Managing Without Profit

Managing Without Profit – now in its fifteenth year of publication – has sold over 18,000 copies and been translated into three languages. Over the years this title has become the essential guide to leading, managing and governing nonprofit organisations.

Distilling a vast amount of information into an easy-to-use guide, Managing Without Profit provides a practical overview for busy managers and board members who need to learn a lot in a short space of time.

The new edition has been completely revised and updated, with new chapters on managing strategic partnerships and managing knowledge and new sections on winning work from the public sector and tracking corporate performance. It also includes many new case examples drawn directly from the author’s recent work.

Mike Hudson is Director of Compass Partnership, a group of consultants that has been working exclusively with nonprofit organisations for 25 years.

‘If you are looking for just one book to guide you through the thrills, spills, joys and despair of running a voluntary organisation – this is IT!’
Sir Nicholas Young, Chief Executive, British Red Cross

‘The new sections and fresh material bring this classic bang up to date.’
Professor Ian Bruce, Director, Centre for Charity Effectiveness, Cass Business School

‘This book is invaluable to all of us who are chairs and board members. It helps us to understand how we can work together with our managers to provide strong and effective leadership.’
Sarah Phillips, Chair, Victim Support

‘The classic text on voluntary sector management.’
David Harker, Chief Executive, Citizens Advice

‘A veritable bible for managers of every nonprofit organisation.’
Lady Diana Warwick, Chief Executive, Universities UK
‘Managing Without Profit contains much wise counsel, born of extensive experience in the third sector and acute insight into how managers manage and leaders lead.’

Dawn Austwick, Chief Executive, Esmee Fairbairn Foundation

‘It’s never too late to learn something new – this book can teach us all a lot about the art of managing and leading values-based, mission-led organisations.’

Jackie Ballard, Chief Executive, Royal National Institute for Deaf People

‘One of the critical elements of an effective charity is excellent management; Managing Without Profit provides a comprehensive map of what constitutes excellent management. Its focus on clear strategic thinking, planning and measuring social impact is absolutely what’s needed for high performing charities today.’

Martin Brookes, Chief Executive, New Philanthropy Capital

‘A growing third sector, with more power and influence, needs exceptional management and it needs management learning: that’s the value of the Hudson book.’

Stephen Bubb, Chief Executive, ACEVO

‘A book about social enterprise without a single wasted word – just clear, concise and comprehensive guidance on how to manage without profit.’

Greg Clark MP, Shadow Secretary of State for Energy and Climage Change and former Shadow Minister for Charities, Social Enterprise and Volunteering

‘Managing Without Profit has been for many years the pre-eminent book for everyone concerned with non-profit organisation governance. It does both theory and practical application with equal brilliance, so this new, updated version is particularly welcome.’

Michael Day, Chief Executive, Historic Royal Palaces

‘Managing Without Profit has become the most significant contribution to the management and leadership of organisations within civil society. In this new edition Mike Hudson has once again demonstrated his grasp of the issues. A must-have book for all those concerned with non profits.’

Stuart Etherington, Chief Executive, NCVO

‘Essential reading for anyone who manages or governs nonprofit organisations.’

Phil Hope MP, Minister of State for Care Services and former Minister for the Third Sector

‘An invaluable resource for anyone wanting to get to grips with management in today’s growing third sector.’

John Low, Chief Executive, Charities Aid Foundation

‘Managing Without Profit is a vital book for both senior management and board members of leading charities. At Christian Aid we have used and shared this book widely. Mike provides an excellent resource for managing in a competitive and challenging environment.’

Daleep Mukarji, Chief Executive, Christian Aid

‘As the third sector develops in a changing world, Managing Without Profit is a valuable guide for the busy manager who needs up-to-date guidance quickly and easily.’

David Nussbaum, Chief Executive, WWF-UK

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About the author

Mike Hudson is the Director of Compass Partnership, a group of management consultants which works exclusively with nonprofit organisations. He studied Engineering Science at Durham University and then pursued his interest in protecting the environment by working for Friends of the Earth, latterly as Administrative Director. After graduating with an MBA from London Business School, he worked for an international firm of consultants helping multinational firms in the UK and the USA resolve strategic management problems.

