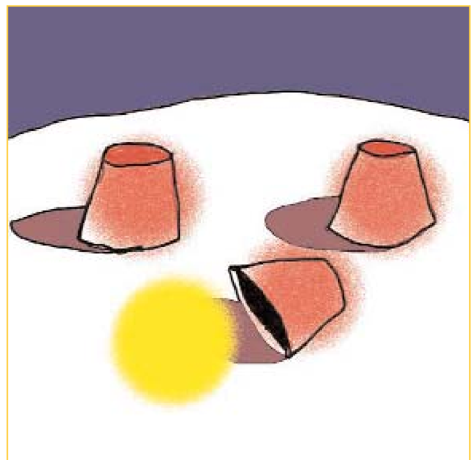

What You Don't Know About Managing Nonprofits – And Why It Matters

by Les Silverman and Lynn Taliento

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Ask Bill Novelli, the CEO of AARP, if the complexity of running nonprofit organizations is underappreciated by business CEOs, and his head starts nodding. Novelli has been all over the news this past year; AARP's endorsement of the Republican-backed Medicare prescription drug bill in 2003 put him at the center of a political firestorm, prompting Democrats to charge he had sold out his members to 'Big Pharma.' Yet Novelli's subsequent campaign to monitor and hold down prescription drug prices has Democrats cheering, pharmaceutical CEOs nervous, and political veterans admiring his dexterity. The former Unilever marketer who built Porter Novelli into a public relations powerhouse before turning to a nonprofit career a dozen years ago, at age 49, knows that navigating Washington's land mines while running a sprawling $800 million operation isn't the laid-back "retirement farm" many business leaders think of when they think "nonprofit."

Too many CEOs don't get it, he says. "It goes beyond 'underappreciated,'" Novelli explains. "CEOs are often disdainful of not-for-profit management. They think it's undisciplined, non-quantified." Novelli, like many in the small club of leaders who've run organizations in both sectors, thinks this condescension misses the mark. "It's harder to succeed in the nonprofit world for two reasons," says Novelli, who came to AARP after stints managing CARE and the Campaign for Tobacco Free Kids. For starters, he says, the goals are harder to achieve. "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. It's also harder to measure."

It's not always easy to persuade business leaders who've had little exposure to the nonprofit sector that what Novelli knows in his bones is true. Yet McKinsey's experience advising hundreds of diverse nonprofits in recent years suggests that it is increasingly important that for-profit executives understand the leadership challenges faced by their nonprofit counterparts. In at least four different roles - as board members, funders, partners, and as career-changing nonprofit executives themselves - business leaders' lack of real understanding of what it takes to lead a nonprofit undermines their effectiveness and hurts the nonprofit sector's performance.

Too many business leaders serving as nonprofit board members, for example, take their roles less seriously than they do their corporate board roles. Too many donors fail to use their financial clout to improve nonprofit performance, often because they don't understand the way the sector really works. Too many cross-sector partnerships - which are central to addressing society's most intractable problems - fail partly because business leaders don't cope well with the nonprofit sector's different culture and demands. Finally, too many well-meaning businesspeople who move into leadership roles in nonprofits end up frustrated and ineffective because they don't fully appreciate the challenges.

For these reasons and more, leaders who have served on "both sides" agree that top business executives need to better understand what makes the nonprofit world tick. Says Bob Higgins, who founded the highly successful venture capital firm Highland Capital (and who ran three foundations before jumping to the for-profit world in his mid-thirties): "The nonprofit sector is such a big part of the economy that you almost cannot let someone run a company who doesn't appreciate those issues." “There is in both worlds," says Richard Leone, who ran the New York Mercantile Exchange and an oil trading firm before taking the helm at The Century Fund, a progressive think tank, "a belief that these are alien beings operating in the other environment." That cannot be good for business, or for society.

