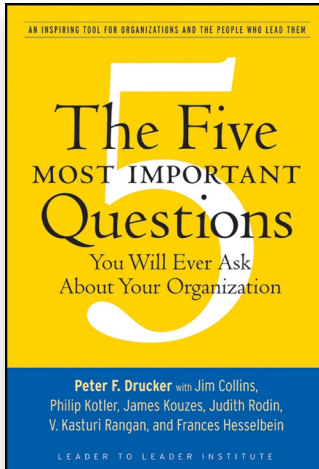


EXECUTIVE BOOK SUMMARIES

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ABOUT THE AUTHOR

Peter Drucker

Peter Drucker was widely considered to be the world's foremost pioneer of management theory. He was a writer, teacher, and consultant specializing in strategy and policy for business and social sector organizations.

The Five Most Important Questions

THE SUMMARY

Jossey-Bass 2008

Note about this summary: This book is organized as a chapter by Peter Drucker, and then separate comments by a different writer. The authors of those comments are noted in the chapter headings.

Introduction: Why Self-Assessment

Forty years ago, management was a very bad word in nonprofit organizations. Management meant business, and the one thing a nonprofit was not was a business. Today, nonprofits understand that they need management all the more because they have no conventional bottom line. Now they need to learn how to use management so they can concentrate on their mission. Yet, there are few tools available that address the distinct characteristics and central needs of the many nonprofit organizations in America.

For years, most nonprofits felt that good intentions were enough. Today, we know we have to manage better than for-profit businesses because we don't have a bottom line. We have to have discipline rooted in our mission. We have to manage our limited resources of people and money for maximum effectiveness, and we have to think through very clearly what results are expected for our organization.

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The self-assessment process is a method for assessing what you are doing, why you are doing it, and what you must do to improve an organization's performance. It asks the five essential questions: What is our mission? Who is our customer? What does the customer value? What are our results? What is our plan? Self-assessment leads to action. To meet growing needs and succeed in a turbulent and exacting environment, social sector organizations must focus on mission, demonstrate accountability, and achieve results.

All the first-rate decision makers I've observed had a very simple rule: if you have quick consensus on an important matter, don't make the decision. Acclamation means nobody has done the homework. The organization's decisions are important and risky, and they should be controversial. An axiom of the early Christian Church, which can be traced back to Aristotle, says: In essentials unity, in action freedom, and in all things trust. Trust requires that dissent come out in the open.

Nonprofit institutions need a healthy atmosphere for dissent if they wish to foster innovation and commitment. Non-profits must encourage honest and constructive disagreement precisely because everybody is committed to a good cause. Your opinion versus mine can easily be taken as your good faith versus mine. Without proper encouragement, people have a tendency to avoid such difficult though vital discussions or turn them into underground feuds.

Your commitment to self-assessment is a commitment to developing yourself and your organization as a leader. You will expand your vision by listening to your customers and by encouraging constructive dissent by looking at the sweeping transformation taking place in society. You have vital judgments ahead: whether to change the mission, whether to abandon programs that have outlived their usefulness and concentrate resources elsewhere, how to match opportunities with your competence and commitment, and how you will build community and change lives. Self-assessment is the first action requirement of leadership. It requires constant re-sharpening, constant refocusing, and never being really satisfied. The time to do this is when you are successful. If you wait until things start to go down, then it's very difficult.

We are creating tomorrow's society of citizens through the social sector, which means through nonprofit organizations like yours. In that society, everybody is a leader, everybody is responsible, and everybody acts. Therefore, mission and leadership are not just things to read about, or to listen to; they are things to do something about. Self-assessment can and should convert good intentions and knowledge into effective action as soon as possible.

Question 1: What is Our Mission?

Every social sector institution exists to make a distinctive difference in the lives of individuals and in society. Making this difference is the organization's very reason for being. Each of more than one million nonprofit organizations in the United States may have a very different mission, but changing lives is always the starting and ending point. A mission cannot be impersonal; it has to have deep meaning and be something you know is right. A fundamental responsibility of leadership is to make

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sure that everybody knows the mission well enough to understand and live it.

