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## **Achieving Breakthrough Performance**

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# Achieving Breakthrough Performance

by MARK GOTTFREDSON, STEVE SCHAUBERT, & ELISABETH BABCOCK

**F**rom the Girl Scouts, to Partners In Health, to the city of Providence, R.I., great organizations have one thing in common: great managers. These managers, in turn, share four simple management principles that they use to guide organizations from mere mediocrity to stand-out stardom.



PHOTOGRAPH BY LEO MASONGETTY IMAGES

Much has been written about what makes a great leader. Although we agree that successful managers must have the attributes of a great leader, by themselves these attributes are not enough. Many great leaders still do not build successful organizations.

Much has also been written about what makes a great organization. But again, poor managers can cause great organizations to lose momentum. Our concern is different. We are interested in how successful managers can achieve breakthrough performance regardless of the quality of the organizations they manage.

What we call *breakthrough performance* is the kind that positions nonprofits to create high levels of social impact and lasting change. Nonprofits that deliver great results over time are best positioned to survive, grow, and have an impact. Nonprofits that perform poorly, on the other hand, end up irrelevant or even as failures. And nonprofits that perform merely satisfactorily are vulnerable to shifts in the funding climate or the political environment.

It may be easier to achieve breakthrough performance if managers find themselves in an organization that consistently outperforms its competition. But we want to help managers meet the challenges they face even when they find themselves in an average or underperforming organization.

We have identified four management principles that are essential to creating breakthrough performance at any organization. It takes enormous discipline to stay focused on these four principles. Whenever new managers take over an organization they face a daunting list of tasks. They must spend time with their employees, customers, clients, suppliers, and funders. They must simultaneously look to the future and run the day-to-day business. Managers of nonprofits or government agencies feel pressure from donors or voters to meet expectations. Knowing what tasks to undertake and in what sequence to do them can become an overwhelming challenge for many managers, particularly because everything initially appears so urgent.

Managers of nonprofit organizations should use the following four principles to help make the decisions that lead to breakthrough performance: 1) costs of serving should always decline; 2) market position determines your options; 3) clients and funding pools don't stand still; and 4) simplicity gets results.

These four principles are derived from the recently published

book *The Breakthrough Imperative*, written by two of this article's three authors (Mark Gottfredson and Steve Schaubert). When the two of us began work on the book we wanted to uncover the secrets of companies, organizations, and governments that outperformed their peers. (See p. 38 for our methods.) We drew on our 50-plus combined years of consulting experience at Bain & Company and on the firm's extensive research into corporate results. We also interviewed more than 40 leaders from industry and the nonprofit sector, including our co-author for this article, Elisabeth Babcock, CEO of the Crittenton Women's Union, one of Boston's oldest social service organizations.

In the course of our research we found both striking commonalities as well as one significant difference between for-profit and social sector managers. The commonality was the value of the four principles; the difference was that in the social sector these approaches are applied with two customers in mind—clients and funders—whereas in the for-profit sector attention is focused on just one customer—the one who buys the company's product or service.

In this article we'll explore these four principles of breakthrough performance and the ways that nonprofit managers can take advantage of them.

#### PRINCIPLE 1

### Costs of Serving Should Always Decline

For-profit managers pay a great deal of attention to reducing costs because it is one of the main levers they have to increase profits. Nonprofit managers, on the other hand, often pay too little attention to reducing costs, even though doing so could enhance their organization's impact. Nonprofit funders, for example, often push for what is new and different rather than what will reduce costs or increase outcomes. The specialized nature of many of the problems that nonprofits tackle is also an impediment, often resulting in organizations that are too small to achieve economies of scale.

In spite of these challenges, every organization—whether for-profit or nonprofit—that accumulates experience by making the same product, offering the same service, or deploying the same function should be able to reduce the cost per unit (in constant dollars) of its offering. Just as people progress along a learning curve for any given task, organizations follow the same sort of

curve and become more efficient and cost-effective producers. The challenge, particularly for nonprofits, is to get the unit of experience just right, given that new approaches can often appear more costly. (See “More Bang for the Buck,” *Stanford Social Innovation Review* [spring 2008], for more on this subject.)

When tire manufacturers introduced radial tire technology, for example, the cost of making a tire rose. But because radial tires lasted longer and were more fuel efficient, the tire cost (in constant dollars) per mile traveled actually decreased. The right unit of experience for most nonprofits is the client outcome or benefit, not the cost of the service itself. For example, the cost of treating a particular disease may rise, but the number of patients cured per treatment may rise even faster, making the cost per positive patient outcome lower.

