LEADING IN TURBULENT TIMES

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Good afternoon. It's a great pleasure to be with you today, and to get to share a few thoughts with such a distinguished group.

I come to you not just as someone steeped in Peter Drucker's philosophy, but also as a peer. I run a university-based nonprofit, and so my staff and I are grappling with many of the same issues that you are.

In some ways, the title of today's talk—leading in turbulent times—is a bit redundant.

After all, as tech executive Robert Knowling once remarked: "Leadership is about managing the constant of change."

Or as Peter Drucker—the author of 39 books and the father of modern management—put it: "A time of turbulence is one of … great opportunity for those who can understand, accept, and exploit the new realities. It is, above all, a time of opportunity for leadership."

"When it rains manna from heaven," Drucker continued, "some people put up an umbrella. Others reach for a big spoon."

Of course, there's change, and then there is what we've been struggling through—and in many respects continue to struggle through—amid the worst economic crisis since the 1930s.

This is, without any doubt, an immensely challenging period—especially for the social sector.

Because you're out there in the community, you all know better than I just how difficult things are.

But to give you a sense of the national landscape: A mere 12% of the more than 1,100 nonprofits surveyed by the Nonprofit Finance Fund expected to break even last year, and just 16% anticipated being able to cover their operating expenses in both 2009 and this year, 2010.

More than 40% said they had cut jobs or reduced salaries—or were planning to do so—in order to cope with the downturn. Thirty-nine percent said they'd scaled back or altogether eliminated programming, or they were intending to—even though the demand for so many services continues to rise in an economy where there are still six times as many Americans seeking work as there are job openings.

In fact, although the stock market has bounced back to a degree, nonprofits are feeling the effects of the Great Recession ever more deeply. In a November update to its "Managing in Tough Times" survey, the consulting firm Bridgespan reported that a full two-thirds of the nonprofit executives it had surveyed expect funding to get tighter over the next four or five months.

This is not just a time of change. It's not just a period of turbulence. For many, it's a tsunami.

And yet, despite all this—and in some cases because of it—there are still opportunities out there for organizations with leaders capable of seizing them.

So, what I'd like to do today is share with you 10 brief lessons, based on Peter Drucker's insights, which might help us get through—and perhaps even prosper—in an age in which the manna is in short supply.

The first lesson for any leader in this kind of environment couldn't be more straightforward, though it's awfully tough for some to act on. Face facts—no matter how scary they might be.

"A time of turbulence is a dangerous time," Drucker declared, "but its greatest danger is a temptation to deny reality."

In his new book, called *Denial*, Harvard Business School's Richard Tedlow defines the concept simply: "You ignore the obvious," he writes. "Why? Because you simply don't want to confront it. You know the consequences, but you don't know. You see, but you don't see.

"Denial is the unconscious calculus that if an unpleasant reality were true, it would be too terrible, so therefore it cannot be true. It is what Sigmund Freud described as the combination of 'knowing with not knowing.' It is, in George Orwell's blunt formulation, 'protective stupidity.'

"From the young child who insists that his parents haven't separated even though his father has moved out, to the alcoholic who swears he is just a social drinker, to the president who declares 'mission accomplished' when it isn't," Tedlow reminds us, "denial permeates every facet of life. Business is no exception. In fact, denial may be the biggest and potentially most ruinous problem that businesses face, from start-ups to mature, powerful corporations."

And, I would add: mature, powerful nonprofits, as well.

How many of you are *Sports Illustrated* readers? Did you see the recent profile of Dave Bing—the former NBA star who is the new mayor of Detroit, a place buffeted by more than its fair share of turbulence?

The article is a magnificent study in leadership. And while it's way too soon to know whether Bing can resuscitate the Motor City, it's plain that he has given Detroit a renewed sense of hope.

This, the article says, is in part because Bing "thinks of himself as a statesman, not a politician. He seems almost to take pleasure in telling people what they don't want to hear."

