

# What Business Execs Don't Know – *but Should* – About Nonprofits

*Business leaders play vital roles in the nonprofit sector – as board members, donors, partners, and even executives. Yet all too often they underestimate the unique challenges of managing nonprofit organizations. In this article, 11 executives who have played leadership roles in both for-profits and nonprofits reveal the critical differences between the two, and suggest ways that business and nonprofit leaders can use this information to create a more effective social sector.*

**A**sk William Novelli, the CEO of AARP, if business executives underestimate the complexities of running a nonprofit organization, and his head starts nodding. The former Unilever marketer built Porter Novelli into a public relations powerhouse before embarking on his current career. Twelve years deep into the nonprofit sector, Novelli can attest that navigating Washington, D.C.'s land mines while running his sprawling \$800 million operation is hardly the laid-back retirement farm that many businesspeople imagine.

Too many business CEOs just don't get it, says Novelli. "It goes beyond underappreciated. CEOs are often disdainful of not-for-profit management. They think it's undisciplined, non-

quantified." But in fact, "it's harder to succeed in the nonprofit world." For starters, nonprofits' goals are both more complex and more intangible. "It may be hard to compete in the field of consumer packaged goods or electronics or high finance," he says, "but it's harder to achieve goals in the nonprofit world because these goals tend to be behavioral. If you set out to do something about breast cancer in this country, or about Social Security solvency, it's a hell of a lot harder to pull that off." And "it's also harder to measure," he adds.

It's not always easy to persuade business leaders of what Novelli knows in his bones to be true. Yet our experience at McKinsey & Company advising hundreds of nonprofits in recent

by LES SILVERMAN & LYNN TALIENTO

years suggests that it must be done. Business executives need to understand the leadership challenges faced by their nonprofit counterparts if they are to cross the border between the two worlds gracefully. And nonprofit leaders, for their part, need to have a firm grasp of these issues so that they can help the business leaders they work with be more effective.

The gap in understanding between the two worlds has wide repercussions. Too many business leaders take their nonprofit board membership less seriously than they do their corporate board membership. Too many donors only halfheartedly use their financial clout. Too many cross-sector partnerships fail because business leaders can't accommodate the nonprofit sector's different culture and demands. And too many well-meaning businesspeople who move into nonprofit leadership roles end up frustrated and ineffective because they don't fully appreciate how uniquely hard their jobs will be. These underestimations of what it takes to lead nonprofits not only erode individual organizations' effectiveness, but also hurt the nonprofit sector's overall performance.

For these reasons and more, leaders who have served in both sectors agree that top business executives need to better understand what makes the nonprofit world tick. Says Robert Higgins, who ran the Robert Sterling Clark, John A. Hartford, and Florence V. Burden foundations before co-founding the venture capital firm Highland Capital Partners, "The nonprofit sector is such a big part of the economy that you almost cannot let someone run a company who doesn't appreciate [it]."

To find out what exactly business executives don't understand about nonprofit leadership, we conducted a virtual conversation among 11 nonprofit executives who have also held senior positions in the for-profit world – that is, crossover leaders. Although some of our interviewees noted that the gap in understanding between nonprofit and for-profit leaders is narrowing, on the whole they agreed that most business leaders sorely underestimate how tough nonprofit leadership can be.

Our interviewees identified five challenges that most business leaders fail to appreciate. First, nonprofit CEOs wield less authority and control than their for-profit counterparts. At the same time, they must answer to a wider

range of stakeholders. Nonprofits also lack straightforward performance measures – there are no analogs to profit in social change – and yet they are under greater scrutiny from politicians and the press. Finally, compared to the corporate world, the nonprofit sector is underfunded, understaffed, under-resourced, and undertrained. Below we discuss each of the five commonly underappreciated challenges of nonprofit leadership, as well as how our crossover leaders deal with them.

### Little Control or Respect

For business executives who are used to being the boss, the nonprofit setting harbors a rude awakening. "In the world of nonprofits, deference to the CEO is rare," says Reynold Levy, president of Lincoln Center for the Performing Arts and a former AT&T executive. "You really need to earn that respect. It doesn't come by virtue of your title."

Philip Lader, chairman of the communications services firm WPP Group and former White House deputy chief of staff, says the lack of respect can be exasperating to those who don't understand the sector. "When I was a college president," Lader says, "I sought to initiate curriculum reform, establish certain cultural requirements, and apply for admission to the NCAA, all of which required faculty consent. Contrary to a corporate setting, I would stand before the faculty senate and plead for their support. Yet the board and media would ascribe to me the credit or blame for the institution's progress."

