself and thus runs the danger of neglecting to fulfill its purpose of providing services and creating benefits.

As critical and indispensable as a/c/i processes may be, no system can survive if in permanent internal change. A balance needs to be found between stability and dynamism. Any transformation should be followed by a resting phase in which the new order can be consolidated and the NPO can refocus on fulfilling its purpose, devoting its entire strength to its core activities. This equilibrium postulate applies in particular to singular projects that aim at fundamental change. Exempt from these are, however, the ongoing efforts to increase efficiency as part of the continuous improvement postulate mentioned already in section 3.1.2.

How an NPO deals with a/c/i processes and how innovation affects it internally depend on its organizational disposition or capacity for problem-solving. The sooner the NPO recognizes the relevant external and internal changes in terms of its ability to anticipate them, the more time it has to devise solutions. Even more crucial, however, is its capacity to innovate in the sense of having the know-how to design and master such processes. This capacity must always also be accompanied by a willingness of the parties affected and involved to innovate. For those NPOs that truly heed the TQM principle of continuous improvement, a certain willingness to change can already be taken for granted.

As well developed as an NPO’s capacity and willingness to innovate may be, it still always has to reckon with potential resistance from the parties involved. Adaptation, change and innovation may pose a threat to individuals or groups of involved persons. This threat may extend from a potential loss of power or tradition-bound inertia, to a likely call for additional efforts and the need to come to terms with a new situation. In other words, a/c/i processes touch upon the very specific interests of individuals or groups, creating conflicts of interest that may lead to resistance to the new order. Besides such clearly personal conflicts, divergent views and opinions regarding the optimal material solution often also come into play. Such content-related material differences may thereby occasionally escalate into clashes at a personal level. Thus, a/c/i processes are often characterized by a high degree of emotionality, fraught with resistance, conflicts of interest and micro-political maneuvering. This problematic socio-emotional situation needs to be dealt with, to the point that during a/c/i processes the development of fact-related solutions may frequently shift into the background, even becoming marginalized. Ultimately, unresolved emotional issues and conflicts of inter-
est may turn into a major cause for innovations being watered down and blocked in the course of lengthy processes, or even being given up. Consequently, such processes need continuous support and fostering, or so-called promotion.

3.8.2 Change Management: Designing Innovation Processes

From the preceding discussion of the problems relating to innovation processes and the challenges created by resistance to change, we can derive the following conclusions for the design of a/c/i processes:

1) The more profound the envisioned change to be achieved by an NPO through such a process, the more the process design should follow the phase model shown in illustration 33. The interrelationship between problem-, power-, and consensus-driven phases should be taken into account (illustration 64).

Illustration 64: Phases in the innovation process and their results
2) As also shown in the phase model, the goal to achieve the factually best possible decision needs to be complemented by the – at least equally important – goal of gaining acceptance. Only when a new solution can be understood and accepted by the parties involved, the chance is real that the decision can get implemented without any significant resulting problems.

3) Achieving acceptance requires that the affected parties become actively involved as far as possible. Such process participation enhances acceptance, in particular when it already occurs during the consensus-forming and resolution-taking phase, and not only after the factual decision has been taken, or during the implementation phase. Under discussion here are two different innovation approaches:

a) The authoritarian-technocratic approach. A new material solution is worked out in the small circle of an oligarchic core group, such as the voluntary governance board together with the management board, and then imposed on the targeted parties as a fixed decision.

b) The participation approach. Those affected are involved from the outset in the problem-solving process to the point that their interest but also their know-how are incorporated in the solution.

*Illustration 65* schematically compares both approaches with their processes and effects. The display shows that longer paths towards the development of a decision result in shorter implementation times, since the solution will meet fewer reservations.

<table>
<thead>
<tr>
<th>Authoritarian technocratic approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decision preparation</td>
</tr>
<tr>
<td>Decision preparation</td>
</tr>
</tbody>
</table>

*Illustration 65: Innovation approaches and their effects*

With the authoritarian approach, resistance and conflicts only emerge in the realization phase, but then obstruct and delay implementation. With the participative approach, on the other hand, there is a good chance that after a lengthy initial phase the entire problem-solving process will overall be shorter than when taking the authoritarian route, resulting in a comparative participation gain. However, this does not exclude the case that
in extreme situations dropping a bomb may be the only possible strategy to overcome an imminent and seemingly unavoidable blockade.

4) For a/c/i processes in need of support, promotional tasks should be assigned to clearly designated function holders. The corresponding approach is represented by the **promoter model** *(illustration 66)* that builds on the three mutually overlapping circles of the phase model, thus requiring the attribution of the three roles of theme, power and relationship promoter.
### Illustration 67: Phases and activities in innovation processes

<table>
<thead>
<tr>
<th>Phases</th>
<th>Problem-solving driven</th>
<th>Innovation-driven</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unfreezing</td>
<td>Unfreezing</td>
</tr>
<tr>
<td></td>
<td>Initiative of the process</td>
<td>Search for and elaboration of alternative solutions</td>
</tr>
<tr>
<td></td>
<td>Implementation</td>
<td>Implementation</td>
</tr>
<tr>
<td></td>
<td>Control</td>
<td>Control</td>
</tr>
<tr>
<td></td>
<td>Freezing, stabilization</td>
<td>Freezing, stabilization</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Actors and Their Contributions</th>
<th>Client system</th>
<th>Relationship promoter</th>
<th>Power promoter</th>
<th>Case promoter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foster the willingness of promoters to innovate</td>
<td>Potential initiator</td>
<td>Potential initiator</td>
<td>Potential initiator</td>
<td>Potential initiator</td>
</tr>
<tr>
<td>Decision to implement</td>
<td>Decision</td>
<td>Decision</td>
<td>Decision</td>
<td></td>
</tr>
<tr>
<td>Organization, provision of resources</td>
<td>Organization</td>
<td>Organization</td>
<td>Organization</td>
<td></td>
</tr>
<tr>
<td>Elaboration of substantive alternatives</td>
<td>Elaboration</td>
<td>Elaboration</td>
<td>Elaboration</td>
<td></td>
</tr>
<tr>
<td>Selection of the solution alternative, decision and directions to implement</td>
<td>Selection</td>
<td>Selection</td>
<td>Selection</td>
<td></td>
</tr>
<tr>
<td>In the case of a democratic leadership style codetermination of all involved parties</td>
<td>Codetermination</td>
<td>Codetermination</td>
<td>Codetermination</td>
<td></td>
</tr>
<tr>
<td>Change in behavior</td>
<td>Change</td>
<td>Change</td>
<td>Change</td>
<td></td>
</tr>
<tr>
<td>Habitation</td>
<td>Habitation</td>
<td>Habitation</td>
<td>Habitation</td>
<td></td>
</tr>
</tbody>
</table>

### System Management

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**Illustration 67: Phases and activities in innovation processes**
3.8.3 Conference Work with Large Groups

The participation strategy that actively involves those affected from the very beginning is an important success factor when carrying out a/c/i processes. Alongside the proven involvement methods already mentioned in section 3.2.2, such as mixed project teams, splitting, cooperative interaction, hearings or consultation procedures etc., a number of highly efficient methods for conference (or “townhall”) work with large groups have been developed and successfully applied in practice over the last couple of years. They are based on the experience that the involvement of large groups of 30 to 300 persons has two advantages compared to other methods: Firstly, it creates a high level of identification and a pioneer spirit that often positively surprises all participants, paired with a broad commitment to the process and its continuation. Secondly, transparency is achieved during the consensus-building, opinion-forming and decision-making processes, reflecting the broad spectrum of opinions and ideas at stake. Thus, structured conferences with large groups are always equally a method of participative planning as well as one of winning acceptance for the process. Decisive for its effect, however, is the explicit integration of the method into a comprehensive project plan, ensuring the continuation of the effort and avoiding a “flash in the pan” effect.

1) Future Search

Future Search is a dialog, vision and planning meeting lasting for 2 ½ days that brings 30 to 80 people together into one room (“townhall”). The starting point is invariably the necessity to elaborate long-term goals or visions for the NPO or to respond to a need for change triggered from inside or outside the organization. The fundamental principle consists of assembling the “whole system” in one room by inviting representatives of all the stakeholders and exchange partners – internal as well as external – to the conference. In the course of a number of well-defined work steps and with the help of a variety of different methods, an analysis of the NPO’s environment and its resources is conducted; then the work focus is expanded by techniques of creative stimulation, to the elaboration of future scenarios and visions. Emphasis is thereby placed on the building of a consensus rather than on the analysis of actual problems or the discussion of controversial positions.

2) Future Workshop

In terms of its methodology, the Future Workshop is freer and more diverse than the Future Search. The workshop is suitable for groups of 10 to 30 participants and can be carried out in just one day. The first work step, called the complaint or criticism phase, tries to define the workshop’s theme as precisely as possible by a critical reappraisal of the problem. In a second work step, called the fantasy or utopia phase, the participants design – with the help of diverse creative means – images of an ideal solution or future. En-
dowed with this jointly developed awareness of new perspectives and possibilities for change, the participants in the subsequent realization phase then derive practical consequences for action, and agree on first measures as part of a continuing process.

3) **Open Space Technology**

Open Space Technology can be best described as a method offering “space for self-organization”. It is used for events such as conferences, meetings, symposia etc. with up to 300 participants, in order to find solutions for complex, clearly defined topics. The working principle, on which the typically two-day long meetings are built, is that the participants continuously form changing self-organizing groups that focus on individual aspects of the overall theme and develop suggestions for solutions. Of importance to this method is the achievement of a final consensus on the relevance of and follow-up on the various sub-results, joint prioritization and the subsequent derivation of measures. The difference compared to other conference methods lies in the far-reaching self-organization of the events. This approach ensures practice-oriented results and high motivation.

3.8.4 **Project Management**

A project is an endeavor with defined content, limited duration as well as a clearly defined beginning and end. In an organizational system established for permanency with its everyday routine tasks, projects represent an additional element, a secondary organization, to be handled using special techniques. These techniques form an integral part of project management, which comprises the organization design, planning and implementation, and also in part the financing of such temporary endeavors. It is obvious that a/c/i processes need to be perceived as projects and tackled accordingly using project management techniques. In addition, endeavors with a modest or with no a/c/i character at all, such as the construction of a new administrative building, the organization of a congress or of a membership promotion campaign, can be organized as projects.

In principle, the general rules formulated in chapter 3.2 for problem-solving processes also apply to projects. These rules, however, have to be expanded by a number of essential elements.

1) **Project concept**

Once a problem has been detected and there is sufficient motivation to tackle it through a project, the body in charge has to officially launch the project with a concept that includes:
a) Project nature, scope and goal,
b) project organization design (bodies, competences and responsibilities, organizational arrangement and integration),
c) project planning (broad sequence including its different phases),
d) project budget and
e) project monitoring and control.
Such a project concept establishes the framework for the project work, since it encompasses all the essential elements of how to run the project that are briefly described below.

2) Project organization design
Particularly for larger projects, a secondary (or parallel) organization needs to be established alongside the primary line organization for the duration of the project. Such an organization design may include the following units:

a) A project team (with a project manager) to which the running of the project is assigned. Project teams should be put together representatively with people seconded from the bodies, positions and member groups involved so that all interests, aspects and experiences can flow into the development of the solution.
b) Optionally, it may be advisable to establish a project steering committee if a broad support base is needed to deal with the acceptance of proposals and drafts and resolutions.
c) Participants in hearing and consultation procedures, if the widest possible acceptance and identification with the project outcome is to be achieved.
By way of task descriptions and activity distribution charts, it needs to be established which competencies and powers are to be assigned to the project bodies and which resolutions still have to be taken by the primary bodies.

3) Project planning
At the beginning of the project, the general phases to run through in principle need to be planned in broad strokes, concretizing them successively in ever more detailed activity plans and schedules as the work advances. To plan the different phases it should be decided:

a) whether the method of splitting according to section 3.2.2 should be applied, meaning that in the first round a rough conceptual solution would be elaborated in the form of a number of principles that are adopted as binding guidelines to fine-tune the project in the second round;
b) when and with which methods the affected parties should be involved in the analysis and opinion-forming processes;

c) which milestones should be set in the sense of process sub-goals for the completion of the individual project phases, which then could also be used for the evaluation of the project progression to that date.

4) Project budget

Projects often cause considerable internal (e.g. workload for the voluntary governance and paid management boards) and external (e.g. consultants) costs. It seems advisable to budget not just the extra costs, but the full cost including the time commitment of all parties involved and the infrastructure to be used, in order to have an overview of the overall extent and commitment prior to adopting the project.

5) Project controlling

Sophisticated project controlling not only provides information to assess adherence to cost limits and timeframe, but also monitors the compatibility of intermediate project results with the final project goal.

It is essential that in an NPO with several projects running in parallel, their supervision and coordination remain ensured. Where appropriate, a project coordinator associated to the general manager should be assigned to fulfill this function responsibly.

These explanations regarding project management conclude the discussion of all the superordinate management tasks that have been summarized under the term system management. It was the goal of these explanations to briefly and objectively describe these management tasks, including the tools and methods needed to fulfill them, and to put them into a systematic and analytical context. However, scientific literature agrees that it is impossible to achieve such a descriptive-analytical feat in a purely objective form. Inevitably, some basic values and biases will always flow into such concepts.
4 Marketing Management

4.1 Fundamentals of Marketing Management

The Fribourg Marketing Approach discussed below rests on the very foundations of the overall management model discussed at the outset of this book. The approach represents a systematic and consistent deepening and broadening of the FMM foundations from the perspective of the marketing task and is divided into four parts:

1) Following a general overview, the first part offers additional, specific foundations for a better understanding of NPO marketing. The diversity of NPO exchange relationships thereby moves to the center of marketing’s attention, quite in contrast to the more generic market transactions of for-profit marketing.

2) Building on this foundation, our specific marketing approach for NPOs is subsequently introduced. This approach results from applying the general ideas of for-profit marketing to NPOs and then broadening them in the process, specifying the notions of the marketing maxim and marketing perspective for NPOs, and describing communication as one of the main pillars of marketing for NPOs.

3) The third part is then devoted to a detailed presentation of the structure and the elements of an NPO’s marketing concept (also termed marketing strategy). More specifically, this part actually discusses how the concept can be designed as a management instrument that is binding for the overall organization and filled with relevant content. In addition, the topic of the marketing organization design is also touched upon.

4) Finally, operational marketing planning and its elements are described as a tool to help implement and concretize an NPO’s marketing concept and to design short-term marketing activities.

In Illustration 17 this marketing approach within the Fribourg Management Model has already been presented schematically.

4.1.1 Fundamental Principles of For-Profit Marketing

Marketing theory – as well as the general management theory as a whole – was developed for profit-driven enterprises. To date, it has reached a high development stage. Before transferring these marketing ideas to NPOs, a fundamental understanding of for-profit marketing and particularly of its maxim and perspective is therefore required.

In the profit sector, the marketing maxim stands for the postulate of a market-oriented and market-adapted management. An enterprise has to align its products and services systemati-
ally and consistently to the needs of the customers. At the same time, it also needs to differentiate its offering from that of its competitors; it must position itself in the market, thus gaining a unique profile.

This adaptation to the market in the sense of a consistent orientation towards the needs of customers, however, almost always goes hand in hand with the use of tools and methods to influence the market, meaning actively influencing customer behavior. By means of advertising and sales promotion, companies try to persuade or seduce potential customers into buying a product or service. Going one step further, the same tools can also be applied to support the creation of a new market. Creating a new market reaches beyond mere adaptation; it relies on the exploitation of the organization’s core competences or technical progress to develop new, innovative offerings for which customer needs often have not yet emerged. Together, this combination of adaptation to customer needs and active influencing or even creation of a new market through advertising and innovation forms the marketing perspective.

Marketing maxim and perspective ultimately also stand at the core of the quality philosophy in the comprehensive systematic approach of Total Quality Management (TQM) (see section 3.1.2): In TQM, the organization consistently orients itself towards customer needs. This fundamental approach, derived from marketing, must guide the design, evaluation and continuous development of all service processes. Quality, in other words, stands for the strengthening of the marketing maxim of a systematic and consistent adaptation to the market. At the same time, TQM also relies on market influencing: It acknowledges that product purchases or customer service patronage can be and need to be positively influenced by the persuasive power of advertising and other forms of communication.

Marketing as market-oriented enterprise management is one of the central functions – if not the central function – of for-profit organizations. However, for many decades marketing theory focused mainly on consumer goods. Only later on was the theory modified and broadened to also include and deal with the specific characteristics of investment goods and finally services. It is the latter development that is of profound relevance to non-profit organizations, since almost all NPOs are primarily service providers. Even more recently, marketing theory has additionally come to acknowledge the importance of all other outside relationships to the success of a company, particularly on the input side (labor market, suppliers of goods and services). Accordingly, its sales-driven approaches and methods have been modified or redesigned for other exchange partners. Thus, the foundations have been laid to extend and generally apply the marketing doctrine to all the external relationships an organization has. This development accommodates the essence of NPOs particularly well, since most of them maintain many, often quite diverse exchange relationships. To begin
with, the following section therefore develops a picture of the diversity of exchange relationships of NPOs.

