MAKING A DIFFERENCE:
The Management and Governance of Nonprofit Enterprises©

Howard Berman

CCE Publications
A project of the Partnership
for Nonprofit Excellence
www.ccepublications.org
Rochester, New York

To order additional books, access electronic sections of the book and the appendices, or to read additional content on the book's topic, go to www.ccepublications.org. Some content that appears in print may not be available in an electronic format.

Printed in the United States of America

CONTENTS

APPENDICES*

*Appendices also available at www.ccepublications.org

PROLOGUE

Market based economies have demonstrated their ability to accomplish great things, creating wealth while simultaneously improving the overall standard of living. At the same time, they have also made clear their inherent harshness. The market, while offering the promise of great benefits, can also be very unforgiving and even punishing, ignoring fundamental human needs and allowing "gaps" in the production of goods and services to go unaddressed. As a result, society has created a third sector, a component of the economy that is privately owned but created for purposes other than profits.

The third sector, often called the nonprofit sector, is not unique to America. However, it is in America that nonprofit enterprises have assumed a prominence far greater than that which can just be measured by their economic footprint alone.

The following discussion is focused on the management and governance of these organizations, enterprises that impact the life of almost everyone in the nation. The target audience, though primarily students, also includes practitioners – both board members and managers. Its goal is to describe how these organizations come about, how they fit into contemporary society, and who they are. The book provides a template for how nonprofit enterprises:

- should be governed and managed – to provide a perspective and recognize a responsibility "beyond self;"
- can be successful – as measured not just by traditional structural and financial metrics, but also by the value they add to their community.

Taken as a whole, it is a primer on how to create and guide organizations to make a difference – both to individuals and to their communities.

PART I

FOUNDATION

Nonprofit Enterprises:
Who are they? Why and how did they come about?

To begin a discussion of the management of nonprofit enterprises, the starting point must be the development of basic industry knowledge. That is, why do they exist, as well as who they are and how they fit into contemporary society and the overall economy. The following chapters answer these questions. They also set the foundation for the organizational mechanism needed to enable nonprofit enterprises to productively pursue their mission – the corporation.

Chapter 1:
INTRODUCTION

Nonprofit enterprises are extraordinary organizations accomplishing both what business will not do and what society does not want government to do. While not unique to America, privately owned, public benefit organizations (i.e., voluntary community enterprises) (nonprofit companies), hold a special place in American society. In some form, they have been with us from before the birth of the nation, providing a catalyst for that birth by giving citizens a forum for representing themselves, as well as offering communities a way to tend to their common needs.

Today, they provide a voice for the voiceless, a safety net for those who have fallen, a means for preserving and promoting our arts and culture, and the vehicle for teaching our traditions and values. In addition, they are a provider of education, health care, and human and social welfare services.

The nonprofit organizations are clearly not the economic engine of the economy. Yet, though a small part of the nation's gross domestic product, nonprofit enterprises are the soul of our democratic society. Without them we could not be who we are, have accomplished all that we have achieved, or look forward to the future with optimism.

Put simply, nonprofit enterprises are vital to our individual and collective well-being. Therefore, it is important that these special organizations be well managed, efficient in their operation, and effective in their performance.

ROOTED IN THE AMERICAN EXPERIENCE*

The late Daniel Patrick Moynihan once observed: "A distinguishing feature of American society is the singular degree to which we maintain an independent sector – private institutions in the public service. This is no longer so in most of the democratic world; it never was so in the rest. It is a treasure…"

This distinctive feature of the American experience was documented by Alexis De Toqueville in the early 19th century when he observed:
- *Americans of all ages, all conditions, and all dispositions constantly form associations.*
- *The Americans make associations to give entertainments, to found seminaries, to build inns, to construct churches…, to send missionaries to the antipodes; in this manner they found hospitals, prisons and schools.*

The civic impulse that led our forebears to band together to hire a teacher for their one-room schoolhouses, to participate in barn raisings with their neighbors, and to establish volunteer fire departments and hospitals, continues today in myriad ways. The emergence and persistence over more than two and a half centuries of a strong voluntary sphere reflects a societal judgment that there are limits to what the commercial and government sectors can or should do. It is within this voluntary sphere that nonprofit enterprises have developed.

