

## **Are Non-profits Different?**

*John C. Read*

*Why aren't for-profit managers and their business improvement tools more successful in social enterprise?*

There is a view, widely held in the private sector that non-profits are “different” from for-profit corporations and an easier management and governance challenge. Not by me. In my experience, competent business men and women drift into NGO jobs and board seats with little or no due diligence. The tools developed in the private sector for better management, if attempted at all by cross-over managers and trustees are layered onto the unsuspecting mission-driven entity and when they fail, are discarded. As often as not, the corporate executive departs in frustration or is gummed into submission by his or her staff. Among the consequences and in my view the most unfortunate is that crossing into the non-profit sector has become a one-way street for executives, and viewed by my business school colleagues as something not to aspire to but ‘retire into’.

To be sure, there are important differences between for profit and not-for-profit organizations but in my experience, they are ones of degree. As is generally the case within each sector when it comes to measuring success, the cross-sector application of management and governance tools and methods hinge on how they are applied. There is fundamentally no difference between margin- and mission-targeted improvement when properly applied to eliminating waste and achieving results. This is true in part because there is no mission achievement without attention to margin.

When it comes to the failure or success in the application of business management tools in the non-profit sector, timing and sequence make all the difference.

### **What's different...?**

In the U.S alone there are some 1.5 million corporations with public, private foundation or a related status<sup>1</sup> pursuing local, national or global missions and fueled by roughly \$320 billion in corporate and private philanthropy. A relatively small percentage of these entities exceed \$5 million in revenues; the vast majority of these are small, understaffed and underpaid, with an abundance of passion to solve a social problem and to make their school, city, region or country a better place.

Social enterprise, like private enterprise in the U.S is congenitally entrepreneurial and this dynamic has led to the most generous of countries producing an extraordinary wealth of solutions to social problems. That it has also lead to gross inefficiencies in outcomes achievement is no less true, and a cross-sector understanding of management and governance methods and how they are successfully applied<sup>2</sup> can significantly enhance improvement in any one sector.

<sup>1</sup> National Center for Charitable Statistics

<sup>2</sup> The application of management and governance methods to public agencies is not addressed here. The author's experience at state and Federal levels is some 30 years out of date and the highly politicized nature of public policy today raises serious questions as to whether experienced managers from either sector can undertake the challenge successfully.

On the surface, there is little difference in **Governance**, since the duties of loyalty and care apply to all corporations and any and all corporate directors. While for-profit boards can suffer from an excess in collegiality, they are for the most part committed to shareholder value and their directors compensated for and held accountable to maximizing that value. Non-profit directors on the other hand are attracted to serve on a board by the mission of the organization, the charisma of its leader, the appeal of its 'product' or particular approach to a social problem, or simply because their friends also serve. Too frequently they make themselves available with little or no understanding as to what the work is and they are elected with insufficient regard for the diversity of skills and perspective the board requires.

The first duty of a non-profit board member is to care for its viability and sustainability; that is to fundraise on its behalf; donating what they can and using their network to secure financial support from others. This obligation is unique to this sector and too often made fuzzy in the recruitment process and then waived in board member evaluations. Of the hundreds of board members I've worked with, few understood this responsibility.

Outcome measures in social enterprise can be more elusive and too often non-profit directors accept anecdotal evidence in story form as the sole basis for measuring success. Moreover, GAAP accounting standards for non-profits are sufficiently arcane, on the revenue side especially, as to make it difficult to monitor financial performance, let alone see and avert train wrecks.

Non-profit board meetings in the worst cases become social engagements, where confrontation is avoided and decisions congenitally unanimous. Worse yet, bad ideas from individual board member become board policy when no one objects.

As to **Management**, if private sector alums approach the non-profit sector as something different but easier to master (after all, revenues need only equal expenses, not exceed them!), they may also believe that what made them successful in their public company will work just as well in leading a mission driven organization. After all, people are people, fundraising is a lot like sales, program equals product and the general manager manages.

People are people; but what motivates them to come to work every day can be fundamentally different. In the non-profit world, compensation is important but not as important as one's passion for the organization's mission. Satisfying work relationships with peers and a supportive organization culture are also more important relative to a for-profit company. No matter what sort of manager you were in the private sector, these differences require adjustments in language, listening, and leadership style when moving to the non-profit sector.

