Increasing Nonprofit Sector Effectiveness

by Peter Fortenbaugh, July 2018

Recommendations for nonprofit staff, board members, and philanthropists.

Over the past 25 years I've been a business person, then a philanthropist, and then a nonprofit leader. I've gotten an inside view into how different sectors interact and have come to realize that we need all of these sectors to address pressing social challenges. With this perspective and based on my 13 years as executive director of the Boys & Girls Clubs of the Peninsula (BGCP), I have developed some recommendations for nonprofit staff, board members, and philanthropists—particularly those transitioning from the business world—that can, I believe, increase the effectiveness of the nonprofit sector. Over the course of three articles, I will explore the following:

1. Recognizing important differences between nonprofit and for-profit businesses
2. Identifying the power and limitations of proving impact
3. Enhancing donor-nonprofit leader partnerships

Three Important Differences Between Nonprofits and For-Profit Businesses

Many business people see an opportunity to apply their skills to the nonprofit sector as either a donor, board member, or staff. As I was, most believe they can improve nonprofit efficiency and are inspired to try to improve the world. But business skills and inspiration are not enough. When I joined BGCP, it became apparent that leading a nonprofit is different from leading a for-profit. Some of the management perspectives I had learned at Harvard Business School and McKinsey & Company did not apply and, in some cases, they were detrimental. I had to broaden my skill set to survive. Staff and philanthropists making the switch between sectors should be aware of important differences between nonprofit and for-profit businesses, especially culture, measuring success, and governance.

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1. Culture

On average, achieving the organization's mission motivates nonprofit staff more than personal success. They don't want to do well themselves at the expense of others, and they are willing to sacrifice personal gain to improve the world. During the 2008 recession, for example, we needed to trim the BGCP budget. When I shared this with a group of tenured staff, they voted to forgo their 10 percent pension rather than have any of their peers lose their jobs. Nonprofit leaders are also more inclined to allocate as many resources as possible to serving their constituents and, as a result, tend to keep salaries low (which unfortunately increases staff turnover and thus impact).

In my previous jobs, stock options and salary were the golden carrots that inspire hard work. People sought individual success. Nonprofit staff meanwhile tend to reject internal competition and value teamwork. The sense of shared experience drives employee satisfaction, and while individual recognition matters, group recognition matters even more.

2. Measuring Success

The biggest challenge for me in leading a nonprofit vs. a for-profit business has been avoiding complacency and maintaining a drive to improve. At BGCP, as long as the kids participate in our programs, we don't have any fights, and everyone goes home safely, we did good. But while we had a positive net present value, how do we know if we maximized our return on investment? Could we have done better? We have most of the students for only three hours a day, and time is one of our scarcest resources. How can we best use it?

Competition drives for-profits to innovate and constantly improve. General Motors employees know that if they don't keep pushing to innovate, Tesla will drive them out of business. Part of the problem is that most nonprofits don't face threatening competition for their customers, but the root of the challenge is that goals for many nonprofits are less clear than for-profits. Many organizations are trying to change lives amid market failure and a unique set of historical, structural, and cultural obstacles. It can be much harder to ascertain true, long-term impact. It can be harder to judge the effectiveness of program strategies and create timely data to use for continuous improvement. Even with robust data tracking, it can take years to draw any meaningful conclusions.

Without clear measures of success, emotion and subjectivity play a greater role in evaluating performance, and the sector experiences regressions towards the mean. Often when an organization is struggling, donors step in to rescue it and keep it alive for another day. They like to have impact, and saving an organization seems like high impact. But where does it say that all nonprofits should exist in perpetuity? Things change. At the same time, the larger a nonprofit grows, the smaller the perceived importance of each donor's gift becomes. I've had several donors tell me they no longer see the reason to support our organization, because we are doing well. And most foundations give fixed grant amounts no matter how much you expand. Why not increase investment in organizations that are thriving?

3. Governance

Another big difference between nonprofits and for-profits, of course, is leadership. Nonprofit boards are larger, often because organizations rely on board members to contribute to key functions. At BGCP, for example, we can keep costs down and quality up because our board members provide leadership in areas like finance, marketing, IT, government relations, and legal. Most importantly, we depend upon board members to use their networks and relationships to engage donors. Given this need, it's not uncommon for an organization to have 20-plus members, which makes meaningful group discussion virtually impossible. Most real work and decision-making happens in committees.

Board member engagement is also less consistent at nonprofits. For-profit board members get paid, and meeting attendance is a top priority. Nonprofit board members are volunteers. The board is often their fourth priority (after their day job, their family, and vacations), and attendence can be hit or miss. The result is that strategic conversations often struggle to gain traction over time and can deflate staff morale.

Another difference is that nonprofit leaders have greater job security than for-profit leaders. Very few board members will join a nonprofit if they don't believe in the leader, and even fewer board members want to be responsible for the hard work of replacing the leader. They would much sooner leave the board, allowing a mediocre leader to muddle along for years. Also, board members at nonprofits have less experience with the organization's services than those at for-profits, and can be deferential to staff, sometimes even at the mercy of the staff.

While nonprofits and for-profits are both businesses, they have important differences in culture, how they measure success, and governance. Donors and staff making the switch between sectors should be prepared to modify their expectations and approaches based on these fundamental differences. Investing in leadership development and group recognition, setting clear organizational goals and encouraging innovation, and establishing a committed board go a long way toward improving nonprofit effectiveness.

Peter Fortenbaugh is the executive director of the Boys & Girls Clubs of the Peninsula (BGCP), which actively serves 2,500 students in close partnership with three school districts and runs expanded learning-time programs on nine school campuses. Previously, he had a business career as an executive at Exodus Communications and a consultant at McKinsey & Company, and earned an MBA from Harvard Business School and a bachelor's degree from Princeton University.