"In this marvelous book, Steve Rothschild shares the same sound business principles he used at General Mills and later to found two nonprofits. Every social enterprise can benefit from these rigorous, real-world approaches."

-FROM THE FOREWORD BY BILL GEORGE

## STEVE ROTHSCHILD

Founder, Twin Cities RISE!



FOR-PROFIT THINKING FOR NONPROFIT SUCCESS

#### Praise for The Non Nonprofit

"Steve Rothschild's fresh thinking translates proven strategies that successful businesses employ every day into practical approaches to confronting centuries-old issues like poverty. No partisan politics, no fancy tricks—just fundamental, time-tested solutions."

—Harvey Mackay, author, Swim With The Sharks Without Being Eaten Alive

"As a Twin Cities RISE! customer, I can say unequivocally that the seven principles in *The Non Nonprofit* work. RISE! provides just the type of employee that every company needs to be successful: self-motivated, engaged, skilled, productive, and emotionally mature. The employer community would do well to take much greater advantage of this underutilized organization."

—**David Abrams**, vice president, North Memorial Health Care

"I've observed from the beginning of his anti-poverty work Steve Rothschild's efforts to put his principles into practice. I've observed with the skeptical eye of an evaluator. I've seen hundreds of good ideas and hopeful visions flounder in the face of complex realities. I'm not easily impressed. But what Rothschild has accomplished impresses. The principles he identifies, explains, and illustrates have broad applicability. He has learned a great deal about what works. Anyone who cares about making a difference should pay attention to what he's learned—it's all here."

—Michael Quinn Patton, founder and director,
 Utilization-Focused Evaluation; former president,
 American Evaluation Association

"As director of the U.S. Agency for International Development (USAID) for six years in the 1990s, I presided over the U.S. government's global poverty reduction efforts. Steve Rothschild reminds me of the innovators whose practical approaches changed the world of development, people like Hernando De Soto and Muhammad Yunus. Rothschild understands incentives, accountability, and personal improvement. His Twin Cities RISE! is a learning-driven organization that empowers challenged citizens to overcome their issues and succeed. Rothschild's RISE! is not afraid to establish a bottom line and is eager to be held accountable for achieving it. *The Non Nonprofit* and its recipes for success are a must-read for those who are truly concerned about poverty, here or anywhere."

—J. Brian Atwood, former dean, Humphrey School of Public Affairs, University of Minnesota; chair, Development Assistance Committee, Organization for Economic Co-operation and Development

"I take pride in being one of the many people Steve Rothschild met and talked with when he was first thinking of starting what turned out to be Twin Cities RISE! I must admit that while I thought his market-based approach was exquisitely on target, I was concerned he wasn't giving adequate weight to the many attitudinal and behavioral shortcomings that keep large numbers of people impoverished. More than fifteen years later, it's clear I was wrong, as I know of no analyst or practitioner in the United States who better understands how efforts to help poor people must meld both economically grounded and culturally grounded approaches."

—Mitch Pearlstein, founder and CEO, Center for the American Experiment

# NONPROFIT

# FOR-PROFIT THINKING FOR NONPROFIT SUCCESS

Steve Rothschild

Foreword by Bill George



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For my wife, Marilyn, whose love, dedication, and encouragement have sustained me for fifty years

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### **Foreword**

### How This Book Will Benefit Us All

ow many highly successful corporate executives walk away from a top job in midcareer to devote themselves to reducing poverty in our crime-ridden American inner cities? Steve Rothschild is the only one I know. He left a senior executive role at General Mills, spent a year studying the twin problems of racism and inner-city poverty, and then used his own money to found Twin Cities RISE!

I first met Steve in 1980 when we were together at a Berlitz class as he was building the Yoplait yogurt business for General Mills. Steve impressed me with his passion and his persistence, qualities that are writ large throughout this book. For years we challenged each other on the tennis court, talked between sets about our dreams of running a major company that could help people, and shared the frustrations we faced in our work.

One day I called Steve to tell him I had decided to join Medtronic, thinking my long-time friend would be enthusiastic about my move. When I shared my good news, there was a long silence at the other end of the phone. Confused, I asked Steve what he was feeling. After a long pause, he said, "I wish I was moving on as well." Steve confided that he was no longer inspired by his work and was feeling restless to do something more meaningful with his life.