A WORLD OF DIFFERENCE

To better understand the nonprofit leadership challenge, we conducted a "virtual conversation" among a dozen respected members of that relatively small club: nonprofit leaders who have also held senior positions in for-profits (see end of article for bios). Our interviewees don't represent a scientific sample, of course, but they offer an authoritative angle of vision into the nonprofit world. To be sure, some who've served in both sectors say the gap in understanding is getting better; and that the chasm can be overblown. Others point out that many elements of management and leadership are similar in both sectors: the need to find and retain great people, for example. But our "crossover leaders" generally agree that the complexity of the nonprofit management challenge is not properly appreciated. We aimed broadly to flesh out why and how the challenge is different, and what that might mean for executives on both sides.

Five areas of particular interest emerged: (1) the lesser authority and control possessed by the typical nonprofit CEO; (2) the wider range of stakeholders most nonprofits have, and the premium this places on consensus-building; (3) the challenge of measuring performance; (4) the way successful nonprofit leaders must pay more attention to communications and to public scrutiny (including the political and press realms); and (5) the difficulty of building great organizations when resources are scarce and training is limited. While there are obvious interrelationships between these areas, it's useful to consider them in turn.

Less Control - And Even Less Deference

Business leaders generally know what it means to be "the boss." The nonprofit setting can feel very different, say those who have been on both sides. “In the world of nonprofits deference to the CEO is rare," says Reynold Levy, the CEO of Lincoln Center who served formerly as an officer at AT&T. "You really need to earn that respect. It doesn't come by virtue of your title." Barry Munitz, CEO of the J. Paul Getty Trust and former chancellor of the California State University system who served earlier as senior executive of the Texas-based conglomerate MAXXAM, adds "Authority is far more decentralized."

Munitz explains: "If you take universities or hospitals, the people who are the deliverers of the product are also, in many ways, the owners of the governance structure and they don't view the head of the organization as the boss in any traditional way. Faculty, curatorial staff, neurosurgical heads, and orchestra conductors do not necessarily accept that the person who is nominally the chief executive officer is in charge of the organization. Their loyalty is more often to the profession than to the organization. "If you are the head of marketing or engineering at General Motors or Procter & Gamble, your work matters profoundly. If you're a high energy physicist, your reference groups are other high energy physicists, not your particular university."

Philip Lader, Chairman of Global Advertising Firm WPP Group and former university president and White House Deputy Chief of Staff, says these realities can be exasperating to those who don't understand the sector, and throw them off balance. "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 served as U.S. Ambassador to the Court of St. James from 1997 to 2001. "There you are at the helm of the great ship, with everyone scurrying about. Only after about 4 months of steering the wheel do you realize that it is not connected to the rudder. Everyone is saluting you and saying, 'ay-ay,' as they then 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 Dick Schlosberg, who served as CEO and publisher of the Los Angeles Times before serving five years as president of the Packard Foundation. "Their time frame, their command-and-control orientation, and their view of the employee/employer relationship just doesn't translate as easily. It's like they don't quite get it."

So Many Stakeholders! So Much Consensus Building!

If nonprofit leaders generally begin with less authority than their for-profit counterparts, that is partly because, in order to succeed, they have to orchestrate and honor the concerns of more disparate groups with a legitimate stake in their organization's mission and activities.

This diversity starts internally, with the board. "In most for-profit organizations," says Bob Higgins, the foundation president turned venture capitalist, "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," says Peter Goldmark, who ran the Rockefeller Foundation for 9 years in between publishing stints at Times Mirror and The International Herald Tribune, and now directs the Climate and Air program for Environmental Defense. "The organization is normally less hierarchical, since it's dealing with and reflecting a world that is less ordered than the private world."

