

Wagging the Dog: Philanthropy's Influence on Nonprofit Management

Nonprofits can feel like philanthropy's "tiny dancers"—performing the latest and greatest ideas at philanthropy's behest, whether or not the intervention fits the organization's infrastructure and practice. But every so often a proposed "new" management practice leads to meaningful change.

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The CEOs who write about impact and effectiveness. The program officers who pay for, and often require, nonprofit investments in new management practices. The foundation-paid consultants who codify the new frameworks. And the media of all kinds that act as enthusiastic distribution channels for the latest "best practices." These philanthropy-driven forces have an enormous influence on nonprofit management discourse and executive decision making about how to craft strategy and build capacity.

And it's important to note that the influence is far broader than the understandable one-on-one pressure a nonprofit executive may feel to say yes to a key program officer when asked to create a specifically tailored "theory of change," for instance, as part of proposing a major grant. When the big new waves of management theory surge, executive directors feel compelled to ride them, even if they originated in a different context or were initially attached to funding to which the directors will never have access. And, of course, these "new" waves are more often than not recycled—it seems almost compulsively—from past fads that may or may not have caught on, and relabeled in the day's trendiest lingo. Sometimes what philanthropy says, of course, makes sense, and sometimes it does not, but we always consider the risk of voicing our opinions about that second possibility for fear of losing organizational standing or dollars. Thus, nonprofits often feel like captive performers of the latest and greatest ideas in philanthropy—their tiny dancers, so to speak. We get good at going through the motions, which for nonprofit leaders can be frustrating and inefficient at best and downright demoralizing at worst.

In the face of failure of so many management interventions that pass through the nonprofit digestive tract, organizations must ask themselves, "Do they nourish us and make us more agile and alert . . . or not?" And again, when philanthropy is promoting an intervention, or even mandating it, answering that question authentically can feel next to impossible. This prompted *NPQ* to interview a cross section of luminaries who have a particular vantage point on how philanthropy influences what's deemed best management practice for nonprofits: What effects, good or bad, have philanthropy-based ideas from the past thirty or forty years had on the way nonprofits are managed? Have any of those ideas stood the test of time? (In other words, are they still driving the way nonprofits manage themselves?) And what would be the nominees for the worst and best management ideas at large today?

Jan Masaoka, of the California Association of Nonprofits (CalNonprofits) and the online magazine *Blue Avocado*, is a longtime observer of consulting to nonprofits, having headed CompassPoint Nonprofit Services, one of the nation's most well-regarded consulting and training organizations, for fourteen years. "Every management fad (oops: great innovative idea) that passes through the for-profit management consulting firms comes to the nonprofit sector courtesy of foundations—from 'management by objective' to 'strategic planning' to 'reinvention' to 'learning organization' to 'balanced scorecard' to 'strategic investment.' All of these have good elements, but we in nonprofits often feel as if we are being force-fed yet another full dinner of what would be a nice appetizer."

Bill Ryan, of Harvard University's Kennedy School of Government, uses a different analogy. "The swine flu of foundation-imposed management practices is mandated collaborations among grant seekers. The last great outbreak I witnessed was in the mid-1990s, but it can strike again at any moment. And there is no reliable vaccine. It's perfectly sensible for program officers—sitting in a conference room, looking at all the many nonprofit grant seekers with similar missions and complementary programs—to insist they team up for the sake of efficiency and impact. What they don't see from their conference rooms? All the other conference rooms at all the other foundations where all the other program officers are also demanding collaborations as a condition of their grants. As the collaboration idea mutates and spreads, nonprofits waste time contriving collaborations that are mostly nice on paper." And, we might add, virtually nonexistent off.

On the other hand, points out Deborah Linnell, long-term nonprofit management specialist, "building the capacity to work in networks is one of the better ideas promoted by philanthropy, but I think that this actually emerged from the field and was picked up by philanthropy—which is probably the way it should always work. I do not think we have the management models down for working in a more networked fashion, but the focus of some philanthropists and capacity builders on trying to understand how nonprofits engage in and manage themselves in a more networked approach to jointly achieve meaningful community outcomes is promising."

For Masaoka, it is the enthusiasm of "true believers" that overcomplicates and creates resistance around even the most decent of ideas. She poses the "theory of change" as an important idea, but "after you've done sixteen different theories of change along the different guidelines that sixteen funders want, you get to hate even the phrase." And then there is the tailoring that each proponent does to "sex it all up" a bit—or, as Masaoka describes it, "The smoke-to-fire ratio right now is way, way off with 'social enterprise,' 'impact investing,' and 'collective impact.'" She concludes, "If only we could start judging organizations by whether they act ethically rather than whether they have a written conflict of interest statement—by whether they change lives rather than whether they have an elegant theory of change—by whether they are integrated into communities of color rather than by whether they have a particular racial mix on the board—by whether they strengthen communities rather than by whether they can check off everything on the management assessment. And maybe pigs will fly."

