

## Welcome To The World of Non-profits

By Susan J. Ellis

If you are a successful consultant in the business world, sooner or later you're going to be asked to provide some consulting services for non-profits. It can be something of a culture shock to work with non-profit organizations, but not necessarily for the reasons commonly supposed.

First separate the myths from the reality, which may include confronting your own prejudices. The following are some statements you may have heard (or thought) about non-profits. Which do you think are accurate?

- In general, non-profits are not run very well., often led by volunteers without much management experience
- Most non-profits have small budgets and little revenue.
- Non-profits would be more effective if they applied basic for-profit business principles to their operations.
- There are too many small non-profit organizations that duplicate work.

Most of these statements are false when applied to the whole voluntary sector, though there are *some* non-profits that are badly managed, have no funds, etc. Of course, there are some *businesses* (small and large) that are badly managed and lose money! It's important to approach each non-profit with an open mind about its strengths and weaknesses—good advice for a consultant no matter who the client is.

The non-profit world is huge and varied. Clearly institutions such as universities and medical systems will have multi-million dollar budgets and very formalized management and accounting systems. On the other end of the spectrum are truly grassroots groups of citizen volunteers with barely a checking account and no paid staff. Your non-profit clients may fall anywhere in between.

The phrase "not-for-profit" is more accurate than "non-profit," because many organizations do indeed generate excess revenue but—unlike a for-profit busi-

ness—such money is automatically put to use on behalf of the organization. No *individual* ever makes a "profit" from excess revenue, because a not-for-profit organization has no *owners*. The board of directors—by law—may have no financial gain from the operation; instead, they serve as trustees of the funds. This lack of personal profit is the key distinguishing factor between the two types of corporations.

There are other very practical issues that are unique to the non-profit world and that occur almost universally. All of these will affect a consultation.

**Issue 1: *Decision making in a not-for-profit is a collective process and will take time (especially if money is involved).***

Businesses develop their budgets and then allow department heads or managers to expend funds within that budget. Certain amounts of money can be spent at the unit level without further approval.

In businesses, innovations or changes in procedures, services or products usually require chain-of-command approval, but generally a really good idea (especially one that needs to be implemented while a market is "hot") can be moved forward relatively quickly. Money can be re-allocated as necessary to meet demands.

Not-for-profits work under a completely different system that can be summarized by the term "delayed gratification." Everything depends on planning well in advance because it takes time—sometimes a lot of time—to find funding for a new idea. Depending on the amount of money sought, you may need to allow as long as a year or more between planning it and implementing it. And the client may need as much advice about where or how to find the funds as how to run the project.



*"It takes time —sometimes a lot of time — to find funding for a new idea."*

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The other delaying factor is obtaining board approval. When a non-profit is going to ask for outside funding it is accepted practice to bring the new or expanded service idea to the board of directors for endorsement. In fact, most public and private grant makers require that proposals be signed by the chair of the board as well as the executive director. Remember that the board serves as “trustee” of all money obtained and is therefore responsible—and liable—for all commitments made to a funder.

Board approval does not have to be a problem, but you still may have to wait for the next scheduled board meeting, which might not be for several months. Even if the board meets monthly, there may be dissenting opinions about the proposed plan or reservations about taking on new obligations. Ideally, the staff will know what the board needs and wants, but it can happen that the board votes down a proposal, despite the preliminary work in favor of it.

Another unusual situation in not-for-profit settings is that, when money is granted or donated, it is usually designated for the specific project proposed and therefore becomes unavailable for other use. Ironically, even if the original idea is not working well or the situation changes, many non-profits are forced to continue the funded service as proposed at the beginning. It is hard to go back to the funder and admit there would be better uses for the funds.

### **Issue 2: The “bottom line” is not necessarily the deciding factor.**

While every not-for-profit loves having more revenue than expenses, *mission* is always more important than cash flow or cost-effectiveness. A not-for-profit may legitimately begin a project or service without knowing where the funding will come from (although maintaining it for long without finding money will result in an end to all services).

Not-for-profit services can rarely be assessed by a revenue/expense ratio or other accounting formula. How much does or should it cost to mentor a child into positive life choices? To support a woman forced into a domestic violence shelter as she finds a job and a

safe home for her children? To provide chamber music concerts to a rural area without other access to the performing arts? Obviously there are no clear answers. It may not make *economic* sense to deliver a service (i.e., no business could ever turn a profit providing it), but it may be an important service worth the support of funders never the less.

It may not be good advice to tell a non-profit it should “operate more like a business.” For one thing, not every business succeeds! Further, the staff of non-profits see decisions and management style as closely tied to ethical values, which they perceive—fairly or not—as being lacking in for-profit companies. In truth, it isn’t important to be “like a business,”; the key is to be organized, do strategic planning, be accountable, and accomplish goals. No one will argue against high standards of quality in management, regardless of setting.

Because not-for-profit projects are so often chosen by philosophic or even emotional reasoning, managers can be resistant to the very terminology of the business world. There may be genuine discomfort with vocabulary such as “marketing” or “customer.” The smart consultant will focus on the important *principles* that are indeed applicable to all organizations working with the public, not business school labels.