"It reminds me of what someone said life as an ambassador is like," adds Lader, who also served as U.S. ambassador to the United Kingdom from 1997 to 2001. "There you are at the helm of the great ship, with everyone scurrying about. Only after about four months of steering the wheel do you realize that it is not connected to the rudder. Everyone is saluting you and saying 'aye aye,' [and then] they go below to steer the ship themselves. In many nonprofits, that genuinely is the case."

"I've seen some people try to move over to the nonprofit sector from the private sector," says Richard Schlosberg, who was CEO and publisher of the *Los Angeles Times* before serving five years as president of the David and Lucile Packard Foundation. "Their time frame, their command-and-control orientation, and their view of the employee/employer relationship just don't translate as easily. It's like they don't quite get it."

### So Many Stakeholders! So Much Consensus Building!

Nonprofit leaders generally have less authority than their

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—CATHERINE MELOY, PRESIDENT  
AND CEO OF GOODWILL OF  
GREATER WASHINGTON,  
FORMER SENIOR EXECUTIVE AT  
CLEAR CHANNEL COMMUNICATIONS



for-profit counterparts partly because they have to honor the disparate concerns of many more groups, each with a legitimate stake in the organization’s mission and activities. This diversity starts with the board of directors.

“In most for-profit organizations,” explains Higgins, “people arrive with common goals. The board of directors may have different viewpoints, but shareholder value as a fundamental goal is something shared by the board, by the CEO, and by senior management. You start off differently in the not-for-profit world, with each board member arriving with a different set of goals and often different agendas. To manage that as a CEO is much more complex.”

“You have to have a much more consultative, inclusive decision-making style,” adds Peter Goldmark, who was president of the Rockefeller Foundation for nine years in between publishing stints at the Times Mirror Company and the *International Herald Tribune*. He now directs the Climate and Air program at Environmental Defense.

Asked to comment on the implications of having to work with so many different stakeholders, Novelli rattles off a few: “Eternal consensus building, slow decision making, slow to act.” When he first took the helm of AARP, Novelli brought in a business school professor to help him think about the organization’s processes. “Around here it’s ready, aim, aim, aim,” the consultant told him.

“There’s nothing wrong with consensus building,” Novelli is quick to add. “It’s just that it shouldn’t be 100 percent consensus. It’s not like the mailroom guy has to weigh in. There has to be an end to it.”

Schlosberg has seen this dynamic at work. “In the for-profit sector you often had to make decisions with incomplete information. In the foundation world, the time it took to make decisions was uncomfortably long at first.”

“You have to lead by consensus and by influence as opposed to by pure management,” explains David Chernow of JA Worldwide (Junior Achievement). Chernow, who ran numerous for-profit cancer treatment centers and

practices before leading JA Worldwide, says this lesson was seared into him when Junior Achievement merged its international and U.S. operations. “You can’t just come in here and wield a stick and make things happen.”

Harold Williams, who was chairman and CEO of business conglomerate Norton Simon before becoming dean of UCLA Anderson School of Management, chairman of the Securities and Exchange Commission, and founding CEO of J. Paul Getty Trust, counsels crossover executives to be clear-eyed about

how their authority will change. “You will have little opportunity to lead by making decisions,” Williams says. “You’ll have the power of the budget to some extent, but if you have a vision or you want to make any changes, you’re going to do it by leadership and by inspiration and not by direction. You’ve got to be a Pied Piper.”

### The Elusive Art of Nonprofit Measurement

Measuring performance in nonprofits is notoriously difficult. “You don’t have a simple financial metric that is really central,” says Goldmark. “You are dealing with more squishy and intangible issues of social change or public attitudes and behavior.” In spite of the challenge, our crossover leaders agreed that it is important to develop meaningful metrics, however imperfect.

“The lack of having a bottom line is truly underappreciated,” explains Schlosberg, “as is its importance in enabling an organization to have focus and come together. It becomes much more of a challenge to evaluate not only the organization, but individuals and their performance as well.”

“How do you do this in artistic organizations?” asks Levy. “My director of festivals will say, ‘I want every festival I do to be the best, better than the year before.’ ‘Well,’ I say, ‘what do you mean by that?’ Translating a better festival into results that are measurable and that you can gauge over time is a major effort in an artistic organization and in most nonprofits.”