Linnell believes that the current rage for choosing star innovators to scale up particular responses to social problems is flat-footed. Having observed the way such stuff has occurred over thirty years, she says, "Scaling organizations too quickly or across very different regions or geographies without an invitation from that community or working to ensure a cultural fit in a new community feels top-down. The so-called evidence-based push that often results in scaling up single organizations is one that I feel does not get enough critical analysis of its impact on grassroots innovation. The vast majority of nonprofits, many volunteer-driven, are deeply interwoven into the community fabric, providing a collective resiliency that is difficult to measure."

There was a good amount of agreement on the best management-improvement push. Says Ryan, "I get bored just thinking about it, but thoughtful, real-time collection and use of data has helped lots of nonprofits serve their clients and communities better. They can see what's happening on the ground, see where there are gaps or problems, and step up or step in at the right moment to make adjustments. Data collection and analysis make the world a better place, and the foundations that have invested in nonprofits' data-collection capacity deserve a big prize. But no honors for the foundations that demand robust data collection but won't fund it. Nor for the ones who invest in it, but more for their own research

or monitoring purposes than for the nonprofits trying to do a better job for their clients and communities. You know who you are.”

Paul Connolly, of TCC Group, sees the push for evidence as, at its best, promoting evaluative learning. “Over the past several decades, funders have raised the bar for performance measurement and evaluation. But when this has focused too much on accountability, it can become mostly a judgmental ‘report card.’ Instead, more funders have encouraged evaluation to be more about improving—not just proving. By encouraging nonprofits to employ evaluation for ongoing learning and program refinement, greater social impact has resulted.”

Kate Barr, of Nonprofits Assistance Fund, agrees that the takeaway is about evaluation that is timely, focused, and within reach. “Every nonprofit should understand what impact it is trying to create in the world and then develop a reasonable and practical method for monitoring and adapting to the results. Evaluation used to be a lofty field, delegated and contracted out to specialists for mysterious study and reporting. Evaluation has now made its way into nonprofit organizations as a core component of running the organization. There are still challenges to create systems that can be implemented without too many additional costs or staff, but this is a great development for the field and for every organization.”

The idea has had a long incubation time, says Linnell. “The United Way of America got the ball rolling on outcome measurement in the 1990s, which I believe has been good overall.” But, she says, “the focus solely on outcomes de-emphasizes the need to support the ‘input’ end or the capacity of the nonprofit—its infrastructure, administration, and so forth—to achieve those outcomes. I believe process and outcome evaluation have to go hand in hand to demonstrate both the impact *and* how the nonprofit organized itself to arrive at the impact.”

Connolly agrees. “One of the most salient ideas that philanthropy has promoted over the past several decades has been the importance of investing in the whole nonprofit organization rather than just the programs. More funders have encouraged nonprofits to invest beyond the crucial services provided—to also include the organizational infrastructure that supports those services. Strong organizations lead to strong programs. Foundations have invested more in the leadership, management, and operations of nonprofit organizations, which has enabled them to increase their organizational performance.”

Linnell believes that the emphasis in the last ten years “on strengthening financial management capacity has helped to develop stronger, better organizations.” And there are few that would argue with this. But Barr thinks that funders’ own grantmaking practices force nonprofits into untenable financial positions, and that this has serious management implications that are, ironically, hard to manage through better financial management. “Standard practice for many foundations is the belief that the only way to be confident that grant dollars are used effectively is to restrict the funds to a limited, defined, and inflexible purpose through a restricted program grant. Restricted funds have resulted in the financial gymnastics that every nonprofit performs to allocate costs, pay for complete and adequate infrastructure, and build cushion or reserves. Foundations have come to believe that restricting their own funding is fine, because ‘another source’ will provide the flexibility needed to fill the gaps and provide reserves.

“Many foundations have understood that nonprofits are positioned to advocate for and foster change and new approaches to solve community problems. Foundations have encouraged and supported new ideas and pilot projects to test ideas and approaches that nonprofits couldn’t otherwise have tried. The double-

edged sword is the preference of many foundations to fund only new and different programs, thereby forcing nonprofits to reinvent programs or continually add more and more to their program portfolio.

