

Understanding Nonprofit Management, the Nonprofit Sector, and Nonprofit Organizations

PART

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Visitor center of the Bill & Melinda Gates Foundation in Seattle. The Gates Foundation, founded in 2000, focuses its giving on world health and urban education in the United States, among other areas.

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Chapter Summary

Nonprofit Management as a Profession and a Field of Study

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. This stereotype, if ever true, does not describe all nonprofit organizations today. Indeed, there has been a management revolution in the nonprofit sector in recent decades, and 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 Walmart or Apple, 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 the family garage is focused not 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

Learning Objectives

After reading this chapter, students should be able to

1. Describe the differences between management in the nonprofit sector and management in other sectors.
2. Explain various approaches to the study of nonprofit organizations.
3. Describe the growth of nonprofit management as a professional field and a field of study.
4. Explain forces that have led to the professionalization of nonprofit management.
5. Classify various authors in terms of their perspective on the nonprofit sector.

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, including the introduction of competition resulting from changes in funding patterns, the growth of the sector, and increasing demands for accountability. The decades since the 1980s have seen reductions in direct 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 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, the thriving financial services and real estate industries of the mid-2000s, and the booming stock market and social media businesses of the 2010s. 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 such expectations for measurable results has also increased the need for management.

In recent decades, there has also been a shift in thinking about nonprofit organizations that focuses more on the organization itself rather than merely on the programs and services it delivers. This new focus emphasizes the capacity and sustainability of organizations, 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 (1997), 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 two years after the article by Letts et al., expressed similar criticisms of traditional philanthropy. Shore argued that funders' emphasis on programs rather than on 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. A decade later, Ann Goggins Gregory and Don Howard (2009) made similar points, identifying a “nonprofit starvation cycle,” a term that became part of the vocabulary in discussing nonprofits. It refers to a vicious cycle, in which organizations minimize their overhead costs to please funders, which in turn reduces their ability to produce the results that funders desire.

The ideas of Letts and colleagues, Shore, Gregory and Howard, and others have contributed to a change in thinking about nonprofits, one that shifts focus 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 has also been a force in increasing the demand for professional nonprofit management.

Some philanthropists have come to view nonprofit organizations as vehicles through which they can address social problems that are of particular interest and concern to them. With frustration about the persistence of problems such as poverty, despite decades of government efforts to overcome them, many entrepreneurial philanthropists believe that private philanthropy and private, nonprofit organizations offer a more promising strategy of attack. This is illustrated, for example, by the work of the Bill & Melinda Gates Foundation, which focuses its giving on world health and urban education in the United States, among other areas, and which has had significant impact by virtue of the substantial financial resources at its disposal. This conflation of national issues and concerns with the work of nonprofits has increased the importance of the sector and contributed to the emphasis on measurable results (Brest, 2012).

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 growing wealth of entrepreneurs and investors, in part by the continued devolution of government programs, and in part by an increased worldwide interest in 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 government agencies and businesses as well as nonprofits. Demands for accountability and the need for systems and procedures to comply with greater scrutiny and regulation have also contributed to the need for trained managers.

In sum, if it were 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 management. 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 Robert Herman (2016) explains, nonprofit management requires a unique set of trade-offs:

A [nonprofit] chief executive, in conjunction with the board, must integrate the realms of mission, resource acquisition, and strategy. To oversimplify but phrase the issue more memorably, *mission, money, and management* are interdependent. Making progress on mission achievement depends, in part, on the potential for resource acquisition. Any mission, no matter how worthy, is likely to fail if the organization lacks necessary and sufficient resources to pursue it. Conversely, the acquisition of some kinds of resources can influence the mission. 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. (pp. 167–168)

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 Vredenburg, president and CEO of Girls Inc. and 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” (Silverman & Taliento, 2006, p. 41).

Thus, as Herman (2016) suggests, 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 Helmut Anheier (2014) 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. 328)

Jim Collins (2005) recounts a meeting between Frances Hesselbein, chief executive officer (CEO) of the Girl Scouts of the United States 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. (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 must also pay close attention to the *financial* bottom line if their organizations are to survive and succeed. Some people add a third bottom line—the impact, positive or negative, that the organization has on the environment. Ask a room of people, “What’s the purpose of Apple?” and some may quickly reply, “To produce electronic devices,” or perhaps some will joke, “To control the world!” But both responses miss the point because Apple, like all businesses, has one clear purpose: to increase the value of the business and thus the wealth of its owners. Producing products 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. In other words, it may be more challenging to reduce poverty, prevent disease, or improve the global environment—especially when not everyone recognizes the problem or agrees on what the solutions might be—than it is to increase the sale of attractive products that people already desire to own. 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 or 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, wealth created by the business sector helps to sustain nonprofits and make 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. (Silverman & Taliento, 2006, p. 37)

This book is based on the premise that nonprofit management is 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, environmental, and human impact of their actions (Salamon, 2012b). New types of organizations have emerged that combine characteristics of businesses and nonprofit organizations, some of which will be discussed later in this text. Some authors also observe a convergence of nonprofit management and public administration (Mitchell & Schmitz, 2019, p. 14). As we will discuss in the next section of this chapter, trends in nonprofit management education in universities have reflected the changing perceptions and realities of the field over the years.

