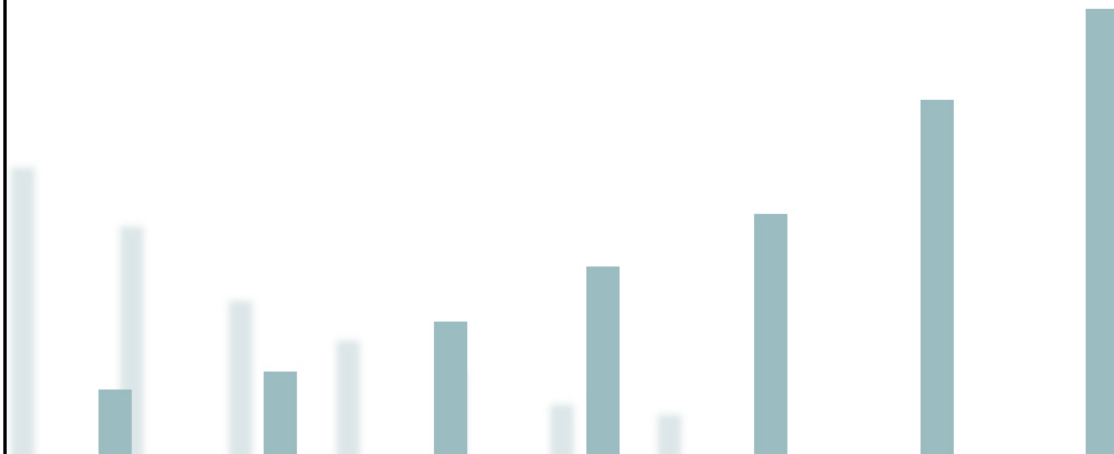


**MARCH 2006**

# **The Nonprofit Sector's Leadership Deficit**

## Commentaries



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### *Flexible Support, Tough Love*

**Paul Brest, President  
The William and Flora Hewlett Foundation**

Foundations can make grants specifically aimed at inspiring and preparing nonprofit leaders, for example, by funding management and leadership programs or supporting the development of social entrepreneurs. However, the value of increasing the availability of high-quality nonprofit leaders ultimately depends on whether they are attracted to the organizations that need them. A strategically-oriented organization that has adequate resources and considerable autonomy over their deployment is likely to attract talented leaders who, in turn, can achieve real impact. And funding practices can significantly affect these organizational characteristics.

By definition, general operating support gives an organization's CEO the flexibility to allocate foundation funding to what he or she (in consultation with the staff and board) deems to be the organization's highest priorities. At the other end of the spectrum, a CEO's ability to chart his organization's course can be frustrated by funding that is directed toward specific projects—for example, a grant to a youth services organization to implement a particular drug prevention program that has captured the funder's fancy. Grants of these sorts often reflect the funder's priorities rather than those of the organization, and a CEO faced with many such grants can lose much of the opportunity to shape his organization's strategies.

Of course, one cannot simply say that general support grants are good and project grants are bad. Like the organizations seeking its support, a funder has its own legitimate social, environmental, or cultural goals, and the nature of its support inevitably depends on how the organization's activities are aligned with those goals. If you want to improve the overall quality of a university, general support is the appropriate vehicle; if you are particularly interested in promoting Islamic legal studies, then a project grant to the law school for this particular objective would be more to the point.

Although there is nothing intrinsically wrong with project support, the importance of strengthening nonprofit leadership suggests that funders should have a *presumption* in favor of general operating support. (It also suggests that project-oriented grants should pay their fair share of overhead. Otherwise, the CEO will have to draw on unrestricted funds to pay for the full costs of funder-designated projects.)

A funder concerned with the strength of an organization and its leadership will not only be inclined to provide general operating support, but to make renewable multi-year grants. Grants of several years' duration reduce the organization's fundraising costs, allowing its management to devote more resources to its mission. A presumption favoring renewable multi-year grants allows the CEO to plan over a reasonable time horizon. Of course, there's circularity here: Only an organization with strong leadership can gain the confidence necessary to justify a funder's long-term support.

It may seem paradoxical, but a funder also strengthens an organization and its leadership by being demanding both at the beginning of the grant and as it proceeds. At the start, a funder appropriately demands clarity about the organization's goals and its strategies for achieving them—necessary though not sufficient conditions for the organization's effectiveness. An organization that meets these conditions can distinguish itself and attract more resources from strategic funders than one that cannot. For organizations that aren't there yet, the requirement provides a manager with an opportunity to improve his own and his organization's strategic skills.

