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What Nonprofits Need from Consultants

NONPROFITS HAVE A RANGE of consulting needs that differ from those of their for-profit counterparts, including fundraising assistance and specialized help in governance. They also need support beyond expertise in areas specific to nonprofits. They must work with consultants who know how to work with them—who can use nonprofit strengths to advantage and shore up their weaknesses, who respect their uniqueness and are aware of how they differ from business—consultants who know when it is appropriate to apply for-profit thinking but also when it is best to develop their own.

Many of those working in the nonprofit world may not even be aware of the more nuanced differences between nonprofits and for-profits because they often don't have the occasion to stand outside their sphere to analyze these differences. Therefore, it is essential that both parties in the consulting relationship see and appreciate some of the elements unique to each.

Another area that both parties have to consider is the degree to which for-profit thinking drives their assumptions and perspectives. It's not just that consultants come to nonprofits with for-profit assumptions, which of course they often do. Beyond that, and perhaps more insidious, is the prevailing idea in our culture that for-profit thinking is the better thinking. Before I explore the subtle differences between nonprofits and for-profits, I would like to shed some light on the dominance of for-profit thinking and then question its usefulness.

The Influence of For-Profit Thinking in the Nonprofit Sector

Home of much of education, arts, sciences, and health care, the nonprofit sector has produced countless original ideas. Many of our greatest thinkers reside here. So do some of our best consultants, who develop their thinking in nonprofit academia. For instance, James O. McKinsey was an accounting professor at the University of Chicago prior to launching his famous consulting firm. Strategy expert Michael E. Porter is the Bishop William Lawrence Professor at Harvard Business School (incidentally, named for one of the early great fundraisers) and is also founder of the consulting firm to nonprofits FSG-Social Impact Advisors and a cofounder of the Monitor Group. Yet in many respects, thinking about management has flowed in one direction only. It is handed down from the for-profit sector to the nonprofit sector. The assumption of the superiority of for-profit over nonprofit management practices is deeply rooted even in nonprofit leaders. The management consulting firm Bain & Company has cited "growing interest in adopting traditional business practices" as one of the three main trends characterizing the nonprofit sector.[1]

This assumption has troubled the thoughtful. Late in life Peter Drucker turned his attention to the nonprofit world, creating a foundation to focus on leadership in this sector. He believed that nonprofits lead society in meaning and purpose—much more so than corporations do. In his book *On the Profession of Management,* he noted, "The Girl Scouts, the Red Cross, the pastoral churches—our nonprofit organizations—are becoming America's management leaders. In two areas, strategy and the effectiveness of the board, they are practicing what most American businesses only preach. And in the most crucial area—the motivation and productivity of knowledge workers—they are truly pioneers, working out the policies and practices that business will have to learn tomorrow." Nevertheless, as the *Atlantic* magazine's senior editor Jack Beatty observed, much of Drucker's actual advice to nonprofits was just a retread of what he had already offered corporations. Even this genius was trapped in the current paradigm.[2]

What would it look like for nonprofits to define their own brand of excellence? This is the question Jim Collins addressed in his 2005 book *Good to Great in the Social Sector,* in which he explores how his "good to great" model for businesses to achieve excellence might be applied to the nonprofit sector. Authors and consultants Leslie R. Crutchfield and Heather McLeod Grant tell us that although for-profit ideas can certainly benefit nonprofits, they aren't enough. They say: "Better management practices can create only incremental, not breakthrough, social change. And even the best businesses cannot tell us how to change the world, because that is not their primary purpose."[3]

Some experts, such as Bill E. Landsberg, author and executive director of the Pikes Peak Foundation for Mental Health, warn that business practices are actually dangerous to nonprofits: "The business practices the nonprofit embraces to assure its survival threaten to undermine its culture, mission, and public image. In an effort to save its bottom line, the modern nonprofit risks losing its soul."[4]

In spite of these concerns, business thinking does in fact continue to exert influence on the nonprofit sector. There are four main reasons for this:

There is a long tradition.