How's that for confronting reality—as well as forcing others to do the same?

Part of confronting reality is making a conscious effort to see ourselves and our organizations as others genuinely see us—not just as we wish to be seen.

"An effective nonprofit executive," Drucker explained, builds a "two-way relationship with the staff, with the board, with the community, with donors, with volunteers, and with alumni by asking: 'What do you have to tell me?' Not, 'This is what I'm telling you.' That question brings problems out in the open."

The latest issue of *The Nonprofit Quarterly* addresses the very same need in an article entitled "Beware Your Leadership Blind Spots."

And, notably, it calls for the same kind of open dialogue that Drucker advocated: "Invest in formal and informal feedback systems to keep a finger squarely on the pulse of your organization," the article advises.

Another way to "improve your leadership eyesight," according to the authors: "Test whether your leadership team and staff are clearly aligned on the right priorities. One way to check is to have each leader write down the organization's priorities for the next 12 to 18 months and compare lists. Chances are you'll have to do some work to ensure that everyone is on the same page. If everyone is in agreement, repeat the exercise one level down. Continue (the process) until all members of an organization are aligned on priorities."

This is the perfect segue into our second lesson for leading in turbulent times: the need to be clear and consistent.

For as you step up and face reality and make the difficult decisions that will help your organization survive—and thrive—you need to be ever mindful of communicating forthrightly to your staff, your board, your donors, your grantees, your volunteers and the community at large.

Simply put, a key component of "effective leadership," Drucker wrote in the book *Managing for the Future*, "is to earn trust."

"To trust a leader, it is not necessary to like him," Drucker said. "Nor is it necessary to agree with him. Trust is the conviction that the leader means what he says.

"It is a belief in something very old-fashioned called 'integrity.' A leader's actions and a leader's professed beliefs must be congruent, or at least compatible. Effective leadership—and again this is very old wisdom—is not based on being clever; it is based primarily on being consistent."

At no time is this precept more important than at a time of tremendous volatility.

Leaders must remember something else about their need to be consistent: You've got to do this not just with your words but also with your actions. You are, after all, always in the spotlight—even when you think you've retreated into the shadows.

"Leadership is . . . example," Drucker noted. "The leader is visible; he [or she] stands for the organization.

"He may be totally anonymous the moment he leaves that office and steps into his car to drive home. But inside the organization, he . . . is very visible, and this isn't just true of the small and local one; it is just as true of the big, national or worldwide one. . . . No matter that the rest of the organization doesn't do it; the leader not only represents what we are, but, above all, what we know we should be."

A third lesson: Remember why you're doing what you're doing—and remind your staff and your board and your funders of this noble purpose.

It is easy when times get tough to get so focused on how hard things are that you lose sight of what made you and your colleagues passionate for the work in the first place.

"A fundamental responsibility of leadership," said Drucker, "is to make sure that everybody knows the mission, understands it, lives it."

Again, at no time is this more important than during a time of great change, during a time of instability.

As a leader, you must relentlessly convey the mission—the organization's reason for being—over and over again. And you must do this up and down the entire enterprise.

A Silicon Valley executive named Rajiv Dutta once told me a great story about becoming the CEO of PayPal. At the time he took over some years ago, the company was a total mess. It was losing money. It was lagging in innovation. And employees were running scared because some company called Google was threatening to storm into the market. The barbarians were at the gates.

Amid all this turbulence, what Dutta managed to do was excite everyone—from those in the executive suite to the clerk answering the switchboard—by recasting PayPal's mission.

And as he framed it, PayPal wasn't just in business to process payments. It was part of a broader evolution of currency across the globe: a historic march from coins to paper money to credit cards to electronic commerce.

Suddenly, everybody felt like part of something bigger. Indeed, they <u>were</u> part of something bigger. Something meaningful. Something important.

