This is a book about the management of nonprofit organizations. The topic begs two fundamental questions: Why do nonprofit organizations need to be managed? And, is management of a nonprofit organization really different from management of a business or government agency? In other words, is there really a need for a book like this, or is management a generic activity that could be learned as well from a textbook on business or public management?

Some may hold a perception of nonprofit organizations as primarily collections of well-intentioned people who struggle with minimal resources to meet human needs, without much attention to the bottom line, and with some disdain for management as an unwelcome distraction from the all-important work of delivering vital programs and services. However, there has been a management revolution in the nonprofit sector in recent decades, and this stereotype, if ever true, does not describe all nonprofit organizations today. Indeed, many nonprofits face management challenges no less complex than those faced by major corporations or large government agencies.

For most people, the term nonprofit conjures up the image of a small organization, perhaps run by a tiny band of volunteers more focused on delivering services to people in need than on building or managing an organization. Indeed, most nonprofit organizations are small, with perhaps few if any professional staff, but there are also others with activities that span the nation and the globe and that employ thousands of people.

Mention the word business, and people will likely think first of a large corporation such as Wal-Mart or Coca-Cola, although, in reality, most businesses are small. But it is large business enterprises that are the focus of most management texts and MBA case studies. That is because, as in the nonprofit sector, the need for management varies with the size and scope of activity. The corner dry cleaner needs few management skills beyond basic accounting and a rudimentary understanding of how to manage a few employees. The young technology entrepreneur starting a new business in his parents’ garage is not focused on management but on development and delivery of a product, much as the directors of small nonprofits are often more concerned with delivering programs than with building or managing the organization. As a company grows, requiring outside investment and employing more people, its need for
professional management increases. Founding entrepreneurs are often replaced by MBAs who have formal management training. So, too, as a nonprofit organization becomes larger, it faces more complex and interesting management challenges, especially if it comes to operate in more than one location across the United States or internationally. This book includes some examples drawn from small nonprofit organizations, but it is principally about organizations that have at least some full-time paid staff, and it includes examples and cases drawn from some of the nation’s largest and best-known nonprofits.

A Revolution in Management

The nonprofit management revolution of recent decades has been driven by several forces. One overarching force has been the introduction of competition resulting from changes in funding patterns, the growth of the sector, and increasing demands for accountability. The years since the 1980s have seen reductions in federal government funding for many social programs, the devolution of funding to state governments, and increased outsourcing of the delivery of social and human services by government agencies to nonprofit organizations. Nonprofits have been forced to compete for contracts, against each other and, in some cases, against for-profit firms. In addition, many government benefits are now being provided through voucher-type payments made directly to individuals, who are thus transformed into customers, free to purchase the services they need in the marketplace. Such customers can thus select the organizations that will provide services based on perceptions of quality and other considerations; this forces nonprofits to compete for their business. Like the competition for contracts, the competition for empowered customers has forced nonprofits to either become better managed or place their survival at risk.

But government has not been the only force driving change. Other funders, including foundations and even individual donors, have shown an increased concern with the results achieved by nonprofits through the programs they offer. This has been especially true of many newly wealthy entrepreneurs who amassed their fortunes during the technology boom of the 1990s and the thriving financial services and real estate industries of the mid-2000s. Many view their philanthropic giving as a type of investment from which they expect to see a measurable return in the form of effective programs and services. The requirement that nonprofits meet these expectations for measurable results also has increased the need for management.

There has been a shift in thinking about nonprofit organizations that focuses much more on the organization itself than merely on the programs and services it delivers—a concern with organizations’ capacity and sustainability, ideas we will discuss later in this book. The 1990s brought searing critiques of traditional philanthropy and the management of nonprofits. Among them was a *Harvard Business Review* article by Christine Letts, William Ryan, and Allen Grossman (1999b), titled “Virtuous Capital: What Foundations Can Learn From Venture Capitalists.” The article essentially was an indictment of traditional foundations’ grant-making practices, arguing that the short-term program grants made by most foundations were not meeting the need for investment in the long-term capacity of nonprofit organizations themselves. Letts et al. advocated an approach to philanthropy that would parallel the approach of venture capitalists to investing in companies, including a more sustained commitment to support along with the requirement that organizations meet performance standards. Bill Shore’s book *The Cathedral Within* (1999), published the same year as Letts et al.’s article, echoed some of the
criticisms of traditional philanthropy and argued that the emphasis on programs rather than building organizations was in fact preventing many successful programs from “going to scale,” that is, growing to a point that they could have significant impact, because the organizations did not have the capacity to expand. Letts and colleagues, Shore and others contributed to a change in thinking about nonprofits, shifting from the programs they offer to the strength and sustainability of the organizations themselves. It was, in the words of Jim Collins and Jerry Porras (1994), a shift of emphasis from “telling time” to “building clocks.” This new emphasis on nonprofit organizational development also has been a force in increasing the demand for professional nonprofit management.