An effective mission statement is short and sharply focused. It says only why you do what you do, not the means by which you do it. It should give direction for doing the right things now and into the future so that everyone in the organization can say, "What I am doing contributes to the goal." That's why it must be clear, and it must inspire. Every board member, volunteer, and staff person should be able to see the mission and say, "Yes, this is something I want to be remembered for."

To have an effective mission, you have to work out an exacting match of your opportunities, competence, and commitment. Every good mission statement reflects all three. Look first at the outside environment. The organization that starts from the inside and then tries to find places to put its resources is going to fritter itself away by focusing on yesterday. Demographics and needs change. You must search out the things that have already happened that present challenges and opportunities for the organization. Leadership has no choice but to anticipate the future and attempt to mold it, bearing in mind that whoever is able to rise with the tide will also see where your opportunity lies.

One cautionary note: Never subordinate the mission in order to get money. If there are opportunities that threaten the integrity of the organization, you must say no. Otherwise, you sell your soul. Keep the central goal of your mission in front of you throughout the self-assessment process. Step by step analyze challenges and opportunities, identify your customers, learn what they value, and define your results. When it is time to develop the plan, you will take all that you have learned and revisit the mission to affirm or change it.

Comment to Question 1: What is Our Mission?

By Jim Collins (Author of *Good to Great* and *Built to Last*)

What is our mission? It's a simple question, but it goes right to the heart of the fundamental tension in any great institution: the dynamic interplay between continuity and change. Every truly great organization demonstrates the characteristic of preserving the core, yet stimulating progress. On one hand, it is guided by a set of core values and fundamental purpose which is a core mission that changes little, or not at all, over time. On the other hand, it stimulates progress which involves change, improvement, innovation, and renewal. The core mission remains fixed while operating practices, cultural norms, strategies, tactics, processes, structures, and methods continually change in response to changing realities. Indeed, the great paradox of change is that the organizations that best adapt to a changing world first and foremost know what should not change. They have a fixed anchor of guiding principles around which they can more easily change everything else. They know the difference between what is truly sacred and what is not; between what should never change and what should be always open for change; between "what we stand for" and "how we do things."

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Your core mission provides guidance, not just about what to do, but equally what not to do. Social sector leaders pride themselves on “doing good” for the world, but to be of maximum service requires a ferocious focus on doing well only if it fits your mission. To do the most good requires saying no to pressures to stray, and the discipline to stop doing what does not fit.

The question of mission has become, if anything, even more important as our world becomes increasingly disruptive and turbulent. No matter how much the world changes, people still have a fundamental need to belong to something they can feel proud of. They have a fundamental need for guiding values and sense of purpose that give their life and work meaning. They have a fundamental need for connection to other people, and sharing with them the common bond of beliefs and aspirations. They have a desperate need for a guiding philosophy, a beacon on the hill to keep in sight during dark and disruptive times. More than any time in the past, people will demand operating autonomy—freedom plus responsibility—and will simultaneously demand that the mutations of which they are a part stand for something.

Question 2: Who is Our Customer?

Not long ago, the word customer was rarely heard in the social sector. Nonprofit leaders would say, “We don’t have customers. That’s a marketing term. We have clients...recipients...patients. We have audience members. We have students.” Rather than debate language, I ask, “Who must be satisfied for the organization to achieve results?” When you answer this question, you define your customer as one who values your service, who wants what you offer and feels it’s important to them.

Social sector organizations have two types of customers. The primary customer is the person whose life is changed through your work. Effectiveness requires focus, and that means one response to the question, who is our primary customer? Those who chase off in too many directions suffer by diffusing their energies and diminishing their performance. Supporting customers are volunteers, members, partners, funders, referral sources, employees, and others who must be satisfied. They are all people who can say no, people who have the choice to accept or reject what you offer. You might satisfy them by providing the opportunity for meaningful service, by directing contributions toward results you both believe in, or by joining forces to meet community needs.