In many nonprofit leadership roles this messy array of constituencies translates into uncontrollable demands on CEO time. "By and large, corporate CEOs control their time," says Munitz, who also serves on Princeton's board. "They control their calendar, they control their schedule, they call people to them. The heads of universities and the heads of hospitals and the heads of orchestras are at everyone's beck and call because there are so many different constituencies they have to deal with to make the organization come together. So if you're the head of Princeton, if at any moment somebody who matters to Princeton - a student, a student's family, a troubled faculty member, a potential donor, the mayor of Princeton - anyone has the right to demand your time. You can't say, 'I'm the president of Princeton. I'll let you know when I'm ready and I'm available.'" "I can't tell you," Munitz adds, "how many people who are on the cover of Fortune on a regular basis have said to the president at the end of a college or university board meeting, 'I don't know how you do this. I don't know why you would want to do this.'"

The inevitable result of having to touch so many bases so thoroughly is slower decision-making. For many for-profit executives this can seem maddening, but it is the nature of the beast. Reynold Levy tells a story. "Steve Trachtenberg, the president of George Washington University, says to get any major decision made at GWU of consequence he needs seven green lights," Levy explains. "And every time he gets six and turns to the left he finds that number two is now blinking yellow. He's got to go back over to that and switch it to make it green. And so to get those green lights fixed long enough so that his board can look at them and be assured that he can then move forward is his major task. My guess is that his counterpart in a billion-dollar for-profit company may have three lights and not seven."

"The intensity and the speed is not like the corporate world," says Catherine Meloy, a senior executive at Clear Channel Broadcasting before she became head of the Washington region of Goodwill Industries. "It is so slow!" Bill Novelli offers a similar staccato assessment: "Eternal consensus building. Slow decision-making. Slow to act." Novelli brought in a business school professor to help him think about AARP's processes when he first took the helm. "Around here," the consultant told him, "it's 'Ready, aim, aim, aim.' 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 mail room guy has to weigh in. And there has to be an end to it."

Yet Novelli also finds nonprofit cultures are amenable to change. When he recently had the top two layers of management evaluate him in a blind feedback exercise (such a review ordered up by a nonprofit CEO is a rare occurrence, in our experience), the good grades Novelli got were around culture change. The bad ones were on the slow pace of decision-making. "So now they're telling me what I've been telling them," Novelli says. "They're hearing me, but we still haven't gotten there." These are not easy fixes. "Because the hierarchical structure is so much looser," says Barry Munitz, "about the only adhesive available to many nonprofit leaders is conversation and consultation."

Dick Schlosberg has seen this dynamic at work. "Frankly, people had time and so you had a lot of meetings," he says. "In the for-profit sector you had to often make decisions with incomplete information. You just had to because life moves on. In the foundation world, people say, 'Why do we have to decide now whether we do this or that? Why don't we get a little more information?' 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," says David Chernow of JA Worldwide. Chernow, who ran numerous for-profit cancer treatment centers and practices in 30 states before being recruited to lead JA Worldwide, says this lesson was seared into him when Junior Achievement merged its international and U.S. operations. "We have 99 member nations around the world," he says. "It was a huge merger. I've learned so much about how to work with other organizations. You can't just come in here and wield a stick and make things happen."

In Chernow's case his for-profit experience prepared him well, because the business model at U.S. Oncology involved a national office supporting local regions. The doctors were not employees. Chernow sold many of the firm's deals with physicians around the country, so he understood the need for real collaboration to get results. But Chernow says many of his private sector board members today say, 'I don't think I could do what you do' - i.e. get results without real authority. "It's a cultural mindset that a lot of people can't fully understand," he explains.

Harold Williams, who was chairman and CEO of conglomerate Norton Simon at age 40 before becoming Dean of the UCLA School of Management, chairman of Jimmy Carter's Securities and Exchange Commission, and finally founding CEO of J. Paul Getty Trust, counsels executives moving to the nonprofit sector to be clear-eyed on this dimension. "You will have little opportunity to lead by making decisions," Williams tells them. "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."