Another reality is that the dramatic growth of the nonprofit sector and its assets has simply raised the stakes. Fueled in part by a wave of philanthropy based on the economic gains of the 1990s and mid-2000s, in part by the continued devolution of government programs, and in part by an increased worldwide interest in philanthropy and voluntary action, nonprofits now employ more people and control more resources than ever before. The nonprofit sector has become a consequential part of the American economy that cannot be ignored. Therefore, it has captured the increasing attention of legislators, the media, and others who demand that nonprofits be accountable for the assets entrusted to them and for the results that they achieve with those assets. This reflects an increased concern with accountability throughout American society, affecting businesses as well as nonprofits. Demands for accountability and the need for systems and procedures to comply with greater scrutiny and regulation also have contributed to the need for trained managers.

In sum, if it was ever true that the typical nonprofit organization fit the image of a well-intentioned but unmanaged endeavor, nonprofit organizations today, other than perhaps the smallest, must be managed. To be otherwise is not only to risk failure in meeting society’s needs and expectations, but also to place the organization’s survival at risk. However, the question remains whether managing a nonprofit organization is different from managing a government agency or a business corporation. Is management generic, or is management in the nonprofit sector a distinguishable endeavor?

A Distinct Profession

Throughout most of the history of management as a recognized discipline, most theorists have advocated a generic approach, arguing that common management principles would apply equally to all organizations, whether businesses, government agencies, or nonprofits. And there remain some who are skeptical that management in the nonprofit sector is unique or that it requires particularly distinctive skills.

At an operational level, surely management in the nonprofit sector requires many of the same skills that are also important in government or business. There may not be a particularly nonprofit way of processing payroll or implementing a new information system, and, indeed, many of the techniques of business management have been adopted by nonprofit organizations as well. But this book is predicated on the view that nonprofit management is different from management in the business or governmental sector in a variety of ways, including the following four.

First, as Herman and Heimovics (2005) explain, nonprofit management uniquely requires the ability to integrate mission, the acquisition of resources, and strategy.
The choice of a mission for an organization depends on the potential for the acquisition of sufficient resources to carry out that mission. Conversely, the acquisition of certain kinds of resources can influence the mission an organization chooses to undertake. Any mission, no matter how great the cause, is likely to fail if the organization lacks necessary and sufficient resources to pursue it. Moreover, decisions about strategies for acquiring resources must be consistent with the mission and ethical values of the organization. Actions in one realm affect the other realms. The leadership challenge is to see that decisions and actions in one realm are not only consistent with those in other realms but also mutually reinforcing. (p. 153)

Managers of government agencies generally have a single source of revenue—for example, the U.S. Congress or a state legislature—and carry out programs mandated by the law. Managers in business receive revenue from the sale of products or services and have the freedom to decide what goods or services they will provide and to which customers. More sales translate into increased revenues, and activities that are not profitable can be discontinued. The same relationships do not always hold true for a nonprofit. Most nonprofits obtain resources from multiple sources and, like businesses, have considerable freedom to determine the activities in which they will engage. However, one important difference is that increased activity may strain resources rather than enhance them. That is because not all of a nonprofit's customers may pay the full cost of producing the good or service, and indeed, some may not pay at all. Judy Vredenburgh, a former executive of Big Brothers Big Sisters and the March of Dimes, describes the dilemma: “Every time we in nonprofits satisfy customers, we drain resources, and every time for-profits satisfy a customer, they get resources. That sounds very simple, but it has huge implications” (quoted in Silverman & Taliento, 2006, p. 41).

