THE DEVELOPMENT
OF A
BUSINESS MODEL FOR A NON-PROFIT ORGANISATION
IN
PORT ELIZABETH: A CASE STUDY

by

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DECLARATION

“I, Lydia Alice Annabel Inman, hereby declare that:

The work in this paper is my own original work

All sources utilised or referred to have been documented and recognised; and

This research paper has not been previously submitted in full or partial fulfilment of the requirements for an equivalent or higher qualification at any other recognised educational institution.”

LYDIA ALICE ANNABEL INMAN

Date
Non-profit organisations are a niche sector of the service industry, which is increasing worldwide. This entails more competition for funding and a need for such organisations to adopt a management approach that is more akin to business, in order that the organisation will operate as effectively and efficiently as possible.

Unlike business whose goal is to be profitable, the aim of non-profit organisations is to render a service to the community. Therefore, incorporating business principles into the management of the organisation is often in conflict with its aims. Furthermore, while the organisation’s donors want sound management, they want funding to be used for the recipients of the service and not for administration and salaries that help to ensure good governance.

This study involved one such non-profit organisation that has been compelled to conform to management criteria as prescribed by the South African, Department of Social Development, in order to continue receiving the annual subsidies for salaries and running costs. This has meant various adjustments to the organisation’s operations including increased administration, the completion of an annual business plan and a change in emphasis to the service delivery.

Through increased communication, the interviewees achieved greater consensus as to what business features were important for the effective management of the organisation. In addition, the development of a business model for a non-profit organisation was viewed as relevant, as it could assist in showing the stakeholders how the organisation operates. This would be particularly appropriate to its donors from business, who themselves use and understand such models and would see this development as a further move towards managing the organisation according to business principles.
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1 INTRODUCTION TO NON-PROFIT ORGANISATIONS

The usual goal of non-profit organisations (NPOs) is to provide a service that in some way benefits the community at large. Butler and Wilson (1990: 7) define this type of organisation as an organisation where “there must be some indication of ‘public good’ in the services offered.” This is in contrast to the public or private sector, whose “pre-eminent goal is to maximize long-term profitability” (Hill, 2003: 405).

The South African Department of Social Development (2003), define a non-profit organisation as:

- a trust, company, or other association of persons: (a) established for a public purpose, and (b) the income and property of which are not distributable to its members or office bearers except as reasonable compensation for services rendered.

Furthermore, to be eligible for registration, organisations should be non-governmental and operating as non-profit organisations in one of the following areas:

- Non-governmental Organisations (NGO)
- Community Based Organisations (CBO)
- Faith Based Organisations (FBO)
- Organisations that have been registered as Section 21: Companies under the Company Act, 61 of 1973
- Trusts that have registered with Master of the Supreme Court under the Trust Property Control Act, 57 of 1988
- Any other Voluntary Association that is not-for-profit (Department of Social Development, 2003).
Alternative categories are presented by Swilling (2002: 15) from a study in 1998, and are shown in Table 1.1. The total number of non-profit organisations was 98,920, which was comparable with the previously estimated figure of 93,300 made by the Executive Director of the South African Institute for Fundraising, in 1994 (Swilling, 2002: 8).

**Table 1.1 Number of NPOs and percentage of total by sector (weighted)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of NPOs</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Culture and recreation</td>
<td>20 587</td>
<td>20.8</td>
</tr>
<tr>
<td>Education and research</td>
<td>5 730</td>
<td>5.8</td>
</tr>
<tr>
<td>Health</td>
<td>6 517</td>
<td>6.6</td>
</tr>
<tr>
<td>Social services</td>
<td>22 755</td>
<td>23.0</td>
</tr>
<tr>
<td>Environment</td>
<td>3 396</td>
<td>3.4</td>
</tr>
<tr>
<td>Development and housing</td>
<td>20 382</td>
<td>20.6</td>
</tr>
<tr>
<td>Advocacy and politics</td>
<td>6 800</td>
<td>6.9</td>
</tr>
<tr>
<td>Philanthropic intermediaries and voluntarism promotion</td>
<td>310</td>
<td>0.3</td>
</tr>
<tr>
<td>International</td>
<td>212</td>
<td>0.2</td>
</tr>
<tr>
<td>Religion</td>
<td>11 706</td>
<td>11.8</td>
</tr>
<tr>
<td>Business and professional associations, unions</td>
<td>525</td>
<td>0.5</td>
</tr>
<tr>
<td>Total</td>
<td>98 920</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Swilling, 2004:15

Non-profit organisations can also be registered as Section 21 companies and are those companies “with the main objective of promoting religion, art, sciences, education, charity, recreation or any other cultural or social activity or communal group interests” (Department of Social Development, 2003).

However in business, finance is the bottom line, with emphasis on results and performance that do not have the same significance in non-profit
organisations (Drucker, 1990: 81). As a result of this, any inadequacies in the management of non-profit organisations do not raise the same concerns. Fundraising for example may be inadequate, inefficient or irregular, thereby limiting the ability of the non-profit organisation to provide for its targeted community sector.

Furthermore, non-profit organisations operate under various names such as charities, voluntary organisations, not-for-profit and non-governmental organisations, with their own characteristics that often differ from those of the private sector.

Research by Salamon and Anheier (1994) and Anheier (1995) and their colleagues in the John Hopkins Comparative Nonprofit Sector Project, as quoted by Osborne (1996: 11) indicate, “Although using the term non-profit, their focus was upon the organizational characteristics of such organizations.” These characteristics described the non-profit organisations as following, that they:

- were formally constituted organizations;
- were private organizations and separate from government (though they could receive governmental support for their work);
- were non-profit distributing, to their own owners or directors;
- were self-governing and ‘equipped to control their own activities’, and
- had some meaningful voluntary content, such as voluntary income, volunteer labour or voluntary management.

(Osborne, 1996: 11).

These characteristics can be applied to non-profit organisations whatever their focus, be it the environment, animal welfare, problems associated with lifestyle or addressing the needs of the elderly (which is the type of non-profit organisation that has been selected for this research).

In summary, Guide to the Nonprofit Organisations Act: (2003) describe non-profit organisations as:
Organisations set up for the personal profit or gain of their managers, that is for commercial purpose .... are [often] called for-profit organisations .... [while those] organisations that are not set up primarily for the personal gain or profit of their members but rather to advance the public interest of their members .... are [often] called non-governmental organisations (NGOs) or non-profit organisations (NPOs).

1.1 PROVIDING A SERVICE

However, providing a service requires sound management of staff and resources, if the particular need is to be adequately addressed. This is often a problem in non-profit organisations as the majority of staff is usually social workers (due to the nature of welfare organisations operating in the area of social need) and because of this, they are often inexperienced in the ways of business. Schofield (1996: 118) suggests that such organisations “may require a review of its skills profile.” This can be addressed by the “recruitment of permanent or temporary staff and volunteers, or ... by training and development.”

In addition, the other ‘staff’ component is mainly comprised of volunteers, who are attracted to a particular organisation for reasons of altruism, a need for an interest or perhaps to gain work experience. According to Schofield (1996: 112) quoting Smith and Lipsky (1993) “volunteers have personal, often empathetic, knowledge of their clients.” This is a valuable asset to a non-profit organisation but “the essence of volunteering can, though, be reflected in a business plan .... [of which] a volunteer and a group of volunteers can be the authors ... with or without specialized training” (Schofield, 1996: 112).

While “Altruism is a fundamental part of human rationality and altruistic behaviour ... the foundation stone of very many charities ... in the world” (Butler and Wilson, 1990: 1) these attributes alone cannot provide a non-profit organisation with all that it needs to be successful. Rather must altruism combine with “the compilation of a business plan ... [that] can be a move towards professionalization within a VNPO, [voluntary and non-profit organization] drawing it ever more into the mainstream of commercial or bureaucratic models of organization” (Schofield, 1996: 112).
Although “The ownership of an organisation … whether it is privately owned, publicly quoted, a charity or public sector organisation will dictate the sources and amounts of funding available” (Johnson & Scholes, 2002: 510), this funding can still be obtained in a systematic way and form part of an overall business plan.

According to Private action (2002: 6) "A new independent fundraising body is … proposed to address fundraising issues including developing new codes of practice.” Involvement in the scheme would not be compulsory but those organisations that opted to join “would agree to comply with best practice codes” (Private action, 2002: 6). This implies the need to improve non-profit organisations by way of introducing business principles that can be applied to the organisation’s operating procedures.

Slack, Chambers and Johnston (2001: 9) state, “the strategic objectives of not-for-profit organizations may be more complex and involve a mixture of political, economic, social or environmental objectives …. But [are] essentially … the same as for-profit ones.”

Furthermore, according to Slack et al. (2001: 9) the aims of both types of organisations is to:

Transform input resources into output products and services and they have to make the same set of decisions as do for-profit organizations - how to produce their products and services, invest in technology, contract out some of their activities, devise performance measures, improve their operations performance and so on.

1.2 PURPOSE OF THE RESEARCH

The purpose of this research is the development of an appropriate business model for a non-profit organisation that will improve the organisation’s performance, over a range of business activities, including its financial and overall efficiency and the quality of service rendered to the community. As indicated by Drucker (1990: 113) “people determine the performance capacity of an organization.” Therefore, to be successful, salaried staff as well as
volunteers must be involved in the process of achieving best practices for their organisation.

This introduces the problem statement that will be addressed by the research:

**How can the overall performance of a non-profit organisation be improved with a suitable business model?**

### 1.3 SUB-PROBLEMS

By dividing the main problem into sub-problems the research becomes more manageable. In terms of this research proposal the following sub-problems have been identified:

- What does the literature reveal about business models and non-profit organisations?
- Which business models can be applied or adapted for a non-profit organisation?
- How does this compare to current practices in non-profit organisations?
- How can the results of the above questions be used to develop a suitable business model for a non-profit organisation?

### 1.4 DELIMITATION OF RESEARCH

Having stated what will be addressed by the research, the statement of delimitation will detail that which will not be included (Leedy & Ormrod, 2001: 61).

#### 1.4.1 Type of non-profit organisation

The type of non-profit organisation will be limited to an organisation that addresses the needs of the elderly within the demarcated area, whose primary objective is to provide sheltered accommodation and additional
benefits such as the provision of meals, activities and healthcare services within the particular environment.

This organisation for the elderly is not occupation-related, that is, it does not specifically cater for retired persons from professional backgrounds, or cover only specialised areas, such as recreational activities like tennis or bowls.

1.4.2 Geographical delimitation
The empirical component of the study will be limited to the selected non-profit organisation that addresses the needs of the elderly and operates within the geographical area of Port Elizabeth. This will take the form of an in-depth case study, for the proposed research.

1.4.3 Employment level of employees to be surveyed
Those responsible for managing this non-profit organisation will be accessed for the empirical study, comprising the Chief Executive Officer (CEO), Administrator and the two Project Managers. Although there is a staff complement of forty-three, only those listed above are expected to be the most informed about the higher-level working of the organisation and in addition, are responsible for directing the organisation towards its stated goals and objectives.

1.5 DEFINITION OF CONCEPTS
For the purpose of this research, the following concepts will be defined as they apply to the title of this document.

1.5.1 Business model
Turban, Mclean and Wetherbe (2002: 8) define "A business model [as] a method of doing business by which the company can generate revenue to sustain itself." Furthermore, according to Turban et al. (2002: 8):

The model spells out how the company adds value, which consumers are willing to pay for, in terms of the goods and/or services the company produces in the course of its operations.
Cooper and Schindler (2003: 55) state, “Models differ from theories in that a theory’s role is explanation whereas a model’s role is representation.” They list three types of models, which are:

- **Descriptive models**: describe the behaviour of elements in a system where theory is inadequate or nonexistent.
- **Explicative models**: Extend the application of well-developed theories or improve our understanding of their key concepts.
- **Simulation models**: Clarify the structural relations of concepts and attempt to reveal the process relations among them.

(Cooper & Schindler, 2003: 55).

According to Johnson and Scholes (2002: 496) “a business model describes the structure of product, service and information flows and the roles of the participating parties” and this is how a business model will be defined in this document.

### 1.5.2 Non-profit organisation

According to Osborne (1996: 14-15) “The key features of such organizations are their formal existence, independent foundation and governance, non-profit distribution, and a meaningful element of voluntary motivation.” For the purpose of this study a non-profit organisation will be defined as an organisation whose main objective is to address a particular need in the community, rather than the maximisation of profit.

### 1.5.3 Basis for the model

A generic business model will be developed from existing models that have been identified in the current literature. Common components of existing models will be determined through deconstruction and applied to the developed model, if appropriate to the operating conditions of the non-profit environment.
1.6 ASSUMPTIONS
It is assumed that a business model can be successfully applied to non-profit organisations to improve overall performance.

1.7 THE SIGNIFICANCE OF THE RESEARCH
Butler and Wilson (1990: 1) define a charity (or non-profit organisation) as “a distinct and unusual form of organization” of which there is an ever-increasing number. Many non-profit organisations support the same target group, although there may be a slight difference in focus: for example, many organisations address the needs of the aged but do not always provide the same services. This creates competition for public funding as well as public support. It is therefore in the organisation’s interest, if not its ultimate survival to operate as efficiently as possible, without losing sight of the service that it is rendering to the community.

1.7.1 The need for a business approach
Non-profit organisations need to structure their activities in a way that is more akin to business, in order to increase their effectiveness. This can be addressed by adopting best practices to the particular needs of the organisation. Drucker (1990: 1) states “non-profit institutions themselves know that they need management [and] all the more because they do not have a ‘bottom line’ in the same way that business does.”

More recently, Buckmaster (1999) states organisations are being asked more and more to provide proof of what has been accomplished in terms of particular aims that have been identified. This statement places the non-profit organisation in a position that is closely aligned to business, through declared goals and objectives and by following a process, ensuring the attainment of such.

This in turn leads to the measurement of what must be achieved. Macpherson (2001) indicates there is an increasing need to measure performance in both non-profit and public sector organisations. However, for the evaluation of performance to be meaningful, non-profit organisations must know the result
of what they intend to do, in order to assess their performance against the organisation’s mission (Shin & Kleiner, 2003).

This research will address the issues surrounding the non-profit organisation’s need to increase its effectiveness, in order to improve the service that it is rendering to the community. This will involve adopting best practices that can be achieved through the development of an appropriate business model.

1.8 AN OVERVIEW OF THE RELATED LITERATURE

Identifying the areas where change is needed is the most important factor in the process to become “more successful in providing service, raising funds, retaining staff and volunteers and becoming better known for your work throughout the communities you serve” (Board basis: An overview of a nonprofit board, 2003). From this evaluation comes the planning of the strategy that will be implemented.

In common with business, each non-profit organisation “needs to evaluate its current operational environment” (Board basis: An overview of a nonprofit board, 2003). There must be an overview of the current workings of the organisation in order to provide “a starting point for developing strategy, implementing change and measuring results” (Board basis: An overview of a nonprofit board, 2003).

According to Broadbridge and Parsons (2003) “the professionalisation of the (non-profit) sector include performance management, management appraisal and target setting.” While this type of upgrading may cause some concern in the business sector, as has been the case in England, where charity shops have improved both their image and operating efficiency (Broadbridge and Parsons, 2003), non-profit organisations need to improve their operations in order to remain financially viable.

Sheu and Wacker (1994) state that the increase in the number of non-profit organisations will continue and this means, “these organizations are facing greater pressures for good management from contributors.” Furthermore, it
underlines the importance for organisations “not just to focus on their unique welfare objectives [while] ignor[ing] the operating costs and operations efficiency” (Sheu & Wacker, 1994). The limited resources that most non-profit organisations have at their disposal must therefore be allocated appropriately, in order that their operations can be conducted more effectively (Sheu & Wacker, 1994).

However, improving the performance of non-profit organisations may have its downside. Research from England has posed the question that “as charity shops commercialise, will they lose their donors, volunteers, and customers?” (Broadbridge & Parsons, 2003). Furthermore, “expenditure on staffing and administration that accompanies the move to professionalise has been the cause for much public concern” (Broadbridge & Parsons, 2003).

These issues will not be addressed in this particular study, although the problem could well arise in South Africa, should non-profit organisations dramatically increase their business competencies, or the majority of charity shops follow the trend in the United Kingdom, towards salaried managers (Broadbridge & Parsons, 2003). This could provide the basis for further research into a problem that is already raising concerns, as to the way in which the organisation’s funds are being utilised.

1.9 FACILITATING THE PROCESS OF EVALUATION

In order to determine which business model is most appropriate for non-profit organisations, an understanding of the environment in which they operate is essential. Below are some basic questions that an organisation may be asked to facilitate the process of evaluation (Board basis: An overview of a nonprofit board, 2003).

- What do you do well?
- What do you do poorly?
- How are you viewed by donors? Previous donors?
- How are you viewed by the constituency you serve?
• How effective are your staff, volunteers and board members in their respective roles?
• What motivates people to help your organization?
• Are you wasting funds on ineffective operations or outdated technology?
• Do you need to invest in new staff or seek other professional help?

1.9.1 Best practices
Once an organisation is aware of what has to be achieved, it can assess the best practices of small businesses that are similar in size and adapt them to its own needs. Laudon and Laudon (2002: 373) define best practices as “The most successful solutions or problem-solving methods that have been developed by a specific organization or industry.” It is however, well documented that the “Adoption of best practices is not sufficient to emulate the success of the key players [for] practices have to be adapted to the environment in which the company is operating” (Davies & Kochhar, 2000).