Performance Measurement - An Elusive Art

Measuring performance in nonprofits is notoriously difficult. "You don't have a simple financial metric that is really central," says Peter Goldmark. "You are dealing with more squishy and intangible issues of social change or public attitudes and behavior." But, as business leaders who have crossed over testify, it is one thing to understand this difference in theory, and another to lead a "measurement-resistant" organization in practice. They stress the need to find creative ways to overcome resistance to such efforts, and to develop meaningful metrics, however imperfect.

"The lack of having a bottom line is truly underappreciated," explains Dick Schlosberg, “as is the importance it plays 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. The discussion around the board table is different. Then there's the time dimension for organizations like Packard, when we're talking about trying to reduce the rate of population growth in Africa, India and Pakistan, or trying to work on oceans, or improve illiteracy and improve education in California. These things lend themselves to years, if not decades."

"How do you do this in artistic organizations?" asks Reyn Levy of Lincoln Center. "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?' He says, 'Audiences should love it, critics should love it.' I ask, 'Can we measure that?' The amount of criticism, the quality of the criticism, the size of the audience, the nature of the audience, where else these acts may go, the amount of attention drawn. What about earned income? So 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."

"What is the success of a Cal-Tech? What is the success of the Getty?" asks Barry Munitz. "We won't know for twenty years. If an eight-year old who walked through an exhibition this morning had his life changed, and forty years from now he's the head of the UN because of something that happened in classrooms or museums related to sensitivity, how will we ever know? Who will get measured or credited for that? This is such an intangible universe on the nonprofit side. You have to acknowledge that a much greater portion of the mix is going to be non-quantitative. It's going to be atmospheric, subjective, and environmental. And you say, okay, given that, what are some of the measurable characteristics and what do you want to set as a goal? It matters greatly to us, for example, what the people who come to the Getty are like, what socioeconomic profile they reflect to our trustees. It is much better if 35 percent of the total annual Getty attendees are people who don't usually come to museums than if it's 3.5 percent. So what you have to do is say, are there ways you can translate the intangible to the tangible and the immeasurable to the measurable."

Dick Schlosberg offers another example. "If we're worrying about reducing population growth in Ethiopia and we're not going to have good data for ten years, we certainly can track the use of condoms," he explains. "We can track the education. We can track what the church is doing, what the government is doing and all these things."

Most crossover leaders agree the drive to measure performance often runs deeply against the nonprofit grain. "Bringing that tough-minded, analytical decision-making process is difficult given the cultural differences," says Judy Vredenburgh, a former fashion executive who spent six years as senior vice president of the March of Dimes, and who for five-and-a-half years has served as CEO of Big Brothers Big Sisters (BBBS). In her for-profit life, for example, Vredenburgh was almost obsessively focused on speed and results, but she found the nonprofit world was different. "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. I was talking about it, but in fact, for others, it was a big yawn."

Catherine Meloy found that even bringing what she felt were basic budget practices to Goodwill Industries involved true culture shock. "People would say, 'We spend $24,000 a month on cleaning solutions for our contract division.' I asked, 'What is that based on?' They said, 'That's what we've always spent.' I said that doesn't mean that's what you're supposed to spend. Let's benchmark. It became a joke - 'We're going to benchmark.' People said, 'Does she have to question everything? Doesn't she trust what we're doing?'"

"We had a culture that if you got a job at the Kauffman Foundation it was tenure for life," says Carl Schramm. "Nobody ever asked you hard questions like, 'What difference does this program make?' In the world of foundations, people say you're 'abrasive' when you ask a question like that." Reyn Levy adds with a smile, "The nature of passive resistance within a nonprofit setting is at levels that could teach Gandhi lessons."

A Different Communications Imperative - Both Inside and Out

Communication is important for effective leadership in any setting, but our crossover leaders say its centrality in the nonprofit world feels different. "It's extraordinarily more important in nonprofits as a means of influencing and motivating," says Judy Vredenburgh. "We don't have the whole panoply of the rewards and motivators and formal power that you have at work in for-profits; that just makes a huge difference. There's a reason why status is a big motivator in nonprofit as opposed to power and as opposed to money - because that's the currency. And communication, internal and external, the whole positioning of the CEO as 'bigger than life,' is just very different."