### 4.1.2 Exchange Relationships of NPOs

NPOs are environment-dependent, open systems. The environmental spheres relevant for NPOs have already been presented in *Illustration 10*. Here, they are characterized more thoroughly showing their importance in greater detail, moving systematically from the outer to the inner environmental spheres (*Illustration 68*).

**Illustration 68: Exchange Relationships of a NPO**

1) **The Explorative Sphere**

Each NPO is part of a certain societal system and is shaped by it in crucial areas. The society and its sub-systems (*Illustration 10*) form the context within which an NPO moves and acts. The society is particularly relevant for an NPO as a bearer of values and norms, of occurrences and developments. The societal sub-systems establish the conditions for action by the NPO, such as laws or moral values, but also create circumstances with a more indirect effect on the NPO, such as changes in the government or labor conflicts. Moreover, society also impacts the exchange partners of an NPO to the point that their behavior and expectations may change, too, eventually becoming relevant to the NPO itself.

What happens in those sub-systems, therefore, has to be continually observed by an NPO. The organization has to screen all information from the explorative sphere for cur-
rent or future relevance. This means key issues must be filtered and selected from a huge mass of information using labor-intensive methods. In the long run, however, no NPO will get around this more or less pronounced broadening of its horizon, since all developments that potentially threaten its existence or create entirely new opportunities need to be detected early on.

2) **The Resource Sphere**

   For an NPO, the resource sphere is often more – or at least as – important as the service provision sphere. This stands in contrast to for-profit organizations where the exchange relationships on the sales side clearly dominate decision-making. With business enterprises, the inflow of funds to the organization is directly tied to the sales of products and services, while a legion of competitors with comparable offerings create competition. This may not necessarily be the case with NPOs. Here, the competitive situation may arise around scarce resources, particularly when it comes to recruiting new members, voluntary executives or voluntary staff, fundraising or soliciting contributions from the public sector.

   The resource sphere of an NPO can be divided into a wider and narrower one. The **wider sphere** stands for the procurement of individual sources on markets; recruiting future employees on the labor market, raising financial funds or material inputs on the donation market as well as attracting new members, voluntary executives or voluntary staff from the circle of industry sector participants or the wider population. For certain NPOs, raising funds or finding voluntary staff may even be the main purpose of the organization (e.g. Swiss Solidarity).

   The **narrower sphere** refers to the relationship with members. Members maintain – from a qualitative point of view – a different, usually closer relationship to their associations than third parties. For this reason, different methods and means of communication have to be used when it comes to attracting their cooperation (assumption of an office and duties; provision of voluntary help), raising funds (contributions, fees) and searching for information (to be used in certain specific association processes) from members.

3) **The Sphere of Action Addressees and Service Recipients**

   The sphere of action addressees and service recipients can be divided into an advocacy and a service provision sphere.

   a) **The Advocacy Sphere**

      Often, the foundation of an NPO can be traced back to the need for coordinated representation of interests or an advocacy campaign. Whenever individual members, such as enterprises or citizens, are unable to sufficiently assert their interests in society, they may assign the task to a cooperative organization.
Important target groups that might be influenced are the state and political system, the wider public as well as other organizations or collectives. According to the Fribourg Management Model, NPO action targeting this advocacy sphere, such as lobbying or collective bargaining, should also use marketing methods. In this sense the marketing approach of the FMM reaches considerably farther than traditional for-profit marketing.

b) The Service Provision Sphere

To an important extent, NPOs also provide individual services such as training, counselling, support or information. Such services can be offered to members of the organization, to selected recipients such as refugees cared for by a relief organization, or to paying third parties as part of a classical customer relationship.

In this service provision sphere, NPO marketing closely resembles business marketing. It asks for a precise segmentation of the market by delineating target groups with specific needs, the promotion and sale of the service offering as well as safeguarding high service quality to help the NPO prevail over its competitors, and thus requires entrepreneurial thinking and action.

In terms of exchange relationships we can thus infer that using marketing tools and segmenting the market seems reasonable for NPOs not only on the sales side, but also particularly on the sourcing side. As compared to business enterprises, exchange relationships in the sourcing environment of an NPO need to be approached a lot more intensively also with a marketing perspective in mind.

Exchange Systems, Types of Goods, and Control Mechanisms

The exchange relationships of NPOs in the various environments mentioned above follow completely different principles and rules. They are also associated with very specific control mechanisms. In chapter 1 (illustration 5), the exchange relationships were already divided into market, non-market and political relationships. This trichotomy can be further refined and tied to different control mechanisms, resulting in a classification as shown in the overview in illustration 69.
Illustration 69: Exchange systems and control mechanisms in an NPO

**Markets** are generally characterized by market exchanges (goods or services for a market price) where recipients and payers are identical.

1) **Markets for Ordinary Individual Goods**

An NPO’s offering of ordinary individual goods is characterized by a market exchange relationship analogous to the one in business marketing; it can be described by the principle of “goods for money”. The price must cover at least full cost and also entail – if possible – a profit component. If the exchanges take place in a competitive environment with several to many different suppliers, then a market price will emerge; otherwise a monopoly price can be set that usually lies above a regular market price.

2) **Markets for Services as Special Individual Goods**

While services are subject to the same market mechanisms as all individual goods, their specific characteristics, nonetheless, exert a strong influence on their marketing and provision, as has been mentioned in section 2.4, and will be further explained in more detail in section 4.3.3.

**Non-market systems** are defined as all those exchange systems where the exchange relationship of “product or service for a market price” with “recipients and payers being identical” is not given. Accordingly, such systems must be following other rules:
3) **Meritorious Systems**

Meritorious goods or services are individual goods that could theoretically be sold at cost-covering prices on the markets. However, since their purchase or consumption lies in the interest of the wider society or even an entire nation, they are provided at a price below full cost or even free of charge. The uncovered share of costs of meritorious goods needs to be financed by other sources or means of the NPO, such as contributions, donations or government grants. The system is controlled by the needs of the recipients, societal interests, political processes, and by additional factors that are more comprehensive than those for financing by market price only.

4) **Collective Bargaining Systems**

In collective bargaining systems, two or more NPOs agree on a contract that establishes binding rules regarding the services to be offered and the behavior of the negotiating partners and their members. These agreements result from intra- and inter-organizational negotiation processes in which a consensus is looked for. The negotiating parties (and their relative power) in the bargaining process actually control the exchange system. Typical examples of collective bargaining systems are the collective employment contracts between employers’ and employees’ organizations.

5) **Communication Systems**

In order to influence the attitudes and behavior of certain target groups, NPOs address them via methods and tools of communication and social interaction. The methods of NPOs may thereby extend from informing to persuading, from merely appealing to moral obligations to deft psychological manipulation. These exchange systems are controlled on the one hand by the communication goals and skills of the NPOs and on the other by the susceptibility and responsiveness of the targeted groups.

6) **Charitable Systems**

In charitable exchange systems, the NPOs collect funds on the donation market for disbursement to third parties and people in need, in line with self-defined intentions and criteria that have been communicated towards the outside world. These systems are controlled indirectly by the donors who decide which organizations and concerns they want to entrust with their donations, and directly by the NPOs’ actions.

7) **Membership Systems**

In membership systems, members finance the NPOs through a basic contribution, receiving in exchange a more or less comprehensive mix of individual and collective services. The control of these intra-organizational exchange systems results from democratic processes: In direct democratic decision-making procedures, each member can participate in the consensus-building process and thus has the option to co-determine – as part of
emerging majorities – the NPO’s services and their shape, at least in broader lines. This stands in contrast to indirect democratic decision-making, where the member base merely has the option to elect its representatives to NPO bodies (for example, assembly of delegates), while the actual decisions are then taken by these bodies. Members can only resort to indirect control mechanisms to influence representatives in the various bodies, such as voting them out of office, rejecting an increase in contributions, leaving the NPO or threatening an organizational split.

8) **Political Systems**

Ultimately, NPOs are always involved in an exchange relationship system with the state. The state impacts NPOs and their behavior in line with its preferences that have been established through internal, political processes. The state enacts laws and regulations, enters into purchase-of-service contracts with NPOs, offers grants for clearly defined services – for example in the health care or social services arena –, and subsidizes earmarked activities and projects or non-earmarked the structures and resources of organizations. The state’s behavior in such exchange relationships is controlled by political processes; the implementation of the political will is entrusted to the administration.

**Services Offered by NPOs**

A final segmentation of exchange relationships of NPOs, which may partly overlap with what has been discussed above, is the one regarding the purpose of the offered services. Three categories can be distinguished:

1) **Services With an Economic Purpose**

NPOs provide services designed to directly support their members or clients in their task fulfillment. This includes individual services (training, counselling, providing information etc.) which are marketable individual goods; but it may also include collective services, such as the mandate to positively influence the markets of the members by the design and execution of joint advertising campaigns or the organization of trade fairs.

2) **Services With a Coordination Purpose**

Through services with a coordination purpose, NPOs try to regulate or coordinate the behavior of their members via binding decisions in the form of rules of professional conduct and behavior, among others.

3) **Services With an Interest Representation Purpose**

Interest representation services of NPOs try to influence the conditions in the environments of members or clients, in all cases where individual members or clients do not have the capacity or the power to do this on their own. NPOs advocate members’ interests by
lobbying in the political system or by negotiating with other parties through collective bargaining and concluding acceptable agreements.

This classification of services according to their purpose in large part forms the framework for the marketing application areas in section 4.3.3.

From these discussions of the specific marketing situation of NPOs the following statements can be derived as a basis for further reflections:

1) The Fribourg Management Model builds on a marketing-guided interpretation of the NPO purpose: The purpose of an NPO is to create benefits and achieve substantial effects for certain environments (service recipients, action addressees). The organization fulfills this purpose by preparing and providing selected services and by actively influencing certain environmental spheres, particularly through communication.

2) The marketing approach for NPOs needs to be comprehensive. Unlike the case of for-profit enterprises, the use of marketing methods is not primarily limited to service addressees or recipients, but also extends to the sourcing of input factors and marketing activities in the inner area (i.e. in regard to members). With this comprehensive approach, marketing becomes the active management of all important exchange relationships.

3) This implies the creation and nurturing of a multitude of relationships with a plethora of exchange partners, indicating that NPO marketing must be more complex than for-profit marketing.

Following this discussion of the essential foundations on which the Fribourg marketing approach for NPOs builds, the next step is now devoted to describing the approach in more detail.
4.2 The Fribourg Marketing Approach for NPOs

4.2.1 Transferring and Broadening the For-Profit Marketing Approach

As the discussions above have shown, NPOs are characterized by certain specific features that are highly relevant for the way marketing is conceptualized. This means that the marketing theory needs to be adapted to the specific situation of NPOs, and new insights, methods, and tools need to be developed in areas that are irrelevant to for-profit enterprises.

To develop an NPO-centered marketing approach, those elements of the general marketing theory should be adopted that are – despite the various structural differences – applicable to NPOs. For example, the notion of the marketing perspective defined as the combination of adapting product and service offers to customer needs (marketing maxim) and influencing or even creating markets through communication and innovation can be adopted, whereby the marketing maxim needs a re-interpretation or broadening in the context of the NPO sector (sections 4.2.2 and 4.2.3). Moreover, the systematic procedure behind the elaboration of an NPO’s marketing concept and operational marketing plan can be adopted too (section 4.3). However, the multifaceted nature of an NPO’s exchange sphere and relationships needs to be analyzed, understood and incorporated into such a marketing concept (section 4.3.1). Marketing, on the other hand, should be modified where the theory is in principle transferable, but where additional specifics need to be taken into account. This applies to the areas of NPO services marketing, member relations and pricing policy tools, where elements of non-market system compensation have to be included (sections 4.3.3. and 4.4.3). Finally, new knowledge needs to be gained and new learning content developed in areas that do not concern business enterprises, such as fundraising, co-operative advertising, relations with voluntary executives and collective bargaining. The Fribourg marketing approach has been developed on this basis; it will now be described in more detail.

4.2.2 The Market Adaptation Aspect of NPO Marketing (Marketing Maxim)

For NPOs, the marketing maxim (adaptation to needs) and the corresponding consistent customer and quality orientation should be interpreted as follows:

1) A change from an internal focus (bureaucracy) to member, client, customer or citizen orientation. This means that exchange partners and their concerns should be taken seriously and understood as different market segments or as clearly defined target groups, to be dealt with in an accordingly differentiated manner.

2) A change from a duty-fulfillment attitude (identification with the system and the task execution) to a service-mindedness. This means the systematic conception, design and running of an NPO as a service organization.
In many NPOs, a marketing maxim in this sense does not yet exist, nor is it practiced. What is needed, therefore, is a new perspective, a change in thinking to give priority to the outside; in other words, developing and providing services derived from needs and expectations. This outward view is consistent with the application of the inducement-contribution-principle: To receive contributions, an NPO needs to create and offer needs-based inducements. This principle has to be kept in mind for the aspect of market adaptation as well as for the one of market influencing and creation. In other words: even the process of influencing stakeholders through communication involves a certain amount of adaptation to their needs.

This leads us to a broadening of the marketing maxim; since NPO marketing – seen as the management of NPO exchange relationships – often includes many different communication relationships, communication assumes greater importance than in the for-profit sector. In enterprises, communication in the form of advertising often takes on a supporting function, while in many areas of NPOs it may become a service in itself (e.g. information services). Moreover, wherever the purpose of an exchange relationship lies in market influencing, i.e. in exerting influence on the exchange partner, instruments and methods of communication have to be used. In such situations, the marketing component of adapting to a market actually refers to the NPO’s efforts as the sender of information to try to assess which messages and communication forms would most likely have an effect on the receiving party, ultimately initiating the behavior aimed at by the NPO. Typical examples for such communication relationships are public relations, social marketing, election and ballot campaigns, and fundraising. In a wider sense, lobbying and collective bargaining also belong to these communication relationships. For such services and actions, market adaptation means creating a basis of trust and thus the establishment of a relationship. The quality is then reflected in the behavior or change in behavior of the target group, whereby in such a context behavior would not refer to the consumption of a service, but to making a positive contribution, such as a donation or signing a collective contract including the withdrawal of the original excessive demands.

In place of the marketing maxim or supplementary to it, many NPOs follow a participation principle, particularly pronounced among mutual-benefit NPOs. Instead of analyzing market segments and developing an adapted offering, the participation principle allows the members of NPOs to co-determine the service offering and content, whereby the detailed design of the services may still be left to market forces. Such a participation principle may work well for smaller direct-democratic NPOs; for bigger ones it may become a problem. This is, because over time and with the growing size of the NPO, the direct democracy practiced in the founding phase is usually replaced by an indirect, representative democracy. A representative democracy, though, may lead to member estrangement and distancing from
the association, since the majority of members are excluded from direct participation in the consensus building processes. Thus, the influencing component becomes important for the implementation of decisions: Decisions must be elucidated, their acceptance promoted and their benefits highlighted. In such cases – particularly with larger associations – influencing the market (or members) through communication becomes almost indispensable.

We can thus infer that marketing in an NPO not only comprises the selection, design, provision and evaluation of target group-oriented services, but also an adapted design and monitoring of communication measures in the input, inner and output areas, with the goal of managing all important exchange relationships (see section 4.2.3 below).

A final broadening of the marketing maxim of NPOs is related to their basic organization structure: NPOs with a multi-level organization structure (see illustration 6) need a clear and unambiguously recognizable identity and thus a coordinated approach by the entire organization, including all organizational units, both internally and externally. This coordinated approach has to be ensured not only by a suitable organizational structure and functional management tools, but also by a marketing concept, and above all by corporate identity (CI) and co-operative identity (COOPI) measures, leading to a broadening of marketing in NPOs.

4.2.3 The Market Influencing and Creation Aspect of NPO Communication

As has already been pointed out above, communication takes a pivotal position in NPO marketing. Virtually all exchange relationships in the input, inner and output areas have a more or less far-reaching communication component. The methods and techniques to be applied by an NPO have, to a large extent been taken from advertising theory, which in turn has adopted many insights from communication theory in regard to how to influence addressees and target groups. Even those NPO managers who find it difficult to unreservedly accept the use of techniques stemming from communication theory should not ignore the fact that NPOs cannot do without them, since they are using them anyway, just more or less consciously or skillfully. In this context, it is imperative to understand marketing and thus communication as a form of implementation of the goals and principles set in higher-order management instruments (e.g. mission statements). The formulation of an overarching marketing concept (chapter 4.3) that systematically coordinates all corresponding activities should thereby help to establish a “unité de doctrine” and prevent ad-hoc, case-by-case marketing. Moreover, in order to influence the market through communication in a generally acceptable way, a basic understanding of communication processes is required, alongside some concrete know-how regarding methods and techniques.

Communication can be construed as an interaction between a sender and a receiver, with the purpose of transmitting a message. This interaction can be seen taking place on two dif-
different levels. The factual information level is the one at which the primary material information flows. This level is closely tied to a second level – called the relationship level –, at which the sender transmits information about him- or herself (in the sense of self-revelation) and on his or her attitude towards the receiver. In every communicative expression, published for example in the media, NPOs thus reveal not only factual information, but also essential aspects of their self-conception and culture, their personality and attitude. The efforts to position the NPO (to be spelled out in the marketing concept) and to derive a corporate identity (CI) from this positioning should therefore be understood as an important tool of self-revelation and an attempt to be perceived in a positive and coherent way by the exchange partners. It is therefore important to incorporate standardized pieces of information in all communicative expressions, since the desired image of the NPO becomes increasingly solidified through the repetition of constant features.