“The effect of all this has been the standard practice of developing strategic plans and visions that include new, bold ways to meet community needs. The reality of seeking grants for ‘new’ programs is constant growth, whether or not the nonprofit has capacity or the new program is optimal for the community. The standard question on many grant applications—‘How will the program be sustainable after the end of the grant period?’—generates better fiction writing than the local short story contest.”

Barr believes that these practices produce other bad relationship problems between grantors and grantees. “In the last decade especially, foundations have made clear that they expect the work of nonprofits to add up to some benefit, impact, or results in the community. The expectations have gotten out of hand, though, when a request for a small grant requires a description of how the organization will effect ‘systems change’ or ‘outcomes’ with a small amount of short-term grant funding.”

Linnell thinks the recent trend of some foundations of supporting coaching for leaders and managers is a positive one. It sends a message that it is healthy to ask for perspective, continue to learn, and adapt and grow as a leader. She thinks that it would be an interesting experiment to extend a well-designed coaching program to board officers—especially board presidents.

But it is not clear if the forty-year-long penchant of philanthropy to propose (some might say “impose”) management solutions en masse to grantees has been all to the best. Some feel that it has overemphasized particular management tools and processes. For Masaoka, the overall emphasis in conversation among funders on the need to upgrade nonprofit management has passed its “sell-by” date but hangs on as a kind of cultural artifact. “The meta-idea is that nonprofit leaders need to focus on management skills and tools. This was a good idea for the baby-boom nonprofits, where leaders came from movements (such as the women’s movement and the Third World liberation movement) and needed to learn what the heck ‘personnel’ and ‘accounting’ were. Today’s generation (and, of course, I’m generalizing here) knows about management. The meta-idea for them is to focus on building movements, building constituency—making the right choices rather than the right management processes.”

Ryan tends to agree. “Sometimes, with their well-meaning passion for supporting better nonprofit management, funders can forget that management isn’t everything. (And what goes for funders goes for the rest of us who, sadly, grew up to be the people who are passionate about nonprofit management.) But the truth is that nonprofits are not just instrumental entities churning out social impact at the lowest possible cost. And the nonprofit sector isn’t just the sum of all that instrumental work. Nonprofits are also expressive—devoted to getting the job done, but getting it done in their own particular way that reflects their own particular values, worldview, or ideology. And the sector as a whole is the pluralistic sum of all those organizations, and often a messy and inefficient one. The push by foundations for nonprofit mergers brings the expressive-instrumental tension into focus, especially if you stop to ponder why the many foundations pushing the idea—lots of them small and inefficient, and most of them with redundant overhead—don’t themselves merge. They don’t do it because it would mean giving up their own view of how to get things done. The good news of the last decades is that funders have begun to take nonprofit management seriously. But a little moderation is good, for the sake of our expressive selves.”

Barr’s nomination for the most unproductive prescription is the idea that “nonprofits should operate more like a business. This is such a can of worms,” she says, “because it’s undefined and uninformed. Of

course, nonprofit entities need appropriate management practices to build and maintain a quality workforce, stable financial structure, and effective oversight. Nonprofits also usually need to employ practices from other fields such as education, community organizing, social work, design, and psychology. Is it harder or easier to run a nonprofit than a business? Why does it matter? It's a classic apples-and-oranges comparison, but it won't go away." Chiding philanthropy for its lack of consistency in providing the kind of shared infrastructure necessary to keep organizations refreshed in a constantly changing environment, Barr concludes, "In the last twenty years, the sector has professionalized and developed infrastructure organizations, skilled resources, and a growing number of management practices that seem to work. Foundations have encouraged professional management, quality staff leadership, and strong governance. In many cases, foundations have provided support for organizations to undertake capacity-building activities and have supported the development of infrastructure organizations, educational institutions, and sector-specific research and resources. The attention span for this support is often short, though, and hasn't allowed enough time for organizations to develop the internal staff capacity to institutionalize new practices." (Another downside to this trend, Barr noted, "is the acceptance that the standard, institutionalized 501(c)(3) nonprofit is the best and optimal organizational structure for every community group. Even small nonprofits are told that they need to create strategic plans, management structures, board development, financial systems, fundraising models, etc.—an inefficient use of community resources.")

And so, as nonprofit leaders in 2012, we are now hurriedly trying to determine what "collective impact"—the latest wave of management theory espoused by foundations—means for our organizations. Inside this framework, are there positive and lasting shifts to practice that will improve the way nonprofits, foundations, and other stakeholders work across organizational walls toward common goals? Our cynical side cannot help but doubt it—but would that it were so.

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