

Should Nonprofits Operate More Like For-profit Enterprises?

This question was posed by a member of our LinkedIn groups. The community has provided some excellent advice that could be useful to all.

Susan, Organizational Engineer

I have worked for three different non-profit entities over the course of my career:

- a biotech start-up that wanted to be able to seek grants (but was attached at the hip to a for profit actively seeking R&D dollars)
- a major university
- a trade association

Each of these organizations had a wholly different approach to how it conducted business. I have also worked in "standard" corporate environments; empirical evidence suggests to me that a non-profit operating like a for profit enterprise results in greater success (in terms of realizing mission/vision statements) than not doing so.

I wonder whether this is a fluke or whether others have witnessed anything similar. I'm interested in learning what others have observed in the course of their careers.

Comments (31)

Duff, Managing Partner

Susan, can you give me a few examples of what you're defining (or what you observed) as "a nonprofit operating like a for profit...".?

Mark, Managing Director

I've worked in small non-profits my entire career; many of them actually generated most of their revenue though fee for service (schools, co-ops), so we could apply standard business metrics to them--ROI, efficiencies, hurdle rates and the like. This influence carries over into how I think about the non-profit operations I'm currently involved with--in my view it comes down to applying some basic management accounting principles to the way you examine how costs are generated, so you know when an action generates a cost well before you have to write the check. This then gets matched to the revenue side and suggests the creation of metrics that appropriately demonstrate organizational effectiveness and sustainability (or not), which seems to be what funders are excited about these days.

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Patty, Advisor

I would agree with Mark about the importance of metrics, though sometimes convincing staff of why we need this and the emphasis on this can cause morale issues. So the buy in has to be bottom up and top down, from line staff on up. I have a few cautionary tales. I state this as both a former nonprofit CEO, chair of two different nonprofit boards, the current one I chair; the former one, four of us resigned within six months after growing weary with fatigue in fighting the organization's founder and CEO, primarily over our and donors' insistence on documented metrics, then mitigating relationships with donors, and exhaustion with the amount of time spent with corporate counsel. I laugh at this now, but long two years. I currently chair a very high caliber CBO, with board members with great fiscal acumen and cost consciousness, and a truly outstanding staff. We actually help teach other nonprofits how to employ more sound business practices in their grant work, in addition to our main efforts.

Sustainability is very difficult for the CBO sector and worse now as foundation and corporate philanthropy has diminished. I believe there is a CBO and a donor contribution to the problem as well. I have watched situations where not all the program officers in major area foundations are keen on programs going after funding from "competitors," and I have been part of collaboratives where there is constant subtext of infighting over which funders to consider because that is "my donor." Thus the position of the collaborative is often pitted against one individual partner. So, as you collaborate to provide more cost savings and improved services, you may also run afoul of individual donor issues or problems with stewardship at one of the organizations. I don't know that there are any easy answers but I sense that finessing strategies for this may be easier or expected in for profits and not always welcome in the nonprofit arena. Thanks for starting this discussion.

Barbara, Principal

Even in these difficult economic times, many of the entrepreneurs who take a great deal of pleasure in giving are looking at metrics and wanting more & more information about who we serve, the cost of providing services, ROI. Although I work as a major gift officer, I am active with some smaller groups and they are finding that collaboration is often the way to provide efficiency in managing costs & not duplicating services.

Susan, Organizational Engineer

To answer Duff, some of the things I've seen that seemed to "work" were effective branding like a corporation, marketing like a for profit, establishing an efficient and competitive supply chain, putting in place top-notch accounting principles and sparing no expense when it came to utilization of modern

technologies (particularly IT). The flip side, is that it appears that an organization will suffer (if not wither on the vine) in the absence of some of these elements.