Nonprofit Management as a Field of Study

Students taking a course in nonprofit management today might reasonably assume that such courses have always existed. But they are a relatively recent addition to the curriculum at many colleges and universities, and scholarly research in the field, while growing, still does not approach the volume of study devoted to public or business management.

Indeed, recognition of management as an identifiable function—in any organizational setting—is relatively recent in the scope of history. While management-like functions have been performed throughout civilized history, the beginning of management as a field of study dates approximately to the development of an industrial economy in the late 19th century. Stephen Block (2001) credits an 1886 paper by the engineer Henry R. Towne as the first call for

the development of management as an independent field of study with its own literature. 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, the publication of new books, and the introduction of additional 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 World War II, 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. But the early study of management was focused on business organizations, with attention to public management and nonprofit management developing later. Mordecai Lee (2010) has identified some pioneering initiatives undertaken by the YMCA that may have represented the first efforts in nonprofit management education. They included the offering of a bachelor of association science degree by Chicago's Central YMCA College in 1911 and a 1935 textbook on the subject produced by the YMCA's publishing house. Notwithstanding those early efforts, interest in nonprofit management has emerged primarily within the past few decades.

As mentioned previously, 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 (2014), 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. 45). 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 [Network of Schools of Public Policy, Affairs, and Administration \(NASPAA\)](#) was founded in 1970 and began to accredit such programs.

It is important to note that one of the well-known academic journals publishing nonprofit-related research, *Nonprofit and Voluntary Sector Quarterly*, was founded in 1972. But national 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). That decade also saw the establishment of new research centers and programs focused on the nonprofit sector,

including Case Western Reserve University's Mandel Center for Nonprofit Organizations and the Center on Philanthropy at Indiana University.

Management scholars and writers turned significant attention to the nonprofit sector beginning in the 1990s. 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 and 2010s, 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—a term we will discuss further later—began to appear 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. 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 et al., 1999; Oster et al., 2004). The Stanford University Graduate School of Business began publishing a journal, the *Stanford Social Innovation Review*, in 2003. New textbooks focused on nonprofit management began to appear, including the first edition of this text in 2009. Online journals, blogs, and other forums related to nonprofit management, social innovation, social entrepreneurship, and related topics continue to proliferate. In 2012, the Center on Philanthropy at Indiana University became the Lilly Family School of Philanthropy, the first such academic institution in the country (“IU’s Philanthropy School to Be Named for Lilly Family,” 2013).

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.

A significant portion 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. But there is a growing body of academic research, including the work of economists, sociologists, historians, and other social scientists. Scholars 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.

Some scholars advocate defining a new academic field of “nonprofit studies” that would broaden the focus of nonprofit research beyond management (Mendel, 2014). Observing that “published scholarship on nonprofit organizations continues to cover primarily matters of interest to public management, business, social work, and other fields,” Stuart Mendel (2014) argues that “nonprofit studies is approaching a tipping point [and is] ready to become an autonomous field of study” (p. 61). He also calls for a new approach to the training of nonprofit professionals that would go “beyond the management of transactional accountability” to include “the study of civil society; the dynamics of advocacy, community organizing, and public policy development; the political nature of the social sector; and the

role that nonprofits play as places of employment” (Mendel, 2014, p. 62). However, some argue that public administration, public policy, and nonprofit management are “intersectional” and that the study of any one requires applying knowledge from the others as well (Pandey & Johnson, 2019). Others advocate a “nonprofit/philanthropy-first” curriculum and the development of degree programs in nonprofit management apart from those in public administration, public policy, or business (Mendel, 2015).

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. Although it draws on a wide range of literature, it is intended to provide a background for nonprofit management rather than a foundation for nonprofit studies, although the latter is important to developing a full understanding. It is intended to provide students who are considering or pursuing careers in nonprofit management with a broad overview, 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 evolving.