*William J. Cox, Alliance Catholic Health Care, "Nonprofit Health Care, Making a Distinctive Contribution to Patients, Families and Communities," March 2007

A PRIMER

Recognizing this need, the purpose of this text is to provide an introduction to the governance and management of nonprofit organizations. It has been written primarily as a primer for nonprofit and social enterprise certificate or degree programs. It is also intended to serve as a resource guide for board and management leaders of medium and large nonprofit organizations. To this end, a detailed index has been included to make searching for information and ideas about a particular subject easier.

Its perspective is primarily operational management; therefore, it arguably suffers more from pragmatism than theory. Also, its focus is on the governance and management of social enterprises, those nonprofit organizations that provide products and/or services to their communities, sometimes in competition with other firms – both for-profit and/or nonprofit – and always in a circumstance of limited resources.

For purpose of this discussion, medium and large organizations are defined as the almost 25% of reporting public charities, 501(c)3 organizations that have charitable purposes (assisting the poor and underprivileged, advancing religion, education, health, science, art, or culture, protecting the environment, or other purposes beneficial to the community, that have annual expenses of less than $500,000. While these firms are the minority of nonprofit enterprises in terms of the number of entities, they represent over 95% of the sector's expenses.[1] Importantly, in terms of organizational life cycle, these are organizations that have matured beyond the initial founding stages (concept and start up) and are faced with the challenges and demands that confront all ongoing business concerns, i.e., continuous improvement, growth, adaptation, and regeneration.[2,3]

SMALL AND STABLE

Some enterprises can remain both small and stable. Certainly these firms represent a nominal percentage of the total.

To be able to be both small and stable, an enterprise must, as a matter of strategy, decide to remain small and, as a matter of operating facts, have a committed group of volunteers and friends who provide both financial and human resource capital for the work of the organization.

As long as the financial and human capital is available, these enterprises can survive from generation to generation. However, while they are able to continue to operate, they will also continually face the same issues and challenges – of finding adequate continuing sources of volunteers to act as the staff, and friends to provide financial capital.

Smaller nonprofit enterprises certainly face governance and management problems – often more daunting than those confronting their larger brethren. For the most part, these smaller enterprises must either grow, through internal means or mergers, dissolve, or be acquired. Anything else typically leaves them at the wrong economic and operational size, constantly struggling to find capital, both financial and human (i.e., management), and worrying more about money, for the organization's continuing survival, than mission – the reason to survive.

Hopefully, the following discussion will also have relevance to smaller organizations, helping to show them how to manage themselves in order to achieve growth. Typically, these enterprises are passionately focused on service and view management and administrative activities as distractions – albeit necessary evils whose time commitments should be minimized. Being small, however, is not a justification for either lack of management or bad management.

In fact, smaller organizations need better management than their larger counterparts because they have less financial, human resource, and goodwill reserves to protect them during hard times. The simple facts are that while the depth and detail of activities and processes must be tailored to the size and capacity of the enterprise, the management and governance tools and tasks discussed in the following chapters apply to all nonprofit organizations, regardless of size or organizational maturity.

That said, even if an organization falls short in terms of reaching a self-sustaining size, dissolution is not the option of choice. Enterprises that are unable to grow to a point of stability should look to partnering with a mission-consistent, sister/brother organization. Consolidating with another like-minded/valued organization to sustain the enterprise's ability to pursue its founding mission is a positive strategic decision and initiative – not a defeat.

As a primer, its goal is to guide readers along a path that will enable them to help an organization achieve its mission. By design, it avoids formulas and fixed approaches, while attempting to explain the ends being sought and the pieces of the puzzle that have to be matched to get there.