Most crossover leaders agree that the drive to measure performance often goes against the nonprofit grain. “Bringing that tough-minded, analytical decision-making process is difficult given the cultural differences,” says Judy Vredenburg, a former fashion executive who spent six years as senior vice president of the March of Dimes, and another five and a half years as CEO of Big Brothers Big Sisters. In her for-profit life, Vredenburg was almost obsessively focused on speed and results, but she found the nonprofit world was decidedly not. “I remember not

achieving a number that I said I would achieve early on,” she recalls, “and I thought, ‘Oh my goodness!’ But no one even noticed.”

Catherine Meloy, who was a senior executive at Clear Channel Communications before taking over the Washington, D.C., region of Goodwill Industries, found

that even bringing what she felt were basic budget practices to Goodwill involved true culture shock. “I said, ‘Let’s benchmark.’ It became a joke. People said: ‘Does she have to question everything? Doesn’t she trust what we’re doing?’”

## Crossing Over

*How do you make a successful transition from the business world to nonprofits? Here’s advice from six executives who have done just that.*

### LEAD BY INSPIRATION

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### GAIN NONPROFIT EXPERIENCE FIRST

“Unless that person is really unusual or unique, I think it would be a mistake for somebody to jump in and run CARE or run AARP without any not-for-profit or public sector experience. If I were [on] a board I would never choose such a person. ... It would be very difficult for somebody to walk in out of a corporate setting and just take over a not-for-profit. ... We don’t teach humility in business school, do we?”

*—William D. Novelli, CEO of AARP, and founder and former president of the public relations firm Porter Novelli*

### BELIEVE IN THE MISSION

“Have a passion for that organization’s mission. Otherwise, the frustrations just wouldn’t be worth it. Recognize that everything is consensus building. Know that you have the affirmative responsibility to project in every setting the critical importance of what the organization does – to funders, to media, to potential volunteers, to all the constituents.”

*—Philip Lader, chairman of the communications services firm WPP Group, and former university president and White House deputy chief of staff*

### REALIZE HOW HARD IT WILL BE

“Don’t assume that the senior staff has the same business training and business background that you’re accustomed to and that you may take as second nature. Be prepared to teach and be helpful in that respect. Finally, don’t think that it’s less of a real job. One of the chuckles I got when I came here was from many of my friends in Southern California, who to this day don’t believe I really had a real job. ‘How hard can it be, Dick, just writing these checks?’ Don’t underestimate the degree of difficulty of working in a complex nonprofit organization.”

*—Richard Schlosberg, former president of the David and Lucile Packard Foundation, and former publisher and CEO of the Los Angeles Times*

### ANTICIPATE PASSIVE OPPOSITION

“The nature of passive resistance within a nonprofit setting is at levels that could teach Gandhi lessons.”

*—Reynold Levy, president of Lincoln Center for the Performing Arts, and former president of International Rescue Committee*

### BE YOURSELF

“What people should do is stop and try to objectively assess what they’re best at and what those skills are. Then bring those to the not-for-profit. I think people arrive and they actually hide. [Instead,] people should be exercising those skills and leading with those skills. Some of the most outspoken people in the for-profit world arrive at a not-for-profit board and become the least vocal.”

*—Robert Higgins, founder of the venture capital firm Highland Capital Partners, and former executive director of the John A. Hartford Foundation*

### Communications in a Fishbowl

Communication is central to effective leadership in any setting, but our crossover leaders say it is much more so in nonprofit organizations. “It’s extraordinarily more important in nonprofits as a means of influencing and motivating,” says Vredenburgh. “In the end, the CEO of a nonprofit has to be the external communicator and external relationship builder, and that means he or she has to be the chief fundraiser. In a for-profit, you have investor relations – but it’s on the side. It’s not a core function.”

A related challenge – one that trips up even seasoned for-profit leaders – is the public and the press’s unblinking scrutiny of nonprofits. A few regulated for-profit industries, such as healthcare, may understand what it feels like in the fishbowl. But in general, “people in the for-profit world don’t really think of themselves as operating in the public view,” says Richard Leone, who ran the New York Mercantile Exchange and the investment bank Dillon, Read & Company before taking the helm at the Century Foundation. “People in the nonprofit world tend to deal with that much more than people in the for-profit world because they tend to have broader constituencies. They have to fundraise, they have a community they’re trying to serve, and they have the kind of goals that get spelled out in public ways.”