Concomitant with the increase in the research literature, educational programs related to nonprofit management have grown rapidly since the 1990s. Indiana University was the first to offer a bachelor's degree in philanthropy and, as mentioned previously, in 2012 became the first university to establish a school of philanthropy. Recent years have also 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. Formal professional certification is available in some specialties of nonprofit management. For example, a professional specializing in fundraising can become a certified fundraising executive (CFRE) by successfully meeting criteria established by CFRE International, including an examination (see www.cfre.org for more information). And nonprofit professionals who manage volunteer programs can obtain certification from the Council for Certification in Volunteer Administration (see <http://cvacert.org/> for more information).

Formalization of the nonprofit management curriculum in universities also has progressed. 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. A second version was released in 2008 and a third version in 2015. NACC undergraduate program guidelines were developed in 2007 and revised in 2015. Development of a new edition (the fourth for graduate programs and the third for undergraduate programs) was in progress at the time of this writing (Nonprofit Academic Centers Council, 2018).

The content of MPA and MPP degree programs has increasingly included nonprofit-related skills and some have proposed that even more emphasis be given to nonprofits within these programs (Cantrell-Bruce & Blankenberger, 2015). Accreditation standards released by NASPAA in 2019, which apply to all master's degree programs it accredits, reflect an increased emphasis on the nonprofit sector, although they do not include specific nonprofit curricular guidelines. Using the phrase “nonprofit at the core,” the revised accreditation standards “establish nonprofit management as fundamental to public service education. Changes to language throughout the Standards, including the universal required competencies, explicitly integrate the third sector” (NASPAA, 2019). In 2018, NACC began accrediting stand-alone programs focused on nonprofit management and related topics (NACC, 2018). Also in 2018, NASPAA for the first time accredited a stand-alone master's degree program in nonprofit management, at the University of Central Florida (NASPAA, 2018).

Many business schools offer courses and programs relevant to the nonprofit sector, programs often identified by the term “**social entrepreneurship**.” The term is used in different ways by various authors, and it is important to understand the distinctions. Some authors use the term to mean the application of business principles and the generation of earned income by nonprofits. Others use the term to mean social innovation (Dees & Anderson, 2006). These distinctions are discussed further in Chapter 14 of this text, which explores social enterprise, and in Chapter 16, which is concerned with social entrepreneurship from the social innovation perspective.

Discussion and debate on the appropriate content of programs to prepare nonprofit leaders will likely continue. Many observers see a blurring of the nonprofit and business sectors, requiring that future nonprofit executives be trained in business skills. To some, that suggests that nonprofit management programs would be better located in business schools than in either schools of public affairs and administration or 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, notes that “[n]onprofits 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. 1715). 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 nonprofit management curriculum is unlikely to become as standardized as the MBA curriculum.

Roseanne Mirabella and Dennis Young (2012) observe the increase in the number of business school programs focusing on social entrepreneurship and speculate as to whether the future might see convergence of the content of such business school programs and traditional nonprofit management programs, meaning primarily those offered in schools of public policy and administration. One possibility that Mirabella and Young identify is that the traditional programs may come to incorporate more courses on social entrepreneurship, while business schools come to include more emphasis on such topics as philanthropic and political skills; in other words, the programs might become more alike. Another possibility is that the traditional and business school programs remain distinct. Echoing O’Neill (2007), the authors note that the respective academic units have different cultures and, in addition, that entrepreneurship more generally “has historically not been high in the pecking order of subjects valued within business schools” (Mirabella & Young, 2012, p. 55).

There is an increasing number of collaborations and partnerships between nonprofits and government and between nonprofits and businesses—a topic that we will discuss in more detail in Chapter 8. This reality has contributed to some nonprofits becoming hybrids; that is, they include characteristics of businesses and government agencies as well as of traditional nonprofit organizations. For that reason, some observers suggest that education about nonprofits should be integrated into the core curriculum of programs in all professional schools—including those focused on business, public policy and administration, and other professional fields (S. Smith, 2012).

Toward a Balanced Approach

The literature of nonprofit management reveals a variety of perspectives, not only on the questions and issues discussed previously but indeed about the very nature of nonprofit organizations and their role in society.

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 on the purposes and role of the nonprofit organization 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 results. In this view, involvement builds community and provides an important experience for participating individuals, in addition to the benefits it may produce for other members of society. This is what Peter Frumkin (2002) calls the **expressive purposes of nonprofits**; that is, they provide an outlet for individuals to express their values and passions through their involvement with such organizations.

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 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. And, of course, depending on their social and political perspectives, some may even find it objectionable to see nonprofits associated with private business or government at all, perhaps viewing one or both of the other sectors as sources of problems that nonprofits are trying to correct.

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.