The primary customer is never the only customer, and to satisfy one customer without satisfying the others means there is no performance. This makes it very tempting to say there is more than one primary customer, but effective organizations resist this temptation and keep to a focus—the primary customer. The primary customer is not necessarily someone you can reach, or someone you can sit down and talk to directly. Primary customers may be infants, or endangered species, or members of a future generation. Whether or not you can have an active dialogue, identifying the primary customer puts your priorities in order and gives you a reference point for critical decisions on the organization’s values.

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Answering the question “Who is our customer?” provides the basis for determining what customers value, defining your results, and developing the plan. Yet, even after careful thought, customers may surprise you. Then you must be prepared to adjust. I remember one of my pastoral friends saying of a new program, “Great, a wonderful program for the newly married.” The program was indeed a success. But to the consternation of the young assistant pastor who designed and ran it, not a single newly married couple enrolled. All the participants were young people living together and wondering whether they should get married. The senior pastor had a terrible time when his brilliant young, self-righteous assistant wanted to throw out the customers saying, “We haven’t designed it for them!”

Often the customer is one step ahead of you. So you must know your customer, or quickly get to know them. Time and again you will have to ask, “Who is our customer?” because customers constantly change. The organization that is devoted to results—always with regard to its basic integrity—will adapt and change as they do.

Comment to Question 2: Who is Our Customer?

By Philip Kotler (S.C. Johnson & Son Distinguished Professor of International Marketing at the Northwestern University Kellogg Graduate School of Management)

Peter Drucker told us over forty years ago, “The purpose of a company is to create a customer. . . . The only profit center is the customer.” If Peter Drucker were here today, he would amend his observation. He would say, “The best companies don’t create customers. They create fans.” He would say that it is less important to report better profits this year than to check on whether you improved your share of the customer’s mind and heart this year.

We must do a better job of understanding who the customer is. The old thinking was that customers would hear about us and, we hope, choose our products. The new thinking is that we, the company, choose our customers. We may even refuse to do business with certain customers. Our business is not to casually please everyone, but to deeply please our target customers.

So, the first job is to define our target customers. This definition will affect everything: the designing of our product and its features, the choice of our distribution outlets, the crafting of our message, the choice of our media, and the setting of our prices.

In order to define our customer, we must take a broader view of the buying process. The purchase of anything is the result of several roles being played. Consider the purchase of a new family automobile. The initiator might have been a family friend who mentioned an impressive new car. The teenage son might have influenced the type of car to consider. The decider might be the wife. The buyer might be the husband.

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So, in the end, we must master our knowledge of the target customers, who and what influences them, and how to create highly satisfying customer experiences. Recognize that today's customers are increasingly buying on value, not on relationship. Your success ultimately depends on what you have contributed to the success of your customers.

Question 3: What Does the Customer Value?

"What does the customer value?" That question may be the most important question to ask, yet it is the one least often asked. Nonprofit leaders tend to answer it for themselves. "It's the quality of our programs. It's the way we improve the community." People are so convinced they are doing the right things and so committed to their cause that they come to see the institution as an end in itself. Instead of asking, "Does it deliver value to our customers?" they ask, "Does it fit our rules?" That not only inhibits performance but also destroys vision and dedication.

My friend Philip Kotler, a professor at Northwestern University, points out that many organizations are very clear about the value they would like to deliver, but they often don't understand that value from the perspective of their customers. They make assumptions based on their own interpretation. So begin with assumptions and find out what you believe your customers value. Then you can compare these beliefs with what customers actually are saying, find the differences, and go on to assess your results.

To formulate a successful plan, you will need to understand each of your constituencies' concerns, especially what they consider results in the long term. Integrating what customers value into the institution's plan is almost an architectural process, a structural process. It's not too difficult to do once it's understood, but it's hard work. First, think through what knowledge you need to gain. Then listen to customers, accept what they value as objective fact, and make sure the customer's voice is part of your discussions and decisions, not just during the self-assessment process, but continually.

Comment to Question 3: What Does the Customer Value?