Boston-based Partners In Health, for example, lowered its cost per outcome by incorporating new practices based on what it had learned. “We are much better at starting treatment projects for tuberculosis or HIV / AIDS on the ground than we have ever been,” says Jim Yong Kim, a co-founder of Partners In Health. “Every time we do it, we’re more efficient and use resources much more effectively.” When Partners In Health began its first program attacking multidrug-resistant TB in Peru, the cost of the medicines ranged up to \$32,000 per patient, with the average cost about \$15,000. As Partners In Health gained experience, it learned to diagnose patients better and start treatment earlier, which reduced the cost of the treatment by shortening the drug regimens. By 2006 the organization, with the help of the World Health Organization and Doctors Without Borders, brought the per-patient cost of medicines down to as little as \$2,500.

The cost per client successfully served not only should go down over time, it should decline predictably. And they do at nonprofits that are relatively large and repeat the delivery of a given service without major shifts in their funding, the populations they serve, the services demanded, or the geographies they cover. The Girl Scouts of the USA, called the best-managed organization in America by the late management guru Peter Drucker, is one nonprofit that has been able to do this.

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The Girl Scouts of the USA procure millions of boxes of cookies on behalf of more than 200 Girl Scout Councils, which sell them as the organization’s annual fundraiser. One of the ways that the Girl Scouts save money is by licensing just two bakers to produce all of their cookies. Consolidated supply allows the organization to implement process improvements quickly. More efficient packaging, for example, has reduced the Girl Scouts’ costs of materials and transportation by allowing more boxes to be packed into each delivery truck.<sup>1</sup> The Girl Scouts also track sales by cookie type and troop location in order to recommend an optimal mix of products the following year, boosting sales and avoiding excess inventory.

Accumulating experience should not be confused with growing as large as the Girl Scouts. Some nonprofits should remain small and focused. Regardless of size, however, the best nonprofits have learned how to make use of the experience curve.

## PRINCIPLE 2

### Market Position Determines Your Options

In the for-profit world, garnering more market share is an important measure of success. Nonprofit managers, however, aren’t accustomed to thinking of their organizations’ relative position in the market.

A simple yet effective way to measure an organization’s market position is a gauge called relative market share (RMS), which in the nonprofit sector is usually defined as the percentage of potential clients an organization is serving. If an organization is the market leader, simply divide its share of the market for a given service by the share held by the closest alternative provider. (For example, 30 percent divided by 20 percent equals a RMS of 1.5.) If the organization is not the market leader, divide its share by the share of the market leader. (For example, 20 percent divided by 30 percent equals a 0.67 RMS.)

In the for-profit world the RMS metric is a powerful indicator of a company’s financial performance. A high RMS provides higher-than-average profits (technically, its return on assets) and increases the probability that the organization will achieve those profits. Nonprofits with a high RMS also benefit from some of the same advantages that for-profits garner, such as economies of scale.

“Organizations need to be larger in order to have any clout,” says Bill Walczak, director of the Codman Square Health Center in Boston’s Dorchester neighborhood. Late last year, Walczak and his colleagues were looking at the advantages and disadvantages of a merger between Codman Square and Dorchester House, a community health center of roughly the same size. The proposed merger would create a \$40 million organization with 550 employees. The benefits would include increased visibility among donors and clients, sizable economies of scale in overhead costs and facilities, greater negotiating

power, and greater ability to launch related services—all the advantages of a larger RMS.

Other organizations have already gained the benefits of merging. In Boston, Crittenton and the Women's Union were both well-established nonprofits serving low-income women. Crittenton, which began in 1824 as a program to house and care for single mothers, had developed a strong program of service delivery for homeless and at-risk women, but lacked a diversified funding base. The Women's Union, founded in 1877 to provide education and skills training for poor women, had an illus-

## In the nonprofit sector there are two sets of customers. The first is the people who use the services, such as recipients of social services. The second is the donors and payers whose funding makes these services possible.

trious history of research, advocacy, and services, along with cash in the bank (the result of the 2004 sale of its headquarters building), but it lacked strategic focus.