He has provided consultancy services to the nonprofit sector for 25 years in the course of which he has worked with a wide cross-section of organisations, infrastructure bodies and their funders (some of which are listed in Appendix 1). He has also worked on policy development for the sector with the Home Office and more recently with the Office of the Third Sector. His overseas assignments have included work for organisations in Bangladesh, the Czech Republic, Nepal, Poland, South Africa, Switzerland, Uganda and Zimbabwe.

Mike has been a Visiting Fellow at the London School of Economics and is currently a Visiting Fellow at Cass Business School, City University, in London.

He is a member of the Board of the Leadership Foundation for Higher Education and a member of the Editorial Board of Governance magazine. He is also the author of Managing at the Leading Edge (DSC, 2003), a book on the latest developments in leading, managing and governing nonprofit organisations in the USA.

He is married to Diana, has four children and lives near Marlow. He is a Fellow of the Royal Society of Arts.
Preface

Much has changed since the second edition of this book was published in 1999. The seeds of the future of the third sector were laid in the mid-1990s and were just beginning to come to fruition when that edition was published. Labour had recently won a landslide general election victory and was committed to supporting an expanded role for the sector. Many senior people from the sector took positions in the government and many ministers had direct experience of working in the sector.

This coincided with growing interest in the political philosophy of the ‘Third Way’. This philosophy reflected a move away from the traditional ‘left’ and ‘right’ analysis and argued that a mixture of market economics and state intervention was needed to achieve greater social justice. As a result, commitment to delivering public services in partnership with third-sector organisations grew and the third sector was increasingly seen as a crucial partner in developing and delivering public policy.

There has also been dramatic growth in the profile achieved by advocacy and campaigning; Make Poverty History and Stop Climate Change being two of many examples. Today most public policy is developed in close consultation with representative nonprofit organisations and the media makes extensive use of commentary from the sector.

Since the last edition was published there have also been significant changes in the regulatory context. The Charities Act 2006 has been passed, and the principle of public benefit has been established. Two new organisation forms have become available (Charitable Incorporate Organisations and Community Interest Companies), and the Compact between the government and the voluntary sector is, slowly, becoming accepted as the basis for good relationships.

There have also been major changes in the expectations placed on third-sector organisations. Accountability requirements have increased with the adoption of more rigorous accounting standards (known as SORP 2005), and organisations are expected to be more transparent in reporting what they do, how they spend their money and what they achieve.

The art of managing strategic performance has also moved ahead significantly as organisations have striven to get a much tighter grip on measuring and understanding the difference they make to people’s lives both at the individual and organisation-wide levels.
The governance of many organisations has been reviewed, streamlined, restructured and modernised both to add greater value and to meet new demands for greater accountability. The Code of Governance has been widely accepted as the standard for good governance.

The shape and nature of the sector has changed. There has been significant growth in the establishment of strategic partnerships across organisation boundaries and in mergers between organisations of all sizes. Increased contracting-out of services has led to greater competition between organisations and the need for more businesslike skills.

The sector has continued to grow. New developments have included an unprecedented growth in social enterprise. There are now over 55,000 of these businesses with a social purpose, including well-known names such as The Eden Project, Cafedirect, and The Big Issue. Cooperatives and mutual societies have also increasingly come to be seen as part of a more widely defined sector, which includes all ‘civil society’ organisations.

Today, the third sector is poised for further expansion. There is growing recognition that organisations which are independent from government are best placed to address some of the most intractable social problems society faces. They have the combination of entrepreneurial skills and social consciences to provide the services that best meet people’s needs. The prospects for the sector look even better than when I wrote the second edition.