Alongside these two levels of information flow, NPOs also have to deal with the problem of human perception, in particular with human beings’ limited ability to absorb information. On the one hand, the perception of humans is selective: We see and hear only what we want to see and hear, interpreting messages according to our values and ways of thinking, while suppressing anything that does not fit. We thereby tend to accept what is familiar to us rather than contradictions; what is new or other we may interpret as a misunderstanding. On the other hand, the human brain uses different levels of processing, from the working memory which stores stimuli in the ultra-short period over the short-term memory, to the long-term memory, which links information to existing attitudes, ideas and values, and takes care of the processing associated with retention for the longer-term. To provoke deeper processing and longer retention of the information, the goal of NPO communication therefore should be to activate the receiver in a way that he or she intensively studies the message. Pictures and repetitions, physical and emotional stimuli as well as cognitive techniques help to achieve this end.

Given that modern society is suffering from an information overload, plenty of information provided will not be consumed. Communication in NPOs needs to respect this fact. Accordingly, the marketing concept also should include essential fundamental statements on the NPO’s communication.
4.3 The Marketing Concept

4.3.1 Structure and Content of the Concept

According to the system of management tools and the planning logic presented in illustrations 35 and 36, the marketing concept is to be attributed to the normative level. It represents a first concretization of the superordinate management documents, such as the charter, the industry vision and the NPO mission; it should be applicable over the longer term and should focus on the essential, i.e. on fundamental decisions and future-oriented policies for the NPO’s marketing.

This umbrella concept is meant to ensure that all marketing tools to be used form a harmonious whole. Given the increasing specialization in marketing sub-areas, uniform policies and guidelines are needed for the various decision-makers; the marketing concept thus serves as a basis for all marketing sub-plans. This should ultimately guarantee that over time the same principal line is adhered to and a harmonious image build-up can take place. Depending on the size of the NPO and its needs, this overall concept can be supplemented by marketing sub-concepts, such as a lobbying or a fundraising concept.

Below, an overview is given of the structure and content of a sample marketing concept that comprehensively covers the entire marketing function. Illustration 70 shows the concept’s individual components in the form of a checklist, with the checklist’s structure reflecting the different steps for the development of the marketing concept. The individual items do not necessarily have to be elaborated chronologically; the process may well be conducted in an iterative manner. The points below present these individual elements and steps of a marketing concept, followed by a more detailed discussion of the most important areas where marketing is usually applied (from section 4.3.3 on):

1) Exchange Relationships

   The most important exchange partners and their relationships with the NPO, including the associated control mechanisms, should be recorded graphically as shown in illustration 11 in this book (exchange system). The chart will offer an overview of the NPO’s interconnections with its environmental spheres.

2) Analyses

   According to the FMM planning logic shown in illustration 35, some initial analyses (strengths and weaknesses of the NPO, opportunities and threats in the various environmental spheres) have already been undertaken in the course of the elaboration of the mission statement(s). The marketing concept can also build on these findings. If necessary,
these rather rough analyses can be supplemented by more detail covering the existing or planned marketing activities or potential competitors.

3) **Provisions of Higher-Order Management Documents**

Some marketing-relevant policies may already have been included in the mission statement(s) or other higher-order management concepts. These statements need to be adopted as binding provisions and implemented in the marketing concept. Accordingly, all superordinate documents have to be diligently screened for such provisions.

1. Charting the most important exchange relationships

2. Analyses
   - Recourse to information gathered and compiled for the mission statements (NPO policy)
   - Additional analyses of environmental spheres and own strengths/weaknesses
   - Gathering of information on (potential) main competitors

3. Provisions of higher-order management documents
   Mission statements (NPO policy), charter/bylaws, management concepts

4. Marketing principles
   Concretization of the marketing maxim and marketing perspective for the NPO in the form of a "marketing policy", establishment of superordinate marketing goals and principles as a complement to the mission statement

5. Overall positioning of the NPO
   CI, COOPI

6. Marketing application areas (according to illustration 18)
   - Determination and delineation of the areas
   - Determination of goals and general strategies for the individual areas
   - Decision on which marketing sub-concepts to establish
   - Possibly, formulation of additional provisions or directives for the planning process in each area

7. Marketing organization design
   - Marketing infrastructure (positions, responsibilities)
   - Marketing transfer within the overall organization

8. Priorities/immediate measures

Illustration 70: Checklist: design and elaboration of the marketing concept
4) **Marketing Principles (or Guidelines)**

Based on the analyses and provisions of higher-order management documents, marketing principles should then be formulated which, in the sense of a marketing “policy”, comprise fundamental statements on the approaches, services and communication of the NPO, and establish a binding foundation for the NPO’s marketing policy, – how it is defined and interpreted. This establishes the framework for all marketing activities and makes the marketing maxim and perspective understandable for members and employees. The guiding principles thus act as a supplement to the statements of the higher-order management documents. The following practical examples may help illustrate this:

- We provide our services in a member- or target-group-oriented way.
- We train our employees on the importance of the relationships with our exchange partners and show them which responsibility each of them bears for the quality of our service provision.
- We pay attention to ensuring that all personnel decisions contribute to the strengthening and safeguarding of our marketing efforts, and we promote corresponding training and continuous education measures.

5) **Overall Positioning of the NPO: CI/COOPI**

The positioning of the overall NPO is the core task of the marketing concept. Clear positioning is the essential fundament for the design of the organization’s corporate identity (CI). Exchange partners rarely perceive an organization in an isolated or unbiased way. Their perceptions are mostly tied to existing semantic structures, a prevailing image of or an attitude towards a rival organization, personal experience etc.

Such perceptive processes which automatically unfold in the exchange partners’ minds need to be influenced by the design of the **NPO’s identity** in order to create a positive image. The identity is created by the name of the NPO, verbal positioning as well as a positioning cross (see section 4.3.2).

6) **Determination of the Marketing Application Areas**

Based on the checklist’s previous steps, the decision now has to be made in which areas of the NPO, marketing methods should be applied in a planned, systematic way and to which exchange partners, marketing bridges should be built. Besides the NPO’s overall positioning, this is an equally crucial part of the marketing concept. Analogous to an NPO’s exchange relationships, a distinction can be made between inner and outer input and output areas of the marketing application. An inventory of all possible application areas can be found in *illustration 17*. 
The marketing application areas relevant to each individual NPO will be determined based on the established marketing principles, the overall positioning, as well as the marketing tasks to be fulfilled. At the same time, goals and principles and – if necessary – priorities have to be formulated for each application. The corresponding statements then serve as binding directives for any marketing sub-concepts (e.g. fundraising concept), if such concepts are needed, or for the operational marketing planning, if the NPO limits itself to the one overarching marketing concept.

7) **Marketing Organization Design**

In terms of the organization of the marketing effort, it has to be determined which positions or bodies are ultimately responsible for marketing decisions and activities. The basic question to be discussed is whether to establish the marketing position as a staff or a line unit. While centralizing the marketing function in a single department seems rather more difficult in service organizations than in the consumer goods sector, it nonetheless seems expedient to have at least one person appointed to keep an eye on services and communication, to act as a consultant and coordinator within the NPO and to assume or coordinate certain marketing tasks such as CI measures, public relations, internal communication and advertising for services. In addition, this position or department should take care of internal marketing and the marketing transfer within the overall organization.

8) **Priorities, Immediate Measures**

As a rule, the overall marketing concept is formulated for a time span of four to six years. The more innovative its elements, the more important it becomes to also determine priorities at the end of the concept, for their implementation in operational marketing planning. Moreover, the analyses undertaken may unearth weaknesses and problems which need to be solved at once by immediate action in line with the concept.

This checklist provides NPOs with a guide to the elaboration of an overall marketing concept. The individual areas of marketing application will be described in detail in section 4.3.3.

### 4.3.2 Overall Positioning of the NPO: CI and COOPI

The positioning of the overall NPO is the core task of the marketing concept and establishes the essential fundament of the NPO identity’s design. Accordingly, one needs to determine the identity elements to shape the perception of the NPO. To these elements belong the organization’s name and its verbal positioning as well as additional identity components. They then have to be communicated everywhere and always: the identity of the NPO should always shine through in every PR campaign, service offering or call for donations.
The sources from which to derive the identity features are the mission statement(s) and the marketing guiding principles that shape the profile of the NPO and they must be compatible with the positioning elements detailed below.

1) **Name of the NPO**

Usually the name of the organization is given. Abbreviations which are often used in the association sector for reasons of simplicity should be avoided. They may be common in the circles of NPO employees and members, however, unlike, say in France or UK, may be rather less known in wider spheres. While name changes may positively influence the perception of an NPO, they should be approached with great care, for names represent trust capital built up over many years. Practical experience shows, on the other hand, that slight modifications to a name, such as the omission of the legal name, may help to strengthen the NPO profile, as evidenced in the simple “Work Center Basel” in lieu of the more complicated “Foundation Work Center Basel”. In other words, often small modifications may already suffice to enhance the conciseness of a name, rendering it more striking.

2) **Verbal Positioning in the Mission Proposition**

When it comes to building up the organization’s identity, it may well be worthwhile to capture its core activity in a striking short formula. This verbal positioning may be complemented by a mission proposition. Examples of such verbal positionings are:

- Institute for Economic Development (IED): “The IED supplies the economy with know-how relevant to business practice.”
- Pro Senectute – “Aging with Dignity”
- Swiss Alpine Club – “More Than Mountaineering”

3) **Positioning Cross**

With the selection or formulation of an NPO name that matches the organization’s marketing goals, and the development of its verbal positioning and mission proposition, the first steps to position the NPO have been taken. The positioning cross now helps to develop or highlight additional characteristics of the organization:

- The self-image of the organization – what characterizes the NPO specifically?
- Target groups – who are the target groups? How should the NPO be perceived by the essential target groups?
- The service offering and its particular strengths – what makes the service offering unique?
- The competitors and the NPO’s strengths as compared to them – what distinguishes the NPO from the competitors?
Illustration 71 presents a positioning cross for a commercial and industrial association.

4) **Implementation of the Positioning In and Through a CI/COOPI**

The positioning's themes are to be communicated to members, employees and all other exchange partners via a **CI/COOPI program**. For NPOs with members or a membership-like character, two identities always exist. Next to that of the organization as a public
entity (CI = Corporate Identity), we find the Co-operative Identity (= COOPI) representing the members’ identity perception. The COOPI stands for the self-image, the member community’s sense of unity arising from the collective fulfillment of certain member tasks.

For fundraising organizations it is important that a sense of unity emerges between the organization and the donors, meaning that the donors identify with the organization and its purpose. To let such a sustainable donor relationship and solid foundation for trust develop, the donors must be provided with opportunities for positive identification.

The two organizational identities need to be defined and will form a communicative foundation (CI/COOPI concept) for all marketing measures. Depending on the situation, one or the other identity will be at the forefront, both will be congruent, or the CI/COOPI will be individually adapted to the target groups. For the input area (procurement/sourcing), CI and COOPI are of equal importance. The CI/COOPI is shaped by the following factors:

- **Design**: All visible, non-verbal measures and signals of the NPO are subsumed under the corporate design, from architecture through interior design to letterheads.

- **Communication**: Corporate communication comprises all verbal communicative measures of the NPO, such as newsletters, annual reports or press releases.

- **Behavior**: The corporate behavior is the result of the behaviors of all representatives, such as the voluntary governance bodies, paid management and staff, inside as well as outside the NPO, complemented by the behavior of its members.

CI/COOPI measures may be important for the creation of a positive image for the NPO; of at least equal significance in the perception of third parties are, however, its services and activities (content, quality, benefits). The axiom “advertising alone is not enough, the product must be right, too!” is also directly transferable to NPOs.

### 4.3.3 Areas of Marketing Application

Areas of marketing application can be found on the procurement as well as on the service provision and action delivery sides, in the inner as well as in the outer area of the NPO.

**Procurement and Recruitment Marketing (Marketing on the Sourcing Side)**

Procurement and recruiting tasks arise in the outer area (markets) as well as in the inner area (members) of an NPO. In procurement marketing (referring to marketing support for all sourcing/recruiting activities), **communication** plays a dominant role. Some sourcing activities rely strongly on communicative measures, such as member marketing or fundraising. Other sourcing areas such as human resource recruitment are in substance predominantly
covered by their corresponding “theories” (e.g. human resource management), while marketing focuses solely on the communicative aspects, such as the design and wording of a job advertisement.

1) **Member Marketing**

In many NPOs gaining new members with the help of member marketing plays an important role. Aging among the membership, structural adjustments in the industry, dissatisfaction and other reasons continually lead to resignations. Continuous efforts to acquire new members are therefore necessary. Moreover, for many NPOs a high number of members and a high degree of organization also stand for enhanced representativeness and thus stronger market and bargaining power.

Particularly in mutual-benefit NPOs, membership recruitment has to cover the entire variety of members’ roles (*illustration 75*), as members expect their full range of contributions to be acknowledged. Moreover, they themselves increasingly use cost-benefit analyses to evaluate their membership. As will be shown in section 5.2.2., appeals for solidarity and the provision of collective or public goods offer only weak incentives for potential new members to join an NPO, since their benefits are barely or not at all perceptible to individuals. Advertising therefore needs to highlight the individual services offered, which can be directly experienced by the members. Finally, addressing and persuading interested people personally seems to be the most successful advertising method for attracting new members in smaller, business-related associations, political parties or cultural organizations.

In addition, most NPOs also need to recruit voluntary executives. For NPOs without members, such as foundations, this form of recruitment takes the place of member recruitment. For associations, the recruitment of new voluntary executives is primarily an inner area task, since appointments to the corresponding bodies are mainly made from the circle of members. But even associations occasionally recruit voluntary officers from the outside. Interested candidates are to be sought on the basis of requirement profiles and to be persuaded of the benefits of assuming a voluntary office including the corresponding management responsibilities.

Finally, voluntary staff members, too, may be recruited from the outer area (markets), whereby similar approaches may be used as for paid employees. Interested candidates may be persuaded to make what is often called a “time donation” as an equivalent to a monetary one.
2) **Funds Marketing**

Many NPOs finance themselves primarily through member fees as well as through services that they sell to their members or third parties. Charities, social institutions and health care organizations, however, also strongly depend on donations and grants from the public sector. Sourcing financial funds – particularly through **fundraising** – requires the skillful use of marketing methods and instruments. At the forefront stands the collection of funds mostly on the donation market by direct mailing campaigns, be it for NPO activities in general or for a specific purpose. To attain success in the increasingly competitive donation market, fundraising nowadays has to be conducted very systematically.

Likewise, **sponsorship** has also gained in importance over the last few years. Alongside sports, sponsorship has increasingly gained a foothold in the cultural and social sector. For-profit enterprises thereby contractually pledge to support an NPO on condition that it displays the name of the sponsor in the course of its public appearances (e.g. events, campaigns, services, communication).

**Government grants**, on the other hand, can often only be won through hard lobbying for the corresponding political backing; or, they require intensive negotiations including strong, fact-based persuasive efforts, as, for example, in project finance. In the area of public finance, governments increasingly conclude purchase-of-service contracts with NPOs within the framework of New Public Management, including overall compensation via a global budget. This represents a transition from state governance based on input control, where resources or deficits are financed, to one that relies on output control, where payments are made based on services and outcomes. Accordingly, NPOs have to develop capacities in the areas of quality management and controlling to meet the information and reporting requirements of governments. Therefore, NPOs that receive government grants are usually equipped with more sophisticated controlling and reporting systems than organizations that are only accountable towards their members.

3) **Personnel Marketing**

The tools of personnel marketing are job descriptions, requirement profiles and the employment and work conditions on offer. Its task is to create **effective communication** for the corresponding content and to transmit the essence of the NPO’s positioning to interested parties in the labor market. The idealism, image and goals of the NPO may thereby be so attractive that interested candidates even take into consideration a job offer below regular market terms.
4) **Alliances Marketing**

Alliances are a way for NPOs to work together with parallel or superordinate organizations for clearly defined task areas, with the goal of achieving stronger effects and synergies by acting jointly. Finding and nurturing such alliances also involves important communicative efforts for the NPOs involved.

5) **Sourcing of Services and Physical Goods (Procurement)**

When it comes to the sourcing of services and physical goods, many of the corresponding markets are characterized by an oversupply, meaning that the demand for those items is lower than the supply. Correspondingly, procurement in such situations is an easy task. To enhance the purchasing power of NPOs and thus achieve better buying terms, they can form purchasing cooperatives. For certain cooperatives, the formation of such alliances represents their main purpose.

6) **Member Activation**

**Gathering information** from members as well as processing and disseminating it, as for example in the form of compiling and publishing industry statistics, is an important service function for many associations.

Furthermore, **financial funds** also need to be collected from members, be it general membership fees or funds for specific actions, for example in the form of earmarked special contributions or allocations.