Jeong, Finance and Administration Manager

The short answer is "no." Nonprofits should not operate more like for-profits. As you probably already know, the "reason for being" for the charitable, social sector organizations and the businesses are fundamentally different, so one cannot achieve enduring success by simply mimicking the practices of the other. Having said that, I also believe that both charitable organizations and the businesses are very similar in how they are managed and led. Many best practices can be transferred from one sector to the other. (For the purpose of this discussion, I think we should narrowly define the "nonprofits" as 501c3 charitable organizations)

Each sector has its own strengths and weaknesses. Businesses are sometimes better at innovating in the areas of supply chain, manufacturing, marketing, modern technologies, etc., whereas nonprofits are better at building consensus and equity, mobilizing customers, etc. You have to be mindful that nonprofits have a budget constraint when it comes to investing in marketing, IT, R&D, etc. Although these are critical to the long-term success of an organization, donors often prefer to have their philanthropic dollars spent on direct services. The for-profit businesses are not constrained by the need to serve a such triple bottom line as nonprofits do. This is why I can even argue that some nonprofits are even better managed than the best managed businesses and that nonprofits have to be better managed than the businesses.

I don't think it is a fluke that you see so many similarities between organizations in these two sectors. At Leader to Leader Institute, we have seen many leaders from businesses and even US military find second careers in nonprofits and be successful. Management is management and leadership is leadership. But to impose business practices on to a nonprofit organization is a definite recipe for a failure.

Duff, Managing Partner

There are some very interesting comments in this thread and I thank Susan for starting whole discussion. I guess I fall into the category of consultants who think that nonprofits can and should adopt solid business practices that are pretty much mirrored in for profits (most notably in financial management, accounting, human resource management, among others), but that in others, particularly in metrics and benchmarking, they are very different animals deserving different evaluative measures.

Laura, Administrative Assistant

I have some experience with small nonprofits; we're talking extremely small nonprofits, in the social services arena that are run by social workers. These people are wonderful individuals who believe in what they do, care for their clients, and truly want to make a difference in the world. However, social workers, in general (please don't kill me), know nothing about how to run a business. The intake processes of these organizations were a mess, forms had typos, paperwork got lost, customer service was bad, follow-up was worse, branding? What branding? Marketing, benchmarking, human resource management are all things I think these people probably knew they should be doing but had no clue how to do.

To answer your question, YES! I believe nonprofits should be run like a for-profit businesses. There is no reason a nonprofit cannot put good business practices into full swing. The problem is helping them to understand that, and getting them the help they need to do it. (This is why I have a BS in business management and I almost have my MPA in nonprofit administration.)

Duff, Managing Partner

I do not think this should not be an either/or debate. I think issue is less one of whether nonprofits "should nonprofits be run by like for profit" and more should either be held to a high level of managerial and operational standards according to their unique needs and purpose. We can all easily list any number of for profit companies -- from Fortune 500s to down neighborhood storefronts -- that appeared to be run at a very high level, but that, in fact, are/were operated in an inefficient, ineffective and/or profoundly dysfunctional manner. On the other hand, I can list a number of nonprofits that are operated and managed in a stellar, efficient and extremely effective manner.

Jeff, Executive

Susan, I do not believe that your observations can be labeled "flukes." (From my own perspective, once I see a pattern develop, it's no longer coincidence or a "fluke"). The non-profit biotech company you cited could be problematic, but only from a mechanical point of view - in general, for-profit enterprises do not qualify for the grants non-profit enterprises qualify for. Having said that, I fervently believe that, particularly in this day and age, non-profits have no choice but to adopt many of the business principles that govern for-profit enterprises - not to sacrifice mission, but rather to enhance it. Regardless of their mission, non-profit organizations MUST be professionally managed. The most prevalent issue that I have seen (as others have alluded to above) is melding the social aspect of the organization with sound business practices. As we know, many of the "front-line" employees of non-profit organizations are not business people, did not enter into their line of work to be involved in "business," and therefore, naturally resist organizations that attempt to initiate change through implementation of business practices. I faced

that issue myself as the CFO of a private education company, but this natural tension will exist in most socially-oriented organizations. The key to inculcating the culture with business principles is repetition, repetition, and more repetition. Oh, and after that, more repetition. You can't simply hold a meeting and state that "we're going to start measuring enrollment (for example) now," and simply "dump it on people." (One of my colleagues once described that as "dropping corporate turds" on employees). The system has to be implemented and reinforced consistently - repetition, repetition and more repetition, until it ultimately becomes part of the organization's DNA. As with any change, you have to demonstrate to people what's in it for them - that could range from incentives (financial or other), to personal development and advancement through growth, or even to the role they play in expanding the organization's mission through impact. The question is not "should," but rather, "when" and "how."