So I wasn't surprised a few months later when he called to say he had resigned from General Mills. I immediately assumed he would move into a top corporate job at another company, a destiny that was clearly in his grasp. Instead, like the farmer who lets his fields go fallow for a season, Steve used the next year to get closer to his family and explore challenges in the Minneapolis community.

One day while serving on the Minneapolis Initiative Against Racism, Steve wondered what it must be like for an inner-city youth who was flipping hamburgers for a living. What hope did he have of making something of his life, of escaping from a dead-end job? Rothschild resolved then to explore the twin issues of poverty and racism in much greater depth to see what could be done about them.

In these pages, Rothschild shares what he has learned about the most intractable problem in our society today: the poverty concentrated in our inner cities that leads to the downward cycle of failure, hopelessness, despair, violence, crime, and eventually prison—and then repeats itself across generations. It is not a problem that many Americans want to address. Long ago the politicians stopped talking about the problems of the poor and started focusing primarily on the middle class.

Instead of rushing headlong into these problems with quick-fix solutions, Rothschild studied them carefully and talked to countless people in Minnesota and elsewhere about what could be done to correct them. His explorations led him to found Twin Cities RISE! It is based on the bedrock principles of creating value for employers and society to enable the poorest of the poor to qualify for jobs that pay more than \$10 per hour.

To make RISE! successful, Rothschild focused all his energies on his new organization, using funds from his personal savings. Applying his enormous leadership and executive talents, he helped the inner-city poor who wrestle daily with the twin problems of discrimination and poverty to rise above their wounds and find a purpose for their lives. In so doing, Steve and RISE! (and RISE!'s graduates) faced the ravages of generational poverty head-on, encountered their ugliest aspects, and found a way to wrestle them to the ground.

RISE! is not just another social service agency that provides education and training programs for hard-to-employ individuals. It is also a success story that demonstrates the benefits of a new approach to addressing our social ills—one that applies sound capitalistic principles, like value creation and return on investment, to enable the most economically challenged citizens to achieve economic self-sufficiency.

Achieving success with RISE! hasn't been easy for Rothschild. Through his experiences, he's learned that preparing people for good jobs takes a lot more than skills training. First, the students have to face their own life stories, crucibles, and lack of self-worth head-on in order to then gain self-awareness and empowerment. Rothschild has also found it

difficult to convince employers of the value that RISE! graduates offer them.

As he realized his goals locally with Twin Cities RISE! Rothschild began to focus on using these experiences to create a national model for addressing our social ills. *The Non Nonprofit* sets forth that model in a clear way and demonstrates how we can attack the greatest problems of our society and our world.

In visiting the Minneapolis offices of Twin Cities RISE! I discovered the remarkable parallels between Rothschild's work in preparing its students for good jobs and my own work in enabling leaders in corporations to step up to important leadership roles. Before they can become fully effective, both groups have to deal with their crucibles and past wounds, discover the passion for their purpose, become empowered, accept personal accountability for results, and continue to learn from their experiences, all based on a sound set of economic principles.

As Steve Rothschild demonstrates, this is not an easy process, and there is no such thing as five easy steps to economic self-sufficiency. But these commonsense principles will improve the results of any nonprofit, or for-profit for that matter, whether it is struggling or performing well. They will help sharpen an organization's focus, strengthen its organizational culture, and improve its results.

In this marvelous book, Steve Rothschild shares the same sound business principles he used at General Mills and later to found two nonprofits. Every social enterprise can benefit from these rigorous, real-world approaches, whether applied to traditional nonprofit organizations, philanthropy, or government. *The Non Nonprofit* brings to life this unique

twenty-first-century approach to solving our social problems across America, and policymakers, politicians, and all others who want to build a more productive and just society ought to study it carefully.

Minneapolis, Minnesota December 2011 Bill George

Bill George is professor of management practice at Harvard Business School and the author of *True North: Discover Your Authentic Leadership*. He is the former chairman and CEO of Medtronic, Inc.

# NONPROFIT

## Introduction

istorically, the most common response to social ills like poverty, homelessness, and poor education has been to spend more money. When money is tight, concerned citizens ramp up their efforts for more fundraising, more requests for federal grants and government funding, and, ultimately, more investment in short-term solutions to solve long-term problems. But these traditional efforts rarely yield sustainable long-term results. To make progress, leaders—in government, funding organizations, business, nonprofits, and social enterprise need a new approach. They need an approach that integrates the best ideas of social programming with the expertise that the for-profit sector has acquired in achieving long-term outcomes. This book presents seven principles that equip leaders to do just that. These principles have demonstrated their ability to build healthy, effective organizations in both the forprofit and nonprofit sectors. Now we need to put them to work so that all organizations that strive to improve the social good can thrive through good economic times and bad.