Admittedly, from time to time the discussion will also touch on economics, history, politics, etc. However, readers wanting an in-depth understanding of the historical, political, or the theoretical roots of nonprofit enterprises should delve into the rich and growing literature of the nonprofit field. Similarly, readers interested in technical issues will want to supplement the framework laid out here with details from the appropriate accounting, finance, operations management, human resources, philanthropic, etc., literature.

Every organization has a different history and tradition, as well as varying capacities and capabilities. The reality of these factors must shape the details of the policies adopted and the processes employed by the enterprise. The details, however, must always be built on a foundation of basic concepts. It is hoped that these basic concepts are presented in an understandable and memorable way in the following pages.

To help achieve this understanding, as demonstrated above, the text will be supplemented by "commentary" set off in a box. Sometimes these comments amplify the point being made. At other times they provide a contrary point of view or simply a related observation. They are intended to draw the reader's attention to a relevant point – at the relevant time.

PARTS

While the overall perspective is managerial, and the concentration is on providing management skills and tools, **Part I "Foundation"** starts by examining the place and character of nonprofit enterprises in both the structure of the American economy and the context of contemporary society. As part of creating common ground, it also looks at the corporation both as an innovative concept, necessary for society to marshal the resources required to grow and prosper, and as an operational mechanism for transforming those resources into goods and services.

Part II "Governance" examines governance as the conscience of the corporation, responsible both for assuring the enterprise's focus on its mission and for enhancing the public's trust in the enterprise. Governance, through the enterprise's board of directors, serves as an agent of the organization's stakeholders and beneficiaries, and as the steward of its assets and resources. The obligations and structure of the board, and the importance of governance leadership to an effective, continuously improving governance process are also examined.

Part III "Management Planning and Execution" looks at what has to be done to accomplish results – achieve mission, steward assets, serve the community, and earn the public's trust. The emphasis is on business planning and execution. The section begins by examining strategy, what it is, and how it is developed. It then moves on to consider how to convert strategy into measurable, as well as meaningful, results.

Part IV "Management and Governance Challenges" looks broadly at the unique challenges of nonprofit organizations. It examines capital formation, volunteers, succession management, chief executive transition, and the challenge of enhancing the public's trust.

Finally, a number of appendices are provided to address various topics and issues in more detail. These materials differ from the text's "boxes" in that they are designed to provide subject matter depth and/or mechanical detail, without breaking up the flow of the discussions.

LEADERSHIP

Before looking at any of these topics, it is useful to step back and consider the question of managerial leadership. It may seem unusual to begin a primer on nonprofit management by first looking at the matter of leadership. The reality is that no discussion of management concepts, techniques, or mechanics can have practical meaning without understanding that ideas and initiatives must be implemented – and implementation requires leadership.

Quite simply, without leadership, results cannot be accomplished. Without leadership, nothing can or will happen. With it, almost magical things can be achieved.[4]

Much has been written about leadership and how an individual can become an effective business leader. It would be a fool's task to try to capture this body of literature in a few pages. Instead, the discussion that follows is focused on providing a perspective on the personal attributes and techniques needed to lead a nonprofit enterprise – either in whole, or just a part of it.

From a pragmatic perspective, everyone knows what it takes to be a good leader. This is so because each of us has had the experience of being a follower. As followers, we have seen good leaders and bad leaders. The challenge is to distinguish between the two and then adopt the practices of those leaders who were able to make us willing followers.

History demonstrates that leadership opportunities, like political popularity, are fickle.

Even so, opportunities will occur and individuals, if they wish, can capture them and become successful leaders if they are willing to:

- work hard
- exhibit personal courage – the courage to take action, even if that action is simply stepping forward and saying, "I'll take that on."
- learn leadership techniques and even arguably, some tricks.

Managerial leadership is influencing people to voluntarily work toward the accomplishment of common objectives. It is energizing and unifying the efforts of people to achieve commonly understood goals and objectives.

DIRECTION VS. LEADERSHIP

Leadership does not rely on compulsion. One cannot lead by just the power of his or her position or resources. One can direct by compulsion, making, for example, a gift/contribution conditional upon the enterprise following a particular path. Similarly, people in positions of power/authority can use their position to force others to do as they direct – or incur the personal costs and penalties of not complying.