Thus, as Herman and Heimovics (2005) suggest, management of a nonprofit organization requires constant trade-offs among the mission, the acquisition of resources, and strategy. That distinguishes nonprofit management from the management function in the business or public sectors. Management in those sectors, while also complex, at least begins with some fixed points of clear goals and positive relationships between activities and revenues. Managing a nonprofit is more like swimming in the air, with everything variable and in constant motion.

Second, the complex relationships among a nonprofit organization's stakeholders require management that is especially skilled in negotiation and compromise, with a high tolerance for ambiguity. In corporations and in government agencies, the flow of authority from the top down is generally clear. But, as Anheier (2005) describes,

nonprofit organizations consist of multiple components and complex, internal federations or coalitions among stakeholders . . . [therefore] the structure of nonprofit organizations may require a multi-faceted, flexible approach to management and not the use of singular, ready-made models carried over from the business world or from public management. (p. 245)

Jim Collins (2005) recounts a meeting between Frances Hesselbein, chief executive officer (CEO) of the Girl Scouts of America at the time, and a New York Times columnist, in which the CEO addressed this unique characteristic of nonprofit management:

[The columnist] asked what it felt like to be on top of such a large organization. With patience, like a teacher pausing to impart an important lesson, Hesselbein proceeded to rearrange the lunch table, creating a set of concentric circles radiating outward—plates, cups, saucers—connected by knives, forks, spoons. Hesselbein pointed to a glass in
the middle of the table. “I’m here,” she said. Hesselbein may have had the title of Chief Executive Officer, but her message was clear: I’m not on top of anything. (p. 9)

Nonprofit management is unique because nonprofit organizations are different from businesses and governmental entities—often reliant on the support of donors and the work of volunteers, pursuing missions derived from values and principles about which there may be disagreement, and engendering a sense of ownership and a desire for influence among multiple constituencies both inside and outside the walls of the organization itself. In this environment, a nonprofit CEO must provide leadership as well as management, a distinction we will explore further in Chapter 5. Robert Higgins, who worked as both a nonprofit executive and a venture capitalist and thus was able to observe the differences between the sectors firsthand, explains,

In most for-profit organizations . . . 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. (quoted in Silverman & Taliento, 2006, p. 38)

Third, managers of nonprofit organizations must measure their success by a double bottom line. A nonprofit exists to pursue a social mission, and success must be measured in terms of its ability to achieve that mission. That is one bottom line. But, in today’s competitive environment, nonprofit managers also must pay close attention to the financial bottom line if their organizations are to survive and succeed. Ask a room of people, “What’s the purpose of Microsoft?” and some may quickly reply, “To produce software,” or perhaps some will joke, “To control the world!” But both responses miss the point because Microsoft, like all businesses, has one clear purpose: to increase the value of the business and thus the wealth of its owners. Producing software and controlling the world are but means to that end. To be sure, many corporations today are also guided by principles of social responsibility and ethics, but social progress is not their purpose. Indeed, social concerns are properly viewed as constraints on the pursuit of the purpose for which every business exists: to maximize profit in order to increase the value of the owners’ equity. Managers may have their own personal social goals, but if they make them a central element of the company’s purpose, they will not fulfill their principal responsibility to the owners of the firm.

In contrast, a nonprofit exists to serve a social purpose. But, as we have discussed, in today’s competitive environment, financial results also require the executive’s attention—he or she must manage the double bottom line of financial and social return. And the latter may be ambiguous in its definition, even a subject of disagreement and dissension among the organization’s many stakeholders, or difficult to measure.

Fourth and finally, many of the problems that nonprofit managers address are exceptionally difficult and intractable. Andreasen and Kotler (2008) offer a strong example:

While the “difficulty” of one’s management challenges may be a matter of opinion, very few corporate chieftains would think it easier to increase market share two percent than to reduce the number of AIDS cases in an African country with volunteer workers, an antagonistic government, countervailing religious and cultural norms, rampant customer illiteracy, and crumbling public infrastructure. (p. 5)
To say that managing a nonprofit is inherently more complex than managing a business of comparable size is not to demean the skills of business managers nor to disparage their clear focus on profit. The creativity and problem-solving skills of business leaders have built great organizations and propelled economic progress. Moreover, it is the wealth created by the business sector that sustains nonprofits and makes social advancement possible. But the need to manage the double bottom line, to relate to disparate and competing constituencies, and often to work against the weight of deep-seated historical and cultural barriers adds complexity to the nonprofit CEO’s challenge, a challenge that is too often underestimated by some who observe the nonprofit sector from a business perspective. William Novelli, a former businessman who built the public relations firm Porter Novelli and later served as the CEO of the nonprofit AARP, explains the challenge:

It’s harder to succeed in the nonprofit world. . . . It may be hard to compete in the field of consumer packaged goods or electronics or high finance . . . 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 the country, or about Social Security solvency, it’s a . . . lot harder to pull that off. [And] it’s also harder to measure. (quoted in Silverman & Taliento, 2006, p. 37)

This book is based on the premise that nonprofit management is a unique endeavor, distinguishable from management in business or government. It is necessary, however, to acknowledge that some see a convergence of management across the sectors in recent years, as both public managers and nonprofit managers are expected to be more businesslike and business managers are expected to demonstrate more responsibility toward the social and human impact of their actions. As Lester Salamon (2002) observes, if

nonprofits are becoming more “business-like,” the business methods they are adopting have themselves undergone fundamental change in recent years, and many of the changes have involved incorporating management approaches long associated with nonprofit work—such as the emphasis on organizational mission, service to clients, and the need to imbue staff with a sense of purpose beyond the maximization of profit. In a sense, these longtime nonprofit management principles have now been fused with business management techniques to produce a blended body of management concepts that is penetrating business and nonprofit management alike. (p. 6)
development of management as an independent field of study with its own literature (p. 106). The nation’s first school of management, the Wharton School at the University of Pennsylvania, was established shortly thereafter, in 1898. The first two decades of the 20th century saw the growth of professional management societies, books, and university programs. The first doctoral dissertation in management was written in 1915. According to Block, interest in management was increased by the experience of American manufacturing during WWII, and the decades since have brought explosive growth in business management education and research, including the development of theories we will explore at relevant points in this book (p. 107). But the early study of management was focused on business organizations, with attention to public management developing later. Interest in nonprofit management has emerged primarily within the past three decades.

As mentioned above, until about the 1960s, most management theorists advanced a “generic approach,” arguing that their theories applied equally in all types of organizations, whether businesses, government agencies, or nonprofits. As Hal Rainey (2003), a public administration scholar, emphasizes, “With some clear exceptions . . . the theorists repeatedly implied or aggressively asserted that distinctions such as public and private, market and non-market, and governmental and nongovernmental offered little value for developing theory or understanding practice” (p. 48). However, by the 1960s, some authors began to challenge this approach and to call for more research focused specifically on the management of public agencies. This coincided with a period of growth in the federal government and the development of master of public administration (MPA) degree programs in universities, which for the first time emphasized management skills in government and differentiated the study of public management from the discipline of political science. The National Association of Schools of Public Affairs and Administration (NASPAA) was founded in 1970 and began to accredit such programs.

Attention was drawn to the nonprofit sector by an important national study conducted by the Commission on Private Philanthropy and Public Needs during the period 1973 to 1975. That commission, often called the “Filer Commission” in honor of its chair, business leader John H. Filer, issued a report titled Giving in America (Commission on Private Philanthropy and Public Needs, 1975), which was the most detailed study of philanthropy in the United States up to that time. The first academic center devoted to the study of nonprofits, the Yale Program on NonProfit Organizations (PONPO), was founded shortly thereafter, in 1978, and social scientists began to turn their attention to understanding the role of nonprofit organizations in economic and political life. The generic approach was beginning to yield to the view that nonprofit organizations might have unique characteristics that distinguish them from organizations in the other two sectors.

As previously discussed, the 1980s marked a turning point in public policy, with government outsourcing more of the delivery and management of social and human services to nonprofits. That development further increased the need for professional management in nonprofit organizations and captured the interest of some students previously aiming for careers in government. Public administration faculty members saw that a growing number of their students were interested in working in nonprofit organizations and responded by developing programs to teach nonprofit-specific skills (Joslyn, 2004). The number of programs grew throughout the 1980s. That decade also saw the establishment of new research centers and programs, including Case Western Reserve University’s Mandel Center for Nonprofit Organizations and the Center on Philanthropy at Indiana University.