By Jim Kouzes (Executive fellow at the Center for Innovation and Entrepreneurship, Leavey School of Business, Santa Clara University)

Everything exemplary leaders do is about creating value for their customers. So, what does the customer value? Clearly customers value an organization that seeks their feedback and that is capable of solving their problems and meeting their needs. But I would also venture to guess that customers value a leader and a team who have the ability to listen and the courage to challenge the "business-as-usual" environment, all in the service of the yearnings of the customer.

Question 4: What Are Our Results?

The results of social sector organizations are always measured outside the organization in changed

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lives and changed conditions—in people’s behavior, circumstances, health, hopes, and above all, in their competence and capacity. To further the mission, each nonprofit needs to determine what should be appraised and judged, then concentrate resources for results.

In business, you can debate whether profit is really an adequate measuring stick, but without it, there is no business in the long term. In the social sector, no such universal standard for success exists. Each organization must identify its customers, learn what they value, develop meaningful measures, and honestly judge whether, in fact, lives are being changed. This is a new discipline for many nonprofit groups, but it is one that can be learned.

Progress and achievement can be appraised in qualitative and quantitative terms. These two types of measures are interwoven by shedding light on each other, and both are necessary to illuminate how and to what extent lives are being changed.

Qualitative measures address the depth and breadth of change within its particular context. They begin with specific observations, build toward patterns, and tell a subtle, individualized story. Qualitative appraisal offers valid, “rich” data. Quantitative measures use definitive standards. They begin with categories and expectations and tell an objective story. Quantitative appraisal offers valid “hard” data. Quantitative measures are essential for assessing whether resources are properly concentrated for results, whether progress is being made, and whether lives and communities are changing for the better.

One of the most important questions for non-profit leadership is, “Do we produce results that are sufficiently outstanding for us to justify putting our resources in this area?” Need alone does not justify continuing, nor does tradition. You must match your mission, your concentration, and your results. Like the New Testament parable of the talents, your job is to invest your resources where the returns are manifold and where you can have success.

To abandon anything is always bitterly resisted. People in any organization are always attached to the obsolete which includes things that should have worked but did not, and things that once were productive but no longer are. They are most attached to what in an earlier book (*Managing for Results*) I called “investments in managerial ego.” Yet abandonment comes first. Until that has been accomplished, little else gets done. The acrimonious and emotional debate over what to abandon holds everybody in its grip. Abandoning anything is difficult, but only for a fairly short spell. Rebirth can begin once the dead are buried; six months later, everybody wonders, “Why did it take us so long?”

There are times to face the fact that the organization as a whole is not performing—that there are weak results everywhere and little prospect of improving. It may be time to merge or liquidate and

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put your energies somewhere else. In some performance areas, whether to strengthen or abandon is not clear. You will need a systematic analysis as part of your plan.

At this point in the self-assessment process, you determine what results for the organization should be and where to concentrate for future success. The mission defines the scope of your responsibility. Leadership is accountable to determine what must be appraised and judged, to protect the organization from squandering resources, and to ensure meaningful results.

Comments to Question 4: What Are Our Results?

By Judith Rodin (President of the Rockefeller Foundation)

The Five Most Important Questions proceeds on the implicit premise that our plan is fixed and that the results must flow from it. But the program work of a nonprofit is more iterative than linear. Our plan needs to be designed not only to further our mission but also to yield measurable results, so that we can know whether or not the plan is succeeding. The plan should not be considered complete, or even satisfactory, until it has been constructed in such a way as to produce some measurable outcomes and to build mechanisms, a priori, that allow midcourse corrections based on these results. This work is not like conducting a clinical trial or a randomized controlled experiment where we do not break the code until the end.

The goal is to achieve real impact and measuring results as a tool for learning and for self-correcting, in order to reach intended, specified outcomes. On the one hand, we must ensure that our plans are designed in such a way that results can be measured. If necessary, to guarantee this, we must be willing to alter our choices of specific interventions and avoid those where the defined impact is so unclear and immeasurable as to be beyond our reach. On the other hand, we must also avoid the temptation to undertake only that work most easily quantified to choose the sort of task that produces outputs, but fails to alter the most important outcomes.