However, to successfully lead, there must be people willing to voluntarily follow. There must also be a continued willingness on the part of followers – to keep following.

Recognizing that leadership requires voluntary followership, the central question is – how does a potential leader begin to generate this level of commitment? The starting point is recognizing that one leads through knowledge.

TRAITS

Competence is the key to leadership, and knowledge is the root of competence. Frankly, no one wants to follow a fool, someone who does not know how to solve the problem being faced. *Leadership, therefore, requires the ability both to conceive the path that will lead to the goal, and to share that vision in an understandable, albeit compelling manner.*

This does not mean that leaders always have to be at the head of the line. Remember, no one wants to follow a fool – and quite simply, no one can "know it all." A self-proclaimed expert on all things, who always wants to take charge, will fail as a leader because people will realize that they are actually being asked to follow a fool – and no one will voluntarily do so for long.

Second, as noted, leaders must exhibit the courage to take action. They must have a bias for action. A bias for action means that leaders must be decisive. It is often said that leaders can be right, they can be wrong, but they can never be unsure. Leaders must be decisive, but not stubborn. When events demand a change in course, leaders must have the self-confidence to recognize their error and be willing to take the required action to put the enterprise on a new path.

Third, leaders must subordinate themselves to the tasks to be accomplished. The effort is not about the leader, it is about the goals and objectives of the enterprise. As a "rule of thumb," the only time leaders should use the pronoun "I," is when they are taking the responsibility for failure.

Fourth, leaders must be comfortable with themselves. They must have the self-confidence to be willing to trust the strength of their organization to achieve success, admit mistakes, and make changes to either the overall plan and/or the tactical approach and be humble.

Finally, leaders must establish a bond of trust with those that they hope to lead. Followers must come to accept the potential leader as their actual leader. To do this, they must trust the person who wishes to lead them. One can only begin to lead through knowledge and continue to lead through trust.

TRUST

The obvious question then is, "How does one create trust?" Part of trust is honesty. However, real trust involves more than just honesty. It requires that the people who one hopes to lead believe that the potential leader can get them successfully to the common end and will do it in a manner that protects them, enhances them professionally and personally, respects their skills and abilities, and honors their accomplishments. In a word, trust requires unflinching personal integrity.

Integrity is the product of personal decisions and consequent actions. In the context of leadership, integrity must be translated into a belief by those who are to be led that their leader will always do the right thing with respect to how he or she relates to them. Obviously, no one can be infallible. Infallibility is not the criteria. Rather, it is a belief by those who are to be led that their interests will always have their leader's priority. This belief can only exist if there is first a foundation of trust.

To achieve this level of trust, leaders must develop certain basic skills.

Leaders must be good listeners. Listening requires more than the discipline of not interrupting when someone else is speaking. It is an active skill, requiring the ability to draw people out and understand what they are trying to say, as well as helping them to better understand the meaning and implications of what they are saying.

They must also be able to communicate clearly. A leader must be able to express ideas that are easily understood, evoke a positive reaction, and also are memorable. This requires face-to-face interaction so that the speaker can see if the message is being understood and accepted. Email may be efficient, but it does not assure that communication is actually taking place.

Leaders must have the insight to anticipate possible crises. Reality does not always cooperate with the enterprise's plans. Leaders cannot prevent these kinds of variations. They can, however, plan for matters to "fail-safe" – so that people will feel both protected and confident that their leader can successfully get them to the common end.

Crises might not be able to be averted, but leaders plan for the actions that will be taken when things do not proceed as planned/hoped.[5]

TRICKS

In addition to the above, there are certain actions that leaders take, that at first blush, may seem to fall more in the category of tricks than skills.

The most important of these "tricks," is to always hire good people. This may seem obvious, but insecure leaders are often afraid to hire people who may be able to do their particular

job better than the leader can do that job. Over the long run, no enterprise can achieve sustainable success if the people in leadership positions avoid building strong staffs. To be successful, leaders must hire good people, commit to them, nurture them by offering opportunities to grow and develop skills, and then trust them to do the work – driving decisions down to the lowest actionable level.