Vredenburgh thinks that is partly because the marketing job of the nonprofit leader is more complex in a place like BBBS than it was in her business roles - with program recipients, volunteers, and donors all requiring exhaustive and sustained outreach for the organization to work. "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. Because it's the external people who are going to be the investors to drive the program. In a for-profit, yes, you have investor relations - but it's on the side, it's not a core function."

A related aspect of the nonprofit communications challenge that can trip up even seasoned for-profit leaders is the more extensive exposure to politics, and to public and press scrutiny. Some regulated industries, such as health care, may be exceptions. But in general, says Richard Leone, "People in the for-profit world don't really think of themselves as operating in the public view. People in politics think of everything in terms of how it might look in the paper tomorrow. 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 fund raise, they have a community they're trying to serve, and they have the kind of goals which get spelled out in public ways. In the for-profit world, in my experience, that kind of concern only occurs in a crisis. There's a problem with a product or a scandal or a lawsuit and then suddenly people are thrust into public scrutiny and they can't believe how hard it is. It's a more insular life in the for-profit world."

Bill 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. Of course, corporations do that as well. But usually the CEO is not that savvy about it. It's more compartmentalized," Novelli explains, handled mostly by companies' Washington offices.

Carl Schramm, a successful health care entrepreneur who took the helm of the Kauffman Foundation in 2002, learned there can be a downside when diverse constituencies with political and media savvy aren't thrilled with the CEO. Though hired with a board mandate to reduce Kauffman's high overhead and to review existing programs, Schramm was blindsided by fierce press and community attacks orchestrated by internal dissenters threatened by his plans. "People didn't have any internal dispute, they went external immediately," Schramm recalls. "What happened is not something you would ever see in a publicly owned business."

Novelli has taken his licks in the press as well, and knows it can be hard. He describes the time after the controversial Medicare bill passed with AARP's help, when he opened Fortune to find a headline that blared, "DID NOVELLI SELL OUT SENIORS?" His heart sank. Near it, Novelli noticed, was an article blasting a CEO he knows and likes. "It was the most negative, nasty piece," Novelli recalls. "I thought to myself, maybe my piece isn't so bad after all."

Building Organizations Under Constraints

Our interviewees agree that building an organization in nonprofits can be especially hard, given frequent funding shortages, lack of training, and the limited ability to use compensation as a meaningful incentive.

Resource gaps are the constant backdrop, almost by the very nature of the sector. "For-profit executives don't understand how difficult our jobs are," says Judy 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 difficult to run," Harold Williams says, "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."

"Many of the managers of nonprofits have come up what I call 'the substantive side' without management training," Williams adds. "It really limits the ability of people in the nonprofit sector to scale up. It also contributes to the sense of the for-profit people on boards to say, 'This guy doesn't know what he's doing. He's a curator and really doesn't know how to manage the institution.'"

Others echo Williams on this score, pointing, for example, to academics who rise to lead universities, or doctors who end up managing major medical centers. "A big problem is that so many people in the nonprofit world have not had any management training," says Bob Higgins. "Whereas most everyone in business leadership positions not only went to a place like Harvard Business School but then did a post-doctorate at McKinsey and/or Morgan Stanley. The amounts of money that private sector firms like Cisco spend on training people are phenomenal. It's not technical training; a lot of it is leadership training."

"I had to become more of a teacher than I had been before," says Dick 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 Packard, 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." Schlosberg thinks one reason for this is economics (touched on below), but, with Williams, suggests that another factor is that "many executive directors are skilled functionally in their particular 'cause' but are not what I would call general managers, who think in terms of developing a management team and recruiting talent."

There are many good managers in the nonprofit sector, however, who see the need for capacity-building and simply can't get funders to support it. "In the for-profit business," says David Chernow of JA Worldwide, "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 build leadership, it's not as readily accepted. It's hard to get that kind of investment."