As the grant proceeds, the funder will demand reports on the organization's progress toward its goals. Of course, an organization with ambitious goals may not be able to produce actual impact during the grant period. But it should be able to demonstrate that it has taken the steps required by its strategic plan to ultimately achieve impact. Here too, superior leaders will rise to the challenge, and an effective organization will distinguish itself.

What is the role of so-called "capacity-building" or "organizational effectiveness" grants in improving the leadership of nonprofit organizations? At first glance, it might seem that a funder concerned with strengthening an organization should

simply provide general operating support, which the CEO can use for any capacity-building that he deems a priority. In some situations, though, a capacity-building grant provides “cover” for a CEO who wants, say, to improve the organization’s communication skills or IT systems, but feels pressure to devote funds to immediate needs rather than invest in capacity. Perhaps in an ideal world the CEO would not need the funder’s leverage to take the longer view; but sometimes one must deal with organizational realities.

Particularly germane to Tom Tierney’s article, a capacity-building grant targeted, say, to increasing a CEO’s compensation or to filling a management gap can signal the importance of strengthening an organization’s leadership in a way that (mere) general operating support cannot.

### *Working Together on the Leadership Deficit*

**Geoffrey Canada, President and CEO  
Harlem Children's Zone, Inc.**

The not-for-profit management shortage first came to my attention about five years ago as we had more and more difficulty replenishing and expanding our senior management team at the Harlem Children's Zone. In the last two years, I've watched this situation become a real crisis throughout the field.

Compounding this problem for us is the fact that about a third of my agency's senior management team are in our early fifties, so we are looking down the road at the prospect of a terrible loss of talent when we all begin to retire or exit the field. Considering the escalating difficulty of finding replacements, we have realized that we could be heading toward a devastating blow if nothing is done.

Similarly, this report is a real wake-up call to the entire field. It serves notice that maintaining the requisite level of leadership in the not-for-profit world is one of the key issues that we have to tackle if we are going to avert a crippling problem for our organizations and those we serve.

At our agency, we are thinking about how we can attract talented individuals. As this report notes, we believe we will have to look at people with management experience in the for-profit world and figure out how to attract these people to the not-for-profit area and ease their transition.

It's also becoming increasingly obvious to us that there are young talented program people in our organization who could—if given help and support—become senior management. We will have to go out of our way to provide them with opportunities and experiences that they would not organically get in their present positions. We need to expose them to areas such as development, budgeting and working with trustees; and to provide workshops where they can begin to stretch their skill set. These younger program people absolutely need these kinds of experiences over the next five to seven years to ensure they can effectively take over the reins of leadership.

As a person who cares passionately about this field, I think that this report is sobering and downright scary. It is difficult enough to find high-quality management and leadership in the field today. It's very troubling to think about what will happen over the course of the next ten years if nothing changes.

The situation suggests that we all have to take on an additional duty to ensure that we are helping others to become leaders of not-for-profits. We need to find young people with potential—inside and outside the field—and round out their skills. To create the next generation of leaders, the current generation of leaders will also have to think hard about issues such as compensation and benefits packages to ensure that leadership positions are more attractive.

Hopefully, this wake-up call will open some eyes so we can work together to address the crisis, which in fact is already upon us.

## *The Who Thing*

### **Jim Collins**

David Packard, the great entrepreneur who, along with his partner Bill Hewlett, built one of the great companies of the 20th century once observed that a great organization is more likely to die of indigestion of too much opportunity than starvation for too little. He followed this observation with what I like to call “Packard’s Law”: the primary constraint on effective growth is not financial capital, but the ability to attract and retain enough of the right people. To which—based on Tom Tierney’s white paper on The Nonprofit Sector’s Leadership Deficit—I might now suggest a corollary: the number one constraint on effective growth of the nonprofit sector is not funding and other support, but the ability to attract, retain and develop enough of the right leaders.

Everything in our research on what separates great from good in human systems supports the idea that you simply cannot build great organizations and make the best possible impact on society without having enough of the right people on the bus, and especially the right bus drivers. And that’s why Tierney’s analysis of the impending leadership gap should make us worry about America. With the huge impending transfer of wealth, the nonprofit sector may well die of indigestion of too much opportunity, unless it can attract and organically develop enough of the right leaders to make good on that opportunity.

What to do? I’m more of a researcher than a practitioner, so allow me to offer a method of analysis that might shed light on the question. I might suggest an analysis of effective nonprofit leaders, with a special emphasis on comparing leaders who made a successful shift from business to nonprofits in contrast to others who did not make a successful shift in comparable circumstances. Why did some succeed and others not? What does this teach us about what separates those who become effective nonprofit leaders from those who do not? And how can those lessons best be deployed to create a vast army of effective nonprofit leaders?



