July 2018

JACK'S JOURNAL

Building Bridges Between For-Profit and Nonprofit Businesses (Part Three)

By Jack Horak
Director, TANGO Nonprofit Education and Consulting

TANGO JACK'S JOURNAL

Building Bridges Between For-Profit and Nonprofit Businesses
PART THREE
WHAT IS MONEY (PROFIT) AND WHERE DOES IT COME FROM?

The theme of TANGO's 2018 Annual Meeting (September 13th in Hartford) is Building Bridges Between Businesses and Nonprofits, and I have been setting the stage for the panel discussion I will lead that day with monthly articles in this electronic newsletter (TANGO TRENDS).

In the May article (Building Bridges Between Businesses and Nonprofits) I explained that when it comes to measuring an organization's performance, businesses have an advantage over nonprofits in that a business' performance is reflected in its market value (its price per share). Its value and share price increase when the organization does well and decrease when it does not, and doing well or not is generally a function of profitability. After all, a business' "mission" or purpose is to make a profit.

Mission driven organizations (nonprofits) do not have as readily available an indicator of mission performance. They do not operate for purposes of making a financial profit (even though having a profit is always helpful), and do not have shareholders or a price per share and must rely on other types of information or data when evaluating performance.

Building Bridges

In the June article (Hiding Behind the Mission) I argued that people in the business world must learn and understand that nonprofit mission performance metrics are more subjective and not as readily quantifiable as their own. However, I also argued that this does not relieve nonprofits of the obligation to be candid with themselves and outsiders about what they can measure (such as the cost per meal in a homeless shelter), and what they cannot (how many of the homeless treated will turn their lives around permanently).

In this July 2018 issue, I will discuss money and profit – what are they and where do they come from?

This may sound like an unusual topic, but when you think about it we use the terms "for-profit" and "non-profit" all the time to distinguish sectors and organizations from each other, so it makes sense to probe what we mean by "profit" and how it relates to money – all as part of our effort to build a bridge between the two sectors.

Profit and money distinguished

Profit is a financial benefit that a business enjoys when it sells goods or services for an amount in excess of the expenses incurred to produce the goods or services. We use the term "for-profit" to describe the business sector of our economy because the mission of a business organization is to make a profit for its owners.

Yet, as important as profit is to our economic wellbeing, throughout history the concept has also been looked upon unfavorably in some quarters, and to this day many people in the nonprofit sector distrust business organizations – as manifest in slogans such as "People over Profits."

The best explanations I have found to explain the antipathy to profit and commerce are these:

The first is the ancient belief that the amount of wealth in the world was fixed by God at creation, such that one person could profit only at the expense of another – such that one person could become wealthy only if some other person became poor – putting a moral taint on the profit concept. In ancient Greece Aristotle believed profit making was contrary to civic virtue. Medieval and Enlightenment Christian thinkers condemned commerce and profit making as contrary to the pursuit of salvation; and of course, making a profit by charging interest on a loan was regarded as an outright sin (usury). Usury statutes are still on the books in many states, though they have been modified to keep pace with economic development.

The second explanation is social class based --- in that in aristocratic Europe those at the top of the social ladder who owned its land and resources looked down upon those who had to work or engage in trade to support themselves (and the aristocrats as well).

Of course, the notion that the amount of wealth in the world is fixed (such that one person's profit means another person's loss) is a misconstruction that we have abandoned, and the advent of the modern democratic nation state has left aristocratic governance and control behind.

Properly understood, profit is a function of how much value (measured in money) a buyer is voluntarily willing to transfer to the seller for a good or service, and that value (how much money a buyer is willing to pay) is a function of myriad different variables as we all know from our life experiences buying things. These exchanges are commonplace and routine to us – when we go to the grocery store we gauge the listed price for competing products; and we may buy a car or a new cellphone which offer a level of luxury or convenience that we don't need – but we are willing to pay the premium because of the importance or value of these items to us.

In this sense, the amount of value or potential profit in the universe is unlimited in that as long as someone can produce something that other people want to buy, profit emerges spontaneously from the transaction.

Money, on