Beyond it being hard to train a management team, it can also be hard to hire the right people to begin with. Sector salaries 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 Richard Leone. The nonprofit world is obviously different. "I lost somebody not long ago to Goldman Sachs for triple what we were paying them," Leone said. "I can't compete." Leone adds with a smile, "I always say you get a lot of psychic income, and what that means on April 15 is that instead of an accountant you need a psychiatrist, because you ask yourself, 'Why am I doing this for so little money?'"

Intense donor pressure to keep "administrative overhead" low, moreover, keeps many organizations from hiring the management talent they need. Volunteers add another layer of complexity. JA Worldwide, for example, relies on over 110,000 volunteers to teach their classes around the United States. "Managing that is a huge undertaking," Chernow says.

For all the challenges, however, there is a clear advantage nonprofits possess when it comes to attracting and retaining staff: their inspiring missions. "You don't ever have the ability to combine great ideas with resources and with the explicit charge from a board or an organization to make a difference in the life of your country like you do in these jobs," says Carl Schramm. "This is what's missing from the corporate perspective."

"People would rather be here than working for some snow tire company," says Bill Novelli. "The missions are so powerful that you can attract really good people. There was a guy from Levi Strauss who said somewhere, 'I don't want it to say on my tombstone that I shipped a million pair of jeans.' That's powerful."

"People work at Goodwill because they feel that this is a calling," says Catherine Meloy. Harold Williams, who spent his corporate career with a company that was a global leader in tomato-related products, sums it up. "It's harder to build an inspiring culture around making tomato sauce…"

IMPLICATIONS FOR LEADERS

So what does it all mean? Appreciating these differences in the leadership challenge can help business leaders be more successful in the four roles we noted at the outset that are being underperformed today - that of board member, funder, partner, and nonprofit executive. As leavened by McKinsey's own experience advising both sectors, let us consider these roles briefly in turn.

1. Board members

Too often, business people on nonprofit boards fail to take their roles as seriously as they do their corporate board roles. They consider it a hobby or a "do good" contribution rather than a real responsibility, and don't invest the same time and energy into understanding the organization and its "business" as they would for a for-profit board. "When it comes to a nonprofit board," says Judy Vredenburgh, echoing the sentiment of many in our group, "the sophisticated, smart, for-profit people sometimes leave their heads at the door."

In addition, on the performance side, many for-profit executives initially push to use typical business metrics when measuring program or service quality, such as meals served, or kids enrolled. They quickly learn that it's not that easy. Such simple measures of activity or output are important, but they fail to really measure the impact the organization is having on its clients. They come to understand that measuring impact is a challenging and costly effort. But rather than pushing to find performance measures that are both meaningful and doable, they often throw in the towel on measurement, deeming it nearly impossible. Or they simply push to keep administrative costs low without a careful consideration of what is needed to ensure program quality and impact. They starve nonprofits of the management that they need to be effective, like a Chief Operating Officer, though they would never consider running their own businesses without a COO just to keep overhead low.

Executives should instead engage more deeply in the challenging process of measurement. As Barry Munitz and Reyn Levy suggest, there are ways to bring for-profit pragmatism and creativity to find meaningful areas to measure, rather than simply abandoning the effort. They should recognize the need to invest in management and capacity, rather than reflexively try to minimize that number. And they need to be thoughtful about the right level of administrative overhead to improve program quality, better measure impact and/or raise more funds.

For-profit board members also often have unrealistic expectations about the pace of change. A nonprofit CEO has to consult with his board, staff (and not just the senior team), important funders and possibly partners and policymakers before making big changes in how the organization operates. As we've seen, this dramatically slows decision-making. For-profit board members don't always understand this, and instead often push to make changes too quickly; others, frustrated by the pace, stop pushing for change altogether.