Leaders must also be predictable in both word and action. If people know how the leader will react in any given situation, then they will be more willing to take action and make decisions on their own. Key to this is people knowing that they will be supported in their decision making, even if it turns out that a poor decision was made.

As a corollary to predictability, people must have confidence that their leaders also do what they say they are going to do, when they say they are going to do it.

Leaders must encourage critical debate, understanding that dissent is not disloyalty. To encourage critical debate, leaders must allow themselves to be swayed in their decision making by the debate, so that people know that their opinions matter and that their arguments can make a difference. In terms of "tricks," for critical debate to work, leaders should plan, on occasion, to lose an argument.

Leaders must be flexible. Everyone has their own interpersonal style. For example, some people prefer one-to-one relationships. Others like to work in groups. Some prefer to talk things through, while others would rather rely on written documentation. Learning styles also vary, with some people learning best visually while others prefer verbal explanations or open-ended questions that enable them to explore alternatives. No style is better or worse; they are just different. The problem is not the differences, but rather the mismatches.

To enable people to function to their potential, leaders must recognize these differences and adapt to them, relating to each individual within the context of their style. It is the leader who, within limits, must adapt because it is the leader who has the most freedom to make changes. Essentially, leaders must meet people where they are, in a way that is comfortable to them, and then take them on a path of guided discovery to the common end.

Leaders must also be a bit of a character, creating a "human side," that people can believe in. Leaders must create a persona that people can tell stories about and relate to – so that they can psychologically commit to the leader in the same fashion as the leader commits to them.

LEGISLATIVE & EXECUTIVE LEADERSHIP

A discussion of leadership in the context of nonprofit organizations must also recognize that nonprofit entities require a mix of both legislative and executive leadership. Legislative leadership is found most clearly in government where leaders must build consensus, molding and reshaping positions and programs to engage a broad constituency. Legislative leadership may not be an efficient process but it is effective in that decisions, once made, will be supported – because people have broadly been engaged in, and have become part of, the process.

In contrast, executive leadership is the hallmark of business (and the military) where command and control dominates and decisions are made from the top down.

Legislative leadership is horizontal in character. Executive leadership is vertical.

In the nonprofit enterprise, leaders must use a mix of both styles. The challenge is to be able to vary the mix, on the margin, to the issue and the structure so that decisions will be voluntarily supported and people willingly follow.

Being a character does not require outlandish behavior. Rather, it may involve as little as simple things like: walking around the organization and telling personal stories, as well as listening to personal stories, supporting the candy sale – but not taking the candy, dressing casually on "dress-down days," wearing the organizational logo at public events, etc.

As a leader, how does one test oneself to assure that he or she is exhibiting and enhancing these traits? The simple answer is that objective self-evaluation is very difficult. A better approach is to explicitly include a review of leadership performance as an element of managerial performance assessment. As a complement to this ongoing evaluation, exit interviews can also be used to explore leadership performance.

ACHIEVING SUCCESS

Emerging research suggests that high performing nonprofit organizations share some common characteristics.[6] Outstanding nonprofits demonstrate the following features:
- a focus on mission
- an openness to feedback – new ideas and criticism
- a commitment to continuous performance improvement
- an accountability for results – at all levels
- a commitment to their employees.

These values produce successful organizations. The following chapters will examine how to make these values come alive, becoming part of the enterprise's governance and management fabric. The first step, however, is leadership by both management and the board.

In today's society, with growing demands on nonprofit organizations and relatively shrinking available resources, the difficulties of achieving success and the consequences of failure have never been greater. To manage these enterprises well is a challenge worthy of society's best and brightest leaders.

Welcome to the beginning of solving the most interesting management problems in contemporary American life.

CHAPTER 1

Questions for consideration and discussion:

Do you need trust to lead?

Do you need charisma to lead?

How does competence relate to leadership?

How do you build the foundation for ethical business decisions?