Ultimately, the nature of NPOs is to request the **participation of members** in bodies, commissions, committees, and in part, also as voluntary staff. Finding and motivating suitable people for such a collaboration represents an important task to which marketing can also make an essential contribution.

Successful lobbying requires not only permanent monitoring of outside developments, but also a continuous exchange of information with the member base in the form of **stand-by lobbying** – to collect ideas, assessments and opinions for planned lobbying activities.

A prerequisite for successful negotiations between two associations is a consensus regarding positions and demands within each group. Such **inner-organizational bargaining** builds the foundation for inter-organizational bargaining – negotiations with an external group.

Given that all the various sourcing tasks listed above need marketing support, it can be concluded that NPO marketing is significantly broader in scope than that practiced by for-profit enterprises.
Services and Actions Marketing (Marketing on the Output Side)

Analogous to the sourcing of inputs, the outputs of an NPO can also be divided into those addressing the inner area of an NPO – namely services for members – and those for the outer area – namely services for markets and actions towards the wider public. Accordingly, the marketing tasks involved may vary considerably. However, in all marketing activities for the output side, communication again plays a dominant role. But while the marketing activities involved in some output categories, such as self-marketing, interest representation or mandate execution, rely mostly on communicative measures, marketing an NPO’s products and – within limits – its services, is moving ever closer to business marketing practices.

1) Self-marketing (Marketing Transfer and Internal Marketing)

Self-marketing stands for the marketing activities in the inner area (towards members and employees). The task here, on the one hand, is to promote and bring to bear the methods, solutions and behavioral patterns developed by the marketing specialists within the NPO, be it at the headquarters or via marketing transfer in all the – often decentralized – organizational sub-units. The task is also to apply communication techniques derived from marketing to keep the members, employees and volunteers loyal to the NPO, and to promote marketing-oriented behavior among all the organization’s members.

The essence of internal marketing is to promote the service-mindedness of all employees, a concern of every NPO. Internal marketing refers to consciously influencing employee behavior in order to enhance service competence and thus promote a client or target group orientation. Structures, processes and personal behavior should be consistently oriented towards members’ or clients’ needs, whereby it is assumed that well-executed service delivery within an adequate organizational setting should also simultaneously increase employee satisfaction. To help the service providers do a better job, internal marketing should be used with employees and volunteers alike, thus becoming an indispensable component of quality management.

Member relationship management is also required. An NPO should not limit its marketing efforts on the member front only to winning new members, but should care equally for current members, continuously promoting the membership benefits and the value of NPO decisions. Internal communication tools and regular personal contact with members are very important in this respect.

Centrally developed, sophisticated marketing concepts are of little use in multi-level NPOs if no marketing transfer takes place. The concepts that are developed also need to be supported and implemented by the regional associations or sub-units. In the best cases, marketing transfer reaches the individual member, if, for example, the individual member relies for his or her own work or business on marketing methods and promo-
tional tools developed by the association. Therefore, close attention has to be paid to transferring marketing approaches within the inner area (member, employees) of an NPO, for such a transfer is of decisive importance to ensuring the CI/COOPI of the overall organization.

Ultimately, self-marketing also calls for **coordination services**. Such services can be understood as attempts to coordinate, harmonize or standardize certain activities or the basis for such activities among member organizations, as for example in the standardization of technical norms, the establishment of rules of conduct or the introduction of common calculation bases for industry members. Such standardization aims at reducing complexity and risk, and facilitating cooperation among members and third parties. As a principle, the coordination services of an NPO should not hinder or influence competition among member organizations.

2) **Advocacy**

While commercial enterprises often view the representation of their own interests as an awkward task, a necessary but unwelcome side effect of commercial activity, so to speak, representing the interests of a group of people or organizations is a **pivotal task for NPO managers**.

Hardly any NPO can operate without active **public relations** efforts. Even local clubs or small foundations depend on the goodwill of their nearby environment. As a consequence, they must consciously and systematically cultivate their image. Public relations help achieve acceptance for the NPO itself as well as for the industry or cause represented. Moreover, media work is also used as an accompanying measure in collective bargaining processes or to support lobbying campaigns, and in this case belongs to the marketing mix of an NPO. A striking example of this can be found in election and ballot campaigns for political purposes.

The term **social marketing** stands for the marketing of societal interests and ideas. Thus, an NPO might for example stand up for non-smoking or for AIDS prevention. The goals involved may lie in the interest of the wider public or of a certain target group. Media and communications work are at the center of this task. With their help, attitudes or even forms of behavior can be influenced or even changed. Social marketing often resorts to **campaigning** as an instrument, a dynamic form of public relations. Campaigning is difficult to plan, because it involves interaction with many different stakeholders and may continuously give rise to unexpected outcomes. This requires good improvisation skills alongside a functional planning framework.
Lobbying, seen as the influencing of political processes based on relations with the political system, is similarly an important NPO task. In political processes, individual members may often feel powerless, since political bodies may only accept an association or political party as a legitimate negotiation partner. While the necessity to lobby seems obvious for membership-based NPOs, organizations without members also have to deal with the relevant governmental regulatory framework and political activities, and have to try to influence political decisions in the interest of their clients. Successful lobbying relies on three elements:

a) The permanent personal relationships with those in charge in administration and politics. Only a relationship of trust that is built over a longer period of time can create the potential for support that can be relied on in times of need.

b) The expert power of the lobbyist or his organization. Administrations in highly developed post-industrial societies depend on the expertise of outside specialists. NPOs possess information and know-how indispensable to the elaboration of goal-compliant decision alternatives.

c) The influencing and assertive power of the NPO in political decision-making processes. A decisive role is played here by the NPO’s relations with parliament, its financial power for media work as well as the capability to call for a vote by the electorate (referendum threat).

The power of associations is time and again critically put into question; however, today and in the future, democratic systems will always need to rely on their valuable input.

Finally, inter-organizational bargaining including collective bargaining, meaning the negotiations between opposing associations such as those of employers and employees, is another crucial task of mutual-benefit NPOs. As a result, jointly agreed contracts establish binding norms and rules of conduct for the behavior of the contract partners and their members. Such contracts are not only concluded between social partners, but also for example between supplier and purchasing associations of craft trades and commerce. Associations voluntarily enter such collective bargaining processes only when there are common interests, such as safeguarding labor peace. Pressure and industrial action such as boycotts, strikes or lockouts may thereby not only enforce negotiations, but may also lead to results. In such bargaining processes tactics, skill and persuasive power play an essential role. Ultimately, enforcing the norms and rules agreed upon in the course of the bargaining process among an association’s own stakeholders, often proves as difficult a process as the negotiations themselves. Success often depends on the possibility to sanction non-compliance among one’s own members.
3) **Services Marketing**

In contrast to tangible consumer goods, services are characterized – as already discussed in section 2.2.4 – by some special properties and features such as intangibility and interactivity. These characteristics have a decisive influence on the way services are provided:

a) Regardless of whether there are clients or not, an NPO has to be ready at the advertised office hours with human resources, finances and infrastructure standing by to provide services.

b) The quality of a service predominantly depends on the way the client and the service provider interact, whereby the latter’s performance is closely tied to his or her skills and motivation on a given day. An NPO thus cannot promote a finished product, since how future service interactions will unfold is still uncertain today. It can only advertise its current know-how, successful service interactions in the past and the positive references of former clients.

c) The service recipient must be convinced to introduce and integrate him- or her-self as a so-called external factor into the service provision process. He or she enters the process with certain expectations that might influence the interaction and can assess the quality of the service only during or after the service delivery.

NPOs as classical service providers need to understand and respect these specific characteristics of service provision and of services marketing with all their implications when designing new offerings. Even collective or public goods including the entire area of interest representation are intangible and interactive in nature and thus follow the above-described logic.

The following discussion, however, will focus only on individual services that can be directly and individually consumed by members, clients or third parties.

**Services to Members**

The provision of services to members is the core task of mutual-benefit NPOs. Close relationships with members allow an NPO to develop tailored, needs-oriented services. Often NPO services are monopolistic in character, such as inter-company comparisons, benchmarking or industry statistics. Services can be offered at a market price or sometimes even substantially above in order to generate excess funds for the NPO. The corresponding surpluses might then be used to cross-subsidize the provision of collective or public goods. Conversely, services can be offered at a discount by using other financial means to cover the unmet costs, as is the case with meritorious services. Both cases are referred to as internal subsidization.
Services to Third Parties or Clients

Depending on the NPO policy, mutual-benefit organizations may also provide marketable services to non-members or third parties. The prices charged lie mostly at market level and may often also be higher than those for members. For those NPOs where such a service business takes on a larger dimension, the corresponding division may often be spun off into autonomous entities in the legal form of a joint stock or limited liability company. Alongside increased market orientation, such an approach may also be advisable due to tax requirements and regulations. Through a spin off, the market-oriented service program is also largely withdrawn from the democratic-political control of the trustee bodies; the function of the voluntary governance body may thus be reduced to that of a simple supervisory council.

Charitable organizations provide services to the needy at no charge. The corresponding funding stems from donations, subsidies, fees to be paid by third parties and other contributions. For third-party-serving NPOs in the social and health care sector, such services for clients and elderly people constitute the main purpose of the organization. Marketing in this area is strongly influenced by competition among NPOs for donor attention and governmental control mechanisms. NPOs, the state and social or health insurance entities negotiate purchase-of-service contracts including global budgets or fixed fee rates for clearly defined service offerings, thus largely determining the shape and scope of the service offering.

4) Marketing as Mandate Execution

The execution of a marketing mandate on behalf of a certain party covers all outside marketing tasks an association fulfills in the name of the entire collective of its members. This could mean for example the organization of trade fairs or exhibitions, joint product advertising or running an image campaign to positively influence the way the market regards the association’s members.

In conclusion, we can summarize the following: The marketing concept establishes the overall principles and guidelines for the fulfillment of an NPO’s marketing tasks. Depending on the size and the diversity of the NPO, this overall marketing concept may then be concretized at the level of the individual marketing application areas by marketing sub-concepts for important exchange processes such as fundraising, lobbying or service provision. The overall concept as well as the sub-concepts will have to be broken down subsequently into more concrete goals and activities at the level of the operational marketing planning, which will be the topic of the following section.
4.4 Operational Marketing Planning

4.4.1 From the Marketing Concept to the Operational Planning Sequence

According to the planning logic described in section 3.3, concepts are systematically structured fundamental principles and statements about a defined task area that are valid for a longer period of time. The marketing concept introduced in the previous section structures an NPO’s overall marketing goals, principles and task areas and indicates whether additional complementary sub-concepts for certain specific task areas might be necessary.

In a next step, an NPO now needs detailed plans to break down the concept’s overall tasks and goals into concrete marketing activities. This operational planning has to be conducted for each marketing application area as well as for the design of the CI/COOPI. While the time horizon at the strategic level (concepts) extends up to six years, at the operational level it goes from one to two years. In other words, projects, programs and actions have to be defined and approved for this time span. It must be ensured during this successive concretization of plans that the principles of the concept level are adhered to and the decisions made there are kept. Only in this way does managing by concepts and objectives make sense. This concept regard has to be reviewed and adapted as soon as the permanent monitoring of original assumptions and premises shows that fundamental environmental changes have taken place in the strategic or operational arena, rendering the concepts or the operational plans illusory or impossible to realize.

4.4.2 The Sequence of the Operational Marketing Planning

For the operational marketing planning, too, we suggest a standard planning sequence. This sequence has the following steps (illustration 72):

1) Marketing Information

A first analysis phase was already conducted preceding the elaboration of the mission statement(s) and the marketing concept. Thus, some prior information and insights about the development of the relevant environmental spheres and markets as well as the NPO’s internal strengths and weaknesses are already at hand. These insights may possibly have to be deepened by additional market research activities such as member or client surveys or internal analyses, specifically in relation to the different marketing application areas. Essential findings may additionally be gained from a detailed analysis of past service provision processes.
2) **Determination of Area Goals**

For each marketing application area concrete objectives need to be established (e.g. membership increase of 5%). In particular, questions need to be clarified such as: which effects should be achieved in general with members or clients and which benefits should the services provide? These area goals should then be concretized by target group.

Illustration 72: Checklist for operational marketing planning

3) **Market Segmentation**

Depending on the marketing area, the circle of addressees for a service may be very heterogeneous, with different recipient groups having different needs and expectations. Thus, the overall market may have to be segmented, i.e. divided into different, homogeneous groups of recipients for which the marketing tools can be specifically adapted.
4) **Marketing Exchange Systems**

The overview of relationships with exchange partners that was established for the marketing concept now has to be detailed for the individual marketing areas of importance, complemented by the corresponding control mechanisms and the marketing tools to be used.

5) **Positioning of the Service and Action Offering**

The NPO’s overall positioning established as part of the marketing concept may now have to be refined or detailed for each individual service area or specific bargaining issue in regard to service and action positioning.

6) **Marketing Mix**

For each service area the corresponding marketing mix now needs to be defined. This may include the detailed performance process, price, place, and promotion, among other things, for each service category. The conception of this mix is the most important and at the same time the most demanding task in operational marketing planning. Accordingly, this step will be discussed in more detail in section 4.4.3.

7) **Marketing Organization Design**

Fulfillment of the concrete marketing plans has to be scheduled and implemented, unless a clear structure with responsibilities and time frames has already been defined in the marketing concept, with the task, for example, being outsourced to an external marketing expert. Particularly in the case of modified or newly offered services, the service performance process should heed the postulates of services marketing and quality management.

8) **Marketing Budget**

The resource demands for the planned measures (use of marketing tools) need to be included in the budget; the planned marketing mix may have to be adapted according to resource availability.

9) **Marketing Control**

It is necessary to define what exactly will have to be monitored during and following the implementation of the planned measures. This may include adherence to quality standards, the degree of goal achievement and satisfaction or acceptance rates of those involved and concerned. It is often necessary to define and monitor area-specific indicators for the measurement of success.

10) **Establishment of Definite Plans (Final List of Measures and Tools)**

Following the definition of potential measurement tools it seems useful to summarize all the measures and tools decided on for each planning item in a list. This will make it possible to present all the decisions in a clear and compact way.
4.4.3 The NPO Marketing Mix: The Marketing Toolkit

For the selection of the marketing mix for a service area, one can rely on the **marketing toolkit**. Marketing tools are the means and measures to be used by the NPO’s management or marketing officer to affect the market, influencing it according to the defined organizational goals. The marketing tools used in this model (illustration 73) first of all comprise the **classical four standard tools** (known as the four “P”s: product, price, promotion, place) from business marketing. However, these tools have to be adapted specifically for use in NPOs and also significantly modified in part. Moreover, two additional tools that go beyond the classical four marketing tools have to be added, namely “people” and “politics”:

1) **Performance: Service and Product Offering**

   While a number of NPOs offer some physical products, all of them offer services. As already discussed in prior chapters, services differ significantly from physical products in terms of their marketing. Their provision entails a stand-by readiness state, an interactive performance process to solve the identified problem of the service recipient(s) and the achievement of a mutually agreed upon outcome. The tool “performance” thus comprises all decisions regarding the range and features of the services and products offered (product-service mix).

2) **Price**

   Alongside charging market prices for the services provided, NPOs have important additional ways of funding their operations such as fees, contributions or donations. Thus, the pricing policy wins an added dimension in comparison to business marketing, morphing into a real financing mix.

3) **Promotion (Communication)**

   Promotion, too, should be significantly adapted to the characteristics of nonprofit offerings. In certain marketing application areas, communication assumes an importance that goes beyond mere advertising. As a matter of fact, the importance of the tools of public relations and advertising for NPOs is inversely proportional to that in for-profit enterprises, since the fulfillment of highest order PR tasks is usually delegated from businesses to NPOs (in the form of associations). In other words, carrying out business-needs-related communication functions is one important reason for the existence of trade-related NPOs. Thus, the strict and certainly justified separation between advertising (for products) and public relations (for institutions) practiced in for-profit marketing is not desirable in the NPO sector, since NPOs usually define and position themselves based on the public benefits and usefulness of their services, and public relations is one of their main services.
Illustration 73: Components of the marketing mix in the NPO sector

4) **Place**

In terms of place (or distribution), above all the location of the service provision – centralized versus decentralized – and thus proximity to members or clients is an important marketing tool. “Place”, however, gains an additional dimension in services marketing, because the service environment or atmosphere is crucial for the service performance and the quality perception of the service. Correspondingly, the layout and atmosphere of front-line facilities such as the reception area, waiting room, offices and restrooms strongly affect service perception and have also become marketing tools (at least for services offered face-to-face).
5) **People**

The “people” marketing mix item is meant to illustrate that in NPOs as service organizations and often membership-based entities, the following three groups of persons have a strong influence on the outcome and quality of exchange relationships and thus should be influenced with specific inducement-contributions tools:

a) **Client-facing employees:** They conduct and monitor the interactive service performance process and thus are an essential marketing tool. Their motivation, commitment, competence and service performance, therefore, need to be fostered continuously.

b) **Service recipients:** Depending on the service, recipients are more or less deeply involved or integrated in the service provision process. Their expectations and behavior thus play a vital role for the outcome and quality of the service process. Selecting clients in line with the target profile, clarifying their expectations, and motivating or nudging them to play by commonly accepted rules of behavior are thus prerequisites to a positive process and outcome.

c) **Members:** NPOs ask for contributions from members, voluntary executives and helpers in various forms. Marketing for NPOs means finding and offering suitable inducements to ensure the motivation and thus future contributions from these groups. Specific inducement-contribution systems are used for clients and partners in the areas of lobbying, collective bargaining and fundraising. The inducement-contribution principle, however, applies essentially to all exchange relationships.

