



Preplanning

At Brandeis University, the Heller School for Social Welfare was founded in 1952 as a kind of policy utopia for those interested in social welfare matters. In 2001, after great discussion but relatively little disagreement, it changed its name to the Heller School for Social Policy *and Management* (italics added).

When the Kennedy School of Government was created at Harvard University, about the same time, one of its major revenue streams came from mid-career federal government officials, who received scholarships and other support to earn a graduate degree. Today, that emphasis has faded and one of the school's major components is dedicated exclusively to nonprofit management. Across the river at the Harvard Business School, social enterprise is one of the most popular concentrations. At Boston University, the management school changed the title of its Public Management Program to the Nonprofit Management Program.

Colleges and universities as institutions do not usually lead trends. As economic entities, they respond to them. Their students and faculty members often help lead trends, but the institutions themselves lag behind for a complex set of reasons. When a few large educational institutions make even apparently superficial changes such as these, it is a sign that something fundamental has occurred in the economy as a whole.

And it has. The number of nonprofit public charities—501(c)(3)'s, as they are known—has grown steadily for many years and now exceeds one million. Other types of nonprofits such as associations and advocacy groups have also grown significantly. The sector employs about 1 in every 25 people, producing a similar share of the gross domestic product (GDP).

The nonprofit corporation has changed considerably. In the middle of the twentieth century nonprofits were economic afterthoughts. Government was the only widely understood type of economic institution not organized expressly to make a profit. In effect, there were two sectors of the economy—the private business sector and the governmental sector. Today, there are indisputably three sectors—the private business sector, the governmental sector, and the nonprofit sector.

In contrast to for-profits, which are usually organized to pursue an opportunity for private gain, nonprofit organizations are usually organized in response to a dysfunction in society. The orphanages of the nineteenth century came into being largely because the pressures of the newly developing industrial age—including economic dislocation, and death and injury suffered by parents caused in the brutal factory working conditions—created a whole new class of parentless children. Visiting nurse associations arose in response to the demonstrably unsafe conditions of early industrial age hospitals. AIDS service providers scrambled into existence to deal with a new scourge, and so on.

Americans love voluntary association. In colonial America, Benjamin Franklin, the writer Daniel Defoe, and the preacher Cotton Mather urged the formation of voluntary associations for purposes such as fire services, widows' support, and seafarers' pensions. Many of their efforts bore fruit, and we have not stopped connecting with each other in this way since then. Whether it is a church, a professional group, an under-ten soccer league, or an Irish step dancing club, we freely associate with each other to accomplish goals that are not directly related to profit or government. Most of the time these groups are essentially forums. Often highly informal, they may not have any special legal standing. In all cases, they are based on trust.

THE INTERMEDIARY SECTOR

The result is that the nonprofit sector is a giant intermediary layer between private individuals and the government. It is where conflicts get worked out, or, better still, prevented from occurring. The nonprofit vehicle allows for people to form ties outside of close family circles, and to create personal pathways that may not have existed before.

There is now even some emerging research into the role that voluntary associations play in civil order. Political scientist Ashutosh Varshney studied

cities in India and discovered a simple but intriguing pattern. Cities that had achieved a good level of social, political, and economic integration through voluntary groups were far more likely to avoid the ethnic conflicts that decimated cities with less integration. Networks of peace committees, for example, were able to quash inflammatory rumors before they spread.

On the negative side, this intermediary position is one of the reasons why nonprofits are widely held to be slow to change, difficult to manage, and beset with ambiguities. The instinct to preserve, the need to be trusted, and the imperative to react to social dysfunction all combine to discourage the relatively abrupt changes such as bankruptcies, buyouts, and mergers that often characterize the for-profit sector.

Also a factor, especially in the past, is the fact that many nonprofits are small corporations. If the majority of nonprofits were for-profit organizations, they would be considered small to medium-sized businesses, at best. Even today, with the growth of many nonprofits, only about 4 percent have revenues over \$25M. As single entities, they are engines of integration, not economic change.

It is not hard to envision the way the old mental model of operating a nonprofit got started. These small corporations probably sprang from the passion of a local person or two and his or her circle of friends and acquaintances. They had perhaps two or three staff persons at most, and when it came to stuffing envelopes and decorating for the special fundraising dance each year, it was impossible to distinguish between board members and staff.

Governance emerged in a similar way. The board was expected to be hands-on in the management of the agency, including keeping the records and sometimes supervising the staff. The executive director, called such probably to distinguish the position from that of the president or chairman of the board, had first-among-equals power but was never expected to act like a true CEO—a good thing, because until last year he was quite likely to have been, say, a staff person in a large local manufacturing company.

This little group acted like a true association—a voluntary joining of diverse people who shared a common interest and who knew how to get along with each other. Just about everything was done pretty informally, and there was a great deal of improvising, sharing, and good faith effort. It worked out.