1.9.2 Business models
Best practices are often expressed by way of business models, which may vary in complexity, according to the requirements of the organisation. However, there is no perfect model to suit all businesses and to accommodate all strategies. According to McNamara (1999) “Each organization ends up developing its own nature and model of strategic planning, often by selecting a model and modifying it as they go along in developing their own planning process.”

Below are two examples of business models that may be integrated according to the organisation’s needs by “using a scenario model to creatively identify strategic issues and goals, and then an issues-based model to carefully strategize to address the issues and reach the goals” (McNamara, 1999). These models include "basic’ strategic planning, issue-based (or goal-based) alignment, scenario, and organic planning” (McNamara, 1999).
CHAPTER ONE: Introduction to the Main Problem

Model one: “basic” strategic planning

- Identify your purpose (mission statement).
- Select the goals your organization must reach if it is to accomplish your mission.
- Identify specific approaches or strategies that must be implemented to reach each goal.
- Identify specific action plans to implement each strategy
- Monitor and update the plan.

(McNamara, 1999).

Model two: “issue-based (or goal-based)” planning

- External/internal assessment to identify “SWOT” (Strengths and Weaknesses and Opportunities and Threats).
- Strategic analysis to identify and prioritize major issues/goals.
- Design major strategies (or programs) to address issues/goals.
- Design/update vision, mission and values (some organizations may do this first in planning).
- Establish action plans (objectives, resource needs, roles and responsibilities for implementation).
- Record issues, goals, strategies/programs, updated mission and vision, and action plans in a Strategic Plan document and attach SWOT, etc.
- Develop the yearly Operating Plan document (from year one of the multi-year strategic plan).
- Develop and authorize Budget for year one (allocation of funds needed to fund year one).
- Conduct the organization’s year-one operations.
- Monitor/review/evaluate/update Strategic Plan document

(McNamara, 1999).

The above two models were selected as examples for their simplicity and logical procedure in the construction of a model. Using Model One, strategic issues and goals can be identified, which can be then be addressed by using
Model Two. Such examples would be a good basis on which to begin the construction process.

1.9.3 Performance measurement
Once the model has been selected and implemented, it will be necessary to monitor the organisation’s performance. Decisions must then be made as to how this can best be achieved.

As organisations increase the emphasis on performance and the measurement of objectives “in terms of efficiency and effectiveness, the optimisation of all resources including volunteers becomes a managerial imperative” (Gaston & Alexander, 2001).

According to Nonprofit leadership (2003) “Leadership is ultimately responsible for effective programs and services of the nonprofit organisation and will be held accountable to government regulations and the public for its operation.” While this may be true, Miller (2002: 1) states:

Given ambiguous rules of accountability and unclear measures of performance, nonprofit board members tend to monitor in ways that reflect their professional/personal business competencies rather than paying attention to measures that would indicate progress towards ‘mission related goals and initiatives.

This demonstrates the need for clarity on what should be measured, how it should be measured and who will be responsible for the process.

Discussing staffing, Butler and Wilson (1990: 172) relate that, “many voluntary organizations ... recruit ‘professional’ managers into their ranks so that the competitive lessons learned in the commercial world can be translated into the charitable context.”

This is supported by Broadbridge and Parsons (2003) who confirm, “managers recruited for their business acumen, have ... transferred their commercial experience and skills on to the charity sector.” In so doing, Butler and Wilson (1990: 172) note “this seems to bring about an almost inevitable
clash of values between voluntary staff, paid staff, and professional managers.”

In summary, while it is necessary for non-profit organisations to adopt a more businesslike approach, “achieving efficiency and effectiveness as basic ends in themselves” (Butler & Wilson, 1990: 172) can undermine the organisation’s core objectives of serving a particular community need.

1.10 RESEARCH DESIGN
This section will outline the broad methodology that will be followed in this study:

1.10.1 Research methodology
In order to solve the main and sub-problems the following procedure will be used:

1.10.2 Literature survey
There will be a literature survey to reveal the previous research that has been done in this field. This will focus on those models that can be applied to non-profit organisations to improve overall performance. A model will then be developed for evaluation by the selected non-profit organisation.

1.10.3 Research design
A single case study using semi-structured interviews will comprise the research method.

1.10.4 Measuring instruments
The researcher will construct a number of mostly open-ended questions to determine the organisation’s current method of operation. The interviews will be recorded and relevant information transcribed into a narrative.

1.10.5 Sample
The sample will be comprised of the selected non-profit organisation operating within Port Elizabeth that will be the focus of the case study.
1.10.6 Development of a business model for non-profit organisations
The findings from the literature and semi-structured interviews will be combined to improve the business model that has been developed for non-profit organisations.

1.11 OUTLINE OF THE RESEARCH
The research has been planned to include the following chapters:
Chapter 1: Introduction to the Main Problem.
Chapter 2: Business Models for Service Organisations
Chapter 3. Methodology
Chapter 4. Findings of the Narrative
Chapter 5. Analysis of the Narrative
Chapter 6. Conclusions and Recommendations

1.12 SUMMARY OF THE CHAPTER
This chapter has provided an introduction to non-profit organisations and the purpose of the research. The main problem and sub-problems to be addressed have been stated, together with a brief overview of the literature. The broad methodology to be followed in this study was briefly outlined, with a list of the chapters providing the structure for the document.
CHAPTER TWO
BUSINESS MODELS FOR SERVICE ORGANISATIONS

2 INTRODUCTION
At its most basic level a business operates with the objective of value creation. To reach this objective, it must have ownership of a product or service and a market that has a need of such. This concept forms the basis of all business activity.

In this chapter the main focus will be on the service industry, which is playing an important role in supplying a variety of needs to society. According to Normann (2000: 8) this type of industry is experiencing growth and is “gaining more and more relevance in the international economy” (Adenso-Diaz, Gonzalez-Torre & Garcia, 2002).

A specific sector of this industry is the non-profit based organisations, which provide a unique service to a niche market within society. These organisations operate according to different principles, within specific parameters or constraints. To better understand how business principles can be applied to this particular sector, this chapter will examine a range of business models, with the objective of synthesizing a business model for a non-profit organisation.

From first principles, a generic model will be constructed that can be used within the service industry; this will be modified as necessary to apply to non-profit organisations for the provision of its service delivery. Operations within service organisations will be examined to identify key performance criteria in the functional areas of these organisations. By deconstructing this information, identifying commonalities and the unique circumstances that apply in the non-profit sector, the theoretical model will be enhanced. This can later be evaluated by the non-profit organisation selected for the case study.
2.1 DIFFERENCES BETWEEN ORGANISATIONS

Laudon and Laudon (2002: 106) define a business model as “An abstraction of what and how the enterprise delivers a product or service, showing how the enterprise creates wealth.” However, this statement is inappropriate in its totality for a non-profit organisation. Creating value has more relevance than the goal of creating wealth, in which case value might be “the soundness of advice given [or] the attitude of staff” (Johnson & Scholes, 2002: 27).

Business delivers either a product or service, which is expected to be profitable. Non-profit organisations are also there to provide a service but this is motivated by the need to fulfil organisational aims. Furthermore, whether profitable or not, service organisations differ in a number of ways from those businesses that are concerned with manufacturing or selling a product.

Kotler (2003: 229) indicates that businesses often incorporate service strategies in order to differentiate their product and defines a service as “any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything.” In addition to intangibility several sources (Botten & McManus, 1999; Brennan, 1995; Kotler, 2003; Lambin, 2000) confirm other characteristics of service such as inseparability, variability and perishability. Examples of these are indicated in Table 2.1.

Service can complement a product through differentiation, which can lead to a competitive advantage over other businesses. Chapman, Soosay and Kandampully (2002) agree that the service aspect of a manufacturing company can be the best source of its ‘sustainable competitive advantage.’ As such, businesses should understand this and what the likely customer response will be, should such a service not be included, or is of a poor standard. Because of the importance of including a service within a manufacturing industry and the need for such a service to be of high quality, it may not be relevant to discount manufacturing organisations, when
considering the features that apply to an appropriate business model for service organisations.

Table 2.1 summarises the differences between manufacturing and service concerns, when dealing with tangible and intangible deliverables.

**Table 2.1 Differences between manufacturing and service industries**

<table>
<thead>
<tr>
<th>Manufacturing</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>The product is generally concrete</td>
<td>The service is intangible</td>
</tr>
<tr>
<td>Ownership is transferred when a purchase is made</td>
<td>Ownership is not generally transferred</td>
</tr>
<tr>
<td>The product can be resold</td>
<td>The product cannot be resold</td>
</tr>
<tr>
<td>The product can be demonstrated</td>
<td>The product cannot usually be demonstrated</td>
</tr>
<tr>
<td>(it does not exist before purchase)</td>
<td></td>
</tr>
<tr>
<td>The product can be stored by sellers and buyers</td>
<td>The product cannot be stored</td>
</tr>
<tr>
<td>Consumption is preceded by production</td>
<td>Production and consumption generally coincide</td>
</tr>
<tr>
<td>Production, selling and consumption are locally differentiated</td>
<td>Production, consumption and often even selling are spatially united</td>
</tr>
<tr>
<td>The product can be transported</td>
<td>The product cannot be transported (though 'producers' often can)</td>
</tr>
<tr>
<td>The seller produces</td>
<td>The buyer/client takes part directly in the production</td>
</tr>
<tr>
<td>Indirect contact is possible between company and client</td>
<td>In most cases direct contact is necessary</td>
</tr>
<tr>
<td>Can be exported</td>
<td>The services cannot normally be exported, but the service delivery system can</td>
</tr>
</tbody>
</table>

Source: Normann, 2000: 19
Conversely, some organisations reverse this situation by providing products that support their main service function; for example, supplying meals to the elderly. These ‘products’ can in turn ‘differentiate’ their service from the service provided by similar organisations, either through innovation, cost or superiority of the ‘product’.

### 2.2 DIFFERENCES BETWEEN PRODUCTS AND SERVICES

However, service is unlike a physical product, for the outcome may be different for each recipient and is usually produced and consumed at the same time. In addition, services may appear to be the same and can be described as such, but may exhibit great disparity in the way in which they are delivered. This can be due to the variability between organisations and the way the service is delivered, or the variability between the individuals performing the service, within the same organisation. To avoid this problem of inconsistency, businesses such as MacDonald’s place great emphasis on their staff training, to ensure uniformity in the way in which the service is delivered to each customer (Brennan, 1995: 28).

Finally, service cannot be stored (Botten & McManus, 1999; Kotler, 2003). This applies, whether it is an unsold airline ticket when the aeroplane takes off, or advice concerning some aspect of health.

### 2.3 SIMILARITIES BETWEEN PRODUCTS AND SERVICES

While conceding that there are differences between providing services and products, Johnson and Scholes (2002: 27) suggest that there are also similarities. The quality of the service that accompanies the product, like a standalone service itself, can be a source of competitive advantage, whether it is the speed with which the service is delivered, the attitude of those providing the service, or the assistance that is available in times of customer dissatisfaction (Johnson & Scholes, 2002: 27).

### 2.4 THE CUSTOMERS

In addition, those who use service organisations often become participants, rather than just customers (Normann, 2000: 20). Whether the need is to
improve one’s finances, check on the state of one’s teeth or seek advice for a health problem, the customer has identified the service that he or she needs, or has become aware of such a need through accessing individuals or information. However, once the need has become apparent, the customer must take an active role in applying the proposed solutions.

This increased interaction between the customer and service provider is supported by Botten and McManus (1999: 32). Customers must typically take action or make a contribution to obtain the required service, as in the seeking of information. Botten and McManus (1999: 32) quote Bowen who states that for this reason, customers have been described as ‘partial employees’ of the firm.

Robinson (1994: 12) quoting Drucker (1990) indicates that non-profit organisations want customers to participate in their organisation’s operations, rather than passively accepting the service that is provided. Therefore, effecting a change in the individual or society. This is apparent when individuals have received assistance with certain problems and afterwards become involved in sharing what they have learnt with other customers who access the organisation.

According to Brennan (1995: 5) “Many non-profit organisations in the private and public sectors of the economy have difficulty in defining their ‘customers’ in the first place.” This is because the donors are the people that provide funding or goods that are used or sold for the benefit of the organisation. While the organisation may be successful in its ability to be financially viable, the beneficiaries are those people for whom the service has been designed and this group may be dissatisfied with the organisation, despite the success and support of its donors or fund-raisers. Because of this, “the two key characteristics of a customer … receiving benefits and generating resources-are divided for charities and many public sector organisations” (Brennan, 1995: 5).
2.5 SERVICE BASED ORGANISATIONS

Although service organisations can be for profit or non-profit, there is some variation in their strategic objectives. Non-profit organisations for example, can include factors of a social, political or environmental nature. Razek, Hosch and Ives (2000: 456) indicate that the main distinguishing features of the non-profit organisation are that contributions are made with no expectation of monetary returns from those contributing; the aim of the organisation is not to achieve profits and there are no "ownership interests that can be sold, transferred or redeemed."

Slack et al. (2001: 9) agree that there are differences in the strategic objectives of non-profit and for profit organisations. These differences usually relate to the non-profit organisation’s overriding aim of providing a service to the community, rather than maximising profits. Nevertheless, both types of organisations fundamentally operate in the same way by striving to supply the best product or service to meet the needs of the customer, utilising resources as efficiently as possible and monitoring performance to ensure continued satisfaction (Slack et al., 2001: 9). These and other activities of organisations can be addressed through the use of appropriate models.

2.5.1 Marketing the services

Regarding the marketing of services, non-profit organisations have some advantages over those than are run for profit; for example, free advertising in newspapers or free publicity (Lovelock, 1996: 22). Sometimes this type of organisation provides services that are free of charge, or at a price that is less than the real cost of the service, while volunteers perform important tasks in service delivery, without remuneration. However, marketing for this sector can still be difficult, for as stated previously, non-profit organisations are often unclear as to who is actually the customer (Brennan, 1995: 11-12).

This service sector also faces restrictions from its donors and controlling bodies (Lovelock, 1996: 22), who express concern that finances may be used for marketing and therefore does not reach the intended beneficiaries of the organisation (Bennett & Savani, 2004). They quote the investigation into the
National Society for the Prevention of Cruelty to Children (NSPCC), in the United Kingdom in 1999, who appeared to be spending more on administration and marketing than on the children that the organisation is there to help. However, the NSPCC was able to justify the expenditure, as its main purpose is to focus on the prevention of abuse (Bennett & Savani, 2004), while providing assistance to the children who are its victims would be one of the organisation’s secondary benefits. Marketing is therefore more difficult to define in this service sector, which is “ultimately concerned about the success and survival of [its] organization” (Macfadyen, Stead & Hastings, 2003: 698); while according to Baker (2003: 11) “Specifically, services marketing calls for recognition of both buyer and seller in the exchange process.

### 2.5.2 Status of service organisations

In addition, service organisations are often perceived as lacking the status of businesses that sell or manufacture products. According to Normann (2000: 14) these tend to be those organisations that perform functions:

- that were traditionally performed by individuals granted lesser status when they were part of the informal economy;
- that everybody claims expertise in and knowledge of (albeit not always correctly);
- that require employees with less formal education, and,
- that are considered ‘dirty’ work or necessary evils.

(Normann, 2000: 14).

Caring for children or the elderly, performing domestic work or waste disposal are all services that are generally viewed negatively by the public. Because of these perceptions, service organisations do not usually attract those individuals with strong managerial backgrounds, which in turn impacts on the way in which these organisations are run (Normann, 2000: 15).

Non-profit organisations are particularly vulnerable in this area for salaries are notoriously lower and generally do not attract those individuals with financial
acumen and a more business orientated outlook. Receiving lower salaries and often a greater degree of stress (due to the nature of welfare and those it is trying to assist) could be seen as a contradiction in terms of applying sound financial and business principles to one’s own career. Interestingly, Normann (2000: 15) believes that service organisations that are negatively perceived are actually “among the most difficult and the most professionally challenging to manage.”

2.5.3 The service system
Unlike businesses that sell products, the ‘goods’ of the service organisations are unseen. Therefore, customers look for tangible evidence that is indicative of the quality of service that is being provided (Botten & McManus, 1999; Kotler, 2003). This could be the surroundings in which the service takes place, the way in which the service providers attend to other customers or the cost of the service that is offered. Lambin (2000: 300) agrees that customers need “physical evidence, signs, symbols or indicators of quality” to reduce their uncertainty about the service that is being offered.

Service providers therefore exert a considerable influence on the way in which the service is perceived, whether or not they are backed up by strong financial or personnel structures. Normann (2000: 22) “classif[ies] them in terms of ‘personality intensity.’” In other words, those performing the service are ultimately responsible for the way in which the customer perceives the service.

2.5.4 Management of service organisations
According to McNamara (1999) it is the size of the organisation that determines its style of operation, whether or not it is for profit or non-profit. Therefore, small organisations manage their operations in a similar way, while the same principle applies to large organisations. It is only the focus of the organisations that is different, for example, whether it is to maximise profit, initiate fund-raising or manage volunteers.
However, differences in the size of organisations and therefore the difference in the approach to business have also been mentioned, in the section on business models, whether or not profit is the ultimate goal. It is therefore important to consider size as well as the type of organisation, when one is developing a model that will effect the organisation’s overall improvement.