And for the record, fundraising is not sales, and people like me who have made that mistake cost their organizations millions in donations while we figured it out. It may not be rocket science either, but the cultivation, solicitation and acknowledgment of donors is far more sophisticated, complex, analytical and demanding than most people understand. It's not for amateurs and it is Job 1 for every non-profit CEO and Executive Director.

Finally as to language, for-profit leaders including board members need work when it comes to communication within a mission driven organization. If the private sector considers social enterprise to be management-lite, the non-profit world views profit-makers with deep suspicion as to their motives. The language of a non-profit is learned on the ground floor where mission delivery occurs, and one of the important byproducts of broad-based consensus building is that this language finds its way into core documents. Until that language is learned, corporate-speak (“product”, “market”, “profit”, etc.) should be avoided.

### **What’s not...**

Over the past 50 years, enormous progress has been made in advancing tools for business improvement, much of this progress having emerged in the U.S and globally through advances in manufacturing. Process improvement on the factory floor made great strides through Total Quality methods like Kaizen and Six Sigma. In many respects, the non-profit sector is better positioned to adapt the tools of process improvement. Non-profit organizations tend to be more collegial, and less ‘blame-placing’ in their ways of working. There is a natural tendency for staff to support one another, with far less attention to ‘position’ and greater interest in getting the job done.

The two sectors have much in common and under the right conditions, the opportunities for improvement are limitless.

To name a few...

- **Board/Staff Relationships:** a committed chairperson who knows how to run a meeting, with knowledgeable and diverse trustees who know the difference between oversight and interference.
- **Centralization vs. decentralization:** national and global non-profits struggle with this issue in just the same way that for-profit organizations do, including the familiar tensions of corporate vs. division.
- **Customer acquisition:** the non-profit version of this issue in a confederated organization takes the form of who owns which donors, and the solutions are developed in pretty much the same way.
- **Manufacturing vs. Sales:** in non-profits, “program” people and administrative staff experience the same issues and conflicts as any two functions in the for-profit world. Silo-deconstruction work is part of the senior management role and better communication and team working the source of improvement.
- **Prevention vs. Heroism:** in both sectors, the success and advancement of great fire-fighters can be the biggest barrier to fire prevention. Rewarding process improvement and the avoidance of problems is a well-recognized solution in quality companies.

- **Communication:** generally a weakness in all organizations. Improvements in 360 ° internal communication, including regular attention to important metrics and what they mean pays substantial dividends in non-profits where transparency is key.

- **Process and Results:** process mapping works equally well whether applied to new product development or donor acknowledgement. Root cause analysis can serve equally to correct product and social service delivery problems. Theory of Change tools work especially well in non-profits seeking to understand how mission delivery occurs.

Why then has little progress been made in this sector and so few for-profit managers been successful at applying these tools?

The answer begins with the underperformance of non-profit boards described earlier and extends to their selection of leaders.....especially outsiders. Choosing a for-profit manager to lead a non-profit is a tricky business. It begins with clarity and board alignment on what kind of leadership the organization needs. Without it, and I have witnessed and perpetrated both, mistakes get made and the remedies are costly.

The right leaders generally are best found in organizations whose values and culture approach those of the non-profit sector. Experience, accomplishment, and temperament are important and discernible through effective screening, but the ability to make change on a sustainable basis needs also to be considered. A resume with volunteer experience does not necessarily equate to a prospect with a service ethic, and interview techniques to understand the motivations of for-profit candidates are needed. Finally, there is almost nothing to prepare a for-profit leader for the work of fundraising. The best a board can do is to choose individuals who accept this responsibility as Job #1 and who evidence in their prior work a degree of humility and willingness to be students of their own organization.

Unless the organization is in a work-out situation, new management needs time – 12 to 18 months - to understand what really happens both within the organization and between it and its constituents (clients and donors). Learning the organization is the easy part; winning the trust of the staff, many of whom consider this their life's work, not so much. Change becomes possible and the staff it's most ardent champions when they know they have authentic leadership that leads by consensus, manages with transparency and lives the mission.

The differences between for-profits and non-profits should not serve as barriers to cross-sector engagement by senior managers or the successful application of business improvement tools. Corporations on both sides of the fence are, after all, comprised of people and process and the barriers to improvement are fundamentally no different. Progress is only possible with a non-profit board exhibiting good governance and getting better. When that occurs, the potential for improvement in the sector as a whole is practically limitless.

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