There is a tendency for the less successful (ostensibly, nonprofits) to imitate the successful (presumably, business).

Both consultants and nonprofits benefit from business models.

Most important, business ideas succeed in the sector.

Reasons for Dominance of For-Profit Thinking

First, there is long-standing precedent. In the early part of the last century, corporate CEOs, as nonprofit board leaders, hired the same consulting firms for nonprofits as they did for their own companies. Oxford business historian and professional service firm expert Christopher McKenna explains the purpose of consultants is to offer "economies of knowledge."[5] Having had broad exposure and multiple experiences, consultants bring a perspective unavailable to those inside the organization, framed in detachment and objectivity.

So, like Johnny Appleseed, the consultants sowed a handful of organizational models across sectors.[6] (See Resource A for more history.) Today 89 percent of the expertise represented on nonprofit boards is in business management,[7] favorably predisposing boards to for-profit models.

Second, there is a tendency to imitate those perceived to be more successful. The corporation is king in capitalist societies, and nonprofits model themselves after the winner. This creates nonprofits with language and structure in common with business, and consequently language and structure more similar to those of other nonprofits. Isomorphic (meaning: corresponding or similar in shape, form, or structure) organizations become more alike even as they pursue change; nonprofit apples begin to resemble for-profit oranges as well as other nonprofit fruit. (In some ways this is actually a good thing; it allows greater ease in collaboration between organizations and between sectors.)

Third, consultants have benefited from bringing for-profit models into the third sector. Twentieth-century consultants turned to government and nonprofits as secondary markets after they had exhausted opportunities in the corporate sector (see Resource A). They offered the same models, such as "decentralization," that they had developed for businesses. "Unfortunately, by adopting the organizational structures of corporations in the postwar era, nonprofit organizations implicitly accepted the consultant's ideology that for-profit business necessarily represented the superior organizational form," says McKenna.[8] Even today some consultants offer convenient (and profitable) one-size-fits-all models. They trade in readymade for-profit ideas and nonprofits still obligingly buy them off the hanger. As one anonymous consultant on the balanced scorecard (a strategic planning and management system that originated in engineering and that was pioneered by General Electric in the 1950s) puts it, "I found that after I had run out of corporate clients, my business trickled down to nonprofits, and that is where I do most of my work now."

Fourth, nonprofits also benefit. Corporate managers may be no more efficient than their nonprofit counterparts, but they know how to "talk the talk." Savvy nonprofit managers know they can relate better to corporate-minded board members and donors when they come across as businesslike.

It can often be an advantage to nonprofit leaders and managers to familiarize themselves with for-profit management thinking.

Fifth, the most compelling reason is because many business ideas actually work in the nonprofit sector. For instance, some nonprofits swear by the balanced scorecard. This performance measurement framework, widely used across sectors, adds strategic nonfinancial performance measures to traditional financial metrics to bring managers and executives a more "balanced" view of organizational performance. Given the challenge of finding measures other than profit to ascertain effectiveness, you can see why this is popular with nonprofits. This is a helpful tool for planning, but it still cannot be said that balance scorecard nonprofits are necessarily better performers than others.

It has never been proven that wholesale transfer of for-profit thinking into nonprofits has actually improved nonprofit performance. Nevertheless, those with little real experience in nonprofits may assume that the only thing nonprofits need to do to prosper is be a little more like business. Complains one nonprofit employee: "When business or military people come to work in nonprofit development aid, they believe they are bringing new solutions and skills to the table. They are stunned to find highly skilled experts with many years of complex emergency response and development operation experience already at work here. Their shiny 'new' ideas are often not really very new. Misconceived efforts to 'fix' things go awry—what works in the private and public sectors doesn't necessarily apply here and often has already been tried."