In addition, there are many issues that confront both types of organisation such as financial control, human resources and conflict resolution. However, non-profit organisations also confront issues that include various stakeholders, fund-raising, evaluation of its activities and a mixed workforce of both voluntary and salaried workers (Management of Not-for-Profit Organisations, 2004).

In non-profit organisations the money for the services comes from fund-raising or donors. This is motivated by interest or altruism and differs from business, which strives to ensure a favourable return on investors’ money. However, this can sometimes be problematical as the emphasis may be placed on the ‘resource efficiency,’ rather than the ‘service effectiveness’ (Johnson & Scholes, 2002: 30). While the service that is offered is the most important factor of the non-profit organisation, sufficient funding makes this possible and therefore, cannot be ignored.

2.5.5 Summary of the service industry

In summary, the service industry is becoming a major factor in business, either as a separate entity, or as a necessary addition within the manufacturing industry, that accompanies the delivery of a product. Both similarities as well as differences have been discussed, together with a further division within the service industry, which divides business from that of the non-profit sector.

This information must now be utilised in determining a business model that takes into account the particular features of the service industry, especially those of the non-profit sector.
2.6 DERIVING A BASIC MODEL FOR BUSINESS

According to Laudon and Laudon (2002: 106) “A business model describes how the enterprise delivers a product or service, showing how the enterprise creates wealth.” Rappa (2004) states that it “is the method of doing business by which a company can sustain itself-that is, generate revenue.” While Houtzagers (1998) notes that models can be seen as examples of “best practices,” that can be changed as necessary. Botten and McManus (1999: 203) indicate that service organisations “must embrace the customer-driven concept and adopt those best practices that will satisfy customers.” However, guidance is not given with regard to which are the best practices to select. Notwithstanding, the above concepts encompass many components, each of which could be used to formulate a base model.

2.6.1 Best practices

Flanagan and Finger (1998: 316) describe best practices as “a comprehensive, integrated and co-operative approach to the continuous improvement of all facets of an organisation’s operations.” They list the following general principles, which can be applied to all businesses and organisations, although some principles will have more relevant than others.

- Develop a shared vision and strategic plan.
- Ensure that your bosses are committed.
- Provide a flatter organisational structure.
- Create a learning environment.
- Develop and implement innovative human resource policies.
- Focus on your customers.
- Develop closer relationships with your suppliers.
- Pursue innovation in technology, products and processes.
- Use performance measurement systems and benchmarking.
- Think ‘green.’
- Develop external relationships.
- Work towards a co-operative industrial relations environment.

CHAPTER TWO: Business Models for Service Organisations

A model that is based on best practice focuses on a business’s level of competence in its core activity; otherwise it will lose patronage and ultimately fail. Therefore, the business must carefully identify relevant practices to achieve its core function and the mechanisms needed to implement best practice in these areas.

2.6.2 Characteristics of models

Certain characteristics are associated with business models and some of these are identified below. Linder and Cantrell (2001) state there are three characteristics that are common to successful business models.

- They offer unique value
- Winning business models are hard to imitate
- Successful models are grounded in reality

Offering unique value gives businesses a competitive advantage, while business models that are highly suited to one business may not be so relevant for other businesses. Although models can be modified, the result may be less effective than the original model. Furthermore, businesses need to correctly determine the behaviour of their customers, in order that the business model is a true reflection of what is happening in the market (Linder and Cantrell, 2001).

2.7 A BASIC INPUT/OUTPUT MODEL

The fundamental inputs used for business usually comprise labour, materials, money and machines, although there may be some variation on this theme. These inputs are the resources that are necessary to begin the process that will move the company towards achieving its objective of becoming profitable.

2.7.1 The transformation process

The inputs either transform the resources or are themselves transformed through various processes (Slack, Chambers & Johnston, 2001: 10). For example, materials can be made into clothing, or data can be converted to meaningful information (Laudon & Laudon, 2002: 9) eventually providing
intelligence. These are typical examples of the conversion of inputs that become the final product or service, or a combination of both, which generally leads to wealth creation. This process is shown in Figure 2.1 below. Furthermore, in order for a firm to be self-sustaining; some regeneration must take place, possibly through absorbing some of the outputs.

**Figure 2.1 An Input/Output Model of Business**

![Input/Output Model of Business Diagram](image)

Source: Adapted from Slack, *et al.*, 2001: 10

According to Waters (2002: 6) not all outputs are classified as goods or services. Alternatives include the ultimate product or service of ‘satisfied customers’ and unwanted waste or scrap. He also considers “secondary outputs … such as wages, profit, cultural identity, corporate citizenship and networks of contracts.” However, the input/output model that is shown above does not emphasise either the need to generate finance, or the importance of people to begin the cycle of service, which is a basic requirement in non-profit organisations.

### 2.7.2 The value chain

A well-known model for describing business is Porter’s value chain, which was designed as a tool for finding ways of creating more value for the customer (Kotler: 2003: 43). Johnson and Scholes (2002: 160) describe the value chain
as “the activities within and around an organisation, which together create a product or service.” Furthermore, these activities are divided into primary activities and support activities, proposed by Michael Porter (Kotler, 2003: 43). Primary activities are directly involved with the creation or delivery of the service or product; while support activities are there to assist and improve on the process (Johnson & Scholes, 2002: 160-161).

Walters (2004) quoting Magretta (2002) states, “all new business models are variations on the generic value chain underlying all businesses.” The value chain divides the model into two parts; that of producing a product or service and selling that product or service. This includes all the associated processes (such as manufacturing) and the individuals who interact with customers, perform the transactions and other acts that culminate in sales (Walters, 2004).

2.8 FURTHER ANALYSIS OF BUSINESS MODELS

According to Rappa (2004) business models show how an organisation creates its wealth by identifying where it lies in the ‘value chain.’ A business may produce a product or service that is sold to a customer, in which case its business model would be a simple one (Rappa, 2004).

Stevenson (1996: 17) states the purpose of a model is “adequately portray[ing] some real-life phenomenon.” If this is done well, what has been learnt will directly relate to the actual situation for which the model was created (Stevenson, 1996: 17). These two concepts sum up the essence of what a model should seek to achieve, regardless of the business that it represents.

2.8.1 Business model waves and meta-models

According to Chaharbaghi, Fendt and Willis (2003) “Business model waves are influential movements in management thinking and practice, which profoundly influence businesses in general.” They indicate that while most models are specific to a particular business, business model waves generally apply to a broad spectrum of businesses. Over time, the relevance of such a
model changes, due to a range of factors in the business environment. This results in the model being “washed away by the next wave that brings forth its own generic business model” (Chaharbaghi, et al., 2003).

They describe business models as contextual tools and a meta-model that rises above specific models and the business model waves. This meta-model accounts for the similarity between business models, whereas the differences between models are dependant on the specificity of the model. When the circumstances surrounding business change, the specific model becomes redundant while the meta-model remains unchanged retaining “its power of explanation” (Chaharbaghi, et al., 2003).

Furthermore, business models utilise a range of business topics that include “economics, entrepreneurship, finance, marketing, operations, and strategy” (The Business Model, 1999-2004). What is included will vary according to the purpose for which the model was designed.

2.8.2 Service management model
Robson & Prabhu (2001) used Voss and Johnson’s (1995) Service Management Model in their research on what could be learnt from ‘leading’ service practitioners about business excellence.

In determining what constitutes a successful service organisation, Robson and Prabhu (2001) quote Voss and Johnson (1995) who state, “a well managed service organisation sets demanding standards and ensures that these are met through performance measurement and feedback.” Other indicators are the service-oriented culture that comes from the leadership of the service organisation, together with the service design and “high quality service that must be delivered at low cost” (Robson & Prabhu, 2001, quoting Voss and Johnson, 1995).
The areas used in the model were categorised into “19 measures of business performance …. [that related] to 28 measures of practice adoption” (Robson & Prabhu, 2001). These areas comprised “human resources, service design and innovation, service delivery and quality, service value and measurement and business performance” (Robson & Prabhu, 2001).

**2.8.3 Quality management model**

In research by Gustafsson, Nilsson and Johnson (2003), business performance and aspects of quality management were considered in terms of the size of the organisation. While there is some variation between what is considered to be quality management Gustafsson, *et al.* (2003) used “the three quality principles [of] employee management, process orientation and customer orientation, as well as their role in creating satisfied customers and improved business results” for their research.

Smaller organisations are more likely to excel in customer service, as these organisations tend to rely on regular customers who patronise the same supplier (Gustafsson, *et al.*, 2003). In larger organisations however, it is the
soundness of the service that draws the customers and cements their loyalty (Gustafsson, et al., 2003).

Furthermore, smaller organisations such as family businesses can often maintain closer relationships with their customers and customise their service accordingly. This closeness in the relationship is harder to maintain, as companies increase in size and expand their activities.

These differences need to be addressed as organisations become larger. As stated by Gustafsson, et al. (2003), “Since the relationship between quality practices and business performance is dependent on firm size, the quality strategy of an organization must change when an organization grows.”

2.8.4 Inclusion of mission and values
Sometimes other factors are included in a business model. According to Cook (2002: 37) “establish[ing] a philosophy which has customer service at it core” places you in the direction of excellence in business. A company’s mission (which states the purpose or aim of the organisation) or vision (which states its direction, beliefs and values) can be the means by which this philosophy is expressed (Cook, 2002: 37). Because these factors can have such a positive impact, an organisation’s mission and/or values are sometimes included in its business model.

2.8.5 Summary of business models
Various models have been considered in terms of their effectiveness in businesses and organisations. Most importantly, the model should be a true reflection of the business in order to be effective.

Value for the customer is achieved through such factors as best practices, customer focus, sound processes and the quality of activities that comprise the value chain. While specifics in a model may become obsolete, the basics of the model remain valid throughout the changes that a business may undergo.
Consideration must now be given to developing a model that will be appropriate for a non-profit organisation.

2.9 THE PROPOSED MODEL

Earlier in the chapter, the service industry was described in some detail and various factors were deemed important for all organisations in this sector.

2.9.1 Selected factors

These factors were finance, people, service delivery and marketing. However, the non-profit sector of this industry would also include its mission and vision, as these encompass the aims of the particular organisation. These factors are briefly stated below, before including them in the business model being developed for non-profit organisations.

- Sufficient finance is necessary in order that the organisation can operate effectively, thereby providing the best possible service to achieve its aims.
- Without strong people involvement of both salaried and unsalaried staff a non-profit organisation cannot continue to exist. This is also tied to its funding, for donors, volunteers and the public are essential for generating funds, either through direct donations or activities such as fetes or charity shops, that require both contributors as well as customers.
- Excellent service delivery is the ultimate aim for the organisation and results in the fulfilment of its mission and vision.
- Marketing the organisation is essential, if it is to remain visible in the public eye, sustaining its core supporters and customers, while attracting new ones.
- The mission and vision provides direction for the organisation and enables it to keep focussed on its particular aims for the community.

The factors discussed above have been selected for their relevance to this study and are critical to the development of a business model for a non-profit
organisation. The initial model developed incorporating the criteria listed overleaf is shown in Figure 2.3.

**Figure 2.3 A Business Model for Non-profit Organisations (NPOs)**

The model is a visual representation of the way in which the non-profit organisation operates in order to deliver its service to the targeted community, with its mission and vision driving the whole process. Each of the contributing factors will now be discussed.

### 2.9.2 Vision and mission

The aim of non-profit organisations is to fulfil its stated obligations to a particular sector of society, which should be embodied in its mission statement, with its vision providing the ultimate objective. According to Flanagan and Finger (1998: 281) the mission statement should be inspirational and challenging to all concerned within the business and should be reviewed annually to ensure that it remains meaningful.
Cook (2002: 40) supports the need for an annual review of the mission statement and suggests that this should also apply to the company’s vision. This procedure will “ensure that they [the vision and mission] are still compatible with the organisation’s internal and external environment” (Cook, 2002: 40). How is this important to the model? It gives the fundamental meaning for the way in which organisation functions.

A statement of the organisation’s vision and mission should be considered in terms of being ‘memorable’; ‘meaningful’; ‘believable’ and ‘motivational’ (Cook, 2002: 40). The vision and mission are the drivers of the entire service process and once its purpose is clearly established, the way in which it will be accomplished can be determined.

2.9.3 Finance

Each business or service industry is unique, requiring the application of financial resources for the correct operation over the different functional areas that comprise its value chain. In non-profit organisations the overriding objective is not the maximisation of profit, but the service that is being offered to some sector of the community, together with its sustainability. Therefore, in non-profit organisations the key financial parameters may be different from those that operate for profit.

Although creating wealth is not the primary objective for non-profit organisations, funding is still needed to perform services efficiently and effectively. Finance will be required by means of subsidies, or generated through fund-raising and donations, although controlling costs will also be relevant to maximise the funding that is available.

In effect, a reverse funding model may be more appropriate, whereby funds are sort on the input side of the business to sustain its operations. By comparison, in a business whose main objective is profit, the funding for sustainability and ongoing operations emanate from the output side of the operation.
For non-profit organisations in particular, funding is essential to initiate and sustain the service. This relates to both the internal aspects (such as salaries, administration and any tangible requirements such as food or transport) and external aspects that include the service delivery and marketing.

Funding involves people and is therefore interrelated to the factors of community involvement, service delivery and marketing. Non-profit organisations depend upon the government, public and business that are their donors, to generate the funding for its operations and capital investments, that make possible the provision of the service. Although the service itself can be a source of revenue, in this type of organisation it is often a negligible amount.

2.9.4 People involvement
Another important factor is the need for people involvement. This refers not only to the customers or beneficiaries of the services provided by the salaried staff, but also to those volunteers, donors and members of the public who support the organisation and the activities that generate funding.

According to Bennett (1999: 115) “Creating the right approach within the local community will depend on local history, past experiences and current momentum.” The visibility of the organisation is therefore important, to initially create and sustain public awareness.

2.9.5 Service delivery
Unlike products, services tend to be non-standardised, which creates problems at all stages of the delivery process (Botten & McManus, 1999: 33). While the service should be of a consistently high standard, Normann (2000: 133) suggests that a range of “preconceived and standardized packages” should be developed for identified segments. This ensures that the customer is receiving the standardised service for the group, whose needs have been identified as similar to those of the customer (Normann, 2000: 133).
2.9.6 Marketing the service

Prospective customers must be aware of their need for a particular service and know where and how such a service is available. An organisation must therefore be visible and this can be addressed through sound and regular marketing. While non-profit organisations should maximise any free publicity or advertising that is available to them, they should take full responsibility for maintaining visibility in the public eye and treat this as a key concern.

Kotler (2003: 232) refers to Gronroos (1984) who argues, “service marketing requires not only external marketing, but also internal and interactive marketing.” This involves not only promoting the service to the customer (external marketing) but the work that is required for training and motivating the employees (internal marketing) and the interactive marketing, which is the “employees’ skill in serving the client” (Kotler, 2003: 232). While training has not been discussed in this document, it is essential that all those who are involved with providing a service are appropriately trained and fully committed to the aims of the organisation.

Organisations must therefore create awareness of who they are and what they are striving to achieve, in order to receive the necessary funding and support for the service to continue. Sound marketing is an important part of this ongoing process of ensuring and maintaining visibility.

2.10 SUMMARY OF THE CHAPTER

This chapter has overviewed service organisations in both the business and non-profit sectors. The characteristics of these industries have been discussed, together with their similarities and differences.

Various business models have been described and a model constructed, for a non-profit organisation. Aspects that were considered important were mission and vision, finance, people involvement, service delivery and marketing.

The following chapter will discuss the methodology to be used for the case study.
3 INTRODUCTION
The previous chapter reviewed the literature, initially focusing on the principles of business and the differences between the manufacturing and service industries. This process has provided a background on business models, identifying the key functional areas of business.

Non-profit organisations (NPOs) provide various services to the community and were described as being a niche sector of the service industry. Business models that could be applied to the service industry were reviewed and examined for those components considered most suitable for non-profit organisations. Using this information a business model was constructed; thereby addressing the first two sub-problems:

a) What does the literature reveal about business models and non-profit organisations?

b) Which business models can be applied or adapted for a non-profit organisation?

This work provides the foundation for the case study, which will examine a particular non-profit organisation and the way in which it conducts its operations. This will be evaluated and compared to the theoretical business model that was constructed for non-profit organisations and outlined in Chapter Two.

In this section the planned research methodology and its attendant rationale will be described. This process will assist in addressing the third and fourth sub-problems:

  c) How does this compare to current practices in non-profit organisations?
d) How can the results of the above questions be used to develop a suitable business model for a non-profit organisation?

3.1 THE RESEARCH METHODOLOGY
According to Thomas (2004: 20), certain decisions must be made before the research process can begin. These determine what the research strategy will be and which research method and design should be used. Therefore, to apply this principle, the researcher must fully understand the objective of the research, the means of arriving at the required destination and what each decision entails.

The research strategy outlines the broad procedure that will be used for the research process. This could be an experiment, a survey or a case study, each having different strengths and weaknesses and application to the research study and sample selected.