Susan, Organizational Engineer

Duff has a point in that perhaps I shouldn't have posited my question in the either/or framework. Non-profits have a special place in our society; they are established and maintained to serve particular communities that have been identified.

That said, Laura's experience resembles my own. The environments in which I have had the privilege of working were comprised of people who are extremely proficient (if not genius) in their own fields. Drop what Jeffrey coined a "corporate turd" on them, however, and they are entirely out of their element. Recognizing this is, no doubt, why they hire association professionals to navigate these waters on their collective behalf.

One thing I found very encouraging - and it seemed to happen spontaneously and across the board - was that NFPs saw the writing on the wall when SOX compliance became mandatory and proactively instituted policies and procedures that would have brought them into compliance should similar legislation be passed and applied to non-profits. Those that took such actions found themselves well-situated when the new 990 tax form and its mandates came into being.

Amalia, Team Member

I think that as more supporters expect transparency from nonprofits, they will operate more responsively, like a business. One of the smaller orgs I worked with held a fundraiser which should have shown a return of less than 50%. As many potential contributors check a resource like Charity Navigator before writing a check, these non-shoestring-budget orgs will have to evaluate their spending, like the for profits. And that is a good thing.

Mercedes, Director

I've worked with small non-profits a great deal and can truly say that it would be advantageous to incorporate some aspects of what makes a for profit business successful. Too many of these non profits are managed by under qualified people that follow no strategy and are not prepared to deal with adversities like the one we are undergoing now.

Edmond, President

The proper application of good for-profit business practices can undoubtedly enhance the effectiveness of non-profit organizations. I say this with total confidence, having applied the principles first hand as senior executive managing for-profit business operations within the United Way system for almost ten years.

Often, too much is made of the differences between for-profits and non-profits. At the core, however, the essentials are the same. Both have a purpose, provide one or more products, serve one or more customer segments, conduct various operating activities, seek results/outcomes and answer to stakeholders. The specific missions, products, customers, activities, etc. are obviously different, but that is true even within the for-profit world itself.

The important issue is that the for-profit world (both the firms and supporting institutions and structures) have invested in -- and extensively tested -- a broad array of methodologies, systems, techniques, etc. designed to improve the effectiveness of each significant function. Whether it be in defining mission and purpose, establishing strategic, operational and financial plans, hiring personnel, researching customer needs, conducting day-to-day operations, establishing and reporting on key performance indicators, ensuring proper control, communicating with stakeholders, etc., there is much to be gained from examining, learning and applying the many techniques utilized in the for-profit world.

The desired outcomes may be totally different, but that doesn't mean that for-profit, effectiveness enhancing techniques won't work. To the contrary, when they are properly understood and applied, they can work wonders in clarifying what needs to be done, raising accountability levels, improving operating effectiveness, building customer/donor/service recipient satisfaction and achieving superior outcomes -- which can and should be measured.

What is critical is that the organization needs to approach things with an open mind, pick and choose what makes the most sense, and ensure that the focus stay on the organization's mission, values and desired outcomes. As long as these are clear, good organizational management should be able to bring together the best of the business and non-profit worlds. If mission, values and desired outcomes are not

clear, however, then that needs to be first priority. Fortunately, there are many for-profit methodologies that can be very valuable in carrying out that process too.