Drucker begins his discussion of Question 4 by observing, with emphasis in the original, that “results are the key to our survival” as institutions. If results are our goal, they must also be our test. What endures from the work of nonprofits is not how hard we try or how clever we may be or even how much we care. Hard work is indispensable to success, of course, in this as in any other field. Intelligence is as prized in our sector as in all others involving intellectual endeavor; and caring is what has drawn the best people into this line of work. But ultimately what is remembered is how we have been able to improve lives. Peter Drucker understood this profoundly. This is why the question, “What are our results?” resonates today.

Question 5: What Is Our Plan?

The self-assessment process leads to a plan that is a concise summation of the organization’s purpose and future direction. The plan encompasses mission vision, goals, objectives, action steps,

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a budget, and appraisal. Now comes the point to affirm or change the mission and set long-range goals. Remember, every mission statement has to reflect three things: opportunities, competence, and commitment. It answers these questions: What is our purpose? Why do we do what we do? What, in the end, do we want to be remembered for? The mission transcends today but also guides and informs today. It provides the framework for setting goals and mobilizing the resources of the organization for getting the right things done.

To further the mission, there must be action today and specific aims for tomorrow. Yet planning is not masterminding the future. Any attempt to do so is foolish; the future is unpredictable. In the face of uncertainties, planning defines the particular place you want to be and how you intend to get there. Planning does not substitute facts for judgment, or science for leadership. It recognizes the importance of analysis, courage, experience, intuition and even hunch. It is responsibility rather than technique.

The most difficult challenge is to agree on the institution's fundamental long-range direction. Goals are overarching and should be few in number. If you have more than five goals, you have none. You're simply spreading yourself too thin. Goals make it absolutely clear where you will concentrate resources for results which is the mark of an organization serious about success. Goals flow from mission, aim the organization where it must go, build on strength, address opportunity, and, taken together, outline your desired future.

Objectives are the specific and measurable levels of achievement that move the organization toward its goals. The chief executive officer is responsible for development of objectives and action steps and detailed budgets that follow. The board must not act at the level of tactical planning, or it interferes with management's vital ability to be flexible in how goals are achieved. When developing and implementing a plan, the board is accountable for mission, goals, and the allocation of resources to results, and appraising progress and achievement. Management is accountable for objectives, action steps, the supporting budget, and demonstrating effective performance.

The plan begins with a mission. It ends with actions steps and a budget. Action steps establish accountability for objectives—who will do what by when—and the budget commits the resources necessary to implement the plan. To build understanding and ownership for the plan, action steps are developed by the people who will carry them out. Everyone with a role should have the opportunity to give input. This looks incredibly slow, but when the plan is completed, the next day everyone understands it. More people in the organization will want the new, be committed to it, and feel ready to act.

The Assessment Team will prepare the final plan for review by the board. Following presentation and discussion, the board chairman will request approval of the mission, goals, and supporting budget. The chairman may request adoption of a vision statement, if one has been developed, as part of the plan. As soon as approval is given, implementation begins.

This is the last of the self-assessment questions, and your involvement as a participant soon draws

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to a close. Appraisal will be ongoing. The organization must monitor progress in achieving goals and meeting objectives, and above all, must measure results in changed lives. You must adjust the plan when conditions change, results are poor, there is a surprise success, or when the customer leads you to a place different from where you imagined.

True self-assessment is never finished. Leadership requires constant re-sharpening, refocusing, and never really being satisfied. I encourage you especially to keep asking the question, “What do we want to be remembered for?” It is a question that induces you to renew yourself—and the organization—because it pushes you to see what you can become.

Comments to Question 5: What is Our Plan?