The research method concerns the techniques that will be used, and are dependent on the broad procedure. For example, a case study strategy might include interviews and observation; while a survey strategy would likely include a questionnaire (Thomas, 2004: 21). Both methods may use quantitative data, which is measurable; qualitative data, which is descriptive; or a combination of both.

The research design is a detailed plan of the way in which the research process will be implemented; for example, where it will take place, how it will be done and the amount of time that it will take (Thomas, 2004: 20).

By considering these factors in detail, the research will have an objective, an understanding and a road map to guide the process.

3.1.1 Methodology rationale
Different methods of conducting the research were considered for this study. These included questionnaires, as well as focus groups, which are useful for gaining insight into people’s feelings and attitudes about a particular topic.
However, preliminary enquiries indicated that there have been changes in the way that non-profit organisations must operate, in order to continue receiving government subsidies.

The impact of this required a more in-depth response, which would not be possible with a superficial survey of several organisations. It was decided therefore, that a single case study would provide a deeper understanding of the problem, by focussing on one particular organisation that was representative of non-profit organisations serving the needs of the aged in Port Elizabeth. The Algoa Bay Council for the Aged (ABCA) was duly selected.

Although the staff complement is only 43, the organisation is comprised of several levels of personnel that include management, supervisory, administrative and domestic staff. However, only those individuals in the top two tiers of management were interviewed, as it was expected that they would be the most informed about the workings of the organisation and were responsible for directing it towards its goals and objectives. The Chief Executive Officer (CEO) gave verbal permission for the interviews to take place and agreed that the organisation could be identified in the final document.

Thereafter, the method used was five semi-structured interviews with the four key figures at the Algoa Bay Council for the Aged: the Chief Executive Officer, the Administrator and the two Project Managers. Each interview lasted for approximately one and a half hours and took place over a period of five weeks.

3.1.2 Multiple and single case studies

According to Leedy and Ormrod (2001: 149) researchers may use a single case study or more than one study, which is referred to as a ‘multiple or collective’ case study. The former is sometimes used for its uniqueness, while the latter may be more appropriate for making comparisons or generalisations.
CHAPTER THREE: Methodology

In this research, a single case study was deemed most suitable to investigate the changes to a particular organisation, resulting from the need to conform to external pressures. The opportunity is there for further research into the effect of such an event on other non-profit organisations, both for those who successfully make the adjustment and those that do not. The results may then be used for making comparisons or generalisations, as indicated overleaf.

Leedy and Ormrod (2001: 150) state that the researcher “records details about the context in which the case is found, including information about the physical environment and any historical, economic, and social factors that have bearing on the situation.” By establishing context, the researcher is laying the foundation for other researchers who are interested in the topic, to explore the findings and determine whether or not they may be generalised to other situations.

This is one of the main areas of criticisms levelled at single case studies, that findings cannot be generalised (Leedy & Ormrod, 2001; Strydom, 2002; Thomas, 2004). Yet Stake (1995) as quoted by Thomas (2004: 131) recognises, “That the real business of a case study is particularization, not generalization.” Rather the aim is to understand the uniqueness of the study under investigation, which suggests knowledge of other studies that are different (Stake, 1995: 8).

In this research, the case study may well provide the possibility for generalisation. This assumption stems from the following factors: Non-profit organisations that wish to continue receiving subsidies must conform to the criteria that have been laid down by government. Given their similar background in areas such as limited finance and the need for fundraising, donors and volunteers, there are likely to be commonalities in the way in which these organisations adapt their style of management, to conform to the new regulations. Furthermore, the staff profile is generally less business-oriented and there would be the same need to address this aspect, so that an approach that is more akin to business could be achieved.
3.1.3 Semi-structured interviews

Although described by Leedy and Ormrod (2001: 114) “as a type of qualitative research,” case studies can also incorporate quantitative research, which is often in the form of questionnaires. However, most case studies use qualitative methods for the research and interviews are usually the preferred methods for collecting data.

Interviews may be structured, unstructured or semi-structured. For this study, semi-structured interviews were used for gathering the data and the interview schedule is outlined in Annexure C. This type of interview provides the benefits of being structured as well as flexible (Gillham, 2000: 65), for it enables the interviewer to develop set questions that can be elaborated upon. In this way, a more insightful account of the participant’s understanding, ‘beliefs’, or ‘perceptions’, of the subject under discussion can be obtained (Greeff, 2002: 302). In addition, the researcher benefits from the participant’s knowledge, which may often be extensive.

3.1.4 Guidelines for semi-structured interviews

Despite the benefits indicated above, Gillham (2000: 65) advises caution, when considering semi-structured interviews. The interviewer should be confident in the use of same and should not go ahead until there is clarity on which are the key issues and the best way of addressing them in the face-to-face interview.

Greeff (2002: 293) quotes Seidman’s (1998) ‘techniques and tips’ for interviewing, which are listed below:

- The participant must do 90% of the talking.
- Ask clear and brief questions.
- Ask single questions.
- Ask truly open-ended questions.
- Avoid sensitive questions.
- Ask experience/behaviour questions before opinion/feelings questions.
- Sequence questions (from general to specific).
Sometimes a general question can be useful in opening the logjam.

Don’t worry if your questions are not as beautifully phrased as you would like. (A few fumbled questions might help to put your participant at ease).

Ask questions when you do not understand.

Avoid leading questions.

Repeat key questions throughout the interview.

Encourage a free rein, but maintain control.

Allow for pauses in the conversation. (Don’t be unnerved by silence; allow the participant time to think).

Return to incomplete points.


In addition, the interviewer should be aware of interviewer bias. This occurs when the behaviour of the interviewer, be it verbal or non-verbal, has an affect on the respondent, which in turn influences the way in which he or she then answers the questions (Saunders, Lewis & Thornhill, 2003; Thomas, 2004). Perhaps the best attitude for the interviewer to adopt is that stated by Thomas (2004: 169 quoting Roethlisberger, 1941: 93):

In the interview I use a number of simple rules or ideas; I listen. I do not interrupt. I do not give advice. I avoid leading questions. I refrain from making moral judgments about the opinions expressed. I do not express my own opinions, beliefs or sentiments. I avoid argument at all cost.

3.2 THE QUESTIONS

The questions that were used in this research were generally open-ended, to encourage the interviewees to provide as comprehensive a picture as possible. According to Greeff (2002: 293) “Truly open-ended questions do not predetermine the answers and they allow room for participants to respond in their own terms.”

These questions, like the interviews mentioned above, may be considered to be semi-structured. They provide guidance as to what information is required by the researcher but at the same time, are flexible enough to incorporate any elaboration of the question that may be forthcoming from the respondent. By
comparison, structured questions have precise parameters that do not allow for expanded responses. Together with supporting documentation, photographs, past records and other recorded material, semi-structured questions contribute towards a detailed account of the particular phenomenon to be researched (Leedy & Ormrod, 2001: 149).

Occasionally, closed questions were also used in this research; for example, to ascertain whether or not a more business like approach had generally improved the organisation and are reproduced in Annexure C. When this was affirmed, the researcher was able to continue with open-ended questions to elicit more information about the way in which the organisation had improved. This demonstrates the flexibility of the semi-structured interview, over the limited responses that are generally available from questionnaires and closed questions and was therefore a major factor in its selection.

3.2.1 Guidelines for constructing questions

In order that the questioning should be accomplished in the most optimal way, there are guidelines to assist researchers in the best methods of question construction and design (Gillham, 2000; Leedy & Ormrod, 2001; Thomas, 2004). These include the following aspects:

- Questions should be unambiguous in terms of language and the way in which they are phrased
- Questions should be short and only address one topic
- Questions should not be leading or attempt to influence the participant’s response, so that it is the one preferred by the researcher
- Sensitive questions should not be asked at the beginning of the interview or questionnaire.

Although the researcher was aware of Seidman’s (1998) recommendations for interviewing as quoted by Greeff (2002: 293), as indicated above there are different viewpoints about the way in which questions should be phrased. This will depend on the aims of the interviewer and whether or not a specific
response is required, or whether less rigidity is more appropriate, to encourage more personalised responses to the question.

Probing questions are useful when fuller responses to a question are required (Greeff, 2002: 295). Thomas (2004: 164) states that this can be achieved through two types of probes; those that are 'clarificatory' (which encourage a fuller explanation), or those that are 'exploratory' (which ask if there are any other comments or reasons for what has been said).

Greeff (2002: 295) suggests that probing can include any of the following methods:

- Contradicting
- Linking (the participant’s comment with the information that the researcher wants to know)
- Faking puzzlement
- Challenging
- Encouraging
- Showing understanding and allowing time for elaboration
- Acknowledging
- Direct question
- Procuring details

Prompts may also be used in the questioning process, which suggest answers to various questions but there is a problem with this technique. An answer might be provided, which the respondent would never have considered; thereby ‘putting words into someone’s mouth.’ Perhaps the only acceptable use of this method is when a respondent has many options to choose from and a list of alternatives is provided, from which the respondent must select one (Thomas, 2004: 164).

In summary, those involved with research should be aware of the pitfalls that are associated with the questions and interviews in qualitative research. Cognisance should be taken of the aforementioned guidelines, regarding
aspects such as ambiguity, question order and length and interviewer bias to minimise the possibility of such problems occurring.

In this study, the researcher endeavoured to adhere to these guidelines in constructing the questions that were used in the semi-structured interviews. Furthermore, a selection of these questions were sent to the main respondent, to indicate areas that would be covered in the interview and to assist in determining any relevant documentation, which could be used as background information to the case study.

3.2.2 An outline of the questions
According to Leedy and Ormrod (2001: 159) quoting Silverman (1993) questions that are used in interviews can relate to any of these topics:

- Facts (for example, biographical information)
- People's beliefs about the facts
- Feelings
- Motives
- Present and past behaviours
- Standards of behaviour (that is what people think should be done in certain situations)
- Conscious reasons for actions or feelings (for example, why people think that engaging in a particular behaviour is desirable or undesirable).

These examples provide a sound basis for deciding on which topics should be introduced in order to elicit the information required and were duly considered, when compiling the questions for this study. Those deemed most suitable were selected.

3.2.3 Compiling the narrative
Once the interviews were completed, the data was transcribed into an in-depth narrative and common themes were identified, which enabled the qualitative data to be analysed.
Comparisons were made between what business features were important, before and after the changes to the organisation and conclusions drawn from the results.

In addition, the suitability of the constructed business model was discussed and its relevance to the organisation was determined.
4 INTRODUCTION

Chapter Three described the methodology that was used in this study, which will now be briefly overviewed. The process began with a number of semi-structured interviews that were conducted with the four key figures at Algoa Bay Council for the Aged (ABCA), who are involved in the management process of the organisation. These were the Chief Executive Officer (CEO), the Administrator and the two Project Managers.

Although the staff complement of the organisation is 43, it was decided that for this particular study only those who were responsible for implementing policies would be interviewed. Furthermore, the period under discussion was 1994 until the present time, with more emphasis being placed on the last five years, due to changes in the latter period having greater impact on the organisation. Direct quotes by the interviewees are italicised, without identifying the staff member.

The semi-structured interviews were recorded by the researcher and given some basic structure through the use of a number of open-ended questions. Subsequently, some of these questions had more relevance than others, while some topics received more emphasis, due to the input from the interviewees, but this was determined during the transcribing process.

The content of the interviews was used to develop the following narrative, whereby data was placed in chronological order. A summary of the discussion concludes the chapter.
4.1 **ALGOA BAY COUNCIL FOR THE AGED (ABCA)**

The Algoa Bay Council for the Aged (ABCA) was established in 1961 to co-ordinate the services being rendered to the aged in Port Elizabeth. Three years later, it was registered as a welfare organisation (WO) and during the next thirty years, continued to expand its services for the elderly. A brief history of the organisation is attached in Annexure A.

These services included three service centres for the aged; a 55 room residence for members who were fit and mobile; various Home Help Schemes; a number of weekly clubs for senior citizens and ventures to generate funding, which included a thrift shop and Century Club Draw (to raise funds for frail care at the 55 room residence). In addition, as a registered welfare organisation ABCA received subsidies from the government, which were increased annually, in order that both running costs and salaries were in line with inflation. This continued until 1993.

However, the following year was a significant one for South Africa, for it heralded the country’s first democratically elected government and in terms of the registered welfare organisations it brought forth a change in government policy. The annual subsidies were not increased in 1994 and up to the present time, have remained the same as they were in 1993.

Furthermore, in order to continue receiving the government subsidies non-profit organisations (who were under the auspices of the Department of Social Development) would have to comply with certain conditions. This included the compilation of a Service Plan that had to conform to specific guidelines. Over the years, the format of this document has undergone a number of changes and from this year is referred to as a Business Plan.

According to one of the interviewees, *with this new document they [the Department] use more business terms; but it is actually the same thing. It's an explanation of what your objectives are and how you expect to meet them and what your activities are going to be, in line with reaching your objectives. A copy of the Business Plan is attached as Annexure B.*
Before 1994 a far more informal Service Plan was in place. *This was very much based on the work that we were doing with individuals and each individual scored a point, depending on what their social problem was and then your number of points specified the number of social worker posts that you had in the organisation.* In addition, statistics were regularly submitted (as they still are today) to record the number of people that are using the organisation’s services on a daily basis.

Furthermore, the Department of Social Development (hereafter referred to as the Department) changed its policy in terms of admission into old age homes. Until 1994 there were three categories for admission, all of which were subsidised by the government. Any person could be admitted into an old age home, whether they were classified as being in Category One, Category Two or Category Three, with the last one referring to the frail aged. With the change in policy, only elderly people who were in the third category would be accepted into an old age home, where they would continue to be subsidised by the government.

This is a brief introduction to the Algoa Bay Council for the Aged in Port Elizabeth and the reasons for it adopting a more formalised approach to the management of its organisation.

### 4.1.1 Organisational impact of change

The changed policy of the government forced ABCA to *adapt our services to cope with the impact that has had on the elderly community.* Now that only the frail aged would be subsidised in old age homes, it was necessary for the organisation to react to *develop more supportive services* to assist clients, who would now have to remain in their own homes. While government policy has forced ABCA to *react* to the changes, the organisation decided that in some instances a *proactive* approach would be more appropriate. *Knowing that the government is moving in a certain direction, it may be more suitable to align your services with what is happening on a policy level.*
The organisation’s clients fall into two distinct groups, economic pensioners and sub-economic pensioners. The Department classifies those with an income of R1350 per month or less as sub-economic pensioners, while those with higher incomes are economic pensioners. ABCA works with a different figure, defining sub-economic pensioners as those who have an income of less than R1480 per month. We’ve adjusted for the increase in pension and allowed for a bit of a gap. This allows us a bit of leeway without having to keep changing our scales when the pensions go up.

In terms of the services that it renders, ABCA’s ability to charge for what it does is linked to income and although pensions have been increased annually, these increases have not gone up substantially, to actually give them [the clients] a better quality of life. The aged have had to pay more for essentials such as medication and personal care and it is therefore difficult for the organisation to significantly improve on its service delivery with these types of constraints.

4.1.2 Extension of services

In addition, it was expected that non-profit organisations would extend their activities to include all races, as part of South Africa’s transformation process. Although resulting in some negative aspects for those race groups that had previously benefited from subsidised care, the government’s policy has had positive effects for other race groups. Having been excluded before 1994, these people could now benefit from admission into frail care, which was still being subsidised. Furthermore, it was expected that other services being rendered should be available to all pensioners, regardless of race or culture.

Some non-profit organisations that attempted to do this were forced to close, due to the lack of funding to accommodate the process of change. Not wanting to introduce services that could not be sustained, ABCA adopted a more conservative approach that was not always seen positively, particularly in terms of transformation, but enabled the organisation to survive.
Fortunately, there have been some years when ABCA has been able to build up cash reserves and these have been drawn on by the existing services. In addition, fundraising and donations have enabled the organisation to cross-subsidise various projects and maintain those of longer duration, such as Home Help and the service centres.

4.1.3 Other organisations

Other non-profit organisations have sometimes had a different perspective. For example, at a conference held by the South African Association on Homes for the Aged, attended by some of ABCA’s staff, the Association’s feeling was that the percentage of funding given to them by the government was rather small, in relation to the amount of pressure that the government was putting on them and they were talking more along the lines of becoming a service rendering organisation to primarily economic aged.

Because the government was not providing sufficient funding to assist the sub-economic aged it was felt that it was not the Association’s responsibility to deal with the problem. Rather their responsibility was to the people that have already bought into our scheme and to make sure that we are financially viable and if there’s too much pressure put to bear on us we are going to become an organisation focusing only on those that can afford to pay for the service they are receiving. This would mean opting out of the subsidisation and effectively becoming more of a business than a welfare organisation.

This feeling that the small amount of the subsidy did not warrant what I feel is unnecessary red tape, a lot of statistics, an extra work load and extra staffing was shared by one of the interviewees. Furthermore, what’s been a bit frustrating is that ten years ago the actual total amount of our income percentage received from the government might have been say 40 or 45 per cent, whereas you take our current financial year, I think it’s something like 15 per cent.
4.1.4 Other options
Notwithstanding, other options such as becoming a Section 21 Company may still be restrictive. There is not going to be a big change operationally from being a voluntary organisation in Section 21. It’s a lot more onerous because you now fall under the Company’s Act and there are all sorts of strict financial statements, financial reports that you have to render to the Registrar of Companies.