Dutta goes so far as to credit the resulting shift in attitude—a shift in which employees now felt more inspired than scared—with an extraordinary turnaround in the company's financial performance.

Of course, as Dutta (a graduate of the Drucker School of Management, by the way) would be the first to tell you, simply telling a good story and articulating the mission is no substitute for the hard work it takes to then generate results.

And this leads me to Lesson Four—a lesson that, in many respects, is the cornerstone of Peter Drucker's philosophy.

Drucker, who was born in Austria in 1909 and watched the Nazis come into power, was always uneasy with the way that many people equate leadership with charisma.

"History," Drucker wrote, "knows no more charismatic leaders than (the 20th) century's triad of Hitler, Stalin and Mao—the MISleaders who inflicted as much evil and suffering on humanity as have ever been recorded."

"Charisma," he added, "becomes the undoing of leaders. It makes them inflexible, convinced of their own infallibility, unable to change. This is what happened to Stalin, Hitler and Mao, and it is a commonplace in the study of ancient history that only Alexander the Great's early death saved him from becoming an ineffectual leader."

Later, Drucker would similarly gripe about the "personality cult of CEO supermen" in American industry.

But there is a flip side to this, according to Drucker—and it's often overlooked.

"Effective leadership doesn't depend on charisma," he explained. "Dwight Eisenhower, George Marshall, and Harry Truman were singularly effective leaders, yet none possessed any more charisma than a dead mackerel."

So, if it's not charisma, what is leadership? What makes a leader?

"Leadership is mundane, unromantic and boring," Drucker wrote. "Its essence is performance." Its essence is effectiveness.

Or as Stanford University's James March once described it: 'Leadership involves plumbing as well as poetry."

For nonprofit leaders, this means going back to what Drucker called "the five most important questions you will ever ask about your organization." Some of you may be familiar with these—and those who are would surely attest to how simple these questions appear to be on their face, but how complex they quickly become when you and your colleagues begin to tackle them:

--What is our mission?

--Who is our customer?
--What does the customer value?
--What are our results?
--What is our plan?

The fundamentals, Drucker pointed out, always seem obvious.

“But how many managements,” he asked, “work on them; how many even think of them?”

It’s during “turbulent times” in particular, Drucker added, that “the fundamentals have to be managed, and managed well.”

One last note on this: Drucker makes a direct connection between performance and another aspect of leadership I’ve already discussed: trust.

“Creating a record of performance is the only thin that will encourage people to trust you and support you,” he concluded in a tremendous little book that I hope all of you have on yours shelves: *Managing the Nonprofit Organization*. “Complaining about . . . a stupid board and subordinates who sabotage you won’t create that record. It’s YOUR job and YOUR responsibility to talk to those on whom you depend, and who depend on you, to find out in a systematic way what helps, what hinders, and what needs to be changed.”

Which leads me straight to lesson Five:

A “critical question” for leaders, said Drucker, is this: When do you stop pouring resources into things that have already achieved their purpose—or will never achieve their purpose?

“The most dangerous traps for a leader are those near-successes where everybody says that if you just give it another big push it will go over the top,” Drucker warned. “One tries it once. One tries it twice. One tries it a third time. But, by then it should be obvious” that it’s not working.

And so you stop. Yet this is often the hardest thing for any of us to do, especially when ego is invested, when turf is being protected.

In his book *The Upside of Turbulence: Seizing Opportunity in an Uncertain World,* the London Business School’s Don Sull describes a phenomenon that he calls “active inertia.” This is when you step on the gas and spin the wheels harder to get out of a rut. Usually, though, you only wind up digging yourself in deeper.

Besides, as Drucker pointed out, “The corpse doesn’t smell any better the longer you keep it around.”

It is hard to overstate the importance of this core Drucker tenet: “Planned, purposeful abandonment of the old and of the unrewarding,” he wrote, “is a prerequisite to successful pursuit of the new and highly promising.”