Beginning in the 1990s, significant attention of management scholars and writers has turned to the nonprofit sector. Writing in 1990, management guru Peter Drucker observed a
“management boom” going on in nonprofit organizations, but he also noted the lack of recognition of nonprofit management as worthy of attention. “For most Americans,” he wrote, “the word ‘management’ still means business management” (p. xiv). But as the nonprofit sector continued to grow throughout the 1990s and into the 2000s, a burgeoning literature sought to adapt the theories and skills of business management to the planning, managing, and financing of nonprofits. Courses in the strategic management of nonprofits and on social entrepreneurship began to proliferate in business schools, and new books applied the techniques used by companies and governments to the nonprofit sector (Oster, 1995; Steiss, 2003). The Harvard Business Review came to include occasional articles on the management of nonprofit organizations, with some of the classics collected into a book in 1999. The late 1990s brought an economic boom and a boom in the literature of venture philanthropy, social enterprise, entrepreneurial nonprofits, and business techniques applied to nonprofit organizations (Dees, 1998; Dees, Emerson, & Economy, 2001; Kearns, 2000; Letts, Ryan, & Grossman, 1999a; Oster, Massarsky, & Beinhacker, 2004). The Stanford University Graduate School of Business began publishing a journal, the Stanford Social Innovation Review, in 2003, and online journals, blogs, and other forums related to nonprofit management, social innovation, social entrepreneurship, and related topics, proliferated through the first decade of the 2000s.

The literature of nonprofit management is drawn from three principal areas: (1) the work of social scientists who study nonprofit organizations as social and economic institutions; (2) organizational theory, theories of organizational behavior, and management theory from the business and public sectors that have particular relevance for nonprofit organizations; and (3) a rich practitioner literature that offers important understandings. This book is based on the view that a balanced and integrated approach requires drawing on all three literatures, and that is reflected in the materials presented in the chapters that follow.

Nonprofit management, both as a profession and as an academic field of study, is still relatively young. There is an increasing body of academic research, including the work of economists, sociologists, historians, and other social scientists who have developed taxonomies to identify and track the major components of the nonprofit sector; theories to explain the existence and behavior of the sector; theories describing its relationship to government and the business sector; examinations of its role and impact in the U.S. economy; and analyses of related public policy issues. The management of nonprofits also has been the focus of more applied studies drawn from the fields of public administration and business management.

However, much of the nonprofit management literature is still written by or for practitioners and has a prescriptive, how-to-do-it approach. Consultants, including professionals working in for-profit consulting firms, also have made important contributions to the literature of nonprofit management.

This book is a textbook, not a manual for nonprofit executives. But neither is its purpose to offer an entirely theoretical examination of the nonprofit sector. It is intended to provide students who are considering or pursuing careers in nonprofit management with a broad foundation, blending theoretical and practical topics relevant to the work they do or will do. This approach incurs the risk that some pragmatic individuals may find it too academic and that some academics may find it insufficiently grounded, but it is appropriate to provide a comprehensive and useful overview of a field that is still emerging.

Concomitant with the increase in literature, educational programs related to nonprofit management grew rapidly in the 1990s and 2000s. In a 2007 report, Mirabella revealed that the number of undergraduate programs related to nonprofit management grew by 30 percent between 1996 and 2002 and by an additional 36 percent between 2002 and 2006. The number
Chapter 1 Nonprofit Management as a Profession and a Field of Study

of graduate programs grew by 26 percent over the decade between 1996 and 2006. By 2006, Mirabella identified a total of 426 programs in nonprofit management, offered at 238 colleges and universities (p. 13S). Recent years also have seen a virtual explosion in the availability of training for nonprofit managers and professional expertise directed toward the improvement of management practices in nonprofit organizations, including programs offered by educational institutions, regional associations of nonprofits, nonprofit infrastructure organizations, and for-profit consulting firms.

Formalization of the nonprofit management curriculum in universities has progressed, but it is still an evolving field. In 2001, NASPAA issued “Guidelines for Graduate Professional Education in Nonprofit Organizations, Management, and Leadership.” The Nonprofit Academic Centers Council (NACC), a membership association of academic centers and programs that focus on nonprofit organizations, issued its first “Curricular Guidelines for Graduate Study in Philanthropy, the Nonprofit Sector, and Nonprofit Leadership” in 2004 and a revised version in 2008.