In Defense of Nonprofit Organizational Strengths

One major criticism of nonprofits that comes from for-profit thinkers and consultants is that they aren't as efficient as business. When we scold nonprofits for this lack of efficiency, what do we really mean? Christopher McKenna points out that what constitutes "inefficiencies" in mission-driven organizations may actually contribute to their success. For instance, religious and educational organizations often engage in slow and laborious collective decision making. Just a waste of time? These process-minded institutions have achieved unmatched organizational longevity. McKenna asks, how many corporations have lasted hundreds of years, as some universities and faith-based organizations have?[9] With visions stretching into eternity, nonprofits endure.

One wonders what our world would look like today if the transference of ideas had been reversed, or at least been more reciprocal. What if businesses had become more like nonprofits? One nonprofit manager says, “I’m NOT saying that private sector folks have nothing to offer us, but I think we have a heck of a lot to offer the private sector. But we don’t do a good job of marketing our own tools and best practices.” For example, business may benefit from adopting such nonprofit virtues as strong emphasis on mission. “Persuading people for the greater good could be a powerful tool for corporations. I’m certain that they would *love* to have people willing to work for salaries below market level, as nonprofit employees do,” muses McKenna.

Or perhaps greed wouldn’t have precipitated the 2008 collapse of Lehman Brothers. Perhaps Sarbanes-Oxley (a federal law enacted on July 30, 2002, created to rebuild public trust in the corporate community in the wake of corporate and accounting scandals) wouldn’t have been necessary.

Imagine a parallel universe in which nonprofit ways of thinking are prized. In this world, corporate leaders first measure benefit to constituents and to the community before glancing at the bottom line. Mission-driven employees gladly work for substandard wages or even waive their salary entirely. Businesses are trusted to act in the public interest, and regulatory activity is minimal. Picture a world in which ancient corporations (let’s say, more than a thousand years old) welcome generation upon generation of devoted customers. As Accenture Development Partnerships director Gib Bulloch points out in ADP’s 2009 publication “Development Collaboration: None of Our Business? Non-Governmental Organization Transformation and the Evolution of Cross-Sectoral Partnerships in the 21st Century”: “There are many areas in which NGOs are better qualified to excel than are businesses. Levels of public trust in NGOs would be the envy of most corporate relations departments, and the most effective NGO advocacy campaigns would put some of the best-resourced corporate marketing departments to shame.”[10]

Whether or not the rest of the world ever acknowledges the value of nonprofit ways, nonprofits need to develop more of their own brand of thinking. This means developing more ideas in the sector for the sector. An example is presented in the last chapter of this book. Here a consultant, an expert in organizational models, tired of attempting to retrofit nonprofits with for-profit models, developed one specifically for nonprofits. No question that this asks more of consultants—to straddle thinking in both sectors and learn as much as possible about the array of methodologies available across sectors in order to create new ones for nonprofits. This does not mean that exchange of ideas between sectors is unproductive or should cease. It does mean that nonprofits and consultants should demand the options that are truly appropriate for them. If consultants are truly "thought leaders," as Drucker dubbed them, they may even come to help nonprofits better value and understand their own unique assets and character.

How Nonprofits Are Different

The differences between sectors are not always clear-cut. Although 501(c)(3)s may exist to support some issue or matter of private interest or public concern for noncommercial purposes, government might also make this claim. Then there are new hybrid legal models, such as L3C (low-profit limited liability corporation) and B corporation, somewhere between a nonprofit and a corporation. I discuss these models later in regard to their implications for consulting in governance and management. Some of the differences between the nonprofit and for-profit sectors, however, are obvious. The driver of mission over profit helps distinguish nonprofit from business. Nonprofits are exempt from most taxes. For-profits fund growth and new initiatives through retained earnings, stock sales, or borrowing, while nonprofits rely on contributions, memberships, and some earned income such as ticket sales or tuition. Nonprofits cannot use investment strategies such as commodity and options trading. Corporate investors can exercise total control over their organization; in nonprofits, contributors are prohibited from this kind of control (at least in theory, if not always in fact, if board members are also founders or major contributors).