Both organizations also needed a succession plan, as their leaders were retiring. Thanks to a timely encounter between board members, the two organizations found one in the same person: our co-author Elisabeth Babcock, former director of the Lynn Community Health Center, who signed on expressly to lead the merger.

The newly merged Crittenton Women's Union (CWU) has focused its research, advocacy, and direct-service programs on helping low-income women and their families achieve economic self-sufficiency. Following the merger, CWU has raised its visibility in the community and among potential donors, and lowered its service delivery costs—turning an operating loss of more than \$500,000 into an operating surplus of more than \$200,000.

RMS is an important metric, but it is not always synonymous with size. Some nonprofits might have a 100 percent market share yet remain small. Examples of this are nonprofits operating in a fixed geography where no other organization will serve (such as remote development zones in Afghanistan) or nonprofits tackling a narrow, though significant, social problem (such as fighting for research into diseases that have very low occurrence).

### PRINCIPLE 3

## Clients and Funding Pools Don't Stand Still

For-profit and nonprofit markets undergo regular changes, largely because customers' needs change. The organizations that meet customers' needs also evolve by providing new and inno-

vative offerings to retain and attract customers. One of the outcomes of these shifts is that the point on the value chain where the bulk of the profits are made, or in the case of nonprofits where the bulk of the funding takes place, can also change. (The entire pool of profits or funding in a given market is called the profit pool or the funding pool.)

In the coffee industry, for example, the profit pool includes the entire spectrum of companies, from those growing and roasting the beans to those distributing and brewing the coffee. Before the advent of Starbucks, the coffee industry made most of its profits in roasting and relatively little in retailing. But when Starbucks introduced its innovative retail model based on the Italian-style coffee bar, customers began flocking to the experience and profits shifted dramatically from roasting to retailing.

In the nonprofit sector there are two sets of customers. The first is the people who use the services, such as recipients of social services. The second is the donors and payers whose funding makes these services possible. Nonprofits operate best when they meet the needs of both sets of customers. In the nonprofit sector, customers' demands also change: clients' needs change and funders' priorities evolve. These shifts may, in turn, cause changes in the funding pool.

Take HIV/AIDS prevention and treatment, for example. In the late 1980s more funding was available for hospices because few remedies existed and patients needed inpatient, palliative care. Today, with the advent of drug cocktails to keep symptoms in check, the funding pool has shifted to outpatient care, including clinics and community health agencies.

The HIV/AIDS care funding pool has shifted in other ways as well. In the early years foundations focused most of their attention on the United States and Western Europe. Today, foundations focus much more attention on Africa and the developing world, where the disease continues to spread at a more rapid pace than in the developed world.

Lynn Community Health Center provides another example of how changing customer needs can affect nonprofits. During a 10-year period large numbers of immigrants arrived in Lynn, Mass., first from Central America, then from Southeast Asia, and finally from the former Soviet Union. To meet the needs of these new immigrants Lynn Community Health Center had to provide services in three and sometimes four additional languages.

At the same time, the health center needed to educate its funders about these changes so that the funders' priorities would stay in sync with clients' needs. Experienced nonprofit managers monitor these shifts closely so that they aren't caught unaware

## Mastering Your Organization

The following questions test a manager's understanding of the four principles and ability to apply them to his or her organization.

### 1. Costs of Serving Should Always Decline

- What is your organization really good at, and how does that competence compare to those of other providers?
- Will a funding package and its stipulations make your organization better at what it is already good at doing, or will it be a distraction?
- How well is your organization learning from past experience so that it can institutionalize that learning into cost-effective capabilities and solutions?

### 2. Market Position Determines Your Options

- Do you know your organization's relative market share?
- Do you understand the inherent possibilities and constraints that your market position creates?
- Do you know the market positions of other organizations in your field, and can you learn from their strategies?
- Should your organization continue to stand alone, or would combining forces with another organization allow it to accumulate experience more quickly and strengthen its leadership position?

### 3. Clients and Funding Pools Don't Stand Still

- Do you know your organization's share of the relevant pool of funding?
- Have you identified the shifts in funding pools that occurred during the past several years, along with likely future shifts?
- Can you identify and anticipate earlier than other organizations the factors that are leading to changes in donor preferences or shifts in clients' needs?
- Have you planned a series of actions to take advantage of the changes in donors' preferences and clients' needs to capture a larger share of the relevant funding pools for your organization?