Whatever the answer, I'm convinced that Tom has identified the right question. Those who build greatness in any human system understand that it all starts—first, foremost, and always—with getting the right people into the key seats. First Who! . . . Then What. Money is a commodity; talent is not. Time and talent can often compensate for lack of money, but money cannot ever compensate for lack of the right people, especially in the key leadership seats. In the end, the most important thing is The Who Thing.

### *The Leadership Deficit: A Response*

**Ami Dar, Founder**  
**Action Without Borders – Idealist**

Congratulations on a thoughtful paper that calls attention to the expected leadership deficit in the nonprofit sector, and alerts organizations and funders on the need to prepare for it. We at Idealist agree wholeheartedly that more must be done to attract, develop, and retain good managers in the sector. From our perspective, there is no lack of interest in the sector as a place to start and build a career. This year Idealist will list between 40,000 and 50,000 job openings in the sector, many in senior positions, and in many cases organizations tell us that the response to their openings is overwhelming. We have also seen this at the 100 nonprofit career fairs we have organized in the past few years: thousands of young and mid-career professionals, eager to join the sector and to grow within it.

We also agree that what is often lacking is willingness from nonprofits and funders alike to invest in professional development and salary packages to both draw great people into the sector, and sustain them throughout their careers. In some cases, it seems to be against senior management's self-interest to address this issue: they are in a position to protect their own salaries and they can rely on a steady stream of entry-level employees who often leave after a couple of years. In other organizations, funding and reporting pressures make staff development very difficult. In both cases, the development of managers and leaders is not a priority, and as often happens in our sector, there are few if any personal incentives in place for senior managers to try to hire the best people they can find.

We believe that there is a wealth of talent within and outside the sector, and eager to enter it—whether young people entering the workforce for the first time, people in mid-career who want to make a change, or people of retirement age who have a great deal to offer. But for change to happen, funders and boards need to get involved, as you rightly point out in the paper.

We also need to be more explicit about what exactly are the management and leadership skills that need to be developed. Ability to direct other staff? Budgeting

and reporting experience? Ability to inspire loyalty and enthusiasm? Issue-area expertise? These will depend on what the needs of nonprofits are in the next decade, whether the sector sees a surge in consolidation, continued incentives by funders to be scalable or replicable, a backlash against certain kinds of impact measurements, and the retention of senior managers because they can't afford to retire. Some of these skills are more transferable than others (from the business sector, for example), so being clear about what is needed can help to recruit the right people, and avoid disappointment in other cases.

Thanks again for letting us comment on this paper. We look forward to working with you on addressing this problem.

### *Avoiding a Tragedy of the Commons*

**Kathleen P. Enright, Executive Director  
Grantmakers for Effective Organizations**

Effective leadership is at the heart of every innovation and every bit of progress the nonprofit sector makes. Yet we consistently and habitually neglect the sector's most valuable resource: its people. The result, as Tom Tierney's paper suggests, is an impending tragedy of the commons in which the demand for nonprofit management talent will greatly outstrip the supply. Nonprofits will battle and poach for experienced people leaving no organization properly deep; valuable energy will be wasted in countless leadership transitions; and very few organizations will have the depth of leadership to survive a crisis.

This crisis is particularly compelling for grantmakers, because our success is inextricably tied to the success of the nonprofits we support. Realizing significant progress on intractable social issues is impossible without strong leaders. For this reason, our response must be immediate and collective.

Research conducted by Grantmakers for Effective Organizations points to the need for philanthropic investments that are:

- **Collective.** For the sector's leadership to be deep and strong, foundation investments in leadership must look beyond the executive director to the board and staff. In addition, grantmakers must collaborate to build infrastructure to support current leaders and to create a pipeline of future leaders. Consider the Meyer Foundation's support for CompassPoint's groundbreaking research on the perceptions and challenges facing executive directors and the Annie E. Casey Foundation's important work on executive leadership transitions. Both efforts look beyond the needs of their grantees to address systemic leadership issues confronting all nonprofits.
- **Continuous.** Philanthropy must encourage nonprofits to think strategically and systematically about leadership development. But we must back this advice with the resources nonprofits need to invest in their people. The

California Wellness Foundation recognized this when it made the decision to focus its resources on larger, longer term, general operating support grants. Such support enables nonprofits to plan for and underwrite the environment necessary to attract and keep best people.

- **Contextual.** Like all other forms of capacity-building, a one-size-fits-all approach to leadership development doesn't work. A new executive director of an environmental start-up needs different support from the long-time vice president of programs of a multi-million dollar arts organization. If a foundation hopes to make a difference, its support must be tied to the organization's context so that it helps solve real problems. Consider the Irvine Foundation's newly announced Fund for Leadership Advancement, which offers tailored support to executive directors in the context of their day-to-day jobs, including coaching, board facilitation, focused technical assistance, or other expertise. Irvine provides an organizational development consultant to help executive directors construct their plans and provides grants of between \$15,000 and \$75,000 to finance them.