Essentially, it wouldn’t change the operation except from the way the Board is constituted. You’ll have your Board and basically they will stay there in perpetuity, whereas a voluntary association you’ve got these annual re-elections, which can become a bit of a problem because if different people are being elected every year, you don’t have this continuity. So from the Board of Directors side and for continuity and that type of thing that would be an advantage of being Section 21, but probably the only advantage.

Notwithstanding, the interviewee did agree that being able to invite people on to the Board would also be an advantage. It’s important in an NPO setup to have the right calibre of person there, not just the right qualifications but the right heart. They must honestly care about the old people and they must honestly care about the future of the organisation.

Yet there is another option. Some of them [the non-profit organisations] are forced to become a private company because they’ve got income generating projects. ABCA for example, has taken ownership of Buffelsfontein Village and become the registered owners of the property in February this year (2004), although negotiations were started five years ago. It took quite a lot of persuasion with the Management Board to actually go ahead with the project for it had been owned by the municipality and had run at a huge loss. The Board was concerned about the risk of such a venture, as well as the size of the project compared to what had previously been undertaken and were unsure of the organisation’s ability to cope with all that it entailed.
Although this could ultimately become a profitable venture, at present the charges for services rendered do not always cover the costs. In spite of this, some organisations are managing to be profitable, in which case if you are running all sorts of commercial things you are no longer a Public Benefit. Then you're actually a private company.

Some organisations are taking advantage of both options by splitting their company. One arm of our company will be the welfare organisation. We will then have a separate, call it fundraising arm where we will actually invest money in projects and run it commercially and whatever profits we generate we'll plough back into the welfare organisation. In terms of ABCA, this is a distinct possibility for the future.

4.1.5 Changes in the organisation
Following on from the initial impact of the government’s policy, some of the changes that have taken place have been social work sessions at Ekuphumleni Home for Black Aged in Zwide, Port Elizabeth, in 1997 and the inclusion of other race groups as part of the office staff. In addition, services have been extended to needy people who are aged forty and above. A number of residents at Cuylerholme, for example, represent this latter group.

In addition, other transformation projects have been in the pipeline for some time but continue to be postponed, due to a lack of funding. This is partially due to the change in government’s policy since 1994 and to the fact that those subsidies that were withdrawn from the old age homes have not been redirected into other services for the elderly.

4.1.6 Summary of initial status
Prior to 1994, there were annual increases in the government subsidies that assisted non-profit organisations with their salaries and running costs. Furthermore, the provision of subsidised care for all aged people requiring admission to old age homes enabled ABCA to deliver a better service to their clients.
Since then, the inclusion of other race groups has meant that services for the elderly are moving in a direction where there will be a more representative client base and the potential to accommodate the needs of a greater number of people. Countering this is the lack of funding to expand such services and the possibility of closure for those non-profit organisations that attempt to make the adjustment and fail, because they lack the resources.

Furthermore, in order to receive government subsidies non-profit organisations must now comply with certain criteria concerning the way in which their organisations are managed. This has impacted on all stakeholders in the non-profit environment and will now be addressed in the following paragraphs.

**4.2 IMPACT ON STAFF**

By reason of its existence, a non-profit organisation has traditionally been focused on the needs of the particular community that it serves and therefore, unlike business, has not operated on a for-profit basis. In addition, those employed in the non-profit environment have been those individuals who are skilled in the ways of assisting the needy; in particular, social workers or those with a background in the social sciences, rather than those with a background in business. With the changing focus in non-profit organisations, it is becoming essential that staff is equipped with skills for both business as well as social work.

Two of the interviewees were of the understanding that the Department was now subsidising projects rather than salaries and running costs. *For us the fear was that it sets you with a time frame. It has put stress on us for funding for they’re often changing the Service Plan that we have to submit. Now you have to do so much other, outside fundraising. We’ve just been given a new Business Plan, with a new format and then training happens after you’ve got the manual. Although the Department intends moving towards subsidising projects rather than salaries and running costs this has not yet happened in the Eastern Cape.*
In addition, the government has changed the emphasis from casework (that is, providing assistance and compiling case reports on a one-to-one basis) to community work. There are so many little things that we do that do not carry much priority but are very necessary, for example casework. The Department has said don’t do casework; community work is what we are supposed to be doing. It was strongly agreed that this can sometimes be difficult, as the need for casework is still there, particularly in the area of residential care.

While the staff has had to adapt to these changes, the promotion from Senior Social Workers to Project Managers has been welcomed. We’ve all adapted as we’ve gone on and some of the changes have been positive. For example, there is a need for a lot of input from staff for the Business Plan. So there has been more consultation with staff and the promotion to Project Managers has also contributed to this. We are consulted more and are able to give more input.

By contrast, one of the interviewees felt that there was no difference in the way that the work was being done. It's just that they changed the wording to Project Manager but all along you've managed projects as a social worker. You did casework for your client or your customer, whatever care or assistance the client needs, that's what you did.

Another interviewee felt that the job profile had changed, now that the Senior Social Workers had become Project Managers. They now have to have some kind of financial idea; they have to know what a budget is and how to submit a budget and then thereafter how to monitor your budget, your expenditure and income. So they’ve needed some training there.

Initially, they were employed as social workers and their skills were confined to social work that they were trained for. Now they are Project Managers they’ve got to know something about finance, they’ve got staff working under them, they’ve got to know something about Basic Conditions of Employment, they’ve got to know something about how to discipline staff, how to conduct disciplinary hearings.
Although the profile for the Project Managers (both in name and duties) has become more akin to what it would be in a business environment, *performance objectives for staff* have not yet been implemented. This was because the interviewee felt that without comparative salaries and working conditions, this was not as yet a viable option.

### 4.2.1 Other staff members

The changes have affected other staff too, *because they've had to learn about drawing up these plans*, the non-professional staff like the Organisers and the Housekeeper. *They've been involved with meetings, in planning meetings, what objectives are we wanting to reach. They've had input.*

Furthermore, the requirement for a Business Plan has meant that more staff members have to be involved in the process of compiling the document. *I think it's improved the functioning of the organisation because there is more communication and I, for example, know more what the Organisers do and they understand what we [the Project Managers] are doing.* Murphy (2002: 232) reiterates the importance of communication in the change process, if there is to be a likelihood of success.

Not only has the Business Plan been responsible for these changes, a previous Chairman of the Management Committee identified the need for more input by all staff. *My understanding was that the Chairman of the time wanted the Director to delegate her responsibilities and wanted us to be more hands on in supervisory positions. He set the ball rolling. You can thank him for a lot of the transformation that took place in the short time he was here. He really felt that we had to move quickly and transform. It was the first time that the social workers physically sat down with members of the Board.*

### 4.2.2 Staffing issues

In addition to the formalisation of the organisation, staffing issues are also becoming more stringent. *Although the Basic Conditions of Employment Act have always applied to non-profit organisations and ABCA has always been strict about that, it's now far harder to get rid of, well not get rid of somebody,*
but discipline somebody than it was previously, in that you’ve got so many requirements that you have to follow, so many procedures that have to be done precisely, otherwise they are null and void.

4.2.3 Staff transformation problems
Transformation of the staff has also become a requirement, with all race groups occupying a variety of positions within the organisation. While this is more representative of South Africa’s population, other factors are affecting the need for change.

Many social workers (from all race groups) are opting to work overseas. It’s rampant. The living costs are higher but the social workers say the working conditions are so much better. You’ve got a much smaller client load; the work that you’re doing is more intensive and far more rewarding. Lots of organisations have lost social workers to overseas. This has in fact now happened at ABCA, with one of the Project Managers having resigned, in order to work in England for three years.

This aspect has even affected the government department and they are talking about social work being a short skills profession and they’ve been talking about it and looking at ways of addressing it from the salary point of view but that would be within their own department. Notwithstanding, the public sector is already paying higher salaries, which makes employment in non-profit organisations a less attractive choice.

Yet according to one of the interviewees, there could be possible solutions to these problems if non-profit organisations continue to become more like business. This may mean you might have a bit more freedom to render services that are not necessarily rendered by qualified social workers. You could make more use of Community Developers, Social Auxiliary Workers or other professions. This could well alleviate the problem of the shortage of social workers, if the services and providers were appropriately matched. May be that might be a positive in the future, that we won’t be regulated to only having social workers rendering services.
4.2.4 Volunteers

Volunteers have also formed a large component of the non-profit workforce, with interest in a particular organisation or altruism, being the motivation behind their desire for inclusion.

There are various ways in which volunteers can assist their chosen organisation. At ABCA volunteers are involved at the service centres with such activities as fundraising, arranging bingos and hairdressing; serving on the Board of Directors and pricing stock and serving customers at the charity shop. An acknowledgement of the work that the volunteers do is shown in Exhibit 4.1 below.

Exhibit 4.1 Algoa Bay Council for Aged: Volunteers

VOLUNTEERS
Our volunteers are active at our centres, on our Board and at our charity shop.

A sincere thank you to all of you for the wonderful work you regularly do in support of ABCA and for sharing our vision of promoting independence and empowering people to lead meaningful and fulfilled lives.

Source: Annual Report No: 41(1) April 2003 to 31 March 2004:12

As an unsalaried worker, conditions that apply to employees do not always apply to volunteers. Nevertheless, it has been shown that managing the volunteers as though they were professionals encourages volunteers to behave like professionals (Issues in volunteering, 1999: 16).

At the same time, those volunteers who are failing to fulfil their role in some way in the organisation can now be fired, which would once have been considered unthinkable and still remains so, to some people (Issues in volunteering, 1999: 16). Conversely, more stringent guidelines for volunteers, like the Service Contract with the clients can mean that the organisation runs more efficiently and with an understanding of what is expected from all parties.
Following from this argument, in the more regulated working environment that has been mandated by government, it is increasingly likely that guidelines for volunteers may be introduced. *It has become quite a difficult area and one has to be careful, if there should be an accident and they get injured.*

There are for example, already more stringent rules concerning the need for insurance and compliance to the prescribed conditions, so that in the event of accidents claims will not be rejected. Non-profit organisations who operate informally, or who choose to ignore such rules or guidelines could face further depletion of funds, should a volunteer for example, decide to sue the organisation for injuries or loss incurred while assisting in their organisation.

Furthermore, running the organisation on more business lines may affect the type of volunteer that is wanted. *There are different areas where we need volunteers.* In particular, more professional help is needed, for while it is relatively easy to find volunteers to assist at fetes or to *sell boerewors [sausage] rolls, we now need people who are going to render a highly skilled service to you, that’s going to release other staff for you. People like retired accountants or retired bookkeepers. So those are the kind of volunteers that we definitely need but they are hard to come by. Every year our budget for staff expenses is going up and up and every year we are wanting to expand. If you are going to expand and offer new services you have to have personnel to man them and we can only really do that if we have volunteer staff. It would also release more finances towards service delivery. I think we’ll really have to aggressively follow this through and find the right type of people.*

### 4.3 IMPACT ON CLIENTS

On the one hand, it was felt that the changes within the organisation had not curtailed ABCA’s service delivery. *We’re more goal-orientated. When I work, I often think in terms of what are our objectives. I’m more focused on what needs to be done.* The Project Managers felt positive about the division of their work into two distinct areas, the one being Community Care and the other, Residential Care. *So we basically know where our responsibilities are.*
While there was no reduction in the quality of service being provided, the services themselves have been reduced in some instances, for example, the changed focus from casework to community work. It is in this respect that there is a feeling that services have been somewhat curtailed.

The change in the Department’s policy has also had an impact on the recipients of the services that are provided, that is, the clients. According to one of the interviewees at the moment the government is still, with this new legislation wanting the elderly to run their own projects. They want the elderly to be active in the running of it [the organisation] but speaking to the elderly and also having done a small survey [with another organisation that works with the elderly] they just don’t want to do that. Although the elderly are interested in being on the committee they are not actually interested in running it [the organisation], paying out salaries, seeing that the buildings are maintained. They just want to come [to the service centres]; it’s something like an extra-mural activity, they want to enjoy it.

If it were possible to implement such a policy, it could change the staff complement and reduce salaries and administration costs, which may, of course be the Department’s motivation behind the idea. Notwithstanding, as matters stand at present with the clients, such a turnaround is unlikely.

4.3.1 Other clients
Yet there is an interesting aspect, if one considers that ABCA’s clients are no longer restricted to the elderly. Over the years it has changed, due to economic circumstances. We deal with not only older persons but what we call them, the people with special needs, forty years and over. Although ABCA’s core business is still to help older persons stay independent for as long as possible and our services are geared around that aim. Should this group of people become interested in the management of the organisation and the work entailed fall within their scope, then a possible compromise could be achieved between a salaried and volunteer workforce that handles the administration and financial areas.
4.3.2 Customers or clients
In terms of the clients, a very recent development has been a directive from the Department to change the term clients to that of customers. *I think it's more along this principle where you render a service, with people first.*

The interviewees had different opinions as to what these words would mean. *It might be the wrong definition of customer but one has the concept that it is a paying customer...whereas a client, there again you may be wrong but you have a perception, that they're on the receiving end of charity and there may be no payment involved; a customer is the way that business refers to its clients; customers know what they want and need you as a link, whereas clients are dependent on you for help.*

Another interviewee was *uncomfortable with the word customer* as it was a word more associated with *those who pay for services*. Furthermore, the interviewee felt that some recipients could rather be described as *patients more than clients or customers, because of their particular needs.*

It is significant that customers and clients are seen to be different, as they are used interchangeably in the literature (Johnson & Scholes, 2002: 596; Loewen, 1997: 109; Slack, *et al.*, 2001: 753). Yet it may be difficult to categorise the recipients of the services provided by ABCA: for while they are paying for services; in some instances the amount paid does not enable the organisation to recover its costs.

Although they [the clients] are still in the receipt of charity it's becoming more important that they are satisfied with the service that you are rendering and that they have more of a role in determining what your service should be. *The customer comes first and you render the service according to what the customer's needs are, not what you are prepared to hand out in the way of charity.*

Furthermore, now that the clients have become customers (and this term will be used for the remainder of this document) this should also change the
approach to service delivery. *Staff need to be more sensitive to the way they relate to clients, customers, the public. We are here to render a service and must be seen to be professional, we must be seen to be sympathetic, empathic and those sort of things. It’s hard sometimes, particularly with certain people.* Staff should also take cognisance of the fact that people are now more aware of their rights. *If you deny someone a service they can go and complain that they claimed for a service that was not given to them.*

Yet matching customer service to customer needs is still fraught with difficulties in a non-profit environment, despite the best intentions of the service providers and the entitlement of the recipients. The customers are not always satisfied with the service, especially when they want assistance in areas where the organisation’s policy dictates that they should resolve these issues themselves, in order that the aged retain their independence.

However, due to the more formalised approach that is being adopted in the management of the organisation, problems associated with customer dissatisfaction can now be countered by *referring to the service contract*, which will state exactly what conditions apply, *so everybody knows or should know how far the contract between the two of you stands. It’s not open-ended that we are going to care for you.*

Once again, dealing with customer problems in a more formalised way is more in line with the way in which it is done in business. By effectively moving away from the informal approach that was more typical of non-profit organisations, there should be less conflict for all parties concerned.

### 4.4 IMPACT ON SERVICE DELIVERY

The customer base of non-profit organisations is different to that of business, for the former has a limited income, whereas business can attract customers from a range of income groups, from low to high. Furthermore, the quality of service that ABCA provides is determined by its funding and therefore tends to attract the aged who are mostly in the sub-economic bracket.
ABCA cross-subsidises services where possible; for example, there are four categories of costs for the meals that are served at the service centres, which are dependent on the person’s pension. Although the meals served are the same for all categories, those who pay more are subsidising those who pay less.

Receiving the same service, despite a difference in cost can be problematical as the aged in the higher income group are often frustrated with the quality of the service or the quantity of the service with regard to the meals that are served. This also applies to the accommodation for the aged. If the premises start to deteriorate because you haven’t got the funds to renovate, your sub-econimic pensioner might accept that more because that’s the environment that they come from but the economic pensioner will not wish to be associated with that type of environment.

At Buffelsfontein Village the type of problem indicated above is more easily rectified, as the residents have their own cottages or flats, although they share the communal bathroom facilities. Residents are expected to do the interior renovations and many of them beautify the external passages as well. In addition, they are encouraged to install fitted cupboards and improve their homes in whatever ways they can. This situation has benefits for both the organisation that is often lacking sufficient funding for such work and ensures that the residents retain certain controls over the way in which they live.

Despite an increase in the administration work, the staff feels that there has not been a reduction in the organisation’s service delivery. As I’ve said, we are more goal-orientated. So it has had a positive impact on our service delivery. I don’t feel that it curtails community work or our casework, because it’s once or twice a year that we’ve got to do these projects.

Conversely, one of the other interviewee’s felt that there had been no impact, not really, yet. Maybe they [the Department] are also understaffed, I don’t know. They haven’t put on so much pressure as in when they come for
regular inspections and see that their legislation is implemented. Therefore, in terms of the work being done, oh yes the staff were still functioning well.

Another interviewee was also positive about the staff’s service delivery. We have always prided ourselves in our level of service. Rather than cut down on that service, we would rather budget for deficits in different divisions and somehow hope that at the end of the day we’ll breakeven. The second thing that we’ve always prided ourselves in is the actual quality of our service but this has put our staff under tremendous pressure as every year we are getting more and more clients added to our lists and now the staff members have all sorts of extra responsibilities. So it’s quite difficult.