The solution is to understand the need for lots of communication and actively support the nonprofit CEO or Executive Director (ED) in these efforts. Board members should offer to participate in discussions with other board members, donors and staff. They can do some of the political heavy-lifting to take some of the pressure off the ED.

2. Donors

Many donors don't use their considerable influence to push for performance. Or, when they do demand results, they focus on the wrong metrics, such as low administrative overhead, which only adds to the constraints in building the strong organization we describe above.

The answer is to demand some measure of impact, imperfect as it may be given the challenges of measurement in the sector, and invest dollars accordingly. As for overhead, donors should understand that an organization's programs are only as good as its management, and they should be willing to fund an adequate level of administrative overhead.

What's worse: some donors continue to advocate for their favorite pet programs, leaving nonprofits unable to redirect resources to the highest impact activities. Some insist that the organization take on entirely new activities - activities that do not fit with the strategic focus of the organization and therefore require new skills and new staff - in return for their donation. Donors should make sure that they are not pulling the organization off-mission with their support. If donors do have a favorite program that was once strategic but is no longer, they need to be open to making changes in it or even eliminating it for the sake of the organization's core mission.

Finally, donors often demand a tremendous amount of attention from the Executive Director, in some cases seeing it as a return for their generous gift. As we describe above, the ED is often pulled in so many directions by stakeholders that she has little time left to really manage the organization. Donors should be respectful of this fact, and seek to minimize their demands on the ED's time.

3. Partners

Corporate partners often fail to appreciate the lack of capacity in many nonprofits. Yet because funding is often restricted to programs and services, nonprofits often lack management capacity in non-program areas such as marketing and communications, as we've seen. And these areas are precisely those that are likely to be needed for corporate partnerships. Or, if they have the talent, it's usually the same people who are already stretched thin in running day-to-day operations, and they can't free themselves up quickly to work on a corporate partnership without leaving the organization dangerously under-managed.

Corporate partners therefore often grow impatient and walk away. But rather than complain about the lack of capacity or sophistication, partners should invest both their time and resources into helping the nonprofit build capacity. They should also be cognizant and understanding of the slower pace.

4. Executives

For-profit executives making a career change often come in with a desire to make big things happen. They wrongly expect to make and implement decisions as quickly as they did in the for-profit world, and they 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 structure and way of working. As a result, they are often rejected by their staff and board, and end up quitting in exasperation.

"It was a natural tension," Judy Vredenburgh recalls of her transition to the Big Brothers Big Sisters "and the first three months, I thought I was going to leave or they were going to ask me to leave. Neither of us understood the implications and the enormity of where I was coming from and where they were coming from culturally."

The remedy here is plain enough, if also hard to do well. For-profit executives making these transitions need to take the time to get to know the organization before proposing any changes. They should invest time in talking with all stakeholders about any new ideas before suggesting them. And they should avoid unilateral decisions, instead involving board, staff and key stakeholders as appropriate (for more thoughts from our crossover leaders on transitions, see below).

Crossing Over: Select advice on making a successful transition from business to the nonprofit world

"You will have little opportunity to lead by making decisions. 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."
– *Harold Williams*

"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 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?"
– *Bill Novelli*

"Have a passion for that organization's mission. Otherwise, the frustrations simply wouldn't be worth it. Recognize that everything requires consensus. Know that you have the affirmative responsibility to project in every setting the critical mission of the organization – to funders, to media, to potential volunteers, to all the constituents."
– *Phil Lader*

BUILDING BRIDGES

In the final analysis, two messages linger from our conversations. First: Our crossover leaders agree that nonprofit work has been the most challenging and rewarding of their careers. Second: They emphasize that everyone has a stake in a high-performing nonprofit sector, because so many of societies' problems can only be solved with nonprofit leadership.

"These misunderstandings matter," says Richard 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 but also on people understanding how we're going to address certain problems effectively."