6) **Politics**

The marketing tool called “politics” clarifies that NPOs work within political systems and therefore need to find and evaluate ways to influence politics for their purpose. In other words, for each service area on offer, NPOs have to work out how influencing the political sphere might improve the service process and thus the exchange relationship involved.

In order to clarify our concept of the marketing mix presented above, it should be added here that the “communication” and “politics” tools can be seen as elements of the marketing mix if they are used as accompanying *flanking* measures alongside other tools. On the other hand, they can also constitute marketing application areas in their own, independent service or action offerings of the NPO as discussed in section 4.3.3 above.

In summary: The for-profit marketing theory is the source from which many important insights and methods can be gained for marketing by NPOs. However, marketing becomes a suitable and indispensable theory and tool kit for NPOs to secure success only following
careful evaluation, including reinterpretations, adaptations and additions. So, marketing is applicable to NPOs as long as it is modified and particularly complemented in many different areas. Additional and also more detailed theoretical and practical discussions on the topic of marketing for NPOs can be found in the extension volume to the FMM.
5 Resource Management

5.1 Foundations

The term “resources” generally stands for the means and potentials that help an NPO fulfill its tasks. Economics as well as general business administration theory also use the term “production factors”, limiting the expression to those goods that are scarce and need to be procured on markets. These include land, capital, labor and entrepreneurial management. These factors are equally relevant to NPOs, albeit to a different degree and with partially changed or extended content. In the Fribourg Management Model the terms “production factors”, “means of production” and “resources” are used interchangeably; factors such as human labor, financial funds and cooperative solutions (cooperations) are also included in the terms “resources” or “means of production”. Chapter 5 is thus devoted to resource management, i.e. to issues related to the administration (sourcing, development and releasing) of an NPO’s resources.

An additional clarification in terms of the FMM concerns the line of demarcation between resource management and marketing management. One aspect of the sourcing or recruitment of resources has already been discussed in the chapter on marketing management under the term “procurement marketing”, namely its communicative dimension. Especially when it comes to recruiting members, voluntary executives, employees or voluntary staff, in part also when seeking grants or in fundraising, this communicative aspect can be of such vital importance that it would make sense to discuss virtually the entire resource recruitment area under the heading of marketing management. However, while the marketing task focuses on the selection of the most suitable message to attract new resources, this following section deals more with the material aspect of resources, namely which qualities and types to look for. Illustration 74 offers a first overview of the components and elements of resource management, complemented by the goals which NPOs pursue in general in the different areas of resources.

These goal formulations show that the procurement problems in resources management stand diametrically opposite to those in marketing management. Marketing starts with a consistent outward perspective, meaning that activities such as communication are designed with the needs and expectations of exchange partners in mind. In contrast, the task of sourcing and recruiting resources places an inwardly oriented question at the center: Which resources does the NPO need, in which quantity, quality and temporal range, to be able to fulfill its tasks? Thus, the expected resource needs are defined first, before the corresponding potentials are sought in the market. Only when an NPO enters the phase of concrete resource
procurement or recruitment situation, does the marketing perspective come to bear again, because it needs to address the resource suppliers in a way that meets their needs and expectations in order to induce them to make their resources available to the NPO.

<table>
<thead>
<tr>
<th>Illustration 74: Elements and goals of resource management</th>
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<tr>
<td>The following sections outline the basic, essential features of the different resource areas. The explanations focus thereby on NPO-specific aspects, i.e. above all on those resources that are not to a similar extent already the subject of general business administration theory, such as human resource management. Similarly not discussed are all those capabilities called resources that an NPO has to elaborate and develop on its own, in the course of internal processes. These resources include in particular, knowledge that has already been dealt with in section 2.2.7, the strategic success potentials described in section 3.3.3, as well as the system capabilities of section 3.1.3.</td>
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### 5.2 Members

Mutual-benefit NPOs usually work with membership-based structures, while third-party-serving NPOs often rely on foundation-like structures instead. Therefore, the following discussion focuses primarily on the typical membership-based structures of mutual-benefit or member-serving NPOs, including the variety of roles taken on by their members. Given that some third-party-serving NPOs also have membership-based structures, the topics of member recruitment and deployment may be of concern to them, too. However, the statements on the entire activity area of member-targeted services are of no relevance to them. By con-
contrast, our reflections on volunteers and the voluntary governance system are valid for all NPOs.

5.2.1 Member Roles

Illustration 75 depicts a classification of the different roles and functions that members of a mutual-benefit NPO may assume. Following a brief description of these roles, we will then show the problems that may arise when it comes to motivating interested persons to assume these roles.

1) Members as Owners of the NPO

Charters or bylaws of NPOs usually lay down precisely who may be admitted as a member. Member categories and admission terms are derived from the NPO’s purpose. The category of ordinary or regular members enjoys full membership with all its rights and obligations. Ordinary members may be natural persons such as the members of a union or political party, but also organizations such as enterprises or umbrella associations joined in a trade association; they all assume the role of owners of the NPO. As owners they form the supreme power and decision-making center of the organization and make decisions directly via general assembly or indirectly via delegates or deputies on the fundamental goals, services, resources and structures of the NPO. With regard to the recruitment of new members, two opposing strategies can be distinguished.

a) In the case of selective member admission, the NPO strives for the status of an exclusive club. The qualitative requirements for members are high; virtual entry barriers are established to prevent the admission of ordinary citizens. Associations may precisely delineate the circle of desired members in their statues or by-laws by, for example, listing the co-owner organizations that are entitled to a seat in the General Assembly. Other parties may be allowed to become members as well, albeit with a non-ordinary status that includes only limited options for participation.
Resource Management

Illustration 75: The benefits-related questions when joining an association

1) Members as owners and sovereign decision makers
   - Do goals and policies correspond to my expectations, interests; can I identify with them?
   - Can I substantially co-determine the policies in the General Assembly; does the democratic mechanism work?
   - What costs will arise from joining or from exiting later on?

2) Members as membership fee payers
   - Are the annual fees high? Are they justified in comparison to the services provided?
   - Can I compensate these fees entirely or partially with discounted service fees?

3) Members as voluntary governance executives and co-workers
   - Do I have a chance to become elected onto governance bodies or committees?
   - Do these roles offer power and prestige?
   - Do I find collegiality in these bodies?
   - Can I learn things in these functions that are useful to other activities?

4) Members as service users
   - What benefits do I receive from the services?
   - Are the incentives really selective or do non-members receive them too; are competing offers better?

5) Members as the party affected by collective goods
   - Does the NPO provide the requested collective goods, and do they correspond to my interests (and not to those of other member groups)?
   - Would free-riding be more profitable?

6) Members as the party implementing norms
   - Am I ready to adhere to existing and future resolutions and regulations?
   - Are the obligations tolerable?
   - What sanctions should I expect in the case of non-compliance?

b) Other NPOs try to achieve the **highest possible degree of representativeness** within the defined recruitment area in order to speak for a group as comprehensively as possible, thus gaining powerful standing. For many trade unions for example, membership access is kept wide open. Here, a maximum of persons and organizations able to identify with the NPO purpose and willing to support it should be won.
Alongside the ordinary membership status, many NPOs also offer the option of a restricted or extraordinary membership, usually to an extended circle of persons and organizations. These extraordinary or qualified members mostly have limited rights and obligations. They may be interested in individual NPO services or may want to support and strengthen the NPO without assuming the full participation rights or without wanting or having to pay the full membership fees.

Non-members are all those persons, organizations, enterprises or households that for various reasons do not join the NPO, despite also qualifying for membership from the point of view of the association’s purpose and its statutory definition of acceptability. All other economic subjects that are generally ineligible to be association members are termed third parties. They, too, may become important for an NPO as potential donors or buyers or recipients of services.

2) Members as Fee Payers

By joining an NPO, members accept certain obligations. This includes in particular the payment of membership fees. The different potential forms of these fees, dues or contributions will be discussed in the section on financial means. The crucial importance of this input factor for membership-based NPOs is reflected in the fact that non-payment of the due membership fees despite repeated admonitions will usually result in an exclusion from the organization.

3) Members as Participants

Moreover, NPOs expect from their members not only payment of the membership fees, but also a more or less intensive participation or cooperation. Sports and leisure clubs could, for example, not fulfill their purpose, if it were not for a few to a multitude of members participating in the planning and organization of club life and events. Business or trade associations depend both on the participation of their members in assemblies and voluntary governance bodies, as well as on their cooperation in the fulfillment of certain association tasks such as the compilation of industry statistics; and in charitable institutions, the voluntary work of members may constitute a cornerstone of the service delivery.

4) Members as Service Recipients

NPOs fulfill their purpose by providing services. By definition, mutual-benefit NPOs provide these services for their members, for example: The Alpine Club organizes guided mountain tours for its members, while the business association offers a range of services in the fields of information, counseling, training and HR development to its members. Usually members decide voluntarily on their service demand, which brings an element of
market control into the NPO; in exceptional cases the use of NPO services may, howev-
er, be compulsory for members.

5) Members as the Party Affected by the NPO’s Collective Goods
Alongside individual services, most NPOs also produce collective goods, namely in the
form of interest representation or advocacy. Through their activities and actions NPOs
want to influence the behavior of certain third-party addressees in a way that either bene-
fits their members or helps realize the NPO purpose. However, the more heterogeneous
the needs and interests of the members, the less each member can be certain that an
NPO will represent exactly his or her interests in lieu of the ones of other member
groups. Thus, the collective goods produced by an NPO may concern or affect a member
both positively and negatively.

6) Members as the Norm-Implementing Party
Membership may include the obligation to comply with certain norms that have been
bindingly established by an NPO or negotiated with other organizations. Enterprises have
to come up with the compensation and benefits agreed upon in collective wage agree-
ments; physicians, lawyers and other self-employed persons are obliged to comply with
the profession’s rules of conduct; certain moral-ethical forms of behavior may be ex-
pected from members of the church, etc. To gain credibility, such norms may be sup-
ported by the threat of sanctions; those who do not adhere to them may be punished, for
example by fines or exclusion.

5.2.2 Motivating Members to Assume Their Roles
Membership in NPOs can be voluntary or compulsory, as in the case of the Austrian eco-
nomic chambers. For NPOs where membership is legally mandated or regulated, the prob-
lem of recruiting members may not exist; but in the longer run, even they cannot operate
without fulfilling the needs of their members and creating acceptance and identification,
since they, too, depend on inputs from their members in order to function.

Thus, the problem remains the same for all member-based NPOs: they have to create suffi-
ciently attractive incentives to convince potential members to join the association, to remain
in it and even to become interested in assuming voluntary governance positions. This con-
clusion is in line with the inducement-contribution theory presented in section 2.2.2 of
this book, exemplified in illustration 76 with the case of an economic association: NPOs need
to offer stimuli, which are perceived as inducements by the addressees. These incentives
should prompt the members to assume the roles to be fulfilled in an NPO and to cooperate
as intensively as possible. NPOs, thereby, have to start from the premise that interested par-
ties, non-members and members will base their decisions on cost-benefit considerations. The
incentives offered by the NPO will be set against the anticipated member contributions. Members will only be ready to come up with the desired contributions if the outcome is positively rated.

This problem of how to motivate members to accept and play their roles can be tackled at two levels: by designing the inducements in a needs-, interest- and expectations-oriented way and by promoting these positive inducements with interested parties and members by way of effective communication and advertising methods as well as other marketing tools.

Thus, on the one hand, effective inducements need to be devised within the organization using measures such as objectives, structures, procedures or a positive NPO culture, and, on the other, these inducements need to be promoted outwards in an attractive way. Illustration 76 shows the relationship between motivation and member types and the corresponding inducement design.

![Illustration 76: Member motives and inducements](image-url)
In this context, it may be worthwhile recalling the so-called Olson theory. Olson (1965) discussed the incentive-contribution problem with respect to “free-riding” by non-members. Since, by the very definition of a collective good, nobody can be excluded from its consumption (non-excludability), non-members and thus non-payers can benefit from an NPO’s efforts to the same extent as members. Free-riders therefore leave the payment of contributions and thus the financing of collective or public goods to the supposedly naïve members. According to Olson, solidarity thus may not be a particularly strong motive for joining an association. As a consequence, NPOs confronted with a high number of potential free-riders, such as trade unions or consumer organizations, should therefore forget appealing to solidarity and try instead to nudge non-members into membership with the help of selective incentives. Such selective incentives are, for example, individual goods or services with a monopoly character which may be highly attractive or even indispensable to non-members, but can only be sourced via membership (so-called “club goods”). Social or ethical-ideological incentives may also work in this selective manner. Although the mechanism of free-riding discussed by Olson may in reality not always be found in this drastic and stringent form, it should serve as a constant reminder to all NPOs to permanently base their decision-making on the incentive-contribution principle and to continually develop monopoly-like, exclusive services to win and keep members and thus their contributions.
5.3 Voluntary Executives

Voluntary executives are men and women, members or non-members who voluntarily commit themselves to assuming a function in the fulfillment of the various NPO governance tasks. It is this voluntary activity of people within bodies, commissions, committees, work and project groups that is the truly typical characteristic of NPOs. The term voluntary governance system thereby comprises all the bodies or organs in which members or third parties assume voluntary governance and counselling tasks. It needs to be distinguished from voluntary work in social institutions, charities, churches, etc., where women and men are active as voluntary staff, being of service to others on behalf of the NPO and contributing to the fulfillment of the NPO purpose. These volunteers will be dealt with in section 5.6.

5.3.1 Characteristic Features of the Voluntary Governance Function

The voluntary governance function is typically characterized by the following features:

1) Voluntary governance functions are accepted and assumed voluntarily.

2) They are generally carried out free of charge or in exchange for very little financial compensation, unless regular professional employment is substantially impeded by the assumption of the voluntary function.

3) The function requires an avocational or part-time engagement from the voluntary officer, for which he or she usually needs neither comprehensive expertise nor many years of experience. Accordingly, voluntary executives may be called “amateurs” in the proper sense of the word (not dilettantes), investing their free time for something they like to do or care about. Due to their limitations in terms of information, disposable time and NPO-specific expertise, voluntary executives, however, are at a disadvantage compared to full-time paid managers, officers and staff in the same NPO. This limitation in specific expertise may relate only to the work to be done and the problems to be solved in the NPO. An electrician or lawyer may possess a high level of expertise in his or her own profession; in their trade association functions, however, they might have to discuss the pedagogical design of a training course or the journalistic concept of the association’s magazine. In other words, the greater the match between the professional know-how of the voluntary officers and the problems to be solved in the NPO, the fewer the potentially negative consequences of their status as amateurs.

4) Voluntary executives often lack NPO-specific leadership methodology and experience. When compared with the leadership position they might already hold in their professional full-time employment, they will find that the democratic structures, collegial bodies, participation-minded employees, inner-organizational quest for balanced repre-
sentation as well as acceptance in consensus-building and decision-making, requires an adaptation of their leadership style developed as a result of for-profit enterprise experience.

5) In membership-based NPOs, voluntary executives are mostly elected by the members from their own circle. NPOs without members such as foundations have to appoint or co-opt people to their bodies. Both elections and co-optation to a body or office may be decided more on the basis of the popularity and personal connections of an individual candidate than his or her capabilities.

5.3.2 How to Design Efficient and Attractive Voluntary Governance Work

An attractive voluntary governance function has – apart from the NPO goals – to be aligned with the needs of the voluntary executives. In general, we can assume a structure of needs and motives analogous to that underlying motivation-oriented employee management (illustration 50). Alongside the need to be active to achieve a public benefit, elements of self-actualization, social contact, prestige and power may also play a crucial role. Here again what was discussed in chapter 3.6 on so-called situational leadership holds true: the motive structures of voluntary executives vary tremendously. Therefore, the incentives offered need to be differentiated and designed individually, i.e. adapted to the diverse characters such as the dynamic mover and shaker or the passive committee associate. Illustration 77 shows the likely expectations of a mover and shaker character in terms of the office’s incentives and thus an attractive voluntary governance position. The corresponding checklist may at the same time serve as a guideline to designing the voluntary executive position in a motivating way. Alongside setting proper incentives, additional care needs to be taken when filling a governance position to avoid that potential executives accept too many functions (in different organizations) and thus run into work overload; to limit the term of the office and to systematically build up junior leaders into generalist governors through job rotation.