Then things started to get serious. In the health care sector there arose a need for more and bigger hospitals, their demand for capital funding

fulfilled partly by the federal government starting in the 1950s. Human and social services became a recognized need by many levels of government, and reform movements started to help retarded children, the mentally ill, runaways, and young students. Nursing homes were created for the care of the elderly, and the old orphanages—no longer needed thanks to safer factories, government aid to families, and birth control—turned into special education schools. Established groups such as the YMCA found themselves with sudden company. United Ways, once the primary fundraisers for a market-controlling segment of social service nonprofits, were reduced to funding a smaller percentage share of a much larger sector.

At the same time government as a provider of service was reaching a kind of maximum cap beyond which taxpayers were not interested in going. The acceptability of large-scale government-provided services was beginning to fade. Just as important, needs got more complex and subtle and fast-changing, while the population itself grew inexorably. The for-profit sector, which knows how to produce mass quantities of goods and services and how to sniff out profitable opportunities, was either uninterested or uninvited. Into this vacuum was drawn the nonprofit sector. Already providing many services, nonprofits were asked to expand them and to come up with new ones. Separately, the IRS clarified their definition of a private foundation, formalizing a funding vehicle that would become increasingly popular in lieu of or as a supplement to government funding.

This giant outsourcing experiment has now become permanent. Although it has amounted to privatization in many quarters, the more potent change is that government has begun to give the nonprofit sector a legitimacy that it never had before. Even where government has no direct funding role, it has accepted nonprofits as equal partners to a degree unheard of a few years ago. Today governments deliberately create nonprofits to carry out activities that they would have attempted to do themselves in prior generations. Partly this is a reaction to the generalized mistrust of government, and partly it is a frank recognition that nonprofit public charities often have lower-cost structures and can raise private dollars more readily than can governments.

Governments are not the only source of demand for nonprofits' services, but they are a bellwether of what is happening in the larger economy. Whether it is YMCAs or PTAs or art museums, most people have made

more use of some type of nonprofit organization's services than even a few years ago.

As a result of this spiraling demand and newfound acceptance, nonprofits must improve their management. It is not an accident that the numbers of degree-granting graduate-level programs in nonprofit management has skyrocketed in recent years. Nor is it an accident that CEOs with business credentials are often sought as leaders of these organizations.

The biggest obstacle to accomplishing this necessary task is not money, it is that mental model mentioned above. The common problems associated with nonprofits—poor cash flow, inadequate recordkeeping, and lax management, to mention a few—are just symptoms of the larger and more profound inability or unwillingness to do powerful strategic thinking. This is why entrepreneurs often chafe when they find themselves on a nonprofit's board of directors. They are accustomed to a pace and a way of thinking that is often missing in nonprofits.

Fairly or not, for-profit CEOs are often associated with grand thinking. It would be a sad commentary if it were to be true that only the opportunity to earn huge riches prompts people to set lofty and compelling goals for their organizations. More likely is that, until recently, nonprofits were not typically seen as having the capacity to achieve great things. Even more likely is that the world used to be divided neatly into two groups, for-profit and nonprofit, and never were the two expected to coincide or get close. Now that the bright lines between the two groups have blurred, there is greater interchange between them, and greater recognition that management skill does not grow from the tax code.

FOR-PROFIT VERSUS NONPROFIT

Underlying this blurring between the two camps has been the growing recognition of the impact that nonprofits can have. For-profit companies often target instrumental areas of our lives, those products and services that help us get things done. That is why for-profits process and distribute food, build houses, and run airlines. Nonprofits, on the other hand, often show up at transitional periods of our lives, doing things like running hospitals, schools, shelters, museums, and nursing homes. They also serve functions that for-profits are ill-equipped to do, such as advocate policies, promote community economic development, and conduct research.

Nothing established nonprofits' legitimacy in the national economy more profoundly than the fall of the Berlin Wall and the end of the Soviet Union. Without a monolithic external threat, our national attention turned inward. It is not a coincidence that this coincided with a period of sustained prosperity, and it is not a coincidence that that prosperous period essentially ended on September 11, 2001 as the nation realized that it had a new and more decentralized international enemy. Conflict absorbs resources, and international conflicts absorb resources that would otherwise have gone to internal purposes.

International conflicts tend to tip the scales in favor of innovations in national security, not innovations in civil society. Nonprofits' role in smoothing civil matters gets pushed to the background in the face of external crisis. This suggests that nonprofits will need to consolidate the gains made during the 1990s until the pendulum swings back in favor of internal issues again. The best way to do this is to craft a sound strategy and then follow it with solid implementation.

That is why we will concentrate on the thinking that goes into crafting a sound strategy as well as some ways to implement one. Each will help nonprofits solidify their role in their respective futures. More important, a well implemented strategy will ensure that a nonprofit will have its proper impact. Many for-profit firms do not need to do much more than get a few hundred tasty meals out every evening, or manufacture an interesting perfume. Nonprofits are expected to do a lot more, usually with a lot less. The pressure is on to get the basics right. Strategic positioning can help.