There continues to be debate about whether nonprofit management should be taught in schools of business or management, in schools of public administration and public policy, or in other academic units. In her 2007 study, Mirabella found that 48 percent of nonprofit graduate concentrations were offered within a college of arts and sciences or a school of public affairs and administration. Another 22 percent were offered in a school of business or a school of business and public administration. Other programs were offered in schools of social work, various other academic units, or in interdisciplinary centers supported by more than one school. Mirabella notes an increase in the interdisciplinary approach, which was taken by just one university in 1996 but had expanded to eight institutions by 2006. For example, at the University of Georgia, the Institute for Nonprofit Organizations operates as a component of the graduate school and offers coursework through departments of social work, political science, and management (p. 16S).

As discussed further in a later chapter of this book, some see a blurring of the nonprofit and business sectors and argue that future nonprofit executives should be trained in business skills, that nonprofit management programs would be better located in business schools than in schools of public affairs and administration or in colleges of arts and sciences. But Michael O’Neill (2007), founder and former chair of the Institute for Nonprofit Organization Management at the University of San Francisco, expresses the opposite point of view. He notes that few business schools have developed extensive programs in nonprofit management and argues that “Nonprofits have different values, different financial systems, different laws to abide by, different people (like volunteers) to manage, and very different goals [than business organizations]” (p. 171S). He predicts that the future will see continued experimentation with regard to nonprofit programs but that business schools are unlikely to become the predominant hosts of nonprofit management programs. In addition, he predicts that despite the standards developed by NASPAA and NACC, nonprofit management curriculum is unlikely to become as standardized as the MBA curriculum in the next 20 years (p. 172S).

Toward a Balanced Approach

The literature of the field reveals a variety of opinions and perspectives. Authors often disagree on specific points—for example, on the appropriate roles and relationships of the organization’s board and CEO; on the appropriate balance between being businesslike and remaining focused on the nonprofit mission; on the standards by which a nonprofit organization’s effectiveness
or performance should be measured; and, as discussed above, even on the appropriate educational program needed to prepare nonprofit leaders. One goal of this book is to provide a balanced and integrated overview of the field that incorporates various viewpoints.

There are at least two broad approaches or perspectives reflected in the contemporary nonprofit management literature. Generalization can, of course, sometimes lead to oversimplification; differences in perspective or approach are often nuanced. But students will likely observe that authors writing about nonprofit organizations and nonprofit management today reflect one of two perspectives that are distinguishable, at least in tone and emphasis.

Some see nonprofit organizations primarily as social institutions. The services they provide are important, but nonprofits also are essential for creating civil society, pursuing social change, and sustaining the free expression of ideas and opinions in a democratic society—indeed, for preserving our most important values as a society. Process and involvement are valued nearly as much as the end result. From this perspective, nonprofit managers often are portrayed as stewards of their organizations or servants of society. With regard to the education of nonprofit managers, those who hold this perspective usually emphasize the need to develop an appreciation of nonprofit values, an understanding of nonprofits' role in society, and a capacity for ethical decision making. In discussing charity and philanthropy, they tend to focus on their cultural and historical roots of giving and view giving as an expression of moral and religious values. They do not necessarily deny the usefulness of business methods in managing nonprofit organizations, but some do express skepticism about the possibility of measuring organizations' effectiveness against sometimes lofty missions. Some express concern that the application of business methods and business thinking holds the risk of undermining traditional nonprofit values and diminishing nonprofit organizations' unique contributions to society. They are often uncomfortable about nonprofits becoming too engaged in commercial activities or forming close relationships with business, fearing that nonprofit culture will be eroded and that organizations will lose sight of their social purposes in the pursuit of financial success.