These principles provide guidance for everything from strategic planning to organizational culture to policies, procedures, and programming. Organizations can, and should, adapt all of these activities as they respond to the world in which they operate and thereby grow and learn. These proven business principles remain steadfast, providing solid, unwavering direction that leads to positive, long-term results.

I began developing the seven principles during a twentytwo-year career in corporate America that led to an executive position at General Mills, a Fortune 100 company. Then I established Twin Cities RISE! (Responsible, Independent, Skilled, Employed) in the Minneapolis and St. Paul metropolitan area of Minnesota, a nonprofit dedicated to reducing poverty through job training, and I confirmed just how powerful these same principles are when applied to social issues. The Non Nonprofit describes exactly how the principles have contributed to successful outcomes at RISE! and how they strengthen social enterprises in the United States and around the rest of the world. (By social enterprise, I mean an organization that takes a business approach to attacking social problems regardless of whether the organization operates as a for-profit or nonprofit entity.) The Non Nonprofit poses questions to help leaders understand how the seven principles apply to their organizations. The book shows you how your organization can improve results for your clients and for society by putting these time-tested for-profit principles into practice.

#### WHY THE SEVEN PRINCIPLES ARE SO IMPORTANT NOW

The United States urgently needs more effective enterprises dedicated to solving our social ills. Voices from the private

sector, philanthropy, foundations, and state and national governments are all demanding greater productivity from our social-purpose organizations. In addition, although the recession of 2009 is easing as I write in 2011, it's likely that government funding for many social programs will continue to decline despite an economic recovery.

One major reason is that health care costs are expected to grow at twice the rate of state revenue growth over the next twenty years. This is driven in part by an aging population that uses more health care and in part by spiraling health care costs. As a result, state budgets will have significantly fewer resources available for human services other than health care and K-12 education. At the federal level, virtually all the resources will be put toward social security, Medicare, Medicaid, interest on the debt, and defense. There will be little left for anything else. The "discretionary" programs that provide a better quality of life for individuals and society will suffer greatly.

These are programs like drug treatment, workforce development, higher education, and early childhood education investments that promote long-term social and economic growth. Many of these programs are preventative, and they cost less than addressing the problem at the back end. Given this funding situation, it's imperative that we become more productive in how we spend our money in nonprofits and social enterprises and do a better job of attracting new capital to these enterprises.

The seven principles set out in this book can enable us to do both. Twin Cities RISE! has tested these principles and achieved remarkable success, I established RISE! to alleviate chronic poverty by enabling participants to get and keep a living-wage job with benefits. RISE! educates, trains, and places its graduates and then counsels them through the first year of employment. Its graduates do indeed get good jobs, and they keep them. From 2007 to 2010, their salaries averaged around twenty-five thousand dollars, about three and a half to five times higher than they earned before they entered the program, depending on the year.<sup>1</sup>

RISE! serves people who are among the most difficult to employ in our society, those who are underserved by other workforce programs. They are typically the product of generations of poverty and unemployment. Most are ex-convicts or single mothers living on welfare whose obstacles to employment include low academic achievement, homelessness, and drug and alcohol addictions. Over the past fifteen years, the one- and two-year job retention rates for participants who have graduated from RISE! have averaged 80 percent and 72 percent, respectively. These retention levels are higher than those our customers regularly report when hiring people who have fewer obstacles through more traditional hiring channels. Moreover, among the ex-felons who have graduated from our program, we have reduced recidivism by approximately 60 percent, improving their lives and the lives of their families and lowering the cost to society.

RISE! has demonstrated the power of these seven principles when applied to the nonprofit sector. The principles provide tools for effectively addressing social problems even while government spending on preventative social programs declines. And RISE! is just one of a new wave of organizations that are benefiting from putting these tools into action.

#### THE SOCIAL ENTERPRISE MOVEMENT: NECESSITY IS THE MOTHER OF INNOVATION

Fortunately, as the need for more effective social organizations has become urgent, innovation is proliferating among organizations that have a social purpose. Throughout the world, entrepreneurs with a social agenda are experimenting with new business models, new ways to finance start-ups and growth, and new ways to combine the practices of business and charity. Social entrepreneurship has become a recognized global movement.