Those who hold this perspective often discuss the education of nonprofit managers in terms of developing business skills. Their discussions often focus on building the capacity of nonprofits and the application of business methods, such as strategic planning, strategic management, performance management, and marketing. They often use the vocabulary of business, for example, discussing a nonprofit organization's "competitive advantage" and "market position." Some criticize traditional charity and philanthropy and prefer that nonprofits rely more on earned income rather than on gifts. They emphasize what Frumkin (2002) calls the **instrumental purposes of nonprofits**, that is, the services that they provide and the needs they meet, rather than their role as vehicles for individuals' expression. They are concerned about 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 new corporate forms and market-based approaches, which are addressed further in the next chapter of this book.

Again, the above characterizations of these two perspectives are oversimplified, and some writers take a moderate or blended 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 does indeed require 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 lead a nonprofit organization. The philosophy reflected in this book is that there is often no one 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 goal, 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 five 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, was criticized for its management of recovery efforts following the Haitian earthquake in 2010. In the 2000s, there were highly visible scandals concerning executive compensation and expenses at American University and the Smithsonian Institution, which led to congressional hearings and the development of new governance guidelines, discussed later in this text. In 2015, the Federal Trade Commission (FTC) alleged that James T. Reynolds Sr. had used nearly \$200 million that had been given to cancer charities that he operated to pay for personal benefits for himself, friends, and family members. The FTC characterized it as one of the largest charity scandals in history (Ruiz, 2015). However, it is fair to ask, was the Red Cross less well managed than General Motors, which required a federal government bailout? Or were ethical failures at nonprofits more egregious than those at many financial institutions in the late 2000s, which required bailouts as well? Were the allegations against Reynolds more shocking than those against Bernard Madoff, who was convicted of running a Ponzi scheme that cost investors millions of dollars? We might also ask, are Habitat for Humanity and Doctors Without Borders less innovative organizations than Facebook or Google? 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 (2006), former 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" (pp. 45–46). And, too often, nonprofit managers are advised to do all this with smaller budgets, smaller staffs, less training, the ever-present threat of reduced public support, and less recognition than is provided to managers in business or government. Indeed, a 2011 study found that the complexity of the nonprofit manager's job and the multiple pressures he or she must handle frequently lead to frustration and burnout (Moyers, 2011).

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, the protection of our environment, the advancement of health, the alleviation of poverty, 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 come 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.

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.

There continues to be discussion about whether such programs should be located within other academic programs or established as independent degree programs. Some business

schools offer programs in social entrepreneurship, which has different meanings but commonly implies a business-like approach. Some think that business school programs in social entrepreneurship and traditional nonprofit management programs may converge. Others note the different cultures in various academic units and predict that such programs will remain distinct. Some advocate incorporating nonprofit management topics in the core curriculum of all professional degree programs in management. Others advocate stand-alone degree programs in nonprofit management. The Nonprofit Academic Centers Council (NACC) and the Network of Schools of Public Policy, Affairs, and Administration (NASPAA) accredit nonprofit management programs. Some universities have established interdisciplinary centers for the study of nonprofits, which draw on faculty from various academic fields.

People hold two different perspectives on the purposes and role of nonprofits in society, which influence their views on how and where nonprofit leaders should be educated. Some consider nonprofits to be social institutions and emphasize their expressive purposes, that is, the opportunities that they provide for people to express their values and passions through involvement. Others consider nonprofits to be

social enterprises, essentially like business firms with a social purpose. They emphasize their instrumental purposes, that is, the services they provide and needs they meet. Many writers reflect a balanced understanding, but most tend to emphasize 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 their ideas and recommendations 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, rather than to large corporations. Many 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	7	Network of Schools of Public Policy, Affairs, and Administration (NASPAA)	9	Nonprofit Academic Centers Council (NACC)	11
expressive purposes of nonprofits	13				
instrumental purposes of nonprofits	13			social entrepreneurship	12

QUESTIONS FOR DISCUSSION

1. Should preparation for a career in the nonprofit sector emphasize management skills or a broader understanding of civil society and the role of nonprofit organizations? Explain your answer.
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? Explain your answer.

APPENDIX CASE

The following case in the appendix of this text includes points related to the content of this chapter: Case 3 (The Y).

SUGGESTIONS FOR FURTHER READING

Books

Eikenberry, A. M., Mirabella, R. M., & Sandberg, B. (Eds.). (2019). *Reframing nonprofit organizations: Democracy, inclusion, and social change*. Melvin & Leigh, Publishers.

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Websites

Network of Schools of Public Policy, Affairs, and Administration (NASPAA): <https://www.naspaa.org/>

Nonprofit Academic Centers Council (NACC): <http://nonprofit-academic-centers-council.org>