From the other common perspective, nonprofit organizations are social enterprises, essentially businesses that have a social purpose. Those who hold this view do not dismiss the importance of nonprofits' social missions, nor do they necessarily deny the unique qualities and contributions of the nonprofit sector. Most give at least lip service to the idea that a business approach may not be appropriate for every nonprofit organization. However, they tend to emphasize the commonalities between nonprofit organizations and business firms and encourage the use of business principles and techniques in managing nonprofits. They admire nonprofit leaders who are social entrepreneurs and discuss the education of nonprofit managers in terms of developing entrepreneurial and business skills. Their discussions often focus on building the capacity of nonprofits and the application of business methods, such as strategic planning, strategic management, and marketing. They often use the vocabulary of business, discussing a nonprofit organization’s “competitive advantage” and “sustainability.” Some criticize traditional charity and philanthropy and prefer that nonprofits rely more on earned income—that is, on revenue derived from their own businesslike activities rather than on gifts. They emphasize results and the measurement of organizational performance against defined “metrics.” Some even support the idea of nonprofit capital markets that would allocate funds rationally to nonprofit organizations that show high performance, much as stock markets allocate investment dollars to the companies that produce the highest financial returns. Indeed, recent years have seen the initiation of “social stock markets,” a development we will address at an appropriate point later in this book.

Again, the above characterizations of these two perspectives are oversimplified, and some writers take a moderate stance between the two poles described. But it is usually not difficult
to identify a particular book or article as leaning toward one perspective or the other. This text draws on literature from both approaches and strives to present a balanced and integrated understanding. Where disagreements may exist, it attempts to fairly summarize both sides of the argument. That is because this author believes that effective nonprofit management in today’s environment indeed requires a balanced and integrated approach that draws upon diverse perspectives, skills, and tools.

That approach leads to the frequent use of the expression “on the one hand, but on the other hand” throughout this book. Some might prefer to know the “right answer” and learn what is the best way to manage a nonprofit organization. The philosophy reflected in this book is that there is often no right answer and that the best way is often pragmatic and eclectic. It includes viewing a problem from multiple perspectives and drawing from various approaches selectively as situations may dictate. Students will find abundant other materials written by authors who come from one particular viewpoint or another that they may find to be especially attractive or persuasive.

Proceeding With Realism and Pride

This book is based on the view that while there is a need to improve the management of nonprofit organizations, it is a misperception to believe, as some do, that they are generically less well managed than businesses. This misperception is based in part on our society’s bias toward defining success primarily in financial terms. The results of good business management are evident in bottom-line earnings, while the results of nonprofit management are reflected in progress toward a social mission, which may be less visible or easy to measure. In addition, the misperception is often reinforced when apples are compared with oranges, which may occur, for example, if someone’s image of a nonprofit is as a small organization and that person’s image of a business is that of a larger corporation. It may be accurate to observe that some small nonprofits are not well managed. But, it is important to note, the same is true of many small businesses, most of which fail in the first 5 years of their existence. It might be difficult to demonstrate that a family-run bed and breakfast is really better managed than the local homeless shelter, which would be more appropriate than comparing the shelter with a Marriott hotel.

When nonprofit organizations and companies are compared fairly, we find poor and excellent management in both. For example, the American Red Cross, one of the nation’s largest nonprofits, confronted many management problems during the 2000s, which were widely publicized. In that decade, there were also highly visible scandals concerning executive compensation and expenses at American University and the Smithsonian Institution and allegations of conflict-of-interest problems at the Nature Conservancy, one of the nation’s largest environmental nonprofits. However, it is fair to ask, was the Red Cross less well managed than General Motors, or were ethical failures at nonprofits more egregious than those at AIG? We might also ask, are Habitat for Humanity and Doctors Without Borders less innovative organizations than Microsoft or Intel? Is the Mayo Clinic less capable of managing risk than BP? In a sequel to his best-selling book on business management, which focuses on the social (or nonprofit) sector, Jim Collins (2005) argues that the important difference is not between business management and nonprofit management, but between mediocrity and greatness:

Most businesses—like most of anything else in life—fall somewhere between mediocre and good. Few are great. Mediocre companies rarely display the relentless culture of discipline . . . that we find in truly great companies. [But] a culture of discipline is not a principle of business; it is a principle of greatness. (p. 1)
The author’s purpose in making this point is to dispel any misperceptions that students may hold that nonprofit management is somehow second rate, or, as implied by critical articles seen in the popular media, that incompetence and corruption are rampant in nonprofit organizations. Nonprofit managers are in general highly capable and dedicated individuals, worthy of the respect and regard of their counterparts in the other sectors of business and government. They work in organizations that are different from businesses or government, they have different purposes and goals, and they often work with fewer resources available to them, but they are not categorically less able or successful. Students pursuing education in nonprofit management should do so with a pride and confidence equal to that of their classmates who may be preparing for careers in business, government, or other distinguished professions.