GEO's research suggests that foundation interest in and support for leadership development is growing. Innovative foundations are experimenting to learn what works best. If we are going to surmount this crisis of talent, we must expand on these early efforts and work together to protect the nonprofit leadership commons.

### *A Treasure Trove of Potential Leadership Talent: The Boomers*

**Marc Freedman, President and Founder  
Civic Ventures**

Where will we find the human beings to do those things that only human beings can do—specifically, to lead, manage, and staff a growing nonprofit sector historically long on idealism and short on capacity? As “The Nonprofit Sector’s Leadership Deficit” drives home, there is nothing abstract or philosophical about this question. It is rapidly becoming an urgent plea, as the experience gap in the social sector widens into a chasm.

Tinkering will not do. The human resource needs opening up at all levels of the nonprofit world are simply too large and too near. While the answer won’t ultimately be simple or singular, there is one place we need to concentrate our quest for talent: the vast population of aging boomers now moving into their 50s and 60s.

We won’t find the numbers anywhere else. We’re on the verge of what demographers are calling the *Floridization* of America. And it’s not just about warm bodies. We’ve invested an enormous amount in building up the human capital of this newly aging generation. We couldn’t build campuses fast enough in the 1960s and 1970s when they were starting out. Why not recapture these investments—many made with public dollars—in a way that strengthens the greater good?

There are two additional reasons to think this direction makes sense. First, changes in the numbers of Americans over 50 are matched by transformation in the nature of the post-midlife period. Buoyed by gains in longevity and health, this new generation of 50- and 60-somethings is poised to invent a new stage of life, and of work.

Second, there is growing evidence that a significant segment of these individuals are yearning to renegotiate their relationship with work, in a way that is not only more meaningful personally, but that means something beyond themselves. In a way that feeds not only individual but social renewal. A full half of the leading edge

boomers are thinking seriously about launching a new chapter in what might be called “good work.” For more than one in five it is a top priority.

What’s more, that same research shows that they don’t want to wait to follow this dream in what were traditionally the retirement years. There is a strong desire to make the move to work in the social sector between ages 50 and 55. Why so soon? A big part of the pull is the desire to assemble a body of work, to accomplish something significant that can’t be achieved in a year or two, to carve out what might be called an *Encore Career*. This bonus phase of contribution—for many, an eight to ten-year career—may be shorter in duration than midlife work, yet it holds the potential to be every bit as significant. Not just for individuals, but for non-profits who don’t have the resources to invest a lot of time or training in someone who’s just passing through.

Like solving the nonprofit leadership deficit, making the most of the aging of the boomers won’t happen easily or automatically. And it will demand breathtaking innovation—not only through rewriting the career trajectory, and helping experienced professionals bridge into the non-profit sector—but also through creating the infrastructure for large numbers of nonprofit leaders to sign up for another, albeit renegotiated, tour of duty.

Will we meet this challenge? It is a tall order to be sure—but not too tall. After all, the history of aging in America is one of spectacular innovation and change. Fifty years ago we didn’t even have retirement communities or senior centers. And that’s not the only source of inspiration. At the middle of the last century we invented the GI Bill to help millions of Americans navigate their way back to useful roles in civilian life. We’ll need to think at that scale once again.

According to some, demography is destiny. In truth, the outcome is in our hands. To invoke the late Peter Drucker—who in his tenth decade and final year won his seventh award for producing the best 2005 article in the Harvard Business Review—“the best way to predict the future, is to create it.”

### *The Nonprofit Sector's Leadership Deficit: A Response*

**Brian Gallagher, President and CEO  
United Way of America**

This work done by the Bridgespan Group comes at an important time in the history of the nonprofit sector. The sector has seen incredible growth over the last 15 years. The issues that the sector must deal with are increasingly complex, as are nonprofit organizations themselves.

Supply always finds demand as long as the personal and professional reward is present. The point made in the study that focuses on enhanced and creative compensation for senior leaders, therefore, is accurate. In my experience, however, attracting senior leaders out of the business, government, academic, or military sectors with greater compensation will not alone successfully fill the leadership need.

As a sector we must do a great deal more work identifying the predictors of success of our future leaders, especially those that come from outside the sector. Many of the skills required to lead a successful for-profit business, for instance, do not necessarily translate to leading a major nonprofit. Just as I could not easily go and run a major software company, the opposite is also true.

Developing a set of research-based senior leadership competency models would allow us to develop executive training strategies that were more likely to succeed. There have been some very high-profile, failed executive search placements in major nonprofits recently because the parties did not clearly understand the political and operating complexities of the nonprofits involved and the skills that were transferable (or not) from other sectors. A sector-wide mentoring initiative could also have a positive impact.

