

## RESOURCE OPTIMIZATION

### 1. Resource optimization v profit maximization

Resource optimization is the main task of management in 'not-for-profit'\* enterprises, including member-controlled enterprises MCEs. This contrasts with the main function of managers of commercial businesses which is profit maximization. The functions of a senior executive in a not-for-profit enterprise are closer to those of a General leading a citizen-army than to those of an executive in a commercial business. Just as a General must achieve campaign objectives with the resources that are available, managers of 'not-for-profit' enterprises must set about accomplishing their organization's purpose optimizing those resources that are available. Managers of MCEs must have the ability to rally their troops, build consensus for a widely shared common purpose, and create a common culture that supports its achievement.

*\*The term 'profit' is often used in not-for-profit enterprises when what is really meant is 'margin'. All forms of enterprises need to operate with sufficient 'margin' between costs and income so as to remain viable but clearly 'not-for-profit' enterprises do not have the function of profit maximization.*

It is sometimes difficult to measure performance in MCEs because many of the benefits are passed directly back to the members and thus the usual profit measures used in commercial businesses do not work. The more that is passed directly back to members, in the form of lower prices or other benefits, then the lower will be the resultant surplus. Often directors and managers resort to using profit as the measure of performance simply because they have failed to develop the correct forms of measuring results and performance; using the wrong form of measurement invariably leads to achieving the wrong results.

The results required in MCEs need to be expressed in terms of specific outcomes and a set level of productivity of the resources used in the process of achieving these outcomes (resource optimization). It is fully appreciated that in many established MCEs that have reactionary managers, there is frequently the need to change the basis of setting objectives and measuring results. To bring about the necessary change will be a significant challenge -requiring a paradigm shift throughout the organization.

### 2. A new Mantra

The mantra for managers in MCEs must be 'doing more with less' and because resources are always finite, this means:

- Getting real value from the people involved in the enterprise. This means developing more creative ways of working – in other words, working smarter. The productivity of labour ought to be equal to or ahead of industry norms, this must be achieved by skilfully developing the workforce and expanding their capacity, whilst sharing the gains fairly.
- Not-for-profit enterprises, especially member-controlled enterprises, can be the cradle for innovation, provided that they attract and retain creative people who actively seek new ways of using their talents to maximize member benefits.
- Resource optimization means making full productive use of all tangible assets. This means utilising to the maximum the space in all buildings, securing the best achievable levels of stock turnover, using finance productively and achieving no less than a market level of return on all capital employed.

**For example:** *The persons owning the only village shop find that they are losing money on the venture. In the mindset provided by 'profit maximization' they decide to sell the shop to a house-builder to be developed and use the proceeds from the sale to invest in high income bonds. Whereas a member-controlled enterprise operating with the mindset provided by 'resource optimization' decide that, they can maintain this indispensable services provided by the village shop by adding additional income-earning services (such as a parcel collection service, footwear repairs, dry-cleaning, etc.) and they make use of volunteer labour provided by members so as to reduce running costs.*

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