4.4.1 Customer satisfaction

Despite the efforts of the staff, the service delivery may sometimes seem to be in conflict with the desires of the customers. Such a situation is the organisation’s policy at Buffelsfontein Village where no casual transport will be given to the residents, even if the destination of the staff member and resident is the same, for example visiting the hospital or driving past a shopping centre. The organisation’s policy is to encourage the residents to establish good relationships with their neighbours, so that mutual help is available in areas such as transport.

In this respect, the customers are not always satisfied with the service that is provided, as the above scenario illustrates, as well as the change from a longstanding to a finite support service from the social workers. Here again, there is a difference between non-profit organisations and businesses, where the latter would strive to create customer satisfaction, rather than lose the custom to a rival business.

The situation is more complex in non-profit organisations where the funding or resources are not always available to meet or exceed customer expectations. Furthermore, in the case of the aged, encouraging dependency is not considered to be in the customer’s best interests and in terms of ABCA would be acting in direct conflict with part of its vision: ‘That these services will
promote independence and empower people to lead meaningful and fulfilled lives.'

The complete vision and mission of the organisation is shown below in Exhibit 4.2. This statement drives the way in which the organisation operates in rendering a service to the elderly and those with similar needs. The aims of the organisation are detailed in the vision and how these aims will be achieved, are detailed in the mission.

Exhibit 4.2 Algoa Bay Council for Aged: Vision and Mission

VISION

ABCA will be a recognised, dynamic, financially viable non-profit organisation providing a diversity of services to older persons and those with similar needs in the community of the Eastern Cape. These services will promote independence and empower people to lead meaningful and fulfilled lives.

MISSION STATEMENT

ABCA will at all times:

- Adhere to the principles as contained in the United Nations "Declaration of Rights of the Elderly"
- Campaign against Elder Abuse
- Take a leadership role in promoting the concept of community care of older persons
- Work as a dedicated and compassionate team to bring about a brighter future with a better quality lifestyle for those we serve
- Make services, including accommodation and care, appropriate, accessible and affordable to all, regardless of any affiliation
- Prepare people for the challenges of ageing through skills development
- Forge relationships with funders, maintaining accountability
- Develop and operate projects that will generate income, improve financial viability and enable the funding of services to the needy
- Work towards a supportive and nurturing environment for those we serve, our volunteers and staff

Source: Annual Report No: 41 (1) April 2003 to 31 March 2004
4.5 IMPACT ON DONORS

Donors want assurance that their contributions are being used to benefit the recipients of the service and as such, generally approve of a more regulated organisation. However, it would seem that few people are keen to pay the salaries and administration that make such transparency and control possible.

They’re [the donors] not at all keen to give more money and so what happens, what the organisations do they all like tap into their reserves and like last time, the government took about almost plus minus four or five months to pay out the subsidies. That means that they actually just gave us the subsidies in time. This type of situation places a great deal of stress on the organisation in terms of its staff as well as its ability to deliver the services. A lot of the organisations did close their doors down, while the subsidy wasn’t there.

Yet in some ways, ABCA seems to be reaping the benefit of a more business like approach, in terms of attracting donors. For example, a doctor who is currently hoping to establish a clinic at Bufflesfontein Village wanted to see some documents that are used for donors. I gave him a copy of our Service Plan and he was very impressed with the way it was set out, all the details of every aspect, who was on the Board, plans for the next year. It was very transparent. All the staff had input.

By managing the organisation so that it becomes more like a business is likely to be worthwhile in the long run. For businesses don’t understand what welfare is. We need to move with the times and a more professional approach to funding suits the donors far better, especially those donors who are themselves in business, but are interested in supporting a non-profit organisation.

Exhibit 4.3 shows a list of ABCA’s donors for the period 1 April 2003 to 31 March 2004. The list includes local businesses and organisations, individual contributors and religious organisations.
Exhibit 4.3 Algoa Bay Council for Aged: Donors

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<tr>
<th>DONORS</th>
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<tbody>
<tr>
<td>Sure Jet Travel</td>
<td>Holy Trinity Church</td>
<td>Mrs J Anderson</td>
</tr>
<tr>
<td>Amanzi Plumbers</td>
<td>Mrs Sonnen</td>
<td>Mrs Hughes</td>
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<tr>
<td>Rotary Club of Algoa Bay</td>
<td>Fischer Hoffman PKF</td>
<td>Mrs N Schramm</td>
</tr>
<tr>
<td>Mr HC Williams</td>
<td>Mrs E Simpson</td>
<td>Mrs D Budler</td>
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<tr>
<td>Makro</td>
<td>Mrs Broadbent</td>
<td>National Council of Women</td>
</tr>
<tr>
<td>Christmas Cheer Fund</td>
<td>First National Bank</td>
<td>Union Of Jewish Women</td>
</tr>
<tr>
<td>Theodor Herzl School</td>
<td>Miss Shaw</td>
<td>Algoa Sun</td>
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<tr>
<td>Nulaid</td>
<td>Star Bakery</td>
<td>Walmer Park Shopping Centre</td>
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<tr>
<td>Coca Cola Fortune</td>
<td>SASKO</td>
<td>LC Packaging</td>
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<tr>
<td>Stamford Sales</td>
<td>Pick 'n Pay East Cape</td>
<td>Pier 14 Shopping Centre</td>
</tr>
<tr>
<td>Bransion Enterprises</td>
<td>Die Burger</td>
<td>Tea &amp; Coffee Distributors</td>
</tr>
<tr>
<td>Spec Savers</td>
<td>Temple Israel</td>
<td>St Johns Methodist Church</td>
</tr>
<tr>
<td>PE Express</td>
<td>Mr Neville Copley</td>
<td>Apostal Unity Church Charlo</td>
</tr>
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<td>Xerox</td>
<td>Printrite</td>
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Source: Annual Report No: 41 (1) April 2003 to 31 March 2004

4.6 MOVING TOWARDS A BUSINESS ENVIRONMENT

ABCA has already officially changed some of the titles within the organisation to those more commonly used in business. The Director has become the Chief Executive Officer, the Management Committee has become the Board of Directors and the two Senior Social Workers are now Project Managers.

One of the interviewees mentioned the use of *buzz words* that were associated with business being used by the Department, such as calling the clients *customers*. *It's good to use these words in funding terms, if you do your Proposal, to get funding.*

The structure of ABCA has also had to change, as the Chief Executive Officer's duties had expanded considerably. While previously all staff was subordinate to the Director, a new level of management was introduced with the upgrading of two social workers of long-standing, to the posts of Project Managers. These individuals are now responsible for the two biggest divisions of the organisation, community services and residential services, which has
released the Director (now the Chief Executive Officer) and Administrator to fulfil other duties.

Although this is a more tenable situation, there is still a need for skills training for the Project Managers who are involved with day-to-day issues, such as the drawing up of objectives but are not up to speed with the budget side of the Department. Furthermore, creating these new positions has changed other duties that were previously part of the social worker’s job.

No longer are people on the social worker’s books indefinitely. This change is also in line with government policy where we see someone, we attend to their immediate problem, we give them the tools to cope with their problem and then move out again, so that cases are now of short duration. The Project Managers must do more community work that involve larger groups and less casework with individuals.

This change in focus has freed up some time but as well as the increased community work, there is a large group of residents at Buffelsfontein Village and because of this, ABCA tries not to create too much dependence. Although some could see this as less caring, the organisation has realised that it cannot replicate the service that has been rendered to the 56 residents at Cuylerholme, to the 400 residents at Buffelsfontein. The former for example, can have their shopping and medicine delivered to them or be driven to the shops; a type of service that many of the frail aged do not receive in old age homes, where the onus is on the resident to arrange how these needs will be addressed.

Notwithstanding, becoming more akin to business was generally seen as being positive. It’s going to keep us on our toes and also to give a valuable and quality service to clients.

4.6.1 Section 21 Companies – Company Act, 61 of 1973
One alternative to the current set-up would be a more formalised organisation, such as a Section 21 Company. This type of company involves stricter
reporting and registration requirements to retain Section 21 status. Exhibit 4.4 briefly describes a Section 21 Company, which can be either for-profit or non-profit. Further details about these as well as alternative structures are to be found in the booklet ‘Legal Structures commonly used by Non-profit Organisations.’

Exhibit 4.4 Description of a Section 21 Company

3. Section 21 companies

What is a Section 21 company?
Section 21 of the Companies Act 61 of 1973 allows for a ‘not-for-profit company’ or ‘association incorporated not for gain’. Section 21 companies resemble business oriented (for profit) companies in their legal structure, but do not have a share capital and cannot distribute shares or pay dividends to their members. Instead they are ‘limited by guarantee’, meaning that if the company fails its members undertake to pay a stated amount to its creditors.

Example
You may choose to be a Section 21 company if you are a large organisation like a development foundation, because a company has a well developed legal structure and its methods of operation are familiar to the business world.

Source: Legal Structures commonly used by Non-profit Organisations, Legal Resources Centre: 2001

Should ABCA change to being a Section 21 Company, the biggest difference would likely be the management structure. People in these types of companies are invited to serve on the Board, which is in office for a particular duration, with some members being paid. One of the benefits of this system is that individuals could be selected because of their particular expertise that could enhance the organisation, for example, individuals with a financial or marketing background. In addition I do foresee that it allows you more control over who your Board is going to be and it’s more stable as well.
Furthermore, the possibility of ABCA becoming a Section 21 Company has also been mooted, for the question of a voluntary Board can from time to time be a problem, from a lack of commitment point of view, from an availability of time point of view and from a sustainable point of view. Pressure is put to bear on you to have sufficient board members that have to be representative and that they have to have skills, although as yet there is little incentive for other race groups to participate. (It was stated earlier that transformation has been slow, due to the lack of funding and ABCA’s determination not to implement services that cannot be sustained). Therefore, the organisation struggles to meet the criteria for a Board.

In addition, the Board members themselves are not always committed to problems that can occur within an organisation. This could include issues relating to staff or misadministration. You could have a wonderful organisation, rendering a wonderful service, that encounters a hiccup that the Board members aren’t prepared to see it through and without a Board an organisation cannot function and you’ve got no hold on those people apart from their moral obligation to society. Furthermore, should the entire Board choose to resign, the whole organisation could disintegrate if insufficient people were found to replace them, which is a weakness of this particular type of management style.

Although only two interviewees fully understood what a Section 21 Company actually entailed, being able to choose the Board members was considered to be a positive factor, as the best people for the work could be identified and selected for office. In addition, one interviewee stated that it has implications for funding, as I think that a lot of companies could make their donations tax deductible.

As a Section 21 Company organisations are still eligible for state subsidies and can receive donations. It’s a more structured organisation which we’ve been told gives you more credibility with the business sector. It runs more on company lines, part of the Company’s Act, not the Welfare Act. Yet moving in this direction may be more applicable as an organisation becomes larger, with
more responsibility and more people in a sense dependent on you and therefore you need to look at maybe going beyond this term of *we are a voluntary association* to ensure that any problems are addressed in the best possible way.

Some of the negative aspects of this type of business are that *a lot of the controls of the Section 21 Company from your Board point of view, conflict with the Department of Development's criteria for management boards*. At a recent conference this aspect was mentioned by some organisations that had changed their status to become Section 21 Companies.

### 4.6.2 Additional controls by ABCA

Although ABCA has not changed to a Section 21 Company it has *tightened up on the membership side of its organisation*. Individuals can no longer become a member automatically, for they must now apply for membership and the Board screens their applications. *If they [the Board] feel they have valid grounds for not wanting you as a member they can refuse your membership, but they will obviously have to justify the reason for refusal.*

In addition, individuals must be members for 90 days before they can be elected as serving members, *so that the Board has a chance to see whether you are or aren't going to be a reasonable member*. This is to avoid the situation where someone may be elected who could *cause serious damage to the organisation, because they have ulterior motives or an unstable personality or whatever it might be.*

This move towards changing the requirement for ABCA membership and considering a different system of management was a direct result of problems that the organisation encountered with a small group of members, who were *exploiting the membership participation aspect of a non-profit organisation*. There was almost a *takeover* of the Board as well as the direction of the organisation, which is possible in a non-governmental (NGO) environment and does not violate any law. Welfare organisations are at risk in this way *because most of your members join as a kind of donation and are not actually*
interested in the running of the organisation. Members often have no interest in voting or attending the Annual General Meeting.

Because of this incident ABCA was forced to reconsider its constitution and these types of issues. Becoming a Section 21 Company would prevent a similar happening in the future, although no final decision has yet been made to change its status.

The impact of the above problem with certain members of the management committee has led to a positive outcome for the organisation. These members were insisting on more meticulous attention to management details, as a somewhat *laissez faire* attitude seemed to have prevailed. The impact of this was a determination to *put the house in order* and ABCA was forced to realise that the rendering of services is not *the be all and end all but must include the business side to secure the service aspect.*

In addition, one of the more recent Chairmen with a background in business felt that it was necessary for the organisation to adopt a more *business-orientated approach.* While *some of the Board didn’t buy necessarily into the whole aspect that each division must run on a breakeven basis,* they *did buy into the question that we should be run on more business lines.*

With the increasing financial pressure on the organisation it was necessary to review *cost effective service and those sorts of things and the banks also pressurised us into looking at more sort of core functions, and looking at areas where we can downscale what we are doing to focus on more developed aspects of service.*

Not only did these factors contribute towards the organisation achieving those ends, regular meetings were scheduled with those staff members below the top level of management but above the level of those in domestic employment at ABCA. This enabled far greater *communication* between all staff as issues from each level could be freely discussed and passed on to the top level of
management. This has encouraged a new culture of participation from all within the organisation.

Furthermore, ABCA has been a registered member of the Eastern Cape NGO (Non-governmental Organisation) Coalition since 2000. The organisation has pledged itself to abide by the Coalition’s code of conduct, which includes financial accountability and criteria for membership. This is some attempt to give credibility to NGOs. As a member people know that you are subscribing to certain ideals, that you will comply with certain financial requirements and there will be issues of transparency and good governance.

When comparing non-profit organisations and business, ABCA believes that the latter is not compelled to be as accountable and transparent in its management, as the former. Non-profit organisations are in the public eye and are therefore more exposed and must be held responsible for their actions. However, in business, the way in which things are done, especially in private companies is in effect no one else’s business.

Despite this requirement for accountability and transparency, no one seems keen to pay for salaries and administration that ensure that this is being done because they want to see all the money going to people you are serving. This poses a dilemma for non-profit organisations that are lacking the funds to attract staff with the necessary financial skills.

4.6.3 Labour legislation
Similar problems are now occurring with regard to labour legislation, for like the practice of good governance, this involves more reporting and administration that no one wants to pay for. Previously, non-profit organisations complied with the Basic Conditions of Employment Act 75, of 1997 (BCEA), which regulated such aspects of employment as the regulation of working time, particulars of employment and remuneration, leave and termination of employment (It’s my labour law, 2004: 5). This has now ‘fallen by the wayside’ and all legislation, including the Employment Equity Act, 55 of 1998 now applies to non-profit organisations.
The Employment Equity Act, 55 of 1998 addresses the need for “equity in the workplace, by promoting equal opportunity and fair treatment” (It’s my labour law, 2004). Furthermore, such legislation affects all areas of employment including salaried staff, casual labour, contractors and volunteers. Non-profit organisations must comply with these laws in the same way that businesses do, but without the same financial means. This has created extra problems, extra stress and extra workloads with some organisations having to appoint administrative managers to deal with this.

### 4.7 NEED FOR A MODEL

Having obtained a background of ABCA’s changed management style and the problems and benefits that compliance has caused the organisation, its staff, volunteers, donors, customers and its service delivery, the researcher showed each interviewee a printout of the business model that had been developed.

At first, there seemed to be some confusion between a business model and a Business Plan. However, the researcher explained that a business model was a method of doing business, which in ABCA’s case would be the way in which it renders its service delivery.

It would seem that ABCA had not considered the use of a business model within the organisation, but all agreed that the model included all the important components, although some modifications were needed. Only one interviewee was uncomfortable with the word customer and would have preferred that of client; while another was impressed by the model and the use of the word customer, which had only been mandated by the Department the week before.

Only one of the interviewees felt that another aspect should be included, that of resources, as this was an essential component, in addition to people and funding that enabled the services to be rendered. Examples of such resources were buses for transporting the aged and halls for functions.
Although some marketing was done, it was felt that this was an area that could be improved upon. *I would say we need more marketing but that would also have some negative affects because you might get more clients and would you be able to help everyone; I don’t think there’s a viable platform in this town for NPOs or NGOs to actually do marketing,* but all agreed that it was an important component of the organisation.

There was further consensus from all the interviewees that the model was an appropriate description of the way in which the organisation operated; in essence, *puts in a scheme of what you are actually doing.* By using such a model *maybe it makes it easier for other people to understand who we are and what we’re doing, cause I think there is a lot of misconception of welfare organisations. If people [business] understood that you were aligning yourself with their method of operation there would be easier understanding.*

The difference in the financial scope between businesses and non-profit organisations remains a problem. Both public and business donors want people helped and a service rendered to them but *very few want their donations to be used for salaries and administration. How can this be done, as you cannot render a service to someone strictly using volunteers?* In addition, several of the corporate donors are now *looking at the aspect of project-based funding and they do not see the individual steps required to reach that project.*

To reiterate, a business model such as the one that was designed by the researcher, would enable people to better understand how the organisation operates, who is involved and which factors contribute to the way in which the service is rendered. This would be the motivation for using such a model.