Bridgespan is right to call on the players in the sector to spend more on leadership development. It is important, however, that this investment be for both the short and long term. There is a vast pool of young talented professionals working at the "junior" level throughout nonprofit organizations. In my experience, these young professionals are more diverse, more technologically (and in most other ways)



savvy, less institutionally loyal, and have a greater interest in international work than my generation. We must identify our future leaders within our organizations and the sector as early as possible, invest in them, and give them as much responsibility as quickly as possible if we are to keep them.

Investing in our young people over the long haul is more effective and cheaper than building from scratch, and the right complement to bringing in experienced leaders from other sectors with the right training and mentoring efforts tied to proven competency models.

It is important that each of us in the sector make a greater investment in leadership development. Market forces will also work to bring in and keep leaders in the sector if we get more competitive with other sectors. But it is probably also time to consider a sector-wide initiative with co-investment to attract and keep the best people possible.

*Commentary on The Nonprofit Sector's Leadership Deficit*

**David Gergen, Professor of Public Service and Director of the Center for Public Leadership  
Kennedy School of Government, Harvard University**

Tom Tierney and the Bridgespan Group have issued an urgent and timely wake-up call with their study of the growing leadership requirements of the nonprofit sector. As society's social demands have increased and governmental responses have lagged, America has come to rely heavily upon nonprofits to fill the gap. Yet this study warns that nonprofits may soon be facing an acute shortage of the talented senior leaders they need to achieve their goals.

As bracing as the study's conclusions are, however, it probably understates the leadership deficits that could be just over the horizon for nonprofits. The fact is that the federal government has entered into such dire financial straits that in future years we will probably invest an even smaller percentage of our national resources on health, education and environmental programs for the underserved population—and create an even greater need for nonprofits to expand.

At the beginning of this decade, we thought we had sufficient surpluses to pay for a transition from today's Social Security and Medicare systems to ones that might be more affordable. But those surpluses have now disappeared, and the front edge of the baby boom generation is only five years away from reaching 65. How will Washington pay for its retirement and still respond generously to the social needs of the young? It probably won't. And we will want an even bigger nonprofit sector to make up the difference.

This study recommends three constructive steps to ensure a bigger flow of talent into the leadership of nonprofits: more investment in leadership development by the nonprofits themselves; higher salaries; and expanding the circle of those recruited. All of these seem imperative.

But given the daunting nature of the challenge, one wonders whether we need to explore additional measures. How can we create, for example, a capital market that allows social entrepreneurs and other nonprofit leaders to take their

innovations to scale and to develop more internal resources? Are there tax and regulatory changes that should be made in Washington and in state capitals that would encourage a greater flow of funds to nonprofits and give them more flexibility? Certainly, some of the nation's leading social entrepreneurs think so.

Universities ought to be putting their minds to these issues, too. At Harvard, a cross-section of representatives from the professional schools are exploring the possibility of a pilot education program that would prepare top-flight people who are ending their first career for a second career in addressing social concerns, especially through nonprofits. If foundations or others were willing to help, universities might also provide far more executive training programs for young, emerging leaders in the nonprofit sector.

Most of all, the country needs to attract a much larger flow of idealistic young people into serving others. The coming presidential campaign offers an opportunity for at least one of the candidates—and possibly both—to call upon the nation's youth to spend at least a year giving back to their country. The national service movement is gaining momentum in many communities. Its day could soon be here—and if it comes, we will see a surge of talent into nonprofits that will keep them healthy and robust for another generation.

There is much to be done—and this study by Tom Tierney and the Bridgespan Group is a welcome wake-up call!

## *Reversing the Confidence Deficit*

**Paul C. Light, Professor  
Robert F. Wagner School of Public Service, New York University**

The nonprofit sector's leadership deficit is both a cause and consequence of continued public doubts about charitable performance. The leadership crisis creates inevitable meltdowns in nonprofit performance, which reduces public confidence, which whets the appetite for further investigations, which weakens the case for decent compensation and increased operating support, which in turn creates greater leadership turnover and vacancies. It is a classic vicious circle.

The confidence deficit began growing with the controversies surrounding disbursement of the September 11<sup>th</sup> relief funds. If charitable organizations received any surge in confidence following the terrorist attacks, it was gone by December 2001, and has not recovered since.

Two-thirds of the public now believes that nonprofits waste a great deal or fair amount of money and almost half also believe nonprofit executives are paid too much. Most importantly for explaining the current level of confidence, only 13 percent of the public says nonprofits do a very good job spending money wisely.<sup>1</sup>

Absent a strong national voice in their defense, many nonprofits have decided to fight these deficits with lower overhead rates. Rare is the nonprofit willing to report and defend an administrative cost structure above 10 percent; rarer still is the watchdog group willing to believe it.