### 4. Simplicity Gets Results

- Does your organization have a clear and simple list of priorities?
- Could most people in your organization describe its strategy?
- Can your organization make quick and effective decisions?
- How many layers are there between the executive director and the lowest-level employee in your organization?

when one source of funds dries up. Great nonprofit managers anticipate both client *and* funding-pool shifts and plan their strategies and tactics accordingly.

#### PRINCIPLE 4

### Simplicity Gets Results

As customer needs and profit and funding pools change, organizations often change with them, offering new products and services to new groups of customers or in new geographies. When organizations make these changes they increase the likelihood that they will drift away from their mission or become too complex—potentially costly mistakes for nonprofits and for-profits alike. To avoid this problem, organizations should find ways to simplify their operations and focus.

To understand the benefits of simplicity, consider an example from the automotive industry. Hal Sperlich is an automotive legend. He led product teams that created the Ford Mus-

tang and the industry's first minivan for Chrysler. Both were runaway hits, generating billions of dollars in profit for their makers. Sperlich was successful because he realized cars had to stand out on only three dimensions and could simply be competitive on all other dimensions. He got this insight by observing customers, who when asked why they bought a particular vehicle could seldom remember more than three reasons, even immediately after buying the car.

Sperlich's insight also applies to strategies, processes, and organizations themselves. Human beings can't effectively focus on more than three or four things at once. A nonprofit with too many disparate services usually drives up costs and confuses its donors. An organization with too many layers of management is probably unable to take quick action, even when the need for action is obvious.

When David Cicilline was elected mayor of Providence, R.I., in November 2002, the city's situation was bleak. The previous

## Research Methods

This article is based on years of extensive research on corporate performance that we and our partners at Bain & Company have conducted. One set of studies was originally conducted by Chris Zook, a Bain partner and author of three books about understanding a company's core business, titled *Profit From the Core*, *Beyond the Core*, and *Unstoppable*. Zook compiled a database tracking the performance of 1,804 public companies over 10 years. We used the latest version of Zook's database to better understand the role that individual managers have in improving a company's performance. First, we took the 202 companies in the database that maintained profitable growth

of at least 5.5 percent a year over the 10-year period ending in 2005. Next, we examined the tenure of the 413 CEOs leading these companies during this period, and we compared the stock performance under each leader with a broader stock index.

Our research found that for the first six months of a CEO's tenure, these companies' average stock performance tracked the relevant index almost exactly: the ratio was about 1.1-to-1. Performance then crept up steadily, but not until nearly six years after the CEO took office was the company outperforming the index by an average of 2-to-1. After nine years of the CEO's tenure these companies outperformed the index by 3-to-1.

From these studies we knew that a manager could

mayor had been convicted and jailed for corruption, the city faced a \$59 million budget gap, its crime rate was increasing, and it had the third highest rate of child poverty in the nation. To make matters worse, Cicilline inherited a city workforce that lacked skills because jobs had often been awarded as patronage instead of on merit.

Cicilline decided to begin addressing the myriad problems by focusing on just five priorities: government integrity, strong neighborhoods, safe streets, great schools, and a dynamic economy. Each priority encompassed a variety of short-term initiatives. For example, as part of his effort to clean up graft, Cicilline refused campaign contributions from city employees and suppliers. He also abolished lists of preferred vendors that had been based on campaign donations.

To upgrade Providence's workforce, he persuaded some city employees to retire early and replaced them with new talent. To combat crime and revitalize neighborhoods, he brought community policing to the neighborhoods, put police officers back on walking beats, cleaned up graffiti, improved garbage collection, and tackled a backlog of municipal trees that needed cutting or trimming.

Cicilline's decision to concentrate on five priorities gave his administration a focus that other reformers have often lacked. By the end of his first term, Cicilline had achieved impressive results: boosting the city's credit rating, creating a budget surplus, reducing crime to its lowest level in 29 years, and growing the city's tax and job base. Cicilline's focus for his second term is likewise clear: He will plow the city's budget surplus into upgrading its public schools and after-school programs. "Those are the things that make cities great places to live in," said Cicilline in an April 2006 speech to the Bridgespan Group. "A relentless focus on the quality of life in a city will do more than anything else."