Novelli agrees. “Many for-profit CEOs and high-level executives don’t understand politics. Politics is almost always present in not-for-profit worlds. You’re essentially using advocacy as one of your tools.”

### Doing More With Less

Our crossover leaders all agreed that the nonprofit sector’s funding shortages and lack of training make building strong organizations especially hard. “For-profit executives don’t understand how difficult our jobs are,” says Vredenburgh. “Every time we in nonprofits satisfy customers, we drain resources, and every time for-profits satisfy a customer, they get resources back. That sounds very simple, but it has huge implications, and I don’t think the for-profit people really get that.”

“They’re [nonprofits] difficult to run,” adds Williams, “in part because they are more hand-to-mouth, and because the quality and amount of staff is thinner than it is in a typical corporate environment. In many respects the typical nonprofit leader is much more entrepreneurial than the typical chief executive in the corporate world. You have fewer resources, fewer staff, and less certainty.

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what I call ‘the substantive side,’ without management training,” says Williams. “It really limits the ability of people in the nonprofit sector to scale up. It also contributes to the tendency of the for-profit people on boards to say, ‘This guy doesn’t know what he’s doing.’”

“I had to become more of a teacher than I had been before,” says Schlosberg of his foundation stint. “I spent a lot of time blocking and tackling. I put a management committee together, upgraded human resources, got a planner in here, named a chief financial officer.”

Schlosberg, who also observed many smaller nonprofits from his perch at the Packard Foundation, came away convinced that “in the nonprofit sector there’s much more reliance on the leader, and less developed teams and talent underneath. I see undercapacity all over the nonprofit sector.” Many good managers in the nonprofit sector would agree on the need for capacity building, but simply can’t get donors to support it. “In the for-profit business,” says Chernow, “you spend an enormous amount of money on that training. Here, if we went out to corporations and foundations to give us money to develop capacity in our organization and to build leadership, it’s not as readily accepted. It’s hard to get that kind of investment.”

Beyond training a management team, even hiring the right people is harder in nonprofits. Salaries in the nonprofit sector are typically not competitive with those in the commercial sector, yet the need for management talent is just as great. “I come from a Wall Street environment where if you really wanted somebody you just threw a huge amount of money on the table,” says Leone. “The nonprofit world is obviously different.” Intense donor pressure to keep administrative overhead low further hobbles many organizations’ ability to hire good management.

Despite all their drawbacks, nonprofits have one clear advantage when it comes to attracting and retaining staff:



their inspiring missions. “The missions are so powerful that you can attract really good people,” says Novelli. “There was a guy from Levi Strauss who said, ‘I don’t want it to say on my tombstone that I shipped a million pair of jeans.’ That’s powerful.”

### How to Be a Better Crossover Leader

Whether serving as nonprofit board members, donors, partners, or executives, business leaders can play their nonprofit roles better by understanding the differences between nonprofit and for-profit organizations. Below, we suggest how both business and nonprofit leaders can help one another excel.

**Board members.** Too often, business executives who sit on nonprofit boards don’t take their role as seriously as they do their corporate board role. Many consider it a hobby or a “do-good” contribution, rather than a real responsibility, and so they don’t invest enough time or energy into understanding the organization. “When it comes to a nonprofit board,” says Vredenburg, echoing the sentiment of many in our group, “the sophisticated, smart, for-profit people sometimes leave their heads at the door.”

On the performance side, many for-profit executives on nonprofit boards come to understand that measuring social change is challenging and costly. But rather than developing performance measures that are both meaningful and doable, they often throw in the towel on measurement, deeming it nearly impossible. Or they simply focus on keeping administrative costs low without a careful consideration of what is needed to ensure

program quality and impact. As a result, they too often wind up starving nonprofits of much-needed managers, even though they would never consider running their own businesses without, say, a COO just to keep overhead low.

Instead of abandoning performance measurement, Levy suggests that board members spend more time applying for-profit pragmatism and creativity to the problem of nonprofit performance measurement. For their part, nonprofit leaders must help business leaders recognize that nonprofits also need to invest in management and capacity, instead of minimizing administrative costs.

Board members from the business sector are often impatient with the pace of change at nonprofits because they underestimate how long it takes to build consensus among the many stakeholders. To counter this, nonprofit CEOs should be clear – and unapologetic – about the need to consult with board members, staff (and not just the senior team), important donors, and sometimes partners and policymakers before making major changes in how the organization operates. Instead of being bogged down by frustration, for-profit board members should offer to participate in discussions with other board members, donors, and staff. By helping with some of the political heavy lifting, business leaders can accelerate the pace of change.