The biggest challenge will likely be one of mindset and change management. As long as the nonprofit sees itself as totally different and perhaps superior, then it will be an uphill battle. Application of good change management techniques will be needed and open communication will be vital. It is doable, though, and some short-term success stories will aid in accelerating the process. It can be done. It works. And the positive results can be significant, without sacrificing principles, values or ethics.

Victor, Principal

Yes!!! Social entrepreneurialism (my banner word) should be the model to follow for all NPO's of the 21st century. Not for profit but not for loss.

That is so far removed from conventional thinking that new boards would need to be established with a different profile of membership. This needs to be done. It isn't about compromising on social services or goals, it's about becoming more conscious of efficiencies, justifying expenses/costs, creatively finding a for profit component that would carry the new NPO toward self-sustaining independence.

A better caliber of CEO with entrepreneurial creativity ability will no doubt require higher salaries than the normal NPO CEO's who mostly work for title status and recognition than for salary and bonus considerations. That has to change. The passion of the cause need not take a back seat to a passion for a responsible balance.

I managed a non-profit with that philosophy. I was mentored by John DuRand who founded one of the largest affirmative employers in the country out of St.Paul / Minneapolis. His book "The Affirmative Enterprise" is what NPO's should be modeling their structures toward. There may be a "fixed" grant/subsidy component but the self-sustaining aspect needs to be a core element.

More services and more/larger NPO coverage for the donated buck. This "paradigm shift" of NPO missions is a smarter way to accomplish the social contract. Independence not dependence as the key distinction of new vs. old NPO philosophy. It is doable and exists NOW. It takes a greater will and ambition with a greater entrepreneurial creativity and passion than most are used to seeing out of their NPO missions. The key being the "will". Where there's a will there's a way with many retired/retiring boomers available to make it happen until the new breed of NPO executives are developed.

Judy, Managing Director

Non-Profit is a TAX status, NOT a BUSINESS status.

Victor, Principal

And a legal status. The point is that MOST NPO's are set up to provide a social service which is NOT traditionally concerned with any profit motives. There are NPO's that are intended to return would be profits toward further developments and research, but Socialentrepreneurialism speaks to motive and business structure. Self sustaining is not a common feature for an NPO but could and should be. The missing component usually being a creative entrepreneurial adjunct that makes a difference in outcome.

Brian, Executive

Should nonprofits seek profits? This a long standing topic that has been written on on HBR and debated for years.

I think there is a very distinction between doing Earned Income Activities vs. Social Enterprises.

I work for a large NPO and we have done both but with much different outcomes. This all boils down to core competencies, and culture. Many NPO's have rode the funding train, and have been conditioned to spend all these dollars and not be innovative. Thus, they are reacting to the external pressures on their programs budgets etc.

In most cases the Boards of Directors of NPO's & CEO are the key stakeholders, and must be "sold" on the need for seeking profits. The NPO sector is under siege. The strong will be left standing while those who can't clearly show strategic clarity, social impact, and a very clear value-proposition, will go away.

Neil, CEO

Passion is the driver but pragmatism is the key to connecting with audiences, targeted service related groups, funding and support. It also lets the nonprofit measure its success, worth, validity and even helps hone its best direction or focus.

I think that's the part of the for profit world that needs to be added into the equation. Coming from the for profit sector, I have actually helped with doing that.

Passion drives the commitment and is always paramount but pragmatism is the reality based key to success.

Philip, President

There has been a great deal of comment on this question and I'm not sure that I can add to my learned colleagues' thoughts. Except, I will say this: I believe that non-profits should think like for-profits but not necessarily act like for-profits. Non-profits should always be aware of the true cost of services and products, they should measure their results and Return On Investment. They must also be aware that someone must pay for the goods and services they provide and limited resources must be distributed. But ultimately, non-profits need to act for the greater good and not for the benefit of a narrow constituency. That is the difference.

Victor, Principal

The organizers who attend to a cause or crusade that becomes the NPO and its mission see a humanitarian need defined and statistically validated which then seems to simply say "we will attend to this social service you the venture capitalists and philanthropists, take care of our operational needs."