By V. Kasturi Rangan (The Malcolm P. McNair Professor of Marketing at the Harvard Business School)

Planning is the process of translating the organization’s strategic or mission goals into a set of actionable programs, and tracing the path of how those within the organization would meet the goals. In a nutshell, strategy formulation is an exercise in setting goals for the organization and developing a model of how achieving the goals would advance the strategic purpose of the organization. A plan, by contrast, is the action agenda that is aimed at reaching the goal. The biggest mistake organizations make about a “plan” is to cast it in stone as a tactical document, much like a construction drawing with all details filled in for perfect implementation. A business plan is quite different. It is an execution process that feeds back to better strategy making and goal setting. Managers shape it, guide it, adapt it, and learn from it.

Transformational Leadership

By Frances Hesselbein (President and chairman of Leader to Leader Institute, formerly the Peter F. Drucker Foundation for Nonprofit Management)

In a world where the rules are constantly changing, millions of people in every sector of the economy are wrestling with the new demands of leadership. I hear managers everywhere discussing the same fundamental challenge: the journey to transformation, moving from where we are to where we want to be in the tenuous future that lies before us. Around the world—in universities, the community of faith, corporations, government, and the burgeoning social sector—leaders are working to shape the transformation of their institutions.

In sharing experiences across the public, private, and social sectors, I have found that organizations usually pass eight milestones to reach their destination: a relevant, viable, effective organization. These milestones are as relevant to a small community group, or the Girl Scouts, as they are to a large business or government agency.

1. Scan the environment. Through reading, surveys, interviews, and so on, we identify the major trends likely to affect the organization. The essence of strategy is to define the implications of those trends.

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Sometimes we can catch a straw in the wind and have a responsive program or project ready as the trend emerges—not after. This assessment of emerging trends and implications, supplemented by internal data, provides essential background for planning change, and offers a better basis for action than our own preconceptions. Flying on assumptions can be fatal.

2. Revisit the mission. At the Leader to Leader Institute, we review our mission every three years, and refine it if necessary. The foundation is now more than fifteen years old, and we've revisited and refined our mission twice, not because we couldn't get it right the first time, with Peter F. Ducker in the room, but because the environment and the needs of our customers had changed.

3. Ban the hierarchy. Transformation requires moving people out of their organizational boxes into flexible, fluid management systems. We cannot continue to put people into little squares on a structure chart. Psychologically, it boxes them in.

4. Challenge the gospel. There should be no sacred cows as we challenge every policy, practice, procedure, and assumption. In transforming themselves, organizations must practice "planned abandonment" which means discarding programs, policies, and practices that work today but have little relevance to the future and to the organization we are building to meet that future.

5. Employ the power of language. Leaders must beam a few clear, consistent messages over and over. They must lead by voice communicating with all their customers and all their constituents with a few powerful messages that connect and illuminate.

6. Disperse leadership across the organization. Every organization must have not one but many leaders. Some speak of "empowerment"; others of "sharing the tasks of leadership." I think of it as dispersing leadership—with leaders developed and performing across every level of the organization. Leadership is a responsibility shared by all members of the organization.

7. Lead from the front, don't push from the rear. The leader of the future does not sit on the fence, waiting to see which way the wind is blowing. Leaders model desired behaviors, never break a promise, and know that leadership is a matter of how to be, not how to do it.

8. Assess performance. Self-assessment is essential to progress. From the beginning of the change process, we are clear about mission, goals, and objectives. Well-defined action steps and a plan for measuring results are essential to planning any organizational change.

Across the globe, for leaders aware of the tenuous times ahead, the journey to transformation is a journey into the future. These leaders are taking today's organization and transforming it into tomorrow's productive, high-performance enterprise. Although the milestones on the journey are known, the destinations are uncharted, and for each organization the destination will be determined not only by the curve of the road ahead but also by the quality of the mission and the leadership it inspires.

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Conclusion: The Self-Assessment Process

My final word on how to use this book: Please don't rush through it at the last minute. The five questions appear simple, but they are not. Give them time to sink in and wrestle over them. Properly carried through, self-assessment develops skill, competence, and commitment. Active and attentive participation is an opportunity to enhance your vision and to shape the future.