As stated in the literature review, the model could be updated on a regular basis, perhaps reviewed annually, so that any changes could be accommodated. The model would then provide focus for the strategic planning within the organisation and the Business Plan that ensures the objectives are met.
CHAPTER FOUR: Findings of the Narrative

4.8 SUMMARY OF THE CHAPTER

This chapter began with a short introduction to the methodology that was used for the research. Semi-structured interviews were conducted with the four key staff members of the Algoa Bay Council for the Aged, which were then transcribed to develop the narrative.

The methodology was followed by a brief overview of the history of the organisation and a description of the government’s changed policies in the Department of Social Development, regarding subsidies for salaries and covering costs. The effects of these policies were detailed in the narrative, relating to all components of the organisation. This included the staff, volunteers, donors, customers and the service delivery. The interviewees discussed these issues and what they felt had been the impact on all the stakeholders and on the service that was being rendered.

Other factors emerged that had also contributed to the organisation’s move towards a more business style of management, notably, a near ‘takeover’ of the Board and the influence of a former Chairman. In addition, various options for non-profit organisations were considered, such as becoming a Section 21 Company or a private company, together with the positive and negative factors associated with each.

Problems not directly related to the subsidies were also discussed. This included the current trend for social workers to seek employment overseas, due to improved working conditions and better salaries.

Finally, the interviewees assessed the proposed business model and considered the role that it might play in the organisation.

The next chapter will comprise the analysis of this narrative by dividing the case study into four themes: the rationale for changes within the organisation, implementing the changes, the impact of the changes and the role of a business model in the organisation. These themes will provide a basis for the conclusions and recommendations in Chapter Six.
CHAPTER FIVE
ANALYSIS OF THE NARRATIVE

5 INTRODUCTION
The findings from the semi-structured interviews were detailed in the previous chapter, providing an overview of the Algoa Bay Council for the Aged (ABCA) and the way in which the changes to its management structure and style of operation had impacted on the organisation and its stakeholders.

To facilitate the analysis of data, this chapter will categorise the findings into four themes. These will cover the rationale for the changes to the organisation; the implementation of the changes; the impact of the changes and the role of a business model in the organisation. These themes will provide structure for the conclusions and recommendations in Chapter Six.

5.1 THE RATIONALE FOR CHANGE
According to Steele (1989: 168-169) change can be both an exciting as well as a threatening experience. It can also be a matter of choice or necessity.

In terms of ABCA, the organisation was in need of the subsidies that were provided by the Department of Social Development. Therefore, in order to receive these subsidies compliance with certain conditions was a matter of necessity, rather than choice for the organisation.

Although the subsidies have remained the same since 1993, it is nevertheless an annual amount of funding that can generally be relied on to be paid at the specified time and in the non-profit environment the importance of its regularity cannot be ignored. Therefore, there was no disagreement from the interviewees that the organisation should comply with the Department’s
directives, in order to continue receiving the subsidies that contributed to salaries and running costs.

Continuing to receive the subsidy entailed compliance with a more formalised approach to management, which included the completion of an annual Business Plan. All interviewees acknowledged the importance of such a plan but were concerned that staff did not always have the skills for such an undertaking. Although some training had been done, more was needed. This would better prepare the staff and reduce the stress that was already being experienced, due to the extra workload caused by the increased administration. While training should preferably have taken place before the changes were implemented, the organisation is taking steps to address this, in terms of workshops and the possibility of volunteers providing some expertise in these areas.

Although there was general agreement about the need for a Business Plan, it was felt that the Department should choose a format and adhere to that, rather than changing it so often. This would enable the staff to become completely familiar with what was required and thus increase proficiency. On reflection, one interviewee said it [the Business Plan] was the same thing with different wording, but this interviewee has had more experience of this type of document in previous employment.

5.1.1 Other factors
Complying with the directive for a more representative clientele has been more difficult, due to a lack of funding and a need for sustainability if changes were made. While this has sometimes been viewed negatively the two interviewees from the top level of management understand that the most important consideration is the survival of the organisation, which shows an understanding of ABCA’s immediate needs and capabilities. In addition, the two interviewees had suggested that alternatives were available for the organisation, such as becoming a Section 21 Company or private company and recognised that these were distinct future possibilities. This shows insight
as to what beneficial changes can be made to the organisation when the time is right.

5.1.2 Internal changes
Other changes in the organisation have been the result of internal factors. These were due to a near takeover of the Board and the influence of a former Chairman. All but one of the interviewees agreed with this statement, as the fourth staff member was not employed by the organisation at the time.

Tightening up on the membership and implementing controls from within has shown that ABCA can identify and rectify problems within the organisation. This is a positive sign for its future development.

5.2 IMPLEMENTING THE CHANGES
Furthermore, ABCA has implemented the changes to the organisation by devising new ways of doing things. This has included the promotion of the Senior Social Workers to Project Managers. All interviewees agreed that this has enabled the increased management workload to be more evenly distributed, rather than being almost the entire responsibility of the Chief Executive Officer, with assistance from the Administrator.

Other staff members now have input into decisions that are made and all agreed that this has improved communication within the organisation. In addition, action has been taken regarding the residents at the recently acquired Bufflesfontein Village to ensure that they do not become dependent on the organisation. All agreed that this was necessary, especially with the increased workload and focus on community service rather than casework, as mandated by the Department. Although this could sometimes be perceived as uncaring it keeps the service delivery in line with ABCA’s vision ‘to promote independence.’

The interviewees agreed that changing names within the organisation, also contributed to a feeling of becoming more akin to business practices. This included the Director now being called the Chief Executive Officer; the Senior
Social Workers now called Project Managers and the Management Committee now called the Board of Directors.

The above aspects indicate ABCA’s commitment to change within the organisation. The increased involvement of staff and communication between staff levels mirrors the trend in business for greater participation from all employees in the workplace.

5.2.1 Impact of the changes
All interviewees agreed that moving towards a more business like environment was necessary and was generally seen to be positive for the organisation, which included greater participation by staff. One interviewee was particularly pleased with the increasing use of buzz words such as customers in the documentation, as the use of such words was seen to be an advantage, especially when making proposals for funding.

All interviewees agreed that there had been an increase in the organisation’s administration, although one interviewee felt that becoming a Project Manager had provided more focus. While the overall feeling was positive, running a more accountable and transparent organisation was still problematical. As one interviewee we are expected to practice good governance, which no one wants to pay for but everyone insists must be done. This particularly applied to donors who were concerned that their donations should be used to benefit the recipients of the service, rather than fund the administration that made such service delivery possible.

While the organisation concedes the need to become more business oriented, there is awareness that this is difficult without sufficient finance. Donors and other stakeholders must be committed to change and agreement reached to ensure that services are delivered through a process of good governance.

One interviewee felt there was a need for a different kind of volunteer now to assist in the financial side of the organisation and this should be addressed aggressively.
Furthermore, staffing had become a potential issue with many social workers leaving the country for better conditions and salaries overseas. This problem could well be addressed in the future, if Community Developers, Social Auxiliary Workers or other professions could fill social work positions.

The issues concerning the shortage of staff, and need for a different kind of volunteer, has already been identified, together with possible solutions for the future. This again indicates ABCA’s insight into its problem areas and the ways in which these can be addressed.

### 5.3 THE ROLE OF A BUSINESS MODEL IN THE ORGANISATION

When the interviewees were asked if they thought a business model was appropriate for a non-profit organisation, they all agreed that it was but subsequent probing indicated that there was some confusion between a business plan and a business model. When it was explained that a business model ‘describes the way in which an organisation delivers its product or service and generates its income,’ all agreed that it was appropriate for ABCA, as well as other non-profit organisations, subject to some modifications to provide greater clarity regarding resources and funding.

The overall response to using the model was summed up by the following comments: puts in a scheme of what you are actually doing; maybe it makes it easier for other people to understand who we are and what we’re doing, ‘cause I think there is a lot of misconception of welfare organisations; if people [business] understood that you were aligning yourself with their method of operation there would be easier understanding.

Only one interviewee felt that another feature should be included in the model, which was resources, while another interviewee was uncomfortable with the word customer, despite its use having recently been mandated by the Department.
5.4 THE REVISED BUSINESS MODEL

The revised business model in Figure 5.1 describes the operations of the Algoa Bay Council for the Aged. The model has been modified to include the organisation’s resources and to provide greater clarification concerning its method of funding. The three main areas of the model are finance, service delivery and resources, all of which are linked in ensuring the continued success of the organisation. These will be discussed in turn.

**Figure 5.1 Revised business model for non-profit organisations**

5.4.1 Finance

Finance covers the largest area and is likely to be the most important feature of the model. It is generated by donors, subsidies from the government, fundraising and the payment of services by the organisation’s customers. According to the Annual Report No 41 (2003-2004), the government subsidies was the largest contribution to ABCA’s income, despite the figure being unchanged since 1993. Administration fees charged to projects were the second highest contributor, followed by donations and interest received. The contribution from membership fees, transport recoveries, professional
services and sundry income accounted for a much smaller portion of the income, with fundraising being the least of all. ABCA’s main sources of finance are shown in Figure 5.2.

**Figure 5.2 Main sources of finance**

![Main sources of finance chart](chart)


### 5.4.2 Service delivery

The generation of finance is necessary for running the organisation’s operations and it is the main enabler for the service delivery that staff and volunteers render to the economic and sub-economic aged, who are the organisation’s customers. As shown in Figure 5.3 below, salaries account for the biggest expenditure in the organisation and are divided into the salaries for specific social workers and the rest of ABCA’s staff.

**Figure 5.3 Main sources of expenditure**

![Main sources of expenditure chart](chart)
Without sufficient funding, the organisation is limited in terms of its staff complement and the services that the staff and volunteers are able to provide. Furthermore, the organisation strives to expand its services but these additional projects must remain in the pipeline, until such time as more funding becomes available.

5.4.3 Resources
The resources, too, are dependent on sufficient funding, for without resources the organisation’s service delivery is severely limited. Items such as vehicles and equipment have to be purchased from the capital expenditure and utilised, while replacements and repairs must be addressed as necessary. People too, are resources, with salaries needed for staff, as well as funding to enable service delivery. The type and number of resources available are therefore inevitably tied to the organisation’s finances.

5.4.4 Other features
Other features of the model include the vision and mission that determine the purpose of the organisation’s existence. This is to provide services for the aged and those with similar needs, while at the same type promoting the independence of older people. In order to do this, the organisation must have sufficient funding, that is, be financially viable.

5.4.5 Marketing
Marketing is also an important part of the process, as it is the means by which donors as well as prospective customers become aware of the organisation, its aims and what is required to achieve those aims. As mentioned previously, donors account for the second highest income for the organisation. Therefore, it is essential to both retain existing donors and recruit new donors, from members of the public and business.

5.4.6 Summary
In summary, all features of the business model are important and interlinked, but it can be seen that finance is the driver that makes it all possible. Despite
the best intentions of the organisation, service delivery can only be a reality if resources are available and these come from sufficient funding. This aspect was recognised by the interviewees when they rated the importance of the features in the model in the following tables.

5.5 RATING THE KEY FEATURES

All interviewees were asked to rate the factors comprising the model in order of their importance as key features for business. Seven was the most important rating and one the least important for the organisation, before and after the changes in the government’s policy. The ratings of key features before and after the changes are shown in Table 5.1 and Table 5.2, respectively.

Table 5.1 Rating of key features before changes

<table>
<thead>
<tr>
<th>Rating of importance to business before change in government policy</th>
<th>Interviewee 1</th>
<th>Interviewee 2</th>
<th>Interviewee 3</th>
<th>Interviewee 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>5</td>
<td>7</td>
<td>1</td>
<td>N/A</td>
</tr>
<tr>
<td>Staff</td>
<td>1</td>
<td>7</td>
<td>7</td>
<td>N/A</td>
</tr>
<tr>
<td>Donors</td>
<td>4</td>
<td>7</td>
<td>6</td>
<td>N/A</td>
</tr>
<tr>
<td>Fundraising</td>
<td>3</td>
<td>5</td>
<td>2</td>
<td>N/A</td>
</tr>
<tr>
<td>Service delivery</td>
<td>7</td>
<td>6</td>
<td>4</td>
<td>N/A</td>
</tr>
<tr>
<td>Marketing</td>
<td>2</td>
<td>6</td>
<td>5</td>
<td>N/A</td>
</tr>
<tr>
<td>Vision/mission</td>
<td>1</td>
<td>7</td>
<td>3</td>
<td>N/A</td>
</tr>
</tbody>
</table>

The results indicate the rating of importance of finance, staff, donors, fundraising, service delivery, marketing and vision/mission before and after the changes in government policy. As Interviewee 4 was not employed by the organisation before the change in government policy, there are no responses for that period in Table 5.1.
Table 5.2  Rating of key features after changes

<table>
<thead>
<tr>
<th>Rating of importance to business after change in government policy</th>
<th>Interviewee 1</th>
<th>Interviewee 2</th>
<th>Interviewee 3</th>
<th>Interviewee 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>7</td>
<td>7</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Staff</td>
<td>5</td>
<td>7</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Donors</td>
<td>6</td>
<td>7</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Fundraising</td>
<td>6</td>
<td>7</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Service delivery</td>
<td>6</td>
<td>6</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Marketing</td>
<td>6</td>
<td>7</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Vision/mission</td>
<td>4</td>
<td>7</td>
<td>5</td>
<td>3</td>
</tr>
</tbody>
</table>

Table 5.2 below is a summary of the results of Tables 5.1 and 5.2, showing whether or not there have been changes in the ratings. The first number in each column represents the rating before the change in government policy; while the second figure is the rating after the change. Some rankings remained the same.

Table 5.3  Differences of key features

<table>
<thead>
<tr>
<th>Differences</th>
<th>Interviewee 1</th>
<th>Interviewee 2</th>
<th>Interviewee 3</th>
<th>Interviewee 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>5-7</td>
<td>Same (7)</td>
<td>1-4</td>
<td>N/A-7</td>
</tr>
<tr>
<td>Staff</td>
<td>1-5</td>
<td>Same (7)</td>
<td>7-1</td>
<td>N/A-4</td>
</tr>
<tr>
<td>Donors</td>
<td>4-6</td>
<td>Same (7)</td>
<td>6-7</td>
<td>N/A-5</td>
</tr>
<tr>
<td>Fundraising</td>
<td>3-6</td>
<td>5-7</td>
<td>Same (2)</td>
<td>N/A-6</td>
</tr>
<tr>
<td>Service delivery</td>
<td>7-6</td>
<td>Same (6)</td>
<td>4-3</td>
<td>N/A-2</td>
</tr>
<tr>
<td>Marketing</td>
<td>2-6</td>
<td>6-7</td>
<td>5-6</td>
<td>N/A-1</td>
</tr>
<tr>
<td>Vision/mission</td>
<td>1-4</td>
<td>Same (7)</td>
<td>3-5</td>
<td>N/A-3</td>
</tr>
</tbody>
</table>

5.5.1 Differences in key features

As shown in Table 5.3, Interviewee I increased the rating on all features, except service delivery, which dropped slightly. The emphasis moved towards
those features associated with finance and includes donors and fundraising, which together with marketing are all ranked with equal importance at a significantly high level. This indicates that finance is the main driver in the current situation, possibly being responsible for the drop in focus on service delivery, as high service levels cost more. In addition, finance is driving the need for increased fundraising, involving donors and greater marketing efforts. This also shows strong linkages between the features chosen as representative of the business model.

Interviewee 2 had already rated most items highly, showing high awareness of their importance to the organisation’s operation. However, the areas of marketing and fundraising have also been upgraded, showing an increased awareness to exploit any source of finance, with marketing essential to attract and involve donors. It is not certain whether this extends to the customer base, but if for financial gain only, it would target those in the economic bracket as opposed to those who are subsidised in the sub-economic bracket. This latter perspective raises an ethical question on the relationship between economic and sub-economic customers, presenting a topic for further research.

Interviewee 3 used the full scale of ratings to represent preference, reducing the emphasis on staff and service delivery and increasing the emphasis on the financial side. Most changes were less than other respondents. In contrast, the response for staff moved from a high of seven to a low of one, which is the most extreme change. This is likely due to the changing job description of the interviewee, which is a requirement of the organisation to become more businesslike and indirectly links to the business model.

Interviewee 4 also used the full scale of ratings, placing greater emphasis on finance and fundraising, identifying the same link that has been described above. This seemed to reflect the interviewee’s previous background in projects and the more businesslike approach that was used by that particular non-profit organisation. This in itself suggests that NPOs have realised for some time that there is a need to adopt a business focus and although at
different stages, organisations are moving in this direction. The lowest rating for this interviewee was marketing and service delivery but as the full range of ratings were used, the use of low ratings cannot presume a low level of delivery or importance, just a lesser order.