Consultants unfamiliar with nonprofits need to know that they are more complex than for-profits. They have more "working parts" in terms of constituents and leaders, with their larger boards. They lack a bottom line to anchor them. In the last few decades nonprofit life became more complicated—at *least* as complicated as corporate life. The "law of nonprofit complexity" is that nonprofits "tend to be more complex than business firms of comparable size."[11] A 2006 study of eleven "crossover leaders" (corporate leaders who had smoothly transitioned into nonprofit leadership roles) revealed that it was much harder for them in the nonprofit world.[12] Even midtwentieth-century management consultants Cresap, McCormick, and Paget observed, "Nonprofit organizations usually are more difficult to finance, organize, and operate than business or industrial organizations of comparable size."[13]

Ten Important Distinctions Between Nonprofits and For-Profits

It is also essential that any consultant who wants to engage in the nonprofit world appreciate and understand—and any nonprofit leader looking for consultant help must be aware of—some subtle but important features that set nonprofits apart from for-profits.

Fewer Resources in Relationship to Purpose

The enormous problems nonprofits are committed to solving are staggering in relationship to the paltry resources they have at their disposal. In the nonprofit sector are many small and underresourced organizations that have taken on outsized societal problems. Because the social problems nonprofits tackle are often so vast, they must find ways to scale up their efforts.

Some consulting firms, such as the Monitor Institute, have begun to tackle the challenge of how to scale nonprofit efforts to the task at hand. This means not only using advocacy to educate and influence a greater number of people to bring in more resources and income but also increasing internal capacity and scaling up programs to meet the needs of more. It means effectively harnessing the potential of technology such as social media to this end.

It means learning to work with other nonprofits as well as other sectors to accomplish common goals.

Impact Harder to Measure

Although some trumpet one methodology or model over another, there is little agreement between academics and business experts on what constitutes good evaluation. In fact some nonprofit leaders go so far as to call it the "Holy Grail of the nonprofit world."

Lack of data, lack of time (and interest), and weak systems to devote to data identification and collection, as well as the absence of clear metrics, contribute to the problem of tracking real costs and measuring impact. Even where data do exist, nonprofits may not use them properly or at all: "There are distinctive challenges with nonprofit clients that require us to work differently from Bain [& Company]. There is simply less data available, which makes our data-driven approach more difficult. Data utilization is different as well—nonprofits are more apt to consider data in an academic way rather than use it for decision-making."[14]

In the corporate world, market forces offer feedback, and success can be relatively easy to quantify. In the nonprofit world, missions, not markets, are the primary drivers. But even organizations with similar missions may have widely divergent ideas on how to measure success. For instance, although the success of advocacy might be measured in votes or changes in regulation, it is difficult to tease out the relative impact of one group over another in a coalition. These kinds of group efforts can muddy the fundraising waters for the individual nonprofit. As Stephen Seidel, director of urban programs for Habitat for Humanity, observes: "Advocacy creates challenges for us in terms of measuring impact. It's easier to count houses than measure the impact of anyone's advocacy."[15] In Chapter Three we look at some of the ways in which consultants address the challenge of measuring impact.

Lack of Support for Overhead

Nonprofit CEOs cope with notoriously underfunded and understaffed organizations. Part of the responsibility for their lack of resources lies with an uneasy relationship to money that has become entrenched in nonprofit culture.

Dan Pallotta, author of *Uncharitable,* traces this back to Puritan forebears who separated religion (charity) from the rest of life, and to prohibition of use of capitalist tools for religious (charitable) ends.[16] Rather than fighting this powerful culture, Pallotta advises consultants to seek nonprofits that "get it"—those that, even if not in a position yet to properly spend on themselves, understand that they must do so. Otherwise consultants may find themselves encountering a wall of resistance to good recommendations that may cost money.