### **Issue 3: The non-profit’s relationship with its consumers is not the key to solvency. Funders are a third party with different needs and goals.**

In a business, the customer rules by buying the product or not buying the product. The proverbial “bottom line” comes from sales, in a direct line of accountability between the company and its consumers.

In a not-for-profit, money is not obtained directly from the consumer, but from a third party: the donor or funder. (Even when some charge is made to the client, such as for tickets to a concert or a fee for summer camp, it rarely covers more than a percentage of the costs.) Of course the best organizations care about the satisfaction of their clients and want to provide the most needed services.

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*“Mission is always more important than cash flow or revenues.”*

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But, in practice, funding is not based on either of these criteria; it's based on what the *funder* wants.

You will find that this affects strategic planning for many organizations. They will work towards what is fundable rather than what is most necessary. Evaluations of accomplishments are often more concerned with activities (we promised to see 575 clients and we did) than with outcomes (of those 575, only 10 found jobs)—but this is frequently the fault of the funders who ask the wrong questions.

*“[Funding] is based on what the funder wants.”*

### **Issue 4: Working with volunteers often changes the rules.**

Perhaps the most unique aspect of the not-for-profit world is the role of volunteers. This starts with the members of the board who legally may not receive any financial remuneration beyond expenses (a restriction that includes avoiding conflicts of interest). The board of a business is usually quite well paid and theoretically should be personally concerned with the profit-making ability of the company. In the non-profit, on the other hand, boards deal in “arm’s length” transactions, assuring the public that the organization is doing its work properly.

Millions of words have been written about boardmanship and nonprofit governance. There is intellectual agreement about what a board should and should not do, but in the real world there are many ineffective boards.

For a consultant, this can be a major challenge. If board members are recruited for their ability to write large checks, others officers or staff may be reluctant to expect or demand other services from them. If board members are recruited for certain skills or to represent an important constituency, they may not have enough general knowledge to understand all the decisions facing the organization. If the board is comprised of people with a personal stake in the mission, such as parents of children in the school or people with the disease that the group hopes to cure, another dynamic is introduced into the mix. On top of this,

some boards enforce rotation policies that change the faces around the board table every year or two, while other organizations have a board frozen in time, growing ever older with no replacements.

The smart consultant diagnoses what the issues are for each board of directors and proceeds accordingly.

It's also important to examine the working relationship between the executive director and the board chair.

These two need to be a solid team, yet tension can develop. Beyond the volunteers on the board, nonprofits also involve volunteers in many other aspects of the organization.

In fact, volunteers should be openly considered part of the “resource mix” available to help the agency stretch its budget to provide maximum service. Volunteers can do everything from highly skilled and technical consulting to sharing the work of paid staff to running independent fundraising events to giving clerical support.

The worst mistake is to assume that “volunteer” implies “non-professional.” As with everything else in an organization, the caliber of volunteers recruited will be increase in direct proportion to the amount of planning, goal setting, and focused attention given to building a volunteer program. The right volunteers can be an incredible asset, particularly as a new project is being developed and procedures are being tested—*before* a grant proposal is written to expand the service.

### **Issue 5: Don't expect the latest technology.**

While there are exceptions to the rule, it is common for not-for-profits to spend more money on people than on things, and this includes making computers and other technology a secondary priority. In addition, over the past decade, corporations have donated a great deal of computer equipment to community organizations—equipment that the business already sees as outdated. Most nonprofits are willing to compromise on the age of their equipment if they don't have to spend money on it. But this may create limitations on what is possible to do.

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Add to this problem of old equipment (and equally old software) a widespread feeling of computers as “impersonal,” and you may have encounter resistance to a project that includes the value of the Internet.

E-mail has been largely accepted, even enjoyed, but techno-phobia is still rampant in non-profits. Web sites are too often seen merely as electronic brochures, static and not integrated into an overall marketing plan. Again, this is due more to seeing technology as a diversion from the primary goal of serving clients than to an unwillingness to learn.

### **A Last Thought**

It might be useful to know how a not-for-profit organization has come to the decision to hire a consultant. In the best scenario, top leaders (whether volunteer or paid) have mutually identified a need for expertise, budgeted the expense of getting help, and searched for the best consultant. This is not always the true situation.

In some cases a funding source may require an outside consultant or evaluator to participate in the project as a condition for obtaining a grant. If this is the circumstance, it will be necessary to discuss how much

buy-in really exists to make use of any consult. Another common situation is that a consultant is brought in through the board officers, who may be frustrated by some lack of progress or will on the part of the staff (or vice versa).

Obviously, no consultation can succeed if the outsider is perceived as carrying out the agenda of one side in a brewing conflict.

Once you’ve established the reasons for your contract and the ground rules for decision-making, authority and timetable, you’ll find that working with not-for-profit organizations is as rewarding and as frustrating as working with any other group of human beings! ☞

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