All these issues and requirements place high demands on the selection procedure of voluntary executives. For optimal selection, priority should always be given to the expertise of the candidate and his or her availability, particularly against the criterion of (geographic) representativeness that might lead to random and professionally inappropriate appointments. From this point of view it seems very advisable to formulate clear requirement profiles for voluntary offices to allow for a rational selection procedure and to objectify and de-emotionalize the election of candidates. Such a selection procedure is of particular importance for social, third-party-serving NPOs, where it might be crucial to supplement the paid NPO managers with the expertise they possibly lack, for example in the areas of construction, legal affairs or media work. In such cases, voluntary executives complement the work of paid management with an advisory and support function.
Illustration 77: Checklist for the attractive design of voluntary governance positions

| 1. | the governance bodies are predominantly composed of other ‘good’ people; |
| 2. | the demands on time for the association work are limited and do not negatively affect other activity areas important to the holder of the office; |
| 3. | the office is endowed with ‘interesting’ tasks, i.e. genuine problems to solve for which the intellectual contribution of the officer is essential; |
| 4. | the office is endowed with competencies, i.e. decision-making- and influencing powers; |
| 5. | meetings are used for real consensus building and decision-making, i.e. for leadership (and not just merely to approve what others have prepared down to the smallest detail); |
| 6. | the office or body has all the management tools at hand that allow for goal-oriented management, i.e. satisfying voluntary governance work with optimal guidance from the management board; |
| 7. | the office allows the voluntary executive to become well known beyond the association and he or she can build and nurture relationships and thus prestige and reputation; |
| 8. | the social relations within the bodies and groups are positive, cooperative and amicable. |

5.3.3 Deviations from the Ideal Type of Voluntary Government Function

In practice, cases and characteristics that deviate from the typical voluntary governance function described above can also be found. This, first of all, concerns the issue of the unsalaried nature of the work, implying that voluntary executives forgo financial compensation. Many NPOs increasingly depart from this principle by offering some compensation to voluntary governance functions. Business associations may even go as far as to pay salary-like remuneration that may approximate proper compensation for the loss of income. This can be seen as a reaction to the societal trend of a decreasing willingness to assume unpaid office. It follows that such compensation goes hand in hand with an expectation of efficient and qualitatively high work execution from voluntary executives. A special remuneration case occurs, when an employer releases employees for work in the NPO, while still paying their salaries. In that case, no financial sacrifice is requested from the voluntary officers. Accordingly, the NPO has to reimburse the salary loss to the employer, while the voluntary executive does not receive any additional compensation, except for the reimbursement of expenses incurred.
Deviations from the typical picture of the voluntary governance function also occur in matters of expertise, particularly when full-time employees of a similar or even their own NPO (e.g. working as staff or managers in a sub-unit such as a section or regional unit) become elected or delegated into the bodies of the central association. These employees evidently bring in their professional expertise to the voluntary governance work, also in respect to NPO-specific leadership.

Finally, increasing professionalization in the voluntary governance work also takes place where unpaid, voluntary NPO executives leave their original, paid jobs to assume the NPO governance function full-time and fully paid with a salary package comparable to paid managers. These persons thus become professionals, since their voluntary governance function has become the full and main source of their income. Nonetheless, their status remains voluntary in nature, as they stem from a different profession than the one they perform in the NPO, have to be elected, periodically re-elected and at times are subject to a term limit.

5.3.4 Professionalizing the Voluntary Governance Work

When we speak of professionalizing the voluntary governance function, we do not mean that voluntary executives should become full-time, paid managers with the same expertise, information and detail knowledge as the professionals. Professionalization refers more to the way the governance function should be executed. The goal should be to have the voluntary executives use their limited time in such a way that they succeed in guiding the NPO effectively. To achieve this purpose, it is necessary to elaborate tools and methods on which to base efficient and effective voluntary governance work and to enable the voluntary executives to get to know and handle these tools accordingly.

What is meant by effective and efficient voluntary governance work is displayed in principle in the checklist shown in illustration 78. In addition to these points, further and more detailed requirements need to be formulated; a move that becomes clear the moment we take a closer look at the often encountered deficits in voluntary governance work:

1) **Voluntary executives (often) do the wrong things.** They worry about details, interfere with paid, professional management and thereby neglect the discussion of policy and future issues.

2) In NPOS, voluntary governance bodies can often only approve or reject what has been prepared by the professional staff in the form of resolutions and proposals. This creates an area of permanent tension between the bodies that take care of decision-preparation and those that are responsible for decision-making. This is known as the staff-line problem and is particularly acute between the board of trustees/governors and paid management. The more paid management (and its staff) develops and details its resolution pro-
posals on its own in the sense of completed staff-work, the more such preliminary work pre-empts many decision parameters. In such cases, the voluntary governance body has little influence on decision-making in terms of factual content.

3) This tendency of paid management to steer the NPO from behind the scenes may be reinforced if it exploits its structurally induced information advantage to cement its power position (gate-keeping) by means of a selective transfer of information. Such information asymmetries make it additionally difficult for voluntary executives to contribute substantially to decision-making.

4) Once the voluntary executives become aware of this imbalance of power, over time even feeling manipulated, they may resort to the strategy of disempowering paid management. They may try to withdraw and redirect as many competencies as possible from the management board back into their own decision-making area, overburdening and over-taxing themselves in the process and ultimately paralyzing the operational activities of the head office.

Such conditions and power imbalances lead to tensions, conflicts, uncertainties and ultimately inefficiencies. If, on principle, the voluntary governance board and the management board are to assume shared responsibility for the stewardship of the NPO, then professional solutions need to be found for cooperation between the two bodies.

The question of optimal cooperation between the voluntary governance body and the management board is the subject of research into corporate and nonprofit governance as already briefly described in section 3.2.2. This research investigates the question of how to achieve a power balance between paid management and voluntary governance bodies, enabling in particular the voluntary governance board to assume a more important role in the political and strategic governance of an NPO. To achieve this, the following objectives should be pursued:

1) more effective use of the limited capacities (time, expertise, information) of voluntary executives;

2) balanced interaction between voluntary governance bodies and paid management; a reduction of one-sided domination and the creation of a countervailing power on the voluntary governance side in lieu of disempowering paid management;

3) a focus of the voluntary executives on essentials. Essentials are goals, plans, policies and thus provisions and framework decisions that, together with implementation control, ensure effective steering of the paid management. This is often also called the strategic management task of the voluntary governance bodies;
4) a participatory elaboration of principles and priorities to allow voluntary officers to co-determine the political and strategic substance of these framework decisions;

5) joint assumption of the indivisible stewardship and problem-solving responsibility for the NPO as a whole.

The use of Management by Objectives and by Exception (MBO + MBE), as already discussed in section 3.1.4, seem particularly suited towards achieving this **goal of professionalizing** the voluntary governance function or non-profit governance. These principles offer precise directions on how to design the process of task and competency allocation between voluntary governance body and paid management, as well as their interactions. The voluntary governors should focus on setting the objectives, particularly at the level of strategy, and on evaluating the results. The corresponding decisions should be elaborated jointly with the team of paid managers in the course of a frank, cooperative process using the cooperative interaction procedure discussed in section 3.2.2. Controlling should thereby provide the necessary information in a format and extent that allows for effective steering by the voluntary governance body.

This governance and leadership along the lines of MBO should, however, also be accompanied by a framework for voluntary governance work and its concrete tasks, designed based on qualitative criteria. **Illustration 78** details the success factors in key words, while at the same time summarizing what is meant by professionalizing voluntary governance work or effective and efficient non-profit governance.

The **appreciation of the voluntary governance** work described here stands for the typical normative postulate of a dual governance of NPOs, which is controversial. In certain circles involved in everyday management practice it is increasingly questioned, whether the ever larger and more complex organizations of today can still be governed by voluntary executives. Particularly in the social and welfare sector, allegations that the voluntary executives might already be overtaxed are taken as an opportunity to relegate voluntary governance bodies to a supervisory function. This development represents a dangerous trend towards the so-called denaturation of NPOs. The voluntary governance bodies’ political and strategic guidance aimed at executing the owners’ will corresponds to a constituting characteristic of NPOs. A look at the increasingly far-fetched lawsuits concerning a seemingly apparent dereliction of duty of voluntary governance bodies shows clearly that the claim “All power to paid managers!” must be misleading. The raison d’être of the Third (NPO) Sector will have to be proven by extending the management capabilities of the voluntary governance function by professionalizing the work in question.
1. **Appointments to the offices**
   - Limit cumulation of offices
   - Limit tenure of offices
   - Introduce office rotation
   - Train generalists and junior executives
2. **Organ composition**
   - Limit size, number of members
   - Prioritize expertise above representativeness
3. **Election procedure**
   - Define requirement profiles
   - Communicate election proposals before the meeting
   - Strive for the election of the best
4. **Ensure systematic training of the voluntary governance executives**

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**1. Procedural framework**

**2. Management philosophy**

**Effectiveness and efficiency of voluntary governance work**

**3. Attractive office design**

1. **Incentives**
   - Orientation to the needs of the office holders
     - Positive, social relationships, team spirit
     - Limited demands on time; offer learning opportunities
     - Prestige, reputation, power
2. **Work content**
   - Challenging tasks
   - Co-design, problem solving
   - Achievement of results
3. **Work procedures**
   - No overloaded agendas
   - Goal- and decision-driven meetings and workshops
   - Reduction of pure information transfer in meetings

**4. Personal commitment**

1. **Motivation**
   - Willingness to do voluntary governance work
   - Shoulder responsibility
   - Be available timewise
   - Set aside personal interests, “think of the big picture”
   - Be ready and open to learn
2. **Learning**
   - Methodology of professional voluntary governance
   - At least: a basic NPO know-how
3. **Behavior**
   - Thorough preparation for meetings
   - Regular attendance of meetings
   - Participation in discussions
   - Stick to rules of communication
   - Represent collegial decisions towards the outside
   - Offer feedback to paid managers

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Illustration 78: Design standards for professional voluntary governance work
5.4 Paid Managers

The multiplicity and diversity of the tasks of an NPO’s operating unit described further above make it clear that only a success-, future- and efficiency-driven nonprofit manager can be considered for the top management position. What is needed regardless of gender is:

1) a mover and shaker type who initiates things, applies management methods, carries the risks of innovations, thinks in financial terms and develops clout;

2) a leader who can motivate and convince the employees, voluntary executives and staff alike with personal authority and expertise as well as social and communicative skills; a leadership personality for whom the principles of delegation, participation and team work are more important than hierarchical thinking and who is also able to design structures and processes oriented towards general satisfaction;

3) a trouble shooter who – thanks to a strategic vision – can anticipate problems early on, initiate and efficiently structure problem-solving processes and bear his or her share of responsibility for the final solution;

4) a communications specialist who masters the variety of communication techniques such as writing, speaking, negotiating, visualizing and doing PR work in order to ensure a consistent marketing approach.

All in all and based on this profile of tasks and characteristics, what we expect of the management board is commonly known as stewardship. However, while the CEOs in for-profit enterprises act as real top managers bearing the ultimate responsibility for their management decisions, in NPOs – as discussed further above – we find joint overall responsibility shared by the voluntary governance board and the management board. In addition, the overarching fundamental decisions are usually left to the sovereign organ (general assembly of members, delegates or founders) to the point that the top management responsibility is ultimately allocated over several hierarchical levels. Thus, the above described requirements profile for an NPO’s CEO has to be understood in this context.
5.5 Paid Staff

Many smaller NPOs fulfill their tasks exclusively thanks to the work of voluntary governance bodies and voluntary staff. For larger NPOs with more comprehensive and varied tasks, such volunteer work, however, quickly reaches its limits; thus, employees have to be recruited, developed and tied on a contractual base. Accordingly, the NPO becomes an employer.

The term Human Resource Management (HRM) covers all the tasks that need to be fulfilled in this context. In the Fribourg Management Model, this term is generally used very broadly, and includes the corresponding functions and duties in regard to voluntary governors and paid managers, as well as, in certain circumstances, voluntary staff and members of the association, where an influence is being exerted over the latter in regard to the organization’s goals. At this point, however, we will discuss HRM’s most important functions solely in respect to paid employees with a fixed contract (illustration 79).

According to our understanding of the term, “human resources” here does not refer to employees as individuals; rather it stands for the qualifications and motivations they bring and apply within the framework of their commitment to the NPO and its goals. A person’s “qualifications” as one type of human resources, comprise all the factors that enable that person to accomplish a task: a formal education, acquired knowledge, professional and industry expertise, cognitive and emotional intelligence, but also a social network upon which to rely as required. Likewise, motivations are also seen as personal resources or energies that drive a person to master a task: they are actual needs, motives or attitudes towards the task in itself, other members in the organization, or the NPO as a whole. Only when qualifications and motivations are combined in a person, can performance be achieved that contributes to the goal achievement of the NPO. Highly qualified, but frustrated employees, or those who are overtaxed in terms of expertise by the tasks at hand regardless of their high level of motivation, will hardly be able to offer such a contribution.

Among the different HRM functions a distinction should be made between those with a broader controlling character and those more suitable for fine-tuning. The basis for the optimal deployment of human resources is created by the broader controlling measure of finding the best possible fit between job requirements on the one hand and the qualifications and motivations of the employees on the other (illustration 79, step 1). Based on this, fine-tuning measures may subsequently help to adjust HR requirements to changing framework conditions (e.g. growth of the organization, change in the service offering, changes in stakeholder expectations). This order reflects the practical experience that mistakes in personnel selection, or the undesirable, negative consequences of a reorganization that are not in line with the qualifications and motivations of the employees, cannot be corrected through fine-
tuning measures, such as extensive training and development measures or appropriate feedback and incentive systems (illustration 79, step 2).

**Illustration 79: Core functions in human resource management**

The five core functions of HRM can be outlined as follows:

1) **Work organization and design:** The function of work organization is closely tied to the system management task of organizing and structuring (chapter 3.7). In respect to human resource management, the questions here deal with **optimal job structuring:** Should the individual jobs allow for employees with a more specialist background or should they require a wider range of skills and thus a more holistic problem-solving capacity, such as in relation to the concerns of members or clients? Should the tasks be fulfilled individually or would flexible, self-organizing teamwork and responsibility be more desirable? Should compulsory work process steps be set out in detail or should the job holders be allowed to tackle problems individually, according to the situation?

These and other decisions regarding work organization create the framework in which tasks are accomplished and goals are achieved; however, they also shape the qualifications and motivations of the employees concerned in the medium-to-longer term – perhaps in a desirable, but possibly also in an undesirable way. An example of the latter would be...
employees in a bureaucratic organization structure who over time, lose any entrepreneuri-
al willingness to assume responsibility.

2) **Labor market strategy and staffing:** The labor market strategy stands for how an NPO chooses to position a job vacancy in respect to potential applicants. This primarily in-
cludes the decision whether certain job positions within the organization should be
staffed in the first instance based on technical qualifications and expertise (vocational la-
bor market strategy), general capabilities (so-called spot-market strategy) or relevant ex-
perience in the given organization (company or organizational labor market strategy). This
can be illustrated with the example of a fundraising position: In the first instance, primari-
ly applicants who are trained in fundraising would be addressed, while in the second, ap-
plicants with a high level of intelligence, social competence or personal flexibility would
be preferred. In the third instance, the position would be filled by employees from other
areas of the NPO, assuming that the organization would benefit from their background
experience concerning recent and past donations, and their precise knowledge of the spe-
cific values and way of working within the NPO. The term **Employer Branding** has be-
come established to describe personnel advertising (or personnel marketing) that tries to
effectively target those interested candidates who correspond to the chosen labor market
strategy, and to inform them of the unique characteristics and advantages of the organiza-
tion.

Following the establishment of the labor market strategy, the function of **personnel re-
cruitment and selection** comes into play, which can be described as a process extending
from the job advertisement, screening of the incoming applications, and aptitude testing
of the short-listed candidates to the initiation of an employment agreement, training and
integration into the organization. This function finally also includes the termination of the
labor contracts in the form of an established off-boarding process.

Work organization and staffing are interrelated in view of the targeted optimal fit between
job requirements and personnel requirements. If an organization finds out that in the majori-
ty of cases such a fit can no longer be achieved, it may, as a consequence, also opt for initiat-
ing modifications on one of the two sides.

3) **Competence development:** This function comprises all the measures designed to de-
velop the qualifications of individual employees, work groups or the entire NPO as a sys-
tem. The range of approaches and tools may thereby reach from the short-term individu-
al personnel development measure (such as preparatory training for stand promotions as
part of an information campaign) to an organizational development process with a long-
term focus. The measures used therein can be distinguished according to their relation-
ship to the workplace and daily work: “on-the-job” measures support learning in the
workplace; this may include coaching and mentoring, the principle of job rotation or the use of language learning software to facilitate foreign language correspondence. The priority is on the immediate implementation of what is learnt in daily tasks. In contrast, “off-the-job” measures are deliberately carried out outside of the familiar work environment and are meant to promote a fundamental reflection. Their range may thereby extend from traditional continuing education and training courses or studies, to outdoor training and organizational constellations that follow the principles of systemic intervention. A second distinguishing feature lies in the size of the target group, whereby measures that target individuals stand in contrast to the ones that include entire teams (e.g. a workshop or an organizational business game) or large groups (e.g. World Café or Open Space methods). From a process point of view, the competence development function comprises the identification of the development needs, implementation of the planned measures and evaluation of the development results.