The constant pressure to do more with less has taken its toll on nonprofit organizational capacity. Nonprofit employees report shortages in virtually every resource they need to do their jobs well, from technology to training. It is little

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<sup>1</sup> Paul C. Light, "Rebuilding Confidence in Charitable Organizations," *Public Service Policy Brief*, New York: New York University, Robert F. Wagner School of Public Service, no. 1, October, 2005.

wonder that the resulting stress appears to be a significant reason for the transitions that Tierney predicts over the coming ten years. Leaders can only take the pressure for so long. After all, the logical consequence of doing more with less is doing everything with nothing.

However, the sector must do much more than make its call to leadership more appealing. Although debt relief, decent compensation, and a welcoming embrace of for-profit executives who wish to cross over into the sector will increase the pool of potential talent, the sector must also make the leadership more inviting by building stronger organizations both before and after the new leaders arrive. The allure of leading what Tierney describes as a “life-transforming” nonprofit may be strong, but the administrative infrastructure cannot be so weak that talented leaders see nothing but repairs ahead.

Nonprofits and their supporters need only look to the public for the inspiration to provide the financial investments needed for continuous organizational improvement. The decline in public confidence is not about what nonprofits do, but how they do it. The public is not saying “show us the missions,” but “show us the performance.” The same goes for regulators, watchdog groups, state attorneys general, and legislators who see the nonprofit sector as a market for their own visibility and political gain.

Unfortunately for nonprofits, it takes money to spend money wisely and recruit talented leaders. At least for now, however, most nonprofits cannot raise the money to spend money wisely and recruit talented leaders until they can prove they spend money wisely and recruit talented leaders. Until they find the voice to stand together against the unrelenting pressure to cut operating costs, nonprofits will continue to build a sector in which leadership jobs are destinations of temporary resort.

### *What About the Market?*

**Jan Masaoka, Executive Director  
CompassPoint Nonprofit Services**

It's a great headline: 640,000 new nonprofit executives needed in the next 10 years! This article makes an important contribution through the exercise of making assumptions about nonprofit formation, growing management teams, and retirement rates, to draw a macro picture for us of the labor needs of the nonprofit sector. Those concerned with CPAs need to be concerned not just about how a particular firm attracts CPAs, they need also to look at compensation, accounting schools, and scholarships. In a parallel situation, too often nonprofit leaders and funders focus on the needs of one organization at a time, and as a result don't tackle interventions at the level of the sector.

At the same time, I couldn't help but wonder, "What about the market?" Fifteen years ago, when there were similar cries in the accounting profession about a lack of CPAs in the pipeline, the invisible hand of the market showed itself. With more openings, more young people and immigrants entered the profession, older CPAs stayed longer, accountants who had left accounting returned to the field, and firms restructured their accounting departments. The market was aided by industry leaders who funded more scholarships, accounting clubs, and career days at colleges. But the market for talent responded, as it will for nonprofits—and it already is, as evidenced by more and more colleges with nonprofit degree programs, some consolidation and failures, and the retention of executives to older ages.

Tom does a terrific job of identifying the many streams through which the talent gap will be filled. And his recommendations for nonprofits and for the sector are sound and welcome. Just one area that goes overlooked is that of racial and ethnic diversity in tomorrow's nonprofit leadership. Many studies, including CompassPoint's *Daring to Lead 2006*, show that nonprofit executives continue to be largely white/Anglo. It is troubling that our sector, where so many civil rights

movements have been nurtured, does not seem to be taking advantage of the talented and capable leaders of color who are ready to step into leadership.

This article is great example of the importance of bringing thought-provoking ideas to the table.

*Let the Search for Solutions Begin in Earnest*

**Jon Schnur, CEO and Co-founder  
New Leaders for New Schools**

Tom Tierney has correctly identified the most significant problem to be solved—and opportunity to be seized—in the nonprofit sector: the creation of a whole new generation of top-notch leadership and management teams capable of managerial excellence and high performance at scale. I offer actionable solutions below for each category of solution outlined by Tierney.

My focus is on social enterprises that are growing quickly and taking proven or promising ideas to scale. While Tierney's paper speaks of the need for 640,000 managers, my focus is on the star senior leadership and management team members who can take 50 high performing social enterprises to great scale and change America and the world. We can use the looming "shortage" as an opportunity to transform the way high-performing nonprofits can be managed and led to scale.