"Abandonment is the key to innovation," Drucker added, "both because it frees the necessary resources and because it stimulates the search for the new that will replace the old."

In other words, the first step toward creating the new—toward innovation—is pruning.

And at no time is the careful, thoughtful trimming of programs and policies more urgent than at a time like this, when resources are so scarce. This is an opportunity to act.

Once you engage in a little planned abandonment, then you're read to absorb the sixth lesson for leading in turbulent times: Don't be afraid to experiment.

We tend to think of difficult stretches as the worst time to try new things. But the way Drucker saw it, to be successful new initiatives should start out small and not require a huge amount of resources.

"Run numerous experiments," *Harvard Business Review* asserted last year in an article, titled, dauntingly, "Leadership in a (Permanent) Crisis."

"Many will fail, of course, and the way forward will be characterized by midcourse corrections," the piece went on to say.

But that's OK. "Take a page out of the technology industry's playbook: Version 2.0 is an explicit acknowledgement that products coming to market are experiments, prototypes to be improved in the next iteration."

Bill Pollard, the former CEO of ServiceMaster and a Drucker consulting client and close friend, says that one of the most valuable things he learned from Drucker was that "the potential for the new always requires testing and piloting."

"For a new idea to be successful it must get off the drawing board and beyond a market analysis or focus study group. It's important to get started—to (begin) servicing a few customers to learn from the practical application of an idea. Ideas can be studied and analyzed until they are suffocated. If a thing is worth doing, it is worth doing poorly to begin with . . . to learn from experience."

One particular area in which I would encourage bold experimentation: how you work with your volunteers.

There are many reasons to be bullish on volunteering and service in America right now: Surveys suggest that Millennials—those born between 1980 and 2000—are more civic-minded than any generation since the 1930s and '40s. Meanwhile, technology is enabling people, in a click, to find convenient avenues to volunteer. And the Obamas have succeeded in making service really cool.

Yet despite all of the momentum and the palpable excitement in San Francisco, nonprofit leaders need to be careful or we'll wind up squandering the remarkable opportunity before us.

Last year, the *Stanford Social Innovation Review* published a piece that noted how poorly most nonprofits manage their volunteers. As a result, more than a third of the 60 million-plus Americans who donate their time and talents one year don't do so the next—not only at the organization where they'd signed up, but at <u>any</u> nonprofit at all.

There are a host of reasons for this pullback, according to the analysis, including the failure by nonprofits to adequately recognize the contributions of their volunteers and a lack of training among volunteers and their managers. But Robert Grimm, director of research and policy development at the Corporation for National and Community Service and one of the authors of the article, believes that there's a more fundamental problem to contend with: It isn't so much that volunteers have nightmarish experiences at nonprofits, he says; it's that they have "bland" ones.

The instinct among many organizations is to go easy on your volunteers because, well, they're not getting paid anything.

Drucker believed that this was completely the wrong approach. "Volunteers have to get more satisfaction from their work than paid employees, precisely because they don't get a paycheck," he wrote. "They need, above all, challenges."

Experiment with this. Push your people. See what happens. It won't even cost you anything.

Re-imagining your volunteer base takes us right to our next lesson, Lesson Seven:

Now is the time for leaders to think creatively about all of your non-monetary resources.

Think, for instance, about partnerships with other nonprofits, even those in the very same space your organization occupies.

In their terrific study from a couple of years ago, *Forces for Good*, Leslie Crutchfield and Heather McLeod Grant stress the importance of partnering. They analyzed 12 of what they call "high-impact" nonprofits—Teach for America, City Year; Habitat for Humanity and nine others—and they found that among the things they share in common is their willingness and ability to nurture nonprofit networks. They write:

"Although most groups pay lip service to collaboration, many of them really see other nonprofits as competition for scarce resources. But high-impact organizations help the competition succeed, building networks of nonprofit allies and devoting remarkable time and energy to advancing their larger field. They freely share wealth, expertise, talent, and power with their peers, not because they are saints, but because it's in their self-interest to do so."