All this means that major revisions were needed to this book:

- The governance chapters have been re-organised and substantially re-written to reflect the new expectations on governance and to include new and updated material on assemblies and advisory boards, group structures, choosing chairs and conducting reviews of the performance of boards and of individual board members.
- The strategy chapters have had sections added on ‘scorecards’ to track corporate performance, managing knowledge and capturing and promoting information about the real differences organisations make to people’s lives.
- There are new sections on competitive strategy and how to build an organisation’s capacity to win work from public-sector purchasers.
- There is an entirely new chapter on how to gather information and tell stakeholders about the difference organisations make to people’s lives.
- The management structures chapter has a new section on the many types of deputy chief executive roles that have become increasingly popular in recent years and another on integrating meetings and management structures.
- There is a new chapter on managing strategic partnerships, setting out the different types of partnerships that can be established and how they can be created and managed. There is also a new section on mergers.
The leadership chapter includes a new section on trust and integrity.

All the other chapters have been updated, tightened up and refreshed with new case examples.

The further reading appendix has been moved to the knowledge section of the Compass Partnership website, so it can be kept much more up to date (www.compasspartnership.co.uk).

The fundamental objective remains, nevertheless, unchanged – to give busy managers easily accessible advice that can both be read from cover to cover or dipped into when you need a fresh perspective or new ideas.

To guide readers around the book, left hand page ‘headers’ are chapter titles and right hand page ‘headers’ are section titles.

I hope you find that this edition meets your needs, and I urge you to continue writing to me (mhudson@compassnet.co.uk) with your comments and suggestions for future editions.

Mike Hudson
June 2008
Foreword

The historical perspective that opens this book is fascinating in reminding us that management in philanthropic organisations has a long history, and that many of the dilemmas which face us today also confounded our predecessors.

However, those who, with me, have spent a long career in what we now call the ‘Third Sector’ can be in no doubt that the challenges are more complex than any which faced those predecessors.

Few people have as much experience of developing strategies for overcoming those problems as Mike Hudson and that experience is put to extremely good use in this comprehensive guide to managing in the Third Sector.

The significant changes which have happened in recent years make this new edition very timely. The boundaries between the private, public and charitable sectors are certainly not always clear cut but there remains a strong case that managing in the Third Sector is different from the other two because these organisations ‘have the extraordinary freedom to determine what is needed, what they do in response, how they do it and whether it has any real impact. This challenge lies at the heart of the strategic management of these organisations’ (p. 16). It is a challenge indeed and this book will be of enormous importance in helping Boards, chief executives and senior managers meet it. How I wish it had been to hand when I was managing a merger, a newly created organisation, or trying to drive through changes!

The clear chapter headings, summaries and suggestions for further reading create an accessible format. Many theories of management are well set out and summarised but most useful of all are the case studies, drawn from a huge variety of organisations, usually identified but sometimes tactfully anonymous.

I am confident that Managing Without Profit will remain the much quoted text book for all those whose vision is to achieve excellence in the Third Sector.

Baroness Pitkeathley

Jill Pitkeathley was Chief Executive of Carers UK before being made a life peer. She is Chair of the Cabinet Office Third Sector Advisory Body and of the Children and Family Court Advisory and Support Service (CAFCASS).

Jill was a founding member of ACEVO, the Association of Chief Executives of Voluntary Organisations.
Acknowledgements

This third edition of Managing Without Profit is the result of a continuing collaboration with a large number of people who have provided me with immense support and guidance.

My thinking has been informed by British and American academics and authors who write about business management and increasingly about the management of third-sector organisations. They are too many to mention by name, but they deserve acknowledgement because their work continues to make a significant contribution to mine.

Particular thanks are due to all the clients of Compass Partnership who have invited my colleagues and me into their organisations and provided the crucial practical experience without which it would not have been possible to write a book that attempts to combine theory and practice.

Many readers of the first edition found the case studies to be among the most instructive parts of the book. Special thanks therefore go to everyone who has updated case studies or allowed me to use their organisations as new case studies for this edition.

I would like to repeat my thanks to all the trustees, chief executives and managers who assisted with the first two editions. You laid the foundations upon which this third edition has been built and I continue to be deeply grateful for your contributions. I would also like to express my gratitude to past and present colleagues at Compass Partnership. Your ideas, opinions and wisdom have all contributed to the content of this book.