Here are a few initial recommendations for addressing Tierney's important findings. These are grounded in my perspective as Chief Executive Officer of one of the fastest growing social enterprises in the U.S—already serving more than 100,000 children and aiming to recruit and train 2000 outstanding school principals serving 1 million children annually by 2014.

Tierney recommends investing in leadership (and I would add management) capacity. He recommends increasing management compensation. And he recommends expanding recruiting horizons while fostering individual career mobility. Tierney is right on all fronts.

Tierney says the sector under-invests time and money in leadership and management. He rightly says that "no business looking to deliver strong results would intentionally under-invest in the leadership team accountable for delivering those results." And yet, many nonprofits and philanthropists make it difficult for nonprofits to do even the most basic management time needed even for the basics of great management—including "performance reviews, mentoring, training,



succession planning, recruiting, and other human resource functions that are critical to effective management."

What can we do? Lots. And fast.

- 1) Find and fund five of the nation's best human resource and organization design professionals to spend a year analyzing high-performing and promising social enterprises. They would be tasked with developing specific recommendations for what leadership team structures, job descriptions, and salaries would be needed to take these enterprises to scale.
- 2) Create and pilot a new approach to defining "overhead" in several social enterprises. Tierney rightly says that the philanthropic sector's definition and approach to overhead provides a serious disincentive from paying competitive salaries for top managers. And it reinforces the nonprofit sector's focus on "programming" at the expense of smart organizational development. For example, it took us five years and some courage for New Leaders for New Schools to do what smart companies do nationwide—increase our "overhead" by hiring a brilliant new Chief People Development Officer from the corporate world.
- 3) Launch a fellowship program to recruit and train the next generation of outstanding leaders and managers for social enterprises. The Broad Foundation smartly created this kind of program recently for leaders for school districts. But social enterprises like New Leaders, Teach for America, and others can't access this program because we are nonprofits not government school systems.
- 4) Pilot innovative approaches to attracting the best, most experienced managers in the nation to social enterprise. The problem: these individuals often earn five to 10 times what they would be paid by a nonprofit. Possible solutions? Companies could offer paid board seats to the absolutely finest top managers who take on social enterprise CEO and COO roles. Or companies could create stock funds that would supplement the base salaries paid by non-profits to their top executives. The difference

of \$20,000 salary annually might make a difference—but imagine the impact if a top-notch executive could get a board seat at FedEx or stock at Google.

- 5) Create a new \$500 million foundation dedicated solely for the purpose of helping the top, scalable nonprofits attract, train and retain top executives. Get a passionate corporate titan to chair this board and a top social entrepreneur to run it. And let's all help them change America and the world.

Time is of the essence. Let's start responding to Tierney's challenge today.

### *Response to Bridgespan's Study*

**Lorie Slutsky, President  
New York Community Trust**

The Bridgespan Group's "The Nonprofit Sector's Leadership Deficit" quantifies what many in the sector knew intuitively: we are getting older, and the ranks simply are not there to replace us. While one may quibble with some of the paper's projections, finding qualified senior management for nonprofits is a major problem.

Not surprisingly, money is at its root: money for recruiting, money for compensation, money for training; Bridgespan recommends investing in these activities. So who would disagree? Some members of Congress, for one, who seem to be convinced that the sector is providing safe haven for nefarious schemes. The media, for another, who question charitable distributions any time a lot of money is raised for a disaster—which happens far too frequently these days. Some of our charity "watchdogs," most notably Charity Navigator and the American Institute of Philanthropy, who "rate" nonprofits primarily on their overhead, not their results, using data from the tax information forms filed with the IRS that are not useful for these purposes. And, inevitably, donors, who listen to the congressmen rant, read about the latest nonprofit "scandal," and surf the Web for the "watchdogs."

The backdrop for all this is the still prevalent perception that people who work for charities should receive charity wages. Add the increasingly accepted idea that nonprofits should use "business practices" to become more efficient and effective—but not business overhead that pays for technology and staff—and you can see the difficult bind we are in.

We have all been accused of not getting out the plentiful stories about our good work, but it seems to me that we often try and just cannot get the press interested. We have responded to Congress with some success, and have failed miserably in arguing with the charity raters' methodology.

What we have not tried is explaining to Americans the cost of doing good. Nonprofit work is still work. We must pay rent, often in expensive real estate

markets, as well as gas, electric, and telephone bills. Many people are unaware of the complex operations some nonprofits run and the need for specialized talent. They may not know that workforce development entails working with prospective employers, following business trends, and training undereducated people to fill jobs successfully. They may not realize that financing and building housing is no different than it is for private developers, except it is harder because it must be affordable for those with modest and low incomes. The list of nonprofit operations that require expert staff is very long.