One of the most exciting ways that nonprofits are partnering—and, by doing so, dramatically increasing their chances of solving large-scale social problems—is through shared measurement systems.

A study last summer by the William and Flora Hewlett Foundation found 20 such systems up and running now, enabling hundreds of nonprofits to track their performance across common indicators and shared evaluation platforms.

Look for partnerships, as well, with the for-profit sector. As many of you are aware, a growing number of businesses these days are seeking to provide skill-based volunteering opportunities for their employees—particularly for those Millennials who are determined to make community service a part of their regular working day. (It's also a way, needless to say, for these companies to support local nonprofits without having to write a check.)

Firms such as PricewaterhouseCoopers and organizations like the Taproot Foundation are helping to spearhead this surge in pro bono volunteering.

But this also gives you, as nonprofit leaders, a chance to do more than ask for help. Be sure to talk about what you can do for the corporation—specifically, about the recruitment, retention and training opportunities you're offering to the company by providing its employees with a meaningful volunteer experience.

Deloitte, the professional services giant and another major force in the pro bono arena, has compiled some very compelling data that can help you make this case. I'd be happy to share that with you—in the spirit of partnership, of course—if anyone is interested.

In his book *Management Challenges for the 21st Century*, Peter Drucker predicted that in the corporate world, partnerships would become the way businesses would grow (more than mergers and acquisitions). And some companies have really elevated this idea. Cisco, for instance, even has a Vice President for Strategic Alliances.

Why should nonprofits be any different? Do you have such a position in your organization?

"A mature industry shifts from one way of satisfying wants to another," Drucker wrote. "A mature industry therefore needs to be managed for alliances, partnerships and joint ventures to adapt rapidly to such shifts."

I don't imagine that my next lesson—Lesson Eight—is lost on anyone in this room.

It is this: As much as partnering is great, you still need dough.

But here's the rub: As nonprofit leaders, you have a special obligation to make sure that this money goes not only to enhance specific programs but also builds organizational capacity—human resources, systems and infrastructure.

Some funders and evaluators, as we all know, give high marks for organizations that have "low overhead."

And in some instances, low overhead might be a virtue. But high overhead—if it means having a talented staff that delivers quality programs of high impact within budget—is, I would argue, far better.

In a landmark 2008 study, the nonprofit consultancy Bridgespan described the vicious cycle that has emerged across the sector:

--The majority of nonprofits under-report overhead on tax forms and in fundraising materials, Bridgespan found.

--Donors tend to reward organizations with the "leanest" profiles. They also skew their funding towards programmatic activities.

--Nonprofit leaders then feel pressure to conform to funders' expectations by spending as little as possible on overhead, and by reporting lower-than-actual overhead rates.

I believe that each and every one of us in this room has a responsibility to speak out about this and work to fight this cycle.

Jim Collins, the author of *Good to Great* and another Drucker disciple, tells us that there is nothing more important to our organizations than talent—in Collins' language: "who's on the bus."

Drucker, for one, would have wholeheartedly agreed. "No organization can do better than the people it has," Drucker wrote. "The yield from the human resource really determines the organization's performance."

And yet let's not pretend that this human capital materializes magically: It takes money to get the right people on the bus. A Bridgespan study released last year found that there were 73,000 unfilled senior executive positions at U.S. nonprofits in 2008—a 43% jump from its landmark 2006 study. And the No. 1 obstacle to finding qualified candidates is, according to Bridgespan's survey of nonprofits, their inability to offer enough compensation to attract the right person.

A ninth leadership lesson for times of turbulence.

We've talked a lot today about the need to change as our environment changes—the need to abandon, the need to experiment, the need to reach out and partner in new ways.

But leaders must also be mindful that some things never change: the organization's core values.

"Any organization...needs a commitment to values and their constant reaffirmation, as a human body needs vitamins and minerals," Drucker wrote. "There has to be something 'this organization stands for,' or else it degenerates into disorganization, confusion, and paralysis."

Let me give you a great example from the private sector:

ING Direct—the online banking giant—provided only plain-vanilla mortgages during the run-up to the financial crisis, not the exotic instruments that so many others were only too eager to sell.

The result: of the 100,000 mortgages ING Direct generated—worth $26 billion—a mere 15 had resulted in foreclosure during the depths of the meltdown.

ING Direct has always prided itself on doing things its own way, offering no-frills service and high interest rates.

“We as individual leaders operate inside a cultural context,” says ING Direct’s CEO, Arkadi Kuhlmann. “The question is, do you want to try to influence the culture that you’re in, or do you want the culture that you’re in to overwhelm you?”

Kuhlmann concedes that in his business, it’s easy to get tempted by “money, greed, acceptance, being in the middle of the action.” “But at the core,” he explains, “there is one fundamental difference: I know why I’m here. I want to make a difference.”

Our tenth and final lesson this afternoon is one that, I must confess, I myself am not the best adherent of. But I’m working on it. And I hope you will too.

Amid these crazy, turbulent, hurly-burly times, please remember to hit pause every now and again—not for your organization, but for you, personally.

Peter Drucker taught that management is a liberal art, and he drew on all the disciplines of the humanities and social sciences to inform his thinking about organizations. Among the many areas in which he was truly expert, in fact, was Japanese painting.

His favorite group of paintings is known as the Sanso Collection—about 200 images, roughly half of which are associated with Zen Buddhism.

But what Drucker liked to zero in on was more than the images, which include 15th-century landscapes and 19th-century sketches of monks and deities. He liked to observe, if not revel in, the art’s omnipresent nothingness.

“The Japanese paintings are dominated by empty space," Drucker wrote in *Song of the Brush,* a book about the collection. "It is not only that so much of the canvas is empty. The empty space organizes the painting.”

The same, of course, holds true for ourselves and our enterprises: It’s the creation of empty space—moments when we shut off all outside distractions and give ourselves the opportunity to think—that can determine whether we're organized effectively and whether we'll move forward successfully.

Nevertheless, we clutter our canvases instead. Punch the term "information overload" into Google and you get more than 1.4 million hits—itself a sign of the problem.

In his great little book *The Ten Commandments for Business Failure*, former Coca-Cola

President Donald Keough cites one analysis that found the typical corporate employee is besieged by 133 e-mails every day.

Some systematically fight off this onslaught. For instance, when Patty Stonesifer ran the Bill & Melinda Gates Foundation, she made a point of keeping her Fridays unscheduled so she could study, learn and refresh herself.

Keeping the calendar blank isn't easy, however, even for the most well-intentioned executive. Often, Drucker warned, "within a few days or weeks, the entire discretionary time will…be gone again, nibbled away by new crises, new immediacies, new trivia." That's why the most able time managers, he explained, "keep a continuing log and analyze it periodically," cutting additional activities as necessary.

Still, it's not just "inbox shock" and meeting fatigue that one must guard against. Put any project or deal into motion, and "it's difficult to stop," Keough asserts. "There is a tendency toward group wishing in decision making wherein everyone is so eager to make something happen that straight thinking becomes almost impossible."

Keough's advice for any leader: Cease what you're engaged in every now and again and chew on it for a while. "Time to think is not a luxury," he says. "It is a necessity…Unless somebody stops to think…it's easy to make the same mistakes over and over."

For his part, Peter Drucker shared these sentiments. "Follow effective action with quiet reflection," he said. "From the quiet reflection will come even more effective action."

With that, I'm going to pause myself—and give everyone a chance to reflect.

It's been a pleasure and an honor being with you today. I truly admire your leadership—and I wish you all the best in turning these terribly turbulent times into an era of boundless opportunity.