## Putting the Principles Into Action

Nonprofit managers can create breakthrough performance by using all four principles together. An example of an organization that has done this is the United Way of Massachusetts Bay and Merrimack Valley (UWMBMV), one of 1,300 United Ways in the United States. Three years ago UWMBMV decided that it should narrow its efforts to increase its impact. "In the old United Way, we did anything and everything, depending on who gave us funding for what," says Jeff Hayward, senior vice president of community impact. To create a new United Way, Hayward and his colleagues first had to decide what issues to concentrate on. To do this they surveyed community leaders, agency clients, and policymakers—"a process of 1,000 voices" as Hayward describes it—and identified a handful of issues where they could achieve the greatest results in the community and the highest returns for the donors who contributed to its \$35 million annual budget.

UWMBMV used three criteria to select which areas the organization would concentrate on: The issue should take advantage of the organization's accumulated experience; the issue should be one in which impact could be achieved with investments of several million dollars and where the organization could achieve some degree of market leadership; and the issue should be one where donors and policymakers—the voices of the customers—were clamoring for change. "It came down to: Was it called for? Did we have the expertise? And could we make a difference?" says Hayward.

Several issues fell off the table during the selection process. Two of these were health care and public education—issues where government and the private sector were already spending billions of dollars. Another was elder care, where UWMBMV had less expertise. Four issues emerged as having high potential: healthy child development and youth opportunities, where

make a big difference over time. But how did these managers get better results more quickly? What specific practices made some more successful in just two or three years than peers with equally stellar track records and leadership attributes?

To answer these questions we turned from study to experience. We interviewed more than 40 successful managers, most of whom had held multiple general manager positions en route to their CEO role. Many were people whom we or our colleagues had come to know in the course of our work. Many others came from our search for successful managers. We spoke with leaders from companies as diverse as Northrop Grumman Ship Systems, Burger King, and the Australian telephone company Telstra. We

also interviewed leaders of nonprofits and governments, including Teach for America's CEO and founder Wendy Kopp, Partners In Health co-founder Jim Yong Kim, and Providence, R.I., Mayor David Cicilline, who has done much to turn around that city's government in a short period of time.

Our research revealed a striking commonality in successful general managers' approach to their task—whether they headed for-profit businesses, nonprofit organizations, or city governments. Like engineers designing a mission to Mars, they all understand and apply four basic principles that govern what they do. Using those principles, they map out where they are starting from, where they are going, and how they plan to get there. And then they actually do it. —*M.G. & S.S.*

UWMBMV had a long and strong track record; and sustainable employment and affordable housing, which are prerequisites for healthy and stable families.

UWMBMV helped the agencies it funded adopt programs to reach specific goals with agreed upon measures of success. To create affordable housing the goal was eradication of homelessness, with two measures: the number of families prevented

or her housing. Implementing the new strategy required healthy partnerships between policymakers, shelters, and other parts of the community.

The results of this new approach to ending homelessness have been dramatic. Homelessness in Quincy, Mass., where the program was implemented, plummeted 55 percent after two years. In Denver, which implemented a similar program, homelessness dropped more than 36 percent.

Adopting clear priorities has also helped improve UWMBMV's relations with its donors. "The focus has made it easier now to communicate with donors and manage those relationships," says Hayward. "The program focus has brought expertise to the team. We've become

more efficient at judging where to spend a dollar."

UWMBMV is not the only nonprofit that has benefited from using these four principles. In our interviews with numerous nonprofit leaders, nearly every case of breakthrough performance that we encountered reflected a manager's deep knowledge and implementation of these principles. By the same token, most of the instances where nonprofits underperformed could be traced to a manager's failure to understand one or more of the principles, or to apply the principles accurately and aggressively. □

<sup>1</sup> Bradley Jacobson, "Buying More Means Less Packaging," *Waste Age*, April 1, 2000.

## In our interviews with numerous nonprofit leaders, nearly every case of breakthrough performance that we encountered reflected a manager's deep knowledge and implementation of these principles.

from entering homelessness and the number of homeless families moved to permanent homes. The financial rationale behind these measures was indisputable: It cost an average of \$2,000 to prevent a family from falling into homelessness (covering a medical expense or back rent), compared to about \$19,000 to shelter a homeless family for a year.

The new measures that UWMBMV and its grantees adopted realigned incentives. Homeless shelters, for example, now received flexible funding to empty their beds and provide support services to transitioning families. Some of the direct subsidies to the homeless were also changed. In the past, all homeless people received a housing voucher worth the same amount of money. Under the new system the value of vouchers was tiered on the basis of an individual's true barriers to keeping his