4) **Feedback system:** The feedback system includes all periodically conducted procedures that provide employees in an organization with an appraisal or assessment of the state of development of their potential, behavior or performance. Particularly in the case of the **performance appraisal**, a direct link should, if possible, exist to the NPO’s steering functions (chapter 3.3), since a feedback system should also achieve steering effects with regard to the attitudes of employees, their behavior and their future performance. In practice, feedback systems are differentiated according to how strongly employee potential, behavior and performance are weighted in the assessments. Compared with business enterprises, we would, as a rule, assume that NPOs place more emphasis on employee behavior that is consistent with the goals and values of the organization, than on the achievement of measurable results. In addition to the feedback criteria, the appraisal system also needs to determine who will provide the feedback. Alongside the traditional appraisal by the superiors, an increasing number of NPOs have begun to pursue the approach of a **360° assessment**. In such an approach, and depending on the objective, the importance and the circumstances of the feedback, the next-level superior, colleagues, clients or members, employees or external advisors may also be included as part of an all-round assessment.

5) **Incentive system:** This system includes all financial, material and possibly also non-material compensation an organization may use to remunerate its employees for fulfilling their tasks, while at the same time also trying to promote their continued, future engagement. For an NPO’s **remuneration policy** the most important reference criterion should therefore be fairness, while for its **incentive policy**, it should be the situational appropriateness and above all the attractiveness of the prospective benefits. In order to achieve fairness in the remuneration system, an organization needs to consider a whole array of
principles of justice, bringing them into a balanced relationship. According to the principle of fairness in regard to requirements, the remuneration scheme should ensure that those who need to fulfill higher requirements in their jobs (e.g. education, experience, cognitive requirements, responsibility, stress etc.) should also receive correspondingly higher wages. In contrast, the principle of fairness in regard to performance, demands that remuneration differences should reflect the different contributions of employees in the achievement of organizational goals – regardless of the individual qualifications they may bring to their job. The principle of market-based justice, finally, suggests that remuneration should lie somewhere close to the market rates for a certain task; a principle which hitherto has often been neglected in the Third Sector to legitimize a lower salary level in certain areas, but which is starting to gain importance due to the increasing mobility of the labor force. Alongside these three differentiating principles, the equalization principle should also be taken into consideration, particularly in NPOs; this principle strives in general to keep salary differences as low as possible. It may be particularly appealing to NPOs critical of business practice and cooperative organizations with a self-governing character.

The design of incentive systems is above all tied to the question of variable – and in particular performance-based – compensation. Although variable forms of remuneration may be spread only sparsely in the Third Sector as compared to the business sector, and thus only have a moderate share of overall financial compensation, we again expect their importance to grow. When designing an incentive system, decisions have to be taken primarily regarding the appropriate criteria for determining the proper amount of compensation to offer and whether individual or team performance should lie at the base of performance-related compensation. In addition, care has to be taken in an NPO that such a compensation scheme does not replace strong intrinsic motivation for the sake of incentives that function extrinsically.

A broader understanding of the HR function also includes the task of personnel information. With personnel information we do not mean information immediately required by employees to fulfill their tasks, but rather information on the activities and aspirations of the NPO as a whole. Employees should be informed about the general course of business, allowing them to better understand business-related inter-relationships and thus to identify more closely with their NPO. This of course also includes all the information pertaining to the tasks of HR management.

HR tasks are to be fulfilled collaboratively, by the HR position or department in cooperation with the line managers. It is crucial that essential personnel decisions such as staffing, training decisions or dismissals are taken by the line managers. Thus, in many areas the specialized HR position, as far as such a unit exists, therefore solely fulfills a support or service
function for the line managers. However, when it comes to the design of HR-related processes, the personnel unit should have a functional authority over the line to ensure that all procedures run according to standard rules.
5.6 Voluntary Staff

As already discussed in chapter 3.3, we basically need to distinguish between voluntary executives and voluntary staff, whereby neither the boundaries nor the naming of the two groups have been universally established. Nonetheless, a distinction is necessary despite the lack of an exact terminology, since the two groups fulfill entirely different functions in an NPO. The voluntary governance function, which stands for the advisory, decision-making and leadership work of the members of voluntary NPO governance bodies, has already been described in detail in chapter 5.3. Voluntary staff members, in contrast, are active in the implementation area, in the provision of services. Alongside paid employees they participate in the actual implementation of decisions and resolutions. By performing voluntary work outside of their daily, professional employment, they sacrifice their leisure time to commit themselves to the benefit of third parties or a good cause.

Depending on the type of NPO, voluntary staff members are recruited either from the circle of members or externally on the market. As with members, voluntary executives and paid employees, the recruitment of voluntary staff is again a marketing or communication issue. Moreover, their deployment needs to be planned and organized in the same way as for paid staff, since voluntary staff members are mostly only available for a limited time, too. Thus, they need to be trained and qualified to fulfill their task. Finally, they, too, should be continuously coached; they need to have a contact person for advice and support in technical and personal matters and to give them feedback to strengthen their motivation. In other words, they, too, need leadership.

Many associations and clubs, particularly political parties, cultural associations and sports clubs, have always relied on the engagement of voluntary staff. In other sectors, such as health care and the social area, their potential is being freshly rediscovered and tapped. Due to the wave of professionalization occurring in these areas in past decades, volunteer work was often marginalized and lay people were rarely entrusted with meaningful occupations. However, this useful resource is nowadays increasingly being turned to once again, not least because of paid staff shortage. It is thereby of crucial importance that particularly the paid employees accept the voluntary staff members as equal partners, since their work, usually being complementary to the one of the professionals, is essential to the organization and society as a whole, and should therefore be acknowledged accordingly. To see voluntary engagement as the “deployment of cheap helpers” would be fatal, in no way doing justice to the significance of their work. As a consequence, social institutions and welfare organizations nowadays try to consistently promote the purpose, profile and importance of volunteer work in their policy documents, enhancing the value of this activity.
5.7 Financial Resources

5.7.1 Overview

Problems related to financing have taken on increasing importance in NPOs in recent years. Members of associations and clubs base their decisions more and more on cost-benefit considerations and are rarely willing to accept any substantial rise in membership fees. Competition on the donations market has become fiercer, and public sector funds flow less abundantly than in the past. Slow economic growth or even recessions accentuate these tendencies with the effect that NPOs need to step up their efforts to secure financing.

**Financing** in its broadest sense refers to raising the financial resources an NPO needs to source all the production factors required for the provision of its services and the fulfillment of its tasks. An analysis of the finance function therefore has to take an in-depth look at the entire **spectrum of potential sources of funding**. The question of how to raise financial funds is thereby closely connected to the addressees of the services and the types of goods delivered. First of all, service addressees can at least partially be used as contributors to financing. Secondly, the types of goods delivered largely determine the type of financing to be chosen. Finally, third parties and the government may become potential financiers, too. **Illustration 80** offers an overview of these financing elements in the form of a matrix; they are briefly described below.

5.7.2 Types of Goods

First of all, we need to make a distinction between non-marketable (public or collective) and marketable (private, individual) goods. The basic criterion for the distinction between these two categories is the **exclusion principle**, which determines whether a good is marketable or not. In the case of non-marketable goods, individuals cannot be excluded from using them once the goods have been produced, regardless of whether or not the individuals pay any contribution to cover the costs. The benefits of these goods are by definition indivisible and thus cannot be limited to certain individuals. If it is an entire group as part of a society that benefits from such an indivisible good (e.g. advocacy work), then we speak of a **collective good**; if the entirety of a society or population in a certain area profits from the good (e.g. national security or clean air), then we speak of a **public good**. On the other hand, goods from the use of which individuals or groups can be excluded are marketable and called **individual or private goods**.
**Type of good**

<table>
<thead>
<tr>
<th>A. Non-marketable goods</th>
<th>B. Marketable goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Public good</td>
<td>3. Private good</td>
</tr>
<tr>
<td>2. Collective good</td>
<td>3.1 Under market control</td>
</tr>
<tr>
<td>2.1 Consumed by the whole group</td>
<td>3.1.1 Competitive good</td>
</tr>
<tr>
<td>2.1.1 Consumption of overall outcome</td>
<td>3.1.2 Monopoly good</td>
</tr>
<tr>
<td>2.1.2 Consumption of partial outcomes</td>
<td>3.2 Not under market control</td>
</tr>
<tr>
<td>2.2 Consumption by sub-group</td>
<td></td>
</tr>
<tr>
<td>3. Membership contribution</td>
<td>4. Meritorious good</td>
</tr>
<tr>
<td>3.1 Monopoly price (e.g. for industry statistics)</td>
<td></td>
</tr>
<tr>
<td>3.2 Market price (e.g. for the association magazine)</td>
<td></td>
</tr>
<tr>
<td>(Compensation included in the membership contribution)</td>
<td></td>
</tr>
</tbody>
</table>

**Providers of finance**

<table>
<thead>
<tr>
<th>Members</th>
<th>Non-Members (potential members)</th>
<th>Third Parties (Associations, enterprises, households, clients)</th>
<th>State (public-sector institutions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Membership contribution</td>
<td>Freeriders</td>
<td>Donation</td>
<td>Subsidization</td>
</tr>
<tr>
<td>Membership contribution</td>
<td>Freeriders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special contribution (e.g. for vocational training)</td>
<td></td>
<td>Donation</td>
<td></td>
</tr>
<tr>
<td>Special contribution (e.g. for a joint advertising campaign of an expert group)</td>
<td>Solidarity contribution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monopoly price (e.g. for industry statistics)</td>
<td>Price, fee or exclusion from consumption</td>
<td>Price, fee or exclusion from consumption</td>
<td>Subsidization or service-related compensation (tariffs, global budget with purchase-of-service contract)</td>
</tr>
<tr>
<td>Market price (e.g. for the association magazine)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fee (e.g. for a seminar with internal subsidization by other sources of finance)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Individual goods can be used by individuals, but sometimes also by groups or collectives. The latter case can be found for example in the form of conventions or theater performances where shared consumption is possible up to the capacity limit of the venue, allowing all attendees to enjoy the event at the same time. For all such cases of collectively usable individual goods, exclusion of non-payers or freeriders can and should be administered for financial reasons, by restricting entry and charging participation fees.

Marketable goods can be further divided into the three categories of goods that are either offered at a market price, free of charge or at a price below full cost, – so called meritorious goods. For the latter two, a market price or cost-covering fee could in theory also be charged; in the eyes of the state or of other interested parties this would, however, lead to a sub-optimal result in terms of the desired consumption volume, quality and price policy. Therefore these parties try to influence the allocation by subsidizing the offering, leading either to a significantly reduced price (e.g. public education) or a free-of-charge offering (e.g. charitable offerings to people in need). Meritorious and free-of-charge goods are only partially subject to market control due to the manipulation of the price or compensation paid. Finally, there is also the opposite case of goods that are heavily taxed by the state to reduce or even penalize their consumption (alcohol, tobacco). In conclusion, the goods on offer pre-determine the financial options available, either excluding or allowing for certain types and means of financing, as will be shown in the following sections.

5.7.3 Types of Financing

1) Financing Related to Goods Production

When it comes to the financing of an NPO by its service offerings, the organization can – depending on its purpose and structure – rely on the beneficiaries or service users to bear the costs of the services provided, by charging certain fees (contributions, fees, prices), or it can have the provision of these services sponsored by third parties (donations) or the state (subsidies). Since this type of financing is the most important for NPOs, it will be at the center of the explanations later on.

2) Equity Financing

Legally independent operating units (schools, institutes, publishers; in the legal form of a limited or a joint stock company) can be financed by equity shares, regardless of whether they are owned by the NPO on its own or together with other entities. This also holds true for operating units, for example in the legal form of a cooperative, which is owned by an association’s members parallel to the association.
3) **Credit Financing**

Credit financing may be used for bridging liquidity shortfalls in the short term, or to finance long-term investments (buildings, information and communication systems).

4) **Financing by Asset Sales or Returns on Investments**

NPO assets may be sold or rented to third parties in exchange for a fee for their use. Financial surpluses or unused current assets may be invested in savings accounts, bonds or stocks in exchange for a return on these financial investments. In grant-making foundations this type of financing usually dominates; the initial foundation capital is allowed to grow, but must in general not be diminished.

### 5.7.4 Providers of Financial Resources

The following categories of fund providers may help to finance an NPO’s production of goods and services:

1) The first category of fund providers consists of the **members** of mutual-benefit and membership-based, third-party-serving NPOs as well as the **founders** of a foundation.

2) The second category in the case of associations consists of the **non-members**, i.e. those persons, NPOs, enterprises or households that could be members from the point of view of the NPO’s purpose and its statutory stipulations, but have not yet joined the association for one reason or another. They may – mostly on legal grounds – be requested to pay a fee for services purchased, e.g. for vocational training.

3) The third category is made up of other economic actors and institutions (**third parties**) that by principle may not become NPO members or who want to support the NPO solely by funding and not by participating (e.g. benefactors, donors), but are potentially interested in using the NPO services as **clients**.

4) Finally, the **state** needs to be mentioned, which may assume the role of a fund provider in two different ways: On the one hand, public authorities may use NPO services directly; on the other hand, they may – as representatives of the state – take a public interest in the provision of a service or may assign that task to an NPO for fulfillment, thus assuming in many cases the additional obligation to (co-)finance the organization. As a result, contracting-out may result in purchase-of-service contracts and global budgets or service fees according to fixed tariffs.
5.7.5 Sources of Financing

1) Overall, **financing by membership contributions** is the most important source of financing for mutual-benefit NPOs (associations). This does not exclude, however, the fact that in some particularly service-centered associations, the largest share of funds may come from sales revenues based on prices and fees charged for the services. Contributions, as one source of finance, are paid by the beneficiaries of public or collective goods, with the purpose of sharing the costs of provision. Usually, the contribution of an individual payer is not linked to how much he or she profits from the goods provided, which is something that cannot easily be measured, but is determined with respect to considerations of equality as a per capita charge or according to the economic capacity, e.g. as a payroll-linked, staggered fee. Alongside these general association contributions, special contributions for sub-services or sub-groups may also be possible. In certain circumstances, non-members may also be requested to pay a partial or **solidarity contribution**. Finally, in the case of charitable institutions, contributions may play a less significant role, particularly if the NPO’s main concern is the participation and cooperation of its members.

2) In contrast to membership contributions, **prices** are the charges the different users have to pay for the consumption of individual services. These prices correspond to market rates, if the services offered compete with equal or similar, substitutive services. Should the services or goods be monopolistic in character, i.e. offered only by one producer (one NPO) in this specific way, then we expect a monopoly price to emerge (usually higher than the market price). Pure price financing means that in the longer term the prices will have to cover at least all the costs involved (full cost). If service sales are intended to achieve a surplus for the organization, a profit margin needs to be calculated into the price. According to the non-distribution constraint, such surpluses may, however, not be disbursed to the NPO owners, but should be paid back to the service recipients, reinvested in the NPO or used to cover financial shortfalls in other activity areas.

For associations, the strategy of **price differentiation** between members and non-members may be of great importance. If a non-member can receive association services at the same price as members, an important membership incentive is disregarded, and existing members are likely to assess the value of their membership more critically. As an alternative to higher prices, the general exclusion of non-members from service consumption may also be considered.

3) **Fees** can be seen as a third group of sources of finance. They are understood here as charges for the **consumption of meritorious goods**, for which the NPO deliberately refrains from complete cost coverage, and is thus forced to find additional funds to finance these goods. As a result, an NPO finances certain services partly by fees, partly by general
membership contributions, by external funds such as donations or state subsidies or by surpluses achieved in other activity areas. This is called **internal subsidization**.

Fees may achieve different degrees of cost recovery. At one end of the continuum, some fees may be set to cover costs almost entirely, while at the other, **free-of-charge service offerings** represent a conscious abandonment of any fees by the provider, a frequent case in the area of charitable services. Charging fees in lieu of market prices already manipulates the market to a certain extent by increasing the demand beyond the volume that would normally be expected; free-of-charge offerings lead directly to a non-market economy. Since the service recipients do not have to take any price-benefit considerations into account, other motives and preferences gain in importance, leading to a tendency to overuse the free service. Such phenomena are frequently seen in the health care sector.

4) **Donations** are voluntary contributions or gifts made by third parties to an NPO, either to support certain earmarked service offerings or its overall activity. In the broader sense, other sources of funds such as bequests may also be counted as donations. This may also hold true for **sponsorship**, albeit with the caveat that in this case an NPO commits itself to some clearly defined, direct services for the sponsor in exchange. Sponsors are normally granted opportunities to conduct promotional activities.

5) **Subsidies** (grants from public authorities) may be earmarked or not. They may be granted for the provision of marketable and non-marketable services, provided that the NPO service demonstrably serves a public interest or fulfills a public task.

An **analysis of an NPO’s sources of funds** provides insight into their development over time and allows for an inter-organizational comparison. The questions of particular interest are whether the current shares of the different sources are sustainable for the NPO, whether all the options to find donors and raise funds have been exploited, and whether offering new services would help to find new fund providers. Such an analysis of the sources only gains its full significance when it is coupled with a detailed, carefully conducted analysis of the **use of these funds**. To that purpose, NPOs need a well-developed accounting system in the form of cost/activity accounting (managerial accounting). However, according to empirical studies, NPOs lag seriously behind business enterprises in this area.