That IS the way most NPO's operate now and I am saying that given all the creativity and passion that is out there and entrepreneurial talent and ideas we can and should blend the two such that "hand-outs" aren't the rule of thumb as the funding source for NPO's. Some may be offended with the term but it never-the-less is a truth like it or not. There is nothing wrong with marrying a for profit motive and making it's humanitarian social service component perhaps related in some practical way or even simply as the basic condition for seeking to involve oneself in humanitarian services needing significant resources and support in the first place.

I for one think social responsibility is not to simply attend to social needs but to also extend that to thinking and planning responsibly for how those needs are to be met and how such services will continue to be funded. If say Charitable organization X chooses one year or for the next decade to promote one particular theme of services then the way things are now those who would normally have had a share of support suddenly or gradually, be taking a back seat. If they were viable and self-sustaining the answer to continuation should exist within the organization and not be at the mercy of changing themes or priorities.

Those organizations who have fallen victim to such changes are the dinosaurs of the NPO family. There is reason, there is cause there need only be the will to create responsible self-sustaining NPO's aka Social enterprises.

Peter, President & CEO

Does anyone else remember how the for profit sector was looking to nonprofits for ways to connect more with staff before the economic downturn? It seems to me we are focused on the wrong thing. While accountability, efficiencies and marketing are crucial, our mission focus is our top priority. Not making money. Heart, not ROI.

Neil, CEO

The mission is the critical motivator but making money to be able to carry out the mission is equally important. Add folks who know how to do that and let it happen.

Thus- Pragmatic approaches to making money should be built in to the routine of the NPO. Its not the reason for being, it is the facilitator that allows "being" that extends to actually and dependably delivering on the mission's goals.

Judy, Manager

Mission and vision ARE key to the heart of what we do, why we individually work or volunteer, and our top priority. Every decision should be driven by how it moves us toward fulfilling our mission. But if we don't do this efficiently, effectively, through social entrepreneurship, solid money management - we won't survive.

Demonstrating (as an organization or as employees) measurable outcomes that advance the common good through our mission, not only advances our movement toward our goals, but it also bolsters our connection to our donors - that we are doing the right things with their dollars.

Edmond, Executive

Without making things appear too simplistic, NPO's perform a few basic activities: They clarify and articulate a mission/vision ... they acquire needed resources ... they use resources for a variety of purposes ... and they (hopefully) achieve desirable outcomes. If applying the learnings from the "for-profit" world helps to perform one or more of these activities more effectively, then it would be irresponsible to not take advantage of them.

We need to get past the idea that for-profit thinking automatically dirties things up, that somehow thinking like a successful business takes the heart out of things or makes activities less worthy. As I noted in a previous post, the key is making sure that the mission/vision is clear and that basic values and principles are in place. With this solid foundation, NPO management can then feel good about running things like a business: where desired outcomes are clear and measurable, accountability is a given, results are

measured, etc. This doesn't mean that people need to be less passionate, or that the "good" in what we do is somehow lost.

It really is simple. If tools are available that can make an NPO more effective in acquiring resources, conducting critical operations and achieving desired outcomes, then good governance should dictate that they be used.

Brian, Executive

NPO's should be excited to maximize their social impact. If they apply real business principles to reach these goals more effectively, than it's a no brainer.

Convergence is going on how with the 3 Sectors: NPO's Government & For-Profit entities. Thus, the lines are blurred. A smart NPO can effectively position it's programs & service models for new opportunities. However, having the right "tools" to evaluate current service model portfolio, and possible fit to new opportunities. Let the data, not emotions solely drive the decision making process. This is hard for NPO's, as their dedication, & passion for missions, can prohibit this from occurring.

Keith, Senior Business Advisor

"Operate like a for-profit" means the following to me:

Leadership sets the mission and vision for the organization, and consistently communicates that vision throughout the organization. Leadership is about "doing the right things" (Effectiveness). They are focused on achieving the mission. True leaders create the environment where everyone believes they are doing something important and worthwhile.