Overall, the ratings suggest that the higher level of management generally placed a greater emphasis on all features that related to finance, although Interviewee 3 increased the importance of both donors and finance. Interviewee 4, whose previous employment in a non-profit organisation entailed projects and the more business approach now being pursued by ABCA, also indicated this.

Interviewee 1’s changed rankings suggest that a need for a change in emphasis was identified; excellent service delivery for example, cannot be rendered unless sufficient funding is available.

Comparisons can be made on the number of times that interviewees agreed on the rating of the features. Initially, two of the three interviewees rated staff as the most important feature. Subsequently, three of the four interviewees ranked finance as the most important feature; while two of the four interviewees reached agreement on the ratings of donors, fundraising, service delivery and marketing.

This would seem to suggest that as the communication and participation of staff has increased, along with an awareness of what changes are required, so has the agreement on what are the most/least important key features in the organisation. It is likely that this trend will continue as ABCA staff work together towards attaining the organisation’s goals and objectives.

5.6 SUMMARY OF THE CHAPTER

This chapter briefly overviewed the findings from the narrative, which were divided into four themes: the rationale for the changes to the organisation; the implementation of the changes; the impact of the changes and the role of a business model in the organisation. All agreed that the model was an
The findings from these tables would seem to indicate a greater degree of consensus than previously existed, on those features presented. In addition, the interviewees recognised the importance of finance for the successful running of the organisation, which was emphasised in the description of the revised model. Further to the above, conclusions and recommendations will be outlined in the next chapter.
CHAPTER SIX
CONCLUSIONS AND RECOMMENDATIONS

6 INTRODUCTION
This chapter aims to summarise the research, providing conclusions and recommendations from the study, based on the development of a business model for a non-profit organisation. Firstly, there will be a brief explanation of why the particular research was selected. Thereafter, the main problem and sub-problems will be restated, followed by the key findings from the literature review and the empirical study. From the conclusions drawn, recommendations will be made that could provide a direction for further research and options for non-profit organisations to consider.

6.1 RATIONALE FOR STUDY
The study was based on the need to develop a suitable business model that could improve the overall performance of a non-profit organisation, in an environment that is becoming more akin to business.

With the increasing number of non-profit organisations (Sheu & Wacker, 1994) there is increased pressure from donors for sound management, together with more competition for funding. This requires increased efficiencies and effectiveness in using resources, which is best achieved by managing the organisation according to business principles. To this end, a business model could assist in this objective and provide a graphical representation of the way in which the organisation operates.

6.2 SUB-PROBLEMS
The research study was clarified in terms of a problem statement as reproduced overleaf:
How can the overall performance of a non-profit organisation be improved with a suitable business model?

This was deconstructed into the following sub-problems, which provides further focus within the literature and empirical components of the study. The sub-problems are restated below:

- What does the literature reveal about business models and non-profit organisations?
- Which business models can be applied or adapted for a non-profit organisation?
- How does this compare to current practices in non-profit organisations?
- How can the results of the above questions be used to develop a suitable business model for a non-profit organisation?

The first two sub-problems were addressed in Chapter Two, which considered various models that were suitable for the service industry. Chapter Four comprised the narrative, detailing the current methods of operation within the selected non-profit organisation, thereby addressing the third and fourth sub-problems.

6.3 LITERATURE SURVEY RESULTS

The literature review showed the need for non-profit organisations to run their operations according to business principles (Broadbridge and Parsons, 2003: 421; Buckmaster, 1999; Drucker, 1990: 1; Private action, 2002: 6). Yet, while the need for non-profit organisations to improve their management skills has been identified, this is sometimes in conflict with the stated aims of the organisations (Butler & Wilson, 1990: 172). This was confirmed by the empirical study, although the Algoa Bay Council for the Aged (ABCA) has managed to maintain the quality of its service delivery, while adjusting to the demands of a more business environment.
Furthermore, donors are not always keen to see funding used for purposes of administration and salaries (Bennett & Savani, 2004; Broadbridge and Parsons, 2003: 424; Lovelock, 1996: 22). This is still one of the main problems confronting ABCA, which will need to be addressed.

Non-profit organisations form a niche sector of the service industry, which is also increasing worldwide (Adenso-Diaz, Gonzalez-Torre & Garcia, 2002; Normann, 2000: 8). There are similarities as well as differences between manufacturing and service industries (Johnson & Scholes, 2002: 27; Normann, 2000: 19), but it is the increased interaction between the customer and the service that is a unique part of the service industry (Botten & McManus, 1999:32; Robinson, 1994: 12).

This aspect is particularly relevant in the non-profit sector of the service industry, although determining who the customers are can sometimes be difficult (Brennan, 1995: 5). Furthermore, recipients of the service may be dissatisfied, despite the successful funding that has been generated by the donors. This has also been confirmed by ABCA, whose residents from Bufflesfontein Village are unhappy that staff does not provide them with transport and casework has been limited, in favour of community work with larger groups.

The preliminary business model developed from the literature included functional areas such as finance and funding, people, staff, volunteers and customers, service delivery and marketing, all combined under a common vision and mission. From this information a graphical representation was produced for use in the empirical study.

6.4 METHODOLOGY, EMPIRICAL STUDY AND RESULTS

The empirical research comprised a single case study, in which the method used was five semi-structured interviews with the four key figures in the selected non-profit organisation; the Chief Executive Officer, the Administrator and the two Project Managers. Each interview lasted for approximately one and a half hours and took place over a period of five weeks.
Although at first there was some confusion among the respondents between a business model and a Business Plan, the model was well received by all the interviewees. Furthermore, it was considered by the respondents that with modifications it was a true representation of the way in which the organisation operates for all stakeholders in the organisation. Such modifications now included more clarity regarding resources and funding and the word ‘customers’ was retained, to be in line with the Department’s recent directive.

The current move by ABCA operate on business principles was the result of new criteria from the government; failure to comply would have meant the loss of the subsidies for salaries and running costs. Other drivers for change were a near takeover of the organisation’s Board of Directors and the influence of a recent Chairman, with a background in business.

All interviewees felt positive about working in an environment that was based on business principles and there is a move towards greater agreement on the importance of the business features that are necessary to successful management of a non-profit organisation: finance, donors, fundraising, service delivery, staff, vision and mission and marketing. This agreement appears to be a direct result of greater communication and input by all staff, as well as an increased awareness of what changes are required to run the organisation according to business principles.

The importance of finance to the successful running of the organisation was emphasised in the revised business model and was recognised by all the interviewees. Service delivery is dependent on resources, such as people and equipment, which in turn are dependent on sufficient finance. The importance of donors was also seen as a major factor and the need to retain existing donors, while recruiting additional donors from the public and business.

Issues of transformation, donor reluctance to fund staff salaries and the administration for accountability, staff training and a need for a different type of volunteer must still be addressed. Finally, other options such as becoming
a Section 21 Company or a private company are future possibilities for the organisation.

6.5 CONCLUSIONS
The conclusion from the findings is that a business model could be successfully applied to a non-profit organisation, to establish greater understanding between its stakeholders, of the way in which the organisation operates. This was felt to be particularly relevant to those business donors who support ABCA, as they are familiar with the concept of such models. With greater understanding of what the organisation is striving to achieve and the way in which this is being done, donor support could well be increased and this could ultimately lead to an improvement in the organisation’s overall performance.

Furthermore, the inclusion of such a business model is one more step in ABCA’s move towards adopting business principles. It can also provide a clearer view of the organisation and what it is aiming to achieve, from the perspective of all its stakeholders.

6.6 RECOMMENDATIONS
This study has shown that there is a need to extend research to a wider field of non-profit organisations and the use of business models in a non-profit environment. This could include those organisations that make the successful transition to applying business principles to their operations, those who are unsuccessful in their endeavours and those who successfully negotiate a more conducive environment, which allows them more flexibility than one that is dependent on government subsidies.

In terms of ABCA, funding has been shown to be the biggest factor for facilitating change and excellent service delivery. Therefore, the size of the donor pool could be further explored and greater communication fostered to resolve the issues of contention between the financial cost of accountability and the needs of those being served.
In addition, the issue of marketing and increased visibility should also be addressed, as this in turn could lead to more donors and more customers. With additional and sustainable funding, ABCA would be able to launch those projects that are in the pipeline and like business, continue to identify other outlets and expand their services. Should these ventures be successful, together with appropriately trained staff and volunteers, ABCA could well move towards a more independent type of organisation, such as a private company, that would provide the best aspects of a non-profit organisation with those of business.


Journal of Public Sector Management, 12(2), 186-197 [Online]. Available from:


Legal Structures commonly used by Non-Profit Organisations. 2001. Braamfontein: Legal Resources Centre


Annexure A  Guidelines for Business Plan

Business Plan Format

1. BACKGROUND / PREAMBLE

1.1 Origins & Reasons for Existence

1.2 Features of the Area of Operation

1.2.1 A short history of the area
1.2.2 Leadership / community set-up structures in the area
1.2.3 Information on the number of people, ages & gender distribution in the area
1.2.4 Education & literacy within the area
1.2.5 Major health issues within the area and the standard of health services available
1.2.6 Social problems facing the community
1.2.7 Environmental issues facing the community
1.2.8 Sources of employment and levels of unemployment in the community
1.2.9 Other sources of income for the community
1.2.10 Facilities available to the community (e.g. number of schools, clinics, community halls, etc.)
1.2.11 Availability of other social services (e.g. water, sanitation, electricity, fuel, refuse disposal
1.2.12 Number of NGO’s and Social Welfare Programmes / Services rendered in the area
1.2.13 Cultural & religious activities in the area
1.2.14 Community strengths & assets
1.2.15 Dominant community values / support systems / co-operation / partnership

1.3 Problems to be addressed or Problem Statement

1.3.1 State exactly what are the problems to be addressed in relation to the service / programme to be rendered / implemented
1.3.2 Describe how the needs of the community have been identified and by whom.

1.4 Beneficiaries & Parties involved

1.4.1 Target groups and other stakeholders.
Annexure B
History of Algoa Bay Council for the Aged

Brief history of Algoa Bay Council for the Aged
ABCA was established in 1961 and registered as a welfare organization in 1963.
1961 Established Algoa Bay Council for the Aged to co-ordinate services rendered to the aged in Port Elizabeth
1964 Registered as WO in October
1966 Started rendering Social Work Services
1967 Opened Port Elizabeth’s first Service Centre: The Eleanor Murray Centre
1972 March: Started the Monday Club at the Louis Dubb Centre
1974 Employed domestic staff to start the Home Help Scheme
Mrs. Siti Offerman started Club 64 at her house in 64 Third Avenue
1976 Home help provided at Buffelsfontein Village when it opened
1977 Opened a thrift shop run by volunteers in order to generate income from sale of donated items
1980 January: Purchased Cuylerholme, a 55 room house, to provide assisted living housing for fit and mobile aged
Algoa Bay Council for the Aged moved from the Feathermaker Hall to Cuylerholme
March: Started Algoa Bay Council for the Aged’s second service centre at Cuylerholme and expanded the
Home Help Scheme, employing more domestics
1981 Registered in terms of section 4 of the Fundraising Act and section 13 of the Welfare Act of 1978
August: Club 64 renamed to Siti Offerman Seniors Club when it moved to the Methodist Church Hall
1984 The Club became Siti Offerman Service Centre our third centre, opening on 21 Nov in the newly built hall
1986 Altered the Algoa Bay Council for the Aged Constitution to allow for service rendering to all race groups
1987 Employed an auxiliary worker
Launched the Century Club, a fundraiser to generate capital for the provision of frail care at Cuylerholme
1990 Purchased buildings in Russell Road and moved the Algoa Bay Council for the Aged Head Office there
Succeeded in getting two development posts allocated via SACA in PE for the Black and Coloured communities
1991 Moved Eleanor Murray Service Centre to Buffelsfontein from the Feathermaker Hall which was being
transformed into a Conference Centre
1993 April: Took control of Uitenhage Community Service Centre after Midland Medical Plan withdrew funding
June: Created and filled the post of Administrator
1994 January: Started the Wednesday Club
April: Handed the Uitenhage Community Centre for Seniors to CMR to administer
June: Employed an after hours Home Care at Cuylerholme to care for residents who were becoming
increasingly frail but could no longer be admitted to Homes due to the change in Government policy
Computerized books of account and payroll
1995 Commenced Home Care Referral Service placing Home Carers with people in need of care (terminally ill,
frail, sick, Disabled or recuperating) who want to have to stay at home
Opened up our services to grant recipients
1997 Entered into a major annual fundraising venture, the Celebrity Golf Classic with Retina South Africa
April: Closure of the Uitenhage Club due to loss of minibus in accident. Club dependent on transport
From July: Social work sessions provided at Ekuphumleni Home for Black Aged in Zwide, Port Elizabeth
July: Opened a small cafe, The Don Shop at Cuylerholme to provide a service and raise funds
Started in September: Assisting Aged/Grant recipients with their applications for pensions and grants that had
been terminated or not processed by the Department of Welfare
1998 Served as a distribution point for aid during the January pension debarcle when the Eastern Cape Government
ran out of funds to pay pensions
1999 27 January: Successfully negotiated with this Department to open a sub-office for the above purpose at
Cuylerholme. The Algoa Bay Council for the Aged receives neither rental nor remuneration for this service
January: Opened a student hostel at 67B Russell Road as an income generating project
2000 15 May: Registered as NPO
Handed the Monday Club to its members to run independently
Joined the Eastern Cape NGO Coalition
2001 Terminated the Services of the after hours Home Carer at Cuylerholme due to a shortage of funds
Became part of the one-stop service known as Phakamisa Gqebra with an ABCA Social Worker forming part of
the Governing Committee
2002 March: Started a satellite service from SOSC to Phakamisa and Kya McNamee
July: Took over Buffelsfontein Retirement Village, a 322 Unit Village
2003 February: revised constitution
March: sold office premises and student hostel
Re-instated home care programme at Cuylerholme and extended it to Buffelsfontein Village with funding from
National Lottery.
2004 February: became registered owner of Buffelsfontein Village and commenced installation of electric fencing
April: submitted plans for building new office block at Buffelsfontein Village to local
authority for approval
Registered as Public Benefit Organisation with Section 18A and Section 30 status.
Annexure C  Interview Schedule

Questions for Top Management

- What drivers prompted changes to your organisation?
- How did it impact on management?
- What was the most important impact?
- How do you reconcile the service that you provide, with the need to be ‘financially viable’?
- Do you currently have a business model?
- Could you outline the model for me?
- What was the government's motivation for the business model?
- Was your need of the subsidy your only motivation for complying with the model?
- What impact has the business model had on your management committee?
- What impact has the business model had on your staff?
- What impact has the business model had on your clients?
- What impact has the business model had on your service delivery?
- What impact has the business model had on your donors?
- Do you feel that a business model is relevant for a non-profit organisation?
- What commonalities do you see between business and non-profit organisations?
- What do you see as the main differences?
- Has using a business model improved your organisation?
- In what ways has it improved your organisation?
- What problems have you encountered in using a business model?
- What do you feel about business models now?
- Would constructing and using your own business model have been more appropriate?
- What features would you consider important?
- What has led you to this conclusion?
• If you had not adopted the business model, what were the alternatives for ensuring ‘financial viability’?
• What advice would you offer for non-profit organisations that are struggling to survive?

Further questions for greater clarification
• What guidelines for management did you have, before 1994?
• Do you have a copy of them?
• Do you have a copy of the government's criteria for business management?
• How are they described? For example, as a business model or a Business Plan?
• Do you think a business model is appropriate for NPOs?
• Do you feel that an organisation should design its own business model, if this was acceptable to government?
• What would you include in your model?
• What would be the advantages of this?
• Would a business model provide greater focus for your Business Plan?
• Are there any factors or people (other than government policy and the attempted takeover) that have influenced your organisation to become more like a business?
• Do you provide business training for your staff?
• Do you have performance objectives
• What viable alternative is there, if an organisation will not or cannot conform to government's criteria?
• Do you have any information on a Section 21 business?
• Do you feel that becoming a Section 21 business would improve upon the current situation?
• For you, the staff, donors, volunteers, the Board and the clients?
• Your clients are now to be called customers. Can you define these terms and say how this will impact upon the service, the recipients and those rendering the service?
• Is the subsidy specifically for projects, or still for salaries and covering costs?
• How would you define economic and sub-economic pensioners?

Questions for the Project Managers

• How long have you worked for ABCA?
• What do you think has been the impact of the government's new legislation on your organisation? The CEO? Administrator? Staff? The Board? Clients? Donors? Volunteers?
• How has it impacted on ABCA’s service delivery?
• When were you promoted to the post of Project Manager? What was the motivation for this?
• How has your work profile changed? How do you feel about these changes?
• What do you think is ABCA’s core business?
• Has this changed from its initial core business?
• How has it affected your service delivery?
• Do you receive training in business skills? Would this be an advantage?
• Do you participate in ABCA’s decision-making? Can you elaborate; provide examples?
• Do all staff participate?
• Do you think a business model is appropriate for non-profit organisations?
• Overall, has it improved the organisation?
• Do you feel that an organisation should design its own business model, if this was acceptable to government? What would you include in your model?
• What would be the advantages of this?
• Do you feel that becoming a Section 21 business would improve upon the current situation?
• For you, the staff, donors, volunteers, the Board and the clients?
Rating of key features for business

Scale: 7 is most important; 1 is least important

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