**Donors.** Many donors fail to use their considerable influence to push for better performance at the nonprofits that they fund. Or when they do demand results, they focus on the wrong metrics, such as low administrative overhead, which only hinders the building of a strong organization. To counteract this, nonprofit leaders can teach donors about useful, even if imperfect, measures of impact. As for overhead, nonprofits must inform donors that an organization’s programs are only as good as its management, and that they should be willing to fund administrative overhead.

Some donors advocate for their pet programs, or insist that the organization take on activities peripheral to the current focus, leaving nonprofits unable to direct their resources to the highest impact activities. Donors should make sure that they are not distracting the organization from its primary mission. Meanwhile, nonprofit leaders should push back on their donors – difficult as that might be – rather than venturing off-mission.

Donors often demand a tremendous amount of attention from the executive direc-

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–DAVID CHERNOW, PRESIDENT AND CEO OF JA WORLDWIDE (JUNIOR ACHIEVEMENT), FORMER PRESIDENT OF THE PHYSICIANS SERVICES GROUP AT US ONCOLOGY



PHOTOGRAPH COURTESY OF JA WORLDWIDE

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—RICHARD LEONE, PRESIDENT OF THE CENTURY FOUNDATION, FORMER PRESIDENT OF THE NEW YORK MERCANTILE EXCHANGE



As a result, their big plans are often rejected by the staff and board, and the executives end up quitting in exasperation.

The remedy to this problem may be obvious, but that doesn’t mean it is easy to implement. Nonprofit neophytes need to get to know the organization before proposing any changes. They need to take the time to talk with all stakeholders about any new ideas before suggesting them. And they should avoid unilateral decisions, and instead should involve their board, staff, and stakeholders as appropriate. (For more thoughts from our crossover leaders on transitions, see “Crossing Over” on p. 40.) Their new nonprofit colleagues should alert the new boss to these needs and help

him or her make the necessary time and contacts.

tor, in some cases seeing it as a return for their generous gift. Donors should understand that the executive director is juggling many stakeholders, and so should minimize their demands on the executive director’s time.

**Partners.** Corporate partners often don’t realize that nonprofits lack management, marketing, and communications expertise and personnel. Because funding is often restricted to programs and services, nonprofits simply lack the resources to develop these capacities. Unfortunately, these are precisely the areas often needed for corporate partnerships. Or when nonprofits do have the personnel, they are usually stretched thin from running day-to-day operations. These people can’t free themselves up quickly to work on a corporate partnership without leaving the organization dangerously under-managed.

As a result, corporate partners often grow impatient with nonprofits’ inability to meet their commitments, and walk away from the partnership. Instead of giving up, or complaining about the nonprofit’s lack of capacity or sophistication, business partners should invest their time and resources into helping the nonprofit build capacity. Although not all corporate partners will be persuaded to do this, our experience suggests that if nonprofits are clear about their management limitations, some business leaders will be responsive.

**Executives.** All too frequently, for-profit executives who venture into nonprofit leadership expect to implement big changes as quickly as they did in the for-profit world. They often fail to consult with key stakeholders before making important decisions. They don’t give the organization time to get to know and trust them. And they don’t take the time to get to know the organization’s culture, informal power structures, and ways of working.

### Building Bridges

Two messages linger from our conversations with crossover leaders. They agree that nonprofit work has been the most challenging and rewarding of their careers. And they emphasize that everyone has a stake in creating a high-performing nonprofit sector, because the solution of so many of society’s problems depends on it.

“These misunderstandings matter,” says Leone. “The business side’s failure to understand the complexity, nuance, and criteria for judging success on the nonprofit side has tremendous effects, both on fundraising [and on people’s] understanding of how we’re going to address certain problems effectively.” That is why it is important for business and nonprofit leaders alike to engage in frank discussions about the differences between the two sectors and how executives can overcome them.

“The true measure of making all this work,” concludes Novelli, “is to get the talent flowing in both directions. Make not-for-profit managers better so that they can be accepted on the other side of the bridge. And make for-profit people more understanding so they see the value of people from the not-for-profit sector. Not just value them because they know they can run a piece of business, but value them because they understand missions, they understand social change, and they understand social values.” □



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