Sector watchdogs such as Charity Navigator have contributed to the problem by employing percentage of funds used for administration as a key indicator of nonprofit efficiency; the press has climbed on board, denouncing nonprofits that violate these standards. This is just another aspect of fumbling to find appropriate evaluation standards for nonprofits when there is no clear bottom line. Because measuring impact is so difficult, measuring costs is the default position. These outmoded standards of efficiency undermine efforts to establish economic stability and prosperity for nonprofits and create tension between the sectors. How nonprofits do accounting differs from one to the next, painting an inconsistent picture of expenses. If a nonprofit spends less than another, it doesn't mean that it is spending more wisely, or spending enough. Not every cent needs to be spent on programs. Nonprofit infrastructure can be sketchy at best, and sometimes downright precarious. The truth is that often they should be spending much *more,* not less, on infrastructure. In this they would do well to emulate for-profits.

Nonprofits face fiercer competition for funding than in the past, exacerbating the problem. An increasingly competitive environment has been created by the proliferation of nonprofits (as well as market-share competition from for-profits, as in health care and education). Competition for donor attention requires increased and more sophisticated fundraising efforts. Dwindling government funding adds to the pressure to find funds from private sources. Donors are more demanding and discriminating than in the past, and they are more involved, better educated, and less passive. The new "social venture capitalists" are proactive in conversation with nonprofits, wanting even to shape how services are delivered and how performance is measured.

Because they are underfunded, nonprofits may value cost as a decision factor over eventual financial payoff. Corporations might rank project cost behind other decision factors, but nonprofits have to bypass opportunities that would benefit them in the future simply because they don't have the fund to invest up front. Investments in performance (as with hiring consultants) may be viewed as a luxury.

Even when they are able to hire advisors, large nonprofits cannot always afford to implement recommendations. For example, a 2000 study by S. L. Bozzo[17] found that although nonprofits wanted to use the balanced scorecard in planning, it couldn't be adopted without extensive support in training across the staff—training that they were reluctant to spend resources on.

Consultants must modify recommendations if existing models are going to work. There are parallels in the corporate world. Back in the 1980s, consultants transferring Japanese management practices to American companies found that they did not have to transfer the style in its entirety. Instead they selected the systems and tools they deemed essential for successful assimilation. Only consultants highly skilled in the practice being adopted by the nonprofit, and knowledgeable about the attendant practices, perspectives, and resources that must accompany the change for it to be successful, succeed with this type of modification.[18]

Another way in which lack of resources affects consultants is that long-term retainer nonprofit-consultant relationships are rare and nonprofits are quick to show outsiders the door at the end of a project. Markedly disparate salaries may cause staff jealousy—more so than for-profit staff would experience, with their salaries more on a par with those of consultants.

Fortunately sector leaders are speaking out about the penurious predicament of nonprofits and the false measures of efficiency imposed on them. The watchdogs are actually letting go of insistence that overhead be as little as possible. Although nonprofits pinch pennies, they may be more easily dazzled with grand-scale endeavors like building new hospitals or museums, which seem to promise more patients or patrons. (For-profits, eyes glued to the bottom line, display greater caution when a higher risk-reward ratio is involved and incline more toward reliable generators of long-term profits.)

Large and Influential Boards

The board's influence is greater in not-for-profits. There is usually a greater number of members. Some nonprofit boards have more than a hundred trustees! Although at this juncture we won't debate the pros and cons of such outsized boards, the sheer number of personalities and individual agendas can be daunting. Nonprofits usually need larger boards than corporations because they must represent diverse constituents and they need to raise funds.

Although these board members cannot "own stock," as major contributors they can still wield considerable clout. Trustees are not handpicked, and the CEO cannot count on personal loyalty as in some corporations. Also, they can cause problems due to ignorance of the nonprofit world. As pointed out earlier, the vast majority of trustees come from the business world, and coming from corporate life some of them view nonprofits as "the minor leagues." Then too there are often highly independent, passionately committed, and micromanaging board members who can slow or even derail organizational processes.