Americans want nonprofits to function well and without scandal. Government expects nonprofits to carry out many of its mandates—including services for children, the elderly, and the poor. So maybe we should ask our country's leading philanthropists, who have made their money in business, to step up and explain to Americans what it takes to do the work that must be done. And maybe we should consider investing in public education and public relations campaigns to get out the facts. If we are to run like businesses, it seems the logical place to start.

*It begins with a leadership model and the discipline of the board...*

**Roxanne Spillett, President  
Boys & Girls Clubs of America**

By carefully analyzing the trends, Tom Tierney makes a clear and compelling case that—unless there is intentional and widespread intervention beginning now—the nonprofit sector will soon encounter a leadership deficit of dramatic proportion. What makes the need to act even more urgent is the simple fact that the quality of executive leadership is the single greatest factor in predicting the future success of an organization. It follows then that developing and recruiting top executive leadership is one of the greatest priorities for the nonprofit sector. This is in fact the position and the priority for the Boys & Girls Club Movement.

An analysis of the future executive talent needs among Boys & Girls Clubs supports the case made by Tom Tierney. The Boys & Girls Club Movement is made up of almost 1,000 autonomous 501(c)(3) organizations, each with its own executive leader. Boys & Girls Clubs of America, the national organization, while it does not hire and place local executives, recognizes its leadership responsibility in helping to assure executive talent for the future.

So where do nonprofits begin? There are several important ways to address this challenge including merging and consolidating organizations, assuring competitive compensation, implementing a succession planning process, targeting new populations like retired military, etc. While these strategies are important and must be pursued throughout the sector, at the heart of solving the executive leadership deficit is first understanding the leadership model for the future. Only in this way can we be sure that we are identifying and recruiting the right people and developing them in the right ways.

Through a disciplined process that began with creating a strategic direction for our Movement, we developed an executive leadership model for Boys & Girls Clubs that likely applies to other nonprofits. It includes the following skills and characteristics:

- A future focus with skills in strategic thinking, partner astuteness, and diversity.
- Personal effectiveness as demonstrated in passionate communication, tenacity and persistence, character and integrity.
- Relationship skills in the areas of board development, community engagement and image building.
- A business orientation including an investor focus, fundraising savvy and execution and accountability.
- Organizational skills including developing and retaining strong leadership teams and high performing employees.

This leadership model will become the basis of our Movement's recruitment efforts, executive development training programs and strategies, and performance management system.

As important as an executive leadership model is to the future of nonprofit leadership, it takes the board to make it come alive. The role of the board is to recruit their executives against such a model. It is also up to the board to use their leadership model as the basis for conducting annual performance assessments; assuring the right developmental experiences; providing competitive compensation to retain their executives; and putting in place a plan that assures the right developmental and retention strategies for potential successors.

Yes, there is an urgent need and addressing it begins with a leadership model and the discipline of the board.

***Building a Viable Civic and Educational Infrastructure: The Essential Role of Nonprofit Leadership in Delivering Results***

**Tom Vander Ark, Executive Director, Education  
The Bill & Melinda Gates Foundation**

We live in a time and place with the greatest potential wealth accumulation in history. Most of us benefit from new technologies, inexpensive imported goods, relatively low taxes, and employment-based benefits. However, in the last few years it's become clear that our public infrastructure is often insufficient to keep us safe or transport us efficiently; our environment is changing and our consumption of non-renewable energy sources is at least partially to blame; we can't figure out how to pay for or share new health technologies; and gross inequities leave millions of people in poverty. To make matters worse, our political system is incapable of dealing with complex problems.

Former Treasury Secretary Robert Rubin put it this way:

[The Mexican debt crisis of 1995] demonstrates the difficulties our political processes have in dealing effectively with issues that involve technical complexities, shorter-term cost to achieve longer-term gain, incomplete information and uncertain outcomes, opportunities for political advantage, and inadequate public understandings. Unfortunately, many of the most important economic, geopolitical, and environmental challenges of today's complicated world fit this profile, raising the question of how effectively our political system will be able to deal with them.

One of the implications of the dilemma Rubin points out is that we need new civic and educational infrastructure. The nonprofit sector plays an integral part in bolstering and improving our public delivery systems. In education, nonprofits serve at least two vital roles:

- Change agents: Local education funds, reform support organizations, and advocacy organizations attempt to steer and support school, district, and state improvement.

- Service delivery: youth and family services, academic and recreational service groups, and health and human service organizations support unmet needs.

The needs grow every day. This report is one of the first attempts to quantify the mounting challenge of developing nonprofit leaders. Investing in leaders, improving compensation, and expanding recruiting efforts are important parts of the solution. Nonprofit organizations have the potential to build the civic and educational infrastructure our children deserve, but only if they have the leadership to achieve their missions.