For a systematic analysis of an NPO’s financial resources, the **portfolio method** may be applied, providing NPOs with a differentiated analysis of the types and sources of funds used, as well as the degree of dependence on these funds and their sources. Based on the results of such an analysis, questions can be answered as to whether the shares of the different financial resources are reasonable, whether all possible options have been exploited in respect to the providers of funds and whether new services would help win new providers of funds. The analysis of the actual situation may help towards identifying and pursuing new
financial strategies or strategies for sustainable resource provisioning. The planning results and conclusions can then be incorporated into a target portfolio. An extended version of such an analysis can be seen in the resource portfolio, which offers a comprehensive overview of the types, sources, continuity and binding character of the financial and near-financial resources of an NPO (illustration 81).

<table>
<thead>
<tr>
<th>Type</th>
<th>Financial resources:</th>
<th>Finance surrogates:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>* Derived from operations: Sales revenues, fees, contributions, donations, grants (service-related subsidies)*</td>
<td>* Material goods, rights, expertise, work inputs:</td>
</tr>
<tr>
<td></td>
<td>* Non-operational: Loans, capital subsidies, (financial) bequests</td>
<td>* Volunteer work for governance and implementation tasks;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* Secondment of manpower</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* Provision of information and usage rights</td>
</tr>
</tbody>
</table>

| Source                | Internal:                                                                           |                                                                                     |
|                       | * Sales revenues, investment income, capital reallocation, membership contributions  |                                                                                     |
|                       |                                                                                     |                                                                                     |
|                       | External:                                                                           |                                                                                     |
|                       | * Persons, private households, enterprises, private NPOs (possibly seen as potential members) |                                                                                     |
|                       | * Public-sector bodies:                                                              |                                                                                     |
|                       |   - State as service beneficiary                                                    |                                                                                     |
|                       |   - State as public authority                                                       |                                                                                     |

| Continuity            | Continuous (e.g. membership contributions)                                           | Discontinuous (e.g. donations, bequests)                                            |
|                       |                                                                                     |                                                                                     |

<table>
<thead>
<tr>
<th>Character of obligation</th>
<th>Mandatory (e.g. membership contributions in mandatory associations)</th>
<th>Optional (e.g. donations, bequests)</th>
</tr>
</thead>
</table>

Illustration 81: Resource portfolio

The resource inputs in this portfolio consist of the inflow of the financial resources (money) and that of the equally important finance surrogates (voluntary work, material donations, information, rights of usage). The inflow of non-financial resources should be quantified at least in terms of volumes based on calculatory principles, and if possible, also in terms of value. Thus, in spite of the valuation problems associated with this approach (e.g. which
hourly rates should be applied; what is the value of usage rights?), the total resource use can be roughly assessed and broken down according to its sources. Only with such a holistic view is it possible to create the required foundation for systematic resource management.

Once the total resource use has been quantified according to characteristics and features, additional analyses can be carried out regarding the number of different input sources and their relative weighting. Illustration 82 shows an input sources portfolio with three examples.

Illustration 82: Input sources portfolio

The three examples above illustrate that there are also tremendous differences in the approaches to funding within the NPO sector. The type B NPO (sports association) shows the most balanced portfolio in terms of the various sources, while in type A (economic association) the membership contributions are the dominant source of financing. In type C NPOs, the voluntary work inputs dominate, coupled with a dependence on public funding.

An NPO’s existence can be secured above all, by using a wide variety of resource types. High dependence on a single source of funds or near-monetary means increases the risk of bankruptcy and liquidation. This may be illustrated by two examples:

1) A business association with a narrow focus on trade had seven members. The association was financed to 90% by membership contributions with the two largest members being
responsible for 50% of the total contribution volume. When these two members quit, the association had to be liquidated.

2) An NPO active in the social field was funded to 70% by subsidies from the local state and the federal government. When these subsidies were cut by 20%, this inevitably led to a workforce reduction and service cutbacks.

This is why the different sources of funds and other means have to be analyzed in order to determine the numbers and shares of resource providers in each category. Such an analysis will help to detect the NPO’s degree of dependence. In other words, the input sources portfolio should be developed into a dependence or, more accurately, independence portfolio (illustration 83).

<table>
<thead>
<tr>
<th>Sources of finance</th>
<th>Type A (economic association)</th>
<th>Type B (sports association)</th>
<th>Type C (social organization)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Membership fees</td>
<td>30 man-/ woman-months contributed by 10 persons</td>
<td>80 man-/ woman-months contributed by 100 persons</td>
<td>200 man-/ woman-months contributed by 50 persons</td>
</tr>
<tr>
<td>Investment income</td>
<td>400 members (10 members responsible for 1/3 of total fee income)</td>
<td>2,000 members</td>
<td>50 foundation owners</td>
</tr>
<tr>
<td>Sales revenues</td>
<td>Real estate and facilities</td>
<td>Training</td>
<td>Product sales</td>
</tr>
<tr>
<td>Subsidies</td>
<td>Training for members</td>
<td>From 25 public-sector bodies</td>
<td>From one state authority</td>
</tr>
</tbody>
</table>

Illustration 83: Dependence or independence portfolio

Thus, the portfolio method is useful in regard to the following fundamental goals: determination of the strategic position of the resource providers, establishing a guide for a strategically adapted behavior vis-à-vis the different provider targets groups, and conducting a target group-oriented analysis in respect to the stability or instability of the corresponding fund flows.
The result of an **analysis of the use of funds** could among other things bring to light that too high an amount of the general funds (contributions, donations, subsidies) is spent on financing the provision of basically marketable services. In such cases, a transition from financing by general contributions (cross-subsidization) to fee-based financing would be opportune, as for example in the case of a hitherto free-of-charge individual good (e.g. association magazine), which in future might be funded by charging a price or a fee. However, such changes are delicate; they may provoke resistance or an unwanted decline in demand and therefore need careful consideration. At any rate, they represent an important decision in terms of the NPO policy.

### 5.7.6 Decision Criteria for the Financing Mix

An NPO’s decision as to which financing mix to pursue may be guided by entirely different goals:

1) **Conformity with the Mission Statement**

   Organizations that pursue political goals at home or abroad may – depending on the circumstances – consciously opt for expanding or **rejecting certain sources of funds** in view of their mission and goals. On principle, organizations may, for example, opt for or against governmental, business or extraordinarily wealthy donors; or they may also opt for funding a certain percentage by charging for their services.

2) **Support of Growth Targets**

   The financing mix of an organization can also be an expression of its **growth expectations**. From a growth perspective, the NPO will, on the one hand, keep a keen eye on the development and opportunities of the main funding markets (markets for private donations, public subsidies, goods and services) and their various market segments. On the other hand, it will study and take into consideration its competitors’ actions in regard to new financing opportunities as well as its own competitive advantages.

3) **Profiting from Multiplier Effects, Avoiding Displacement Effects**

   The **multiplier effect** refers to growth in a certain funding category that also promotes growth in other categories; the **displacement effect** in contrast refers to the phenomenon that some fund providers will reduce their contributions, when other fundraising sources flow more abundantly. Multiplier and displacement effects can be expected within each of the three main sources of financing (private donations, public subsidies, service revenues) as well as between them. The question whether, for example, the amount of public contributions has an effect on the amount of private donations of third-party-serving NPOs, has not yet been conclusively resolved. Some indicators, however, support the latent fear that an increase in public grants may reduce private donations, because pri-
vate fund providers seem to perceive less of a need for support, or because organizations lose their fundraising edge. On the other hand, grants for young and less established aid organizations accompanied by a strong publicity effect may also signal legitimization and stimulate follow-up donations.

4) **Control of Critical Resources**

The survival of an organization depends on how well it succeeds in controlling its most critical resources. Beyond its financial means, the critical resources of an organization may also include the engagement and commitment of paid managers and volunteers (executive officers and voluntary staff), good relationships with political players, or the reputation of the NPO. In view of the financial resources, the question arises as to which financial sources can be controlled by the organization and to what degree. Thus, **nurturing the contact networks** with major donors, grant-making foundations or other private financiers may help to gain some control over sources, as may the intensive exchange with public authorities, to negotiate purchase-of-service contracts and subsidies. An organization’s decision, in this context, to shift its financing mix towards charging prices and fees for its services, therefore often rests on the assumption that it is easier to get sales of products and services under control than to depend on donor funds.

5) **Conserving Strategic-Structural Degrees of Freedom**

Control of the critical resources by way of a market solution is inversely proportional to the power of fund providers to influence the organization. The choice of a certain financing mix therefore also implies a decision as to which influences an NPO is ready to expose itself to, in terms of its governance and strategic decisions.

6) **Minimizing Financing Risks**

Each source of financing is associated with certain risks. These risks relate on the one hand to potential effects and consequences of past inflows, and, on the other hand, to the probability of their longer-term instability. Risks related to past financing decisions may include negative reputational effects of originally inconspicuous inflows that later turn out to be harmful to the NPO’s reputation (e.g. funds from dubious donors).

7) **Increasing or Ensuring Efficiency**

From a business administration point of view, organizations should be managed in a way to achieve their goals with the lowest possible use of resources. All NPOs, whether subsidized by public authorities or financed by donations or membership contributions are exposed to the expectations of their fund providers, and are thus under pressure to demonstrate their high level of efficiency.
The choice of the most appropriate financing mix is a strategic decision for an NPO, demanding that these seven different approaches are weighed up against each other (illustration 84), while being well aware of the fact that the importance of the different approaches varies in general from area to area. In other words: the initial situation of an economic association presents itself as fundamentally different from that of a welfare institution or sports club.

Illustration 84: Decision criteria for the financing mix of NPOs
5.8 Equipment and Administrative Tools

The term “equipment” includes all infrastructural tools and technical means available to an NPO that enable the board of governors and the operating units to efficiently assume their administrative and dispositive tasks. More and more, NPOs are also starting to turn to the newest technical tools in terms of equipment. The kinds and designs of equipment used in NPOs differ very little from those used by for-profit enterprises. Only some equipment requirements in the area of member relationship management or procurement, where decision paths may often be more intricate, could actually be considered specific to NPOs.

As organizations that provide services, NPOs should, above all, be understood and designed as information and communication systems. Accordingly, special emphasis should be placed on IT equipment (hardware and software) as a crucial tool for service delivery. Larger membership-based NPOs are additionally characterized by diverse regional sub-groupings or supra-regional cooperative entities. Linking up, even integrating the different information and communications systems as well as their compatibility, is very important for the efficient cooperation of the various bodies and positions in the consensus building, decision-making, service and action delivery processes. Such universally compatible information networks are increasingly gaining track in multi-level NPOs.

IT tools may help fulfill the following tasks:

1) Word processing (minutes, correspondence, reporting tasks)
2) Membership and donor management (keeping member and donor lists and files up to date)
3) Accounting and finance (budgeting, accounting, collection of member fees, invoicing, management accounting, financial statements)
4) Documentation, archiving, data base management (filing and storage, access options)
5) Agenda keeping and scheduling for organs, bodies, committees, management board and employees
6) Compilation of statistics (industry-related data, calculation of correlations, other analyses and evaluations)
7) Evaluation of periodic surveys (of members, employees, donors)
8) E-mail, intranet and internet
9) Representation of the NPO in social media (e.g. Facebook, Twitter).
5.9 Cooperations

NPOs usually find themselves embedded in a network of either parallel operating or higher-level organizations, often forming cooperation systems that primarily serve cost-benefit purposes. In other words: NPOs frequently find organizations within their direct or broader environment that pursue the same goals in full or in part, and have to fulfill the same tasks. Instead of each NPO doing everything by itself, thus using plenty of resources in the process, organizations may opt for cooperative solutions as an efficient alternative. This seems advisable not only for economic reasons, but also in order to achieve **stronger impact and synergy effects through a joint approach.**

Cooperative solutions thus can be counted among an NPO’s resources, since they form an alternative to an NPO’s own internal resources. Instead of fulfilling a task on its own, which demands its own staff and other resources, an NPO may assign the task to a superordinate association or an institution co-owned with other NPOs. Thus, an NPO enters into membership or ownership relations with other organizations, with representatives assigned to take responsibility for the relationships. As a result, NPOs on the one hand make their own membership calculations and evaluations, as shown in *illustration 75*. On the other, they need to deal with the problem that their delegates should feel as closely bound to their NPO’s policy as possible. Based on a proposal made by the organization, the representatives are often elected by the governance bodies of the cooperative entity and thus assume a personal mandate. However, they should not fulfill that mandate simply as they see fit, but should act as a spokesperson for their own NPO and its interests in the way they were defined by the bodies and positions in charge.

In chapter 3 “System Management” we referred frequently to multi-level NPOs. Multi-level NPOs are associations that are built to span several geographic levels, starting with the grassroots associations at a local level, which are then organized in higher-order entities at the district or provincial level, whereby the latter, in turn, are joined under the umbrella of a federal (central) association. By definition such combined structures should also be regarded as cooperations. In so far, however, as the different association levels all belong to the same field of purpose (e.g. industry, profession, aid, nature conservancy, football), other or additional problems related to the organization and management of the overall structures of multi-level associations will emerge (Chapter 3.7).
5.9.1 Umbrella Associations

Umbrella associations, i.e. national (central) federations and international industry or trade associations, are designed to combine and jointly represent certain interests of their member organizations at a broader geographic level, while keeping the legal independence of the subdivisions or member organizations unaffected. For these federations, political advocacy on behalf of the affiliated NPOs takes precedence over the service provision function. Umbrella associations are therefore predominantly political lobby organizations. They will offer services only in areas where they do not compete with member organizations or where common superordinate needs exist.

Examples of typical umbrella associations would be:

1) Federal Association of German Industry BDI
2) Swiss Federation of Trade Unions SGB
3) Austrian Federal Economic Chamber WKÖ.

Umbrella associations are endowed with their own legal personality and generally assume several or all of the following tasks:

1) Regulatory, structuring and coordination tasks among the affiliated NPOs
2) Advisory services for the member organizations; representation of the member organizations according to the charter or by-laws in overarching technical issues and questions, including the corresponding legal and economic problems
3) Tasks related to training, development and continuous education on fundamental (political) issues
4) Relations with authorities, politicians
5) Cooperation with other central federations (international level)
6) Cooperation with public institutions and entities
7) Participation in consultation procedures and hearings on legislation relevant to the NPOs represented
8) Information and communication function towards the wider public. In summary, central federations offer a vital contribution to the representation of the interests of significant societal groupings (e.g. manufacturing, welfare) and have become indispensable for today’s decision-making processes in the public policy arena.
5.9.2 Working Groups

Working groups are joint operations without legal personality carried out by individual (basically equal) NPOs or a few umbrella or central associations, for the pursuit of common goals and the development of selected activities. In contrast to umbrella associations, the selected tasks are not outsourced to a higher-order organization, but solved through a structured form of cooperation among the associations involved. Working groups may take the character of institutionalized and thus permanent entities, such as a quality circle, or may be established for a limited time, for example in the form of a project organization, to plan and implement certain specific endeavors. However, working groups are normally focused on certain areas of respective activities of the NPOs, such as a joint campaign on a burning political issue.

5.9.3 Co-operative Enterprises

Co-operative enterprises are institutionalized forms of cooperation of a long-lasting nature that fulfill mostly clearly defined tasks, above all in the service area. Generally, the owners are just a few NPOs with equal interests. The legal form may be that of a profit- or nonprofit-oriented joint stock corporation or of a limited liability company; foundations, however, are quite common, too. Initially, the owners finance these enterprises primarily through equity shareholdings. Subsequently, the organizations should become self-supporting or even yield a surplus. Examples would be research institutions (for several industries), consulting and trustee companies, schools or insurance companies.
6 Directory of Quoted and Further Reference Literature

The thematically arranged literature list contains the full references for the publications cited in the text. In addition it includes two kinds of extended literature references: it lists extension volumes to the Fribourg Management Model, as well as supplementary literature regarding the building blocks on which the FMM is conceptually built.

Fundamentals on the Management of NPOs


Standard References on the Business Administration of NPOs

Different Views of the NPO as a Starting Point for Model Design


The NPO as a System


The NPO as an Object of Diverse Interests


The NPO as a Micro-Political Arena


The NPO as a Value- and Culture-Driven Community


The NPO as a Strategic Project


The NPO as a Learning Organism

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Fundamentals of System Management

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Consensus-Backed Decision-Making, Planning and Controlling


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The Fribourg Management Model for NPOs (FMM) is a standard reference work for the management of associations and other private Nonprofit Organizations. It is the result of 40 years of theoretical and empirical research at the Institute for Research on Management of Associations, Foundations and Cooperatives (VMI) of the University of Fribourg/Switzerland. It is based on the extensive experience of a group of leading academics in education and consultancy work and is designed for practitioners in the Nonprofit Sector in German-speaking Europe (Switzerland, Germany and Austria). Given its unique and pioneering approach, the model has been well received by its target groups and has already been published in its eighth German edition. This success has therefore called for an English translation. For this first English edition, the terminology has been adapted to better suit an English speaking audience, while staying as true to the original as possible. Furthermore, the original cases and practical examples from the German version were partly replaced by more generic examples. Given these adaptations, we hope this English version will be as well received as its original German.