The term social entrepreneur was in its infancy in 1980 when the organization Ashoka was founded by Bill Drayton in Arlington, Virginia, to support such enterprises.<sup>2</sup> It took until 2006, when Muhammad Yunus, founder of Grameen Bank in Bangladesh, was awarded the Nobel Peace Prize, for social enterprise to achieve widespread recognition by the mainstream press, as well as by the government and business sectors.

Today the world abounds with pioneering organizations that have responded to the need for more productive social organization by finding innovative and successful ways to address social problems. They are getting these excellent results by using many of the same principles I present in this book. Throughout the book, I'll be focusing on these nonprofits and social enterprises that range over a vast continuum of size and scale, from well-established giants to younger, dynamic, and fast-growing organizations:<sup>3</sup>

CaringBridge. Founded in 1997, CaringBridge provides free Web sites that connect people experiencing a

- significant health challenge to their friends, family, and other supporters. More than 275,000 Web sites have been created.
- College Summit. Founded in 1993 in Washington, D.C.,
  College Summit has helped schools with low-income students increase their college enrollment rates by nearly 20 percent over what it was before implementation.
  College Summit works with 180 schools in twelve states.
- Common Ground/Community Solutions. Common Ground was founded in 1990 in New York City; Community Solutions, a spin-off, was launched in 2011. Common Ground works to end homelessness, particularly among the long-term homeless. It owns and manages housing that provides tenants with easy access to multiple support services. Community Solutions grew out of the work of Common Ground to bring proven innovations to communities seeking to end homelessness. Its national 100,000 Homes campaign seeks to get 100,000 homeless people into homes by July 2013.
- *Grameen Bank*. Formally established in a village in Bangladesh in 1983, Grameen Bank has grown to an institution that makes microloans to 8.32 million borrowers, 97 percent of them women, in 81,372 villages.
- Habitat for Humanity. Founded in 1976 in Americus, Georgia, Habitat's primary activity is financing and building, rehabilitating, repairing, or improving houses with volunteer labor, including sweat equity—that is,

construction labor from the owners-to-be. The organization has approximately fifteen hundred U.S. affiliates and five hundred international affiliated organizations in nearly eighty countries, with combined total net assets of \$2.1 billion.

- Lumni. Founded in 2002 in Chile, Lumni funds the higher education of students in the United States, Chile, Colombia, and Mexico. It raises capital from private investors and creates social investment funds that it manages in the expectation of making a profit. Rather than providing typical education loans, Lumni invests in students who commit to paying a fixed percentage of their income for a fixed number of months after graduation.
- Playworks. Founded in 1996 in Oakland, California, Playworks works to improve learning in low-income, urban elementary schools through safe, healthy, inclusive, and positive play. It provides schools with a trained adult who teaches games, conflict resolution, and leadership skills during recess and other designated times. As of September 2011, Playworks served 320 schools in twenty-one cities. Teachers report that with Playworks in their schools, they can spend significantly more time teaching and less time dealing with conflicts and other problems.
- Twin Cities RISE! Founded in Minneapolis, Minnesota, in 1994, Twin Cities RISE! seeks to end concentrated, multigenerational poverty by providing employers with

skilled, reliable employees, primarily men of color. Since 1994, RISE! has grown from a pilot program with nineteen participants to an organization that serves more than fifteen hundred people every year.

These organizations are described in more detail in Appendix B and throughout the rest of this book.

The social enterprise movement is also demonstrating innovation in the funding of social ventures—new ways to capitalize on both start-up and growth. In 2009, Congress passed the Serve America Act, which includes provision for a social innovation fund. The fund enables the federal government to partner with the private sector in funding the scaling up of promising nonprofits that address our social problems.

Social entrepreneurs are testing new financial instruments that tap into the monetary value created when social ills are reduced. The social impact bond, launched in 2010, will fund programs to reduce recidivism among prisoners in Great Britain. In the United States, a group of colleagues and I have developed the human capital performance bond, a state-issued bond that will provide financing to social enterprises based on their achieving outcomes that increase state tax receipts (through higher incomes) and reduce state expenses (such as welfare and incarceration). A \$10 million pilot has been approved by the state of Minnesota.

Social entrepreneurs have risen to the challenge of decreased governmental funding in this period of continuing social problems. Necessity has energized their power of innovation. Now is the time to accelerate these efforts.