Leone continues, "There are a host of problems about families and children that can only be addressed effectively through the nonprofit sector. We'd make more progress if fewer people in the private sector thought that nonprofit people were a bunch of stumblebums who, if they were any good, would be with us trying to make money. And vice versa. People in the nonprofit sector shouldn't be so afraid of business practices and shouldn't feel somehow that the heart of their enterprise is going to be weakened because they've become more efficient and productive."

"The true measure of making all this work," concludes Bill 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," he explains. "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, they understand social values."

David S. Chernow

David S. Chernow is president and CEO of JA Worldwide. He previously co-founded American Oncology Resources, which was merged into U.S. Oncology, where he was president of the Physicians Services Group.

Peter Goldmark

Peter Goldmark was President of the Rockefeller Foundation from 1988 through 1997. Afterwards, he served as Chairman and CEO of the International Herald Tribune. He now directs the Climate and Air Program for Environmental Defense.

Bob Higgins

Robert Higgins, founder of Highland Capital Partners has 20 years of experience in venture capital and as a director of public and private companies. He was formerly Executive Director of the John A. Hartford Foundation and was Chief Executive of the Robert Sterling Clark Foundation and the Burden Foundation.

Phil Lader

Ambassador Philip Lader is non-executive chairman of WPP Group plc and Sr. Advisor to Morgan Stanley, as well as a director of various global corporations and non-profits. Previously a real estate executive and president of universities in South Carolina and Australia, he has held several senior positions in the US Government.

Richard Leone

Richard C. Leone is President of the Century Foundation. Mr. Leone was formerly chairman of the Port Authority of New York and New Jersey, President of the New York Mercantile Exchange, and a managing director at Dillon Read and Co.

Reyn Levy

Reynold Levy is President of Lincoln Center for the Performing Arts in New York City. He was formerly President of the International Rescue Committee, President of the AT&T Foundation and a senior officer of the company, and the Executive Director of the 92nd Street Y.

Catherine Meloy

Catherine Meloy is the President and CEO of Goodwill of Greater Washington. Previously, she was Senior VP of Clear Channel Communications and general manager of several radio stations.

Barry Munitz

Barry Munitz is President and CEO of The J. Paul Getty Trust. He was previously Chancellor of the California State University system. He was a senior executive at MAXXAM, Inc., from 1982-1991.

Bill Novelli

William D. Novelli is CEO of AARP, the nation's largest non-profit membership organization (over 35 million). It represents people 50 and older. He was co-founder and president of Porter Novelli, one of the world's largest public relations agencies and part of the Omnicom Group, an international marketing communications corporation.

Dick Schlosberg

Richard Schlosberg is the Immediate Past President of The Packard Foundation. Prior to his arrival at The Packard Foundation, Schlosberg served as the publisher and CEO of the Los Angeles Times and of the Denver Post.

Carl Schramm

Carl J. Schramm is president and chief executive officer of the Ewing Marion Kauffman Foundation. Previously, he was founder of merchant banking firm Greenspring Advisors, Inc., CEO of the Health Insurance Association of America, and Executive Vice President of Fortis, Inc.

Les Silverman

Les Silverman, Director Emeritus of McKinsey & Company, an international management consulting firm, led the Firm's Nonprofit Practice from 2000-2004.

Lynn Taliento

Lynn Taliento is a partner with McKinsey & Company, an international management consulting firm, and is a leader of its Nonprofit Practice.

Judy Vredenburgh

Judy Vredenburgh is president and chief executive officer of Big Brothers Big Sisters of America, the nation's largest youth mentoring organization. She joined Big Brothers Big Sisters from March of Dimes, where she was senior vice president, and after a twenty-two year career in retailing that included serving as president of Chess King, a division of Melville Corporation, and as executive vice president for Sizes Unlimited/Lerner Woman.

Harold Williams

Harold Williams served for 17 years as President and CEO of the J. Paul Getty Trust. He was formerly Chairman of the Board of Norton Simon, Inc., as well as Dean of UCLA School of Management, and Chairman of the U.S. Securities and Exchange Commission.

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