Commitment to Diversity and Cultural Competence

An all-around more diverse society and the range of stakeholders whose needs nonprofits must address create even more pressure on nonprofits to embrace and honor diversity throughout the organization. Nonprofit managers, and of course the consultants who work with them, must accommodate widely divergent points of view, goals, and agendas. There is eternal consensus building, and endless decision timelines. One reason diversity on the board is important is because foundations demand it. Funders want to see that their dollars will serve the many, not the few. Community members may resist and resent the efforts of nonprofits when they have no representation in organizational governance. Nonprofits must hire for diversity appropriate to their constituencies so that staff can relate to constituents. A poor, young, single, Hispanic working mother may not believe that a white, middle-aged, middle-class man across from her will ever understand her problems.

Many Women in Leadership Positions

BoardSource reports that more women than men serve as nonprofit CEOs and that women make up 45 percent of board members.[19] Because at least the traditional management consulting workforce is still 72 percent male,[20] chances are that when consultants work in the nonprofit world they will be men consulting to women. Consultants need to accommodate differences; the leadership style of women tends to be more process and consensus oriented.

Different Response to Technology

Just as in other sectors, technological advances are revolutionizing the way nonprofits work, but they affect nonprofits in different areas. Rapidly evolving technologies are transforming how nonprofits interact with their donors, other constituencies, and one another. Technology involves service delivery, marketing and communication, fundraising, evaluation, and advocacy; it cannot be ignored.

Passion for Mission

The boundless passion found in nonprofits is a great asset but can also be a handicap. In the extreme it can seem to defy reason. Metrics may carry the day in for-profits, but not in the passion-driven dynamics of nonprofits. As a result, it is possible for board and staff to view with suspicion anyone who doesn't share their commitment, including consultants.

Communication Style

A collaborative communication style, which may mean that things take longer and which may take pains to ensure that every voice is heard, characterizes nonprofits. Consultants new to the sector may be seen as abrupt or as poor listeners. Nonprofit managers did not like Bain & Company presentations, which are typically "answer first." This was perceived as arrogant and noncollaborative. "When we offer an initial hypothesis to guide our analysis, we may be perceived as thinking we know 'the answer' too early in the process," says Kelly Campbell, a former Bain manager. They learned to be less initially assertive.[21]

Relationship with Consultants

A survey by the Alliance for Nonprofit Management revealed that the demand for consulting services from 2002 to 2003 was (in this order) primarily in fundraising and income generation, board development and governance, planning, and leadership, and mentoring and coaching.[22] In contrast, consulting in industry or government falls primarily (in this order) to information and technology (45 percent), general management (25 percent), human resources (10 percent), marketing (7 percent), and scientific and technical (3 percent).[23] Not only that, nonprofits, typically smaller than other kinds of organizations, don't need the large consultant teams typically seen in for-profits. A nonprofit organization of eight can be overwhelmed with a consulting team of just two. But even though the teams may be smaller, nothing less than the best will do. Nonprofit complexity requires a senior consultant to run the project, one who can easily relate to high-level board members and senior-level staff. Team structure might more appropriately resemble an hourglass than a pyramid, a mix of senior executives and relatively junior associates.[24]

CONCLUSION

As we have seen here, nonprofit demand is for consultants who can help them earn or raise revenue. They will always need help in getting the most from their volunteer and staff leaders and in managing themselves more effectively. Increasingly they will need help in thinking beyond borders and across sectors. We discuss all of these specific needs toward the end of the book.

Generally speaking, nonprofits will continue to need discerning consultants who can select and adapt appropriate models and methodology from outside the sector. Even more than this, though, because nonprofits need to develop their own thinking they require consultants to find ways to encourage this. Innovation and consulting is discussed in the chapter on management. An inherent key may also lie in the very activity of consulting. Process consulting, which we discuss in the next two chapters, invites the nonprofit in as a partner with the consultant in shaping solutions. Such consulting promotes an ideal environment for creative thinking.