Management takes the mission and determines the tactics needed to achieve it. They focus on the "how are we going to do this?" issues (Efficiency- doing things right).

All organizations should follow these basics, or there's no reason for them to exist. I'm bewildered that the original question even comes up.

What sort of non-profit doesn't believe that good leadership and management practice isn't needed in their world?

Pamela, Founder and CEO

Whatever your business structure—non-profit or for-profit—I believe any organization should be run on sound business principles. I believe this is what we're seeing with social entrepreneurs. Here are two of my most significant definitions of social entrepreneurship:

*Nonprofit or for-profit with socially conscious product

*Can have free service, but generates revenue

When we look at social entrepreneurship, it's a balance between nonprofit/for-profit structures, services and principles. For example, a structure could be a for-profit or nonprofit organization. The organization's services need to have some element of public service or a socially conscious product, and some part of the services needs to generate revenue.

Finally, whatever the structure, even nonprofit, it should be led and managed with for-profit principles of watching the bottom line, having fine-tuned operations and business units.

In UniversalGiving's case our public service is free — anyone can volunteer or donate, and we don't take a cut on the donation. It's not a part of our business model. 100% of each donation goes directly to the cause. Our first goal is to get as many people giving and volunteering as we possibly can, so we can get as many resources possible to these deserving communities. To increase giving and volunteering, UniversalGiving must first create trust. Our web-based platform provides quality giving and volunteering opportunities in more than 70 countries across the world. All of our projects are vetted through a Quality Model to ensure the most effective, trustworthy philanthropy possible.

We are still firmly committed to generating revenue. UniversalGiving also offers a customized service that helps Fortune 500 companies manage their global Corporate Social Responsibility Programs.

UniversalGiving Corporate handles the strategy, operations, and NGO vetting to ensure the success of global corporate international giving and volunteer programs. Some of our clients include Cisco, MTV and BEA.

Social entrepreneurship can reflect the highest standards in delivering social value, and, driving towards financial sustainability. This double motive will keep our social entrepreneurship sector thriving for the longterm. Some nonprofits, true, may not have easy ways to generate revenue. Sometimes they can only offer a free service. However, I hope effective brainstorming encourages them to see both how their value can be free, and monetized. Some for-profits don't have a free service, obviously; but they, too, can be

encouraged to offer both. We need to think in terms of “layered services.”

I hope this was helpful and look forward to your comments on this important area.

Vivek, Social Entrepreneur

Hi,

Yes, I feel all the NPO's needs to be organized as a corporate have to recognize that they will have certain compartments / departments, they have to ask for some portion of grants for the office structure BUT instead of creating a process driven NPO make it a people driven NPO.... the last part will be the differentiator from normal corporate.

Stephen, Senior Vice President

The question is not whether should nonprofits operate like for-profits; the question is why there is this false distinction - does any nonprofit survive over time without having good business practices?

Pooja, Organization Consultant

My answer is 'maybe' where Marketing is concerned. Although marketing budgets are small in non profits, so is the importance given to them. That is one area where every organization could and should use their funds and efforts to increase visibility.

Tee, CEO

I have followed the insightful comments. I agree with Neil when it comes to cultivating passion to foster commitment from donors, volunteers, media, staff, and the business sector. And to Edmond's note, staff and board members who remain open-minded will produce the best solutions for its organization. A nonprofit is fundamentally and culturally different because the "bottom line" is the mission and the outcomes for the service group. A mission to make an impact and sometimes change in a social environment. Nonprofit human resources have more freedoms...creativity to meet the mission in ways the business "model" would constrict. A business' bottom line is ROI. The skills and practices we are reflecting upon are passion, stewardship, integrity, accountability, engaged leadership and efficient managers, which encompasses "best practices" in any industry.

Bridgestar (www.bridgestar.org), an initiative of the Bridgespan Group, provides a nonprofit management job board, content, and tools designed to help nonprofit organizations build strong leadership teams and individuals pursue career paths as nonprofit leaders.