At the same time, students should hold no illusions about the challenges of a nonprofit management career. Although salaries are improving, nonprofit managers are unlikely to achieve the wealth of their counterparts in business or the job security of their colleagues who hold civil service positions in the government. The pressures are significant. As Julie Rogers, president of the Eugene and Agnes Meyer Foundation, observes, nonprofit executives face a never-ending stream of advice from their boards, funders, clients, volunteers, and others: “Focus on finding dependable sources of income. Produce measurable results. Evaluate whether you are making a difference. Be strategic, not opportunistic. Build diverse boards. Spend more time on advocacy. Collaborate with other organizations” (Rogers, 2006, pp. 45–46). And, too often, they are advised to do all this with smaller budgets, smaller staffs, less training, and less recognition than is provided to managers in business or government. Indeed, some recent studies suggest that the complexity of the nonprofit manager’s job and the multiple pressures he or she must handle frequently lead to frustration and burnout (Rogers, 2006).

However, nonprofit managers also enjoy unique rewards, including the satisfaction of knowing that they are working to advance those aspects of human life that many consider to be the most important—the arts, education, the preservation of culture, and the development of young people. They experience the excitement of tackling some of society’s most daunting problems and protecting society’s most vulnerable members, making a difference in their lives and in the future of society. And they know the camaraderie and fellowship that comes from working alongside others who share their values, priorities, and commitments. For many who have dedicated their careers to working in nonprofit organizations, the value of such intangible rewards is beyond measure.

There has been a revolution in the management of nonprofit organizations, resulting from changes in government policy, increased demands for accountability, and the growth of the nonprofit sector in recent decades. Nonprofit organizations now face management challenges comparable to those facing managers of companies and government agencies. There has been a shift in thinking about nonprofits that emphasizes building the strength of organizations themselves rather than just the programs they offer, also increasing the need for professional management.

Chapter Summary

Through most of history, management scholars pursued a generic approach, believing that management in companies, government agencies, and nonprofits shared similar principles. But nonprofit management is a distinct profession because of the unique characteristics, missions, and cultures of nonprofits. Since the 1980s, this uniqueness has been recognized in the development of research centers and academic programs focused on the nonprofit sector and nonprofit management. By 2006, there were more than 400 programs in nonprofit management at colleges and
universities. There continues to be discussion about whether such programs should be located in business schools, schools of public policy and administration, or in other academic units. Some universities have established interdisciplinary centers that draw on faculty from various disciplines.

People view nonprofits from different perspectives, some considering them to be social institutions and others considering them to be more like business firms with a social purpose. Many writers take a middle position, but most reflect one or the other perspective. This book attempts to blend these perspectives and to provide a balanced overview of the field. This author believes that successful nonprofit management requires an eclectic approach, drawing concepts and tools from the work of scholars, practitioners, consultants, and others, as they are found to be useful in specific situations.

Although some people portray nonprofits as less well-managed than businesses, that perception often is inaccurate. Small nonprofits should be compared to small businesses, which also often reveal mediocre management, and which often fail. Many large companies are innovative and well-managed and so are many nonprofit organizations. Students preparing for careers in nonprofit management should proceed with pride and confidence that their field is as distinguished as management in business or government. A nonprofit career brings challenges but also unique rewards.

**KEY TERMS AND CONCEPTS**

*Double bottom line*  
*Interdisciplinary field of study*  
*Management*

**QUESTIONS FOR DISCUSSION**

1. Is nonprofit management best taught in business schools; in schools of public affairs; or in some other school, department, or program of the university?

2. If nonprofit management challenges are as complex as those in business, should nonprofit managers be compensated at the same levels as managers at comparably large companies? Why or why not?

3. Should nonprofit organizations be viewed principally as businesses with a social purpose, or are they inherently different from for-profit companies?

**SUGGESTIONS FOR FURTHER READING**

**Books/Journals**


**Websites**

National Association of Schools of Public Affairs and Administration, http://www.naspaa.org