Thanks are due to people who contributed to the text and case studies: Joe Saxton of nfpSynergy for research into organograms, Rebecca Packwood for the NSPCC case study and Robert Davies of Dundas & Wilson LLP for legal advice.

My colleague Melinda Letts deserves very special thanks for working meticulously through both the previous edition and this one and making a large number of constructive and insightful comments.

I am also most grateful to Lynne Berry, Chief Executive of WRVS, and Allison Aldred, then South Asia Regional Director of Oxfam and now an Associate with Compass Partnership. Both worked rigorously and systematically through the final draft and gave many insightful comments that have been incorporated into this edition.
Rosie Clay edited *Managing at the Leading Edge* and agreed to edit this edition of *Managing Without Profit*. She deserves thanks for working scrupulously through the manuscript, correcting errors and making many improvements.

The whole team at the Directory of Social Change, including John Martin, Lucy Muir-Smith, Claire Milburn and Kate Bass who deserve grateful thanks for going the extra mile with this book.

Debbie Emerson once again deserves particular thanks. She has provided the highest possible quality of administrative support for the creation of all three editions of this book.

Finally, my most grateful thanks are due to my wife Diana, who once again backed me throughout this venture, and to our children Jennifer, Timothy, Jessica and Katherine for providing loving support from the start to the finish of this project.
Introduction

Not-for-profit organisations exist throughout the world.

They prosper in industrialised economies and they are also a central part of the social fabric in developing economies. They thrive in free democratic societies and they play an important role in less democratic regimes. They flourish in urban areas and are equally important in rural areas. Not-for-profit organisations exist everywhere because of a human quality that brings people together to provide services for themselves and others and to campaign against abuse of fellow human beings, animals and the environment. People want health, welfare, educational, humanitarian, environmental and cultural services to improve the world we live in. They expect the organisations that provide them to be ‘not-for-profit’ because all depend, to some extent, on voluntary donations of money and time.

This book is about leading, managing and governing not-for-profit organisations. It describes how to improve the performance of organisations that are part of what is often called the ‘third sector’.

DEFINING THE THIRD SECTOR

This sector consists of organisations whose primary objectives are social rather than economic. The core of the sector includes charities, religious organisations, arts organisations, community organisations, campaigning organisations, trade unions and other not-for-profit organisations.

The term ‘third sector’ distinguishes these organisations from the ‘private sector’ and the ‘public sector’. The ethos that all these organisations share is that they are driven by a cause. They are established and managed by people who believe that changes are needed and who want to do something about it themselves. These organisations share two common characteristics. Unlike private-sector organisations, they do not distribute profits to their owners; and, unlike public-sector organisations, they are not subject to direct political control. These organisations have the independence to determine their own futures.

Around the periphery of these third-sector organisations there is a growing number of bodies that are semi-independent from the public sector. Examples include social housing organisations, education colleges, non-departmental public bodies, foundation schools and hospital trusts. There is also a group of organisations such as social enterprises, cooperatives, friendly and provident societies and independent schools which occupy a position that overlaps with the
private sector. Together the organisations at the core and periphery of the third sector are known as ‘civil society’ organisations and are analysed more fully in section 1.2. Whilst this book is primarily about the third sector, many of the theories and practices also apply to wider civil society organisations.

**Scope of the third sector**

Until relatively recently it was thought that these diverse organisations had little in common. All were seen as separate strands of social life, each with its unique history and role in society. Increasingly, these organisations are seen as part of one sector because they have a common heritage and the same motivation and desire to improve the world in which we live.

They are coalescing because they recognise that they have much more in common with each other than with organisations in the public or private sectors. The process began in the USA some thirty years ago when organisations began to be seen as part of the ‘nonprofit’ sector. In America the sector is much larger because many hospitals, colleges and universities have always been independent, nonprofit organisations. Their desire to keep government small led to much more widespread contracting-out of the provision of public services.

In the UK many social welfare and healthcare organisations were independent until the twentieth century, when they increasingly became part of the welfare state. Significant numbers of organisations and services are now moving back into the third sector as government policy encourages ‘choice’ for users of these services and ‘contestability’ as a way of securing efficiencies and value for money.

The third sector is enormously influential. Many of the greatest social changes and innovations have been brought to fruition through the creation of a third-sector organisation. Hospital services, education, services for disadvantaged groups and people with disabilities, research into disease, spiritual development, beneficent funds for industry employees, social services, international development and, more recently, environmental protection and human rights campaigns all emanated from third-sector organisations.

This sector is currently growing in confidence. At a time when many public-sector organisations are perceived to be inadequate at dealing efficiently with the social problems of today, the third sector sees itself as having the potential to play a greatly expanded role.

**The marriage of mission and management**

These organisations are driven by a desire to improve the world in which we live. Most of the people who lead, manage, govern, work and volunteer for them believe in the creation of a fairer, more caring, better-educated and more healthy world.
The mission often pervades all aspects of these organisations. Board members volunteer their time because they support the mission; staff often work long hours for no extra financial reward; and funders give money to demonstrate their solidarity with the mission.

Management is equally important to the success of these organisations. Until the middle of the 1970s management was not a word many people used when talking about third-sector organisations. Management was seen to be part of the culture of business and was not felt to be appropriate in the nonprofit world.

The dramatic growth and the increasingly professional and skilled approach of these organisations have completely changed that view. Nowadays management is being colonised for third-sector organisations and its language and concepts trip off people’s tongues as easily as eloquent speeches about the cause.

But leadership, management and governance cannot be imported unchanged and imposed on third-sector organisations. They require subtle and critical adjustments to reflect the different ethos that underlies these organisations. All too often people from both the private and public sectors believe or make the implicit assumption that their management theories should be applied to third-sector organisations to make them more effective. ‘If only this charity were more businesslike’ is a common sentiment. However, while general management theories bring great benefits, they are of limited value unless they are tailored to address the critical cultural and organisational features of third-sector organisations.

This book is an overview of the leadership, management and governance of third-sector organisations. It sets out the essential elements of each that are needed to make organisations more successful. It is based on a series of propositions, which in summary are that:

- Boards need to take responsibility for ‘governing’ organisations. They need to delegate ‘management’ to chief executives and their paid staff.
- The process of strategic management is a powerful way of focusing the diverse constituencies of these organisations on to their purpose.
- Managing performance is a critical ingredient of effective third-sector organisations.
- Management structures need to be flexible, responding with frequent adjustments of roles to reflect changing circumstances.
- Strategic partnerships with third-sector, private and public-sector organisations increase the reach and impact of these organisations.
- Improvements in management skills at all levels of organisations are critical to enable organisations to grow and develop.
Chief executives have both to manage their organisations and provide them with leadership – creating a sense of mission, inspiring people and focusing the organisation on the achievement of ambitious objectives.

Managers have to manage their boss, work as part of a team, and learn the subtle skills of delegating work and empowering people.

Organisations need to use every available opportunity to maximise learning.

In schematic form the chapters have been grouped together as follows:

| Governance                     | Establishing appropriate governance structures (Chapter 2) |
|                               | Clarifying the roles of governance (Chapter 3)             |
|                               | Making governance processes work effectively (Chapter 4)    |
|                               |                                                             |
| Strategy                      | Strengthening strategic management (Chapter 5)              |
|                               | Establishing overall objectives and performance measures (Chapter 6) |
|                               | Devising strategies to maximise impact (Chapter 7)          |
|                               | Creating competitive service strategies (Chapter 8)         |
|                               | Managing strategic performance (Chapter 9)                  |
|                               | Managing knowledge and reporting on performance (Chapter 10) |
|                               |                                                             |
| Management                    | Creating flexible management structures (Chapter 11)        |
|                               | Managing strategic partnerships (Chapter 12)                 |
|                               | Managing change (Chapter 13)                                |
|                               | Leading an organisation (Chapter 14)                        |
|                               | Directing divisions and managing departments (Chapter 15)   |
|                               |                                                             |
| People                        | Managing people and teams (Chapter 16)                      |
|                               | Creating a learning organisation (Chapter 17)               |
|                               |                                                             |
| Organisations                 | Managing different types of organisation (Chapter 18)       |
|                               |                                                             |
| The future                    | Glimpsing into the future (Chapter 19)                      |
The book is prescriptive. It demonstrates ways to improve leadership, management and governance. It is, however, based on the premise that third-sector organisations are full of contradictions and ambiguities. There are no right or wrong prescriptions for many situations. These organisations are complex and messy. They have many stakeholders with different values and they attract an extraordinarily diverse range of people as volunteers, managers and board members.

Consequently, advice that is appropriate in one set of circumstances may be totally inappropriate in another. Understanding the context of any situation requiring attention is absolutely crucial to making an appropriate diagnosis of leadership, management and governance issues and deciding what should be done. It is so easy to take a successful experience from one situation and apply it to another, failing to recognise that small but significant changes in the context can render that previous experience completely irrelevant.

Having a deep and rounded view of a situation is vital to understanding how improvements can be made. Sometimes people are too quick to jump on the latest management bandwagon, so planned improvements achieve less than their instigators intended. Research into organisational change in nonprofit organisations in the USA shows that most change efforts fail to achieve the desired results (Investing in Capacity Building, Barbara Blumenthal, The Foundation Center, 2003).

So this book offers guidance based on the experience that my colleagues at Compass Partnership and I have gained over 25 years of consulting with civil society organisations. This has included over 1,000 assignments typically lasting from three to six months with organisations of almost every type and size, a selection of which is included in Appendix 1.

It also builds on extensive research I have undertaken in the UK, the USA and Australia. The aim of the book, therefore, is to explain what currently appear to be ‘best’ management practices by marrying research evidence with ‘hands-on’ experience of what works well in particular circumstances and what is reported not to work so well.

The book assumes that these organisations do not survive on good leadership, management and governance alone. They all need flair, creativity and imagination to succeed. They do not exist to make profits, but they do need to be driven by prophets – people who have a vision of how to improve the world in which we all live. The book assumes that the values, beliefs and imagination of the people who work for these organisations are as important as the quality of leadership, management and governance.
The book is aimed primarily at medium-sized and larger organisations, including those with more than a handful of staff and those with national or international scope. It is relevant to single-site and multi-site organisations, those with local branches and those without, and those undertaking one activity as well as those offering many services. Many of the ideas are also relevant to the thousands of smaller organisations in this sector.

The book was written for people who want a thorough briefing on the leadership, management and governance of third-sector organisations. It should be of particular interest to:

- board members, committee members, chief executives, managers and staff;
- government departments, local authorities, health authorities and companies working with third-sector organisations;
- foundations, governments and companies providing funding;
- academics and students studying management and social policy.

The book can be read from cover to cover, but it has been organised to allow easy access and reference to specific issues that readers will face. Readers of previous editions have said that they reach for it when they want to put a problem into a broader context. The book will therefore have achieved its objective if a dog-eared copy can found in your briefcase or shoulder bag.

I could have written many books from the mountain of material I have collected through my consultancy work and the literature I have gathered from the UK, the USA and Australia in my research for this book. However, my aim was to distil it all down into a practical overview for busy managers who need to learn a lot in a short space of time.

Finally, this is the third edition. Previous editions encouraged readers to send me comments, feedback and examples of good practice. Many people wrote to me, and some of their experiences and cases have been included in this edition. Continuing that spirit of cooperation and the desire to do better that pervades the sector, further comments and cases would be most welcome. They should be sent to me at: Compass Partnership, Greenbanks, New Road, Bourne End, Bucks, SL8 5BZ (Tel.: +44 (0) 1628 529750; e-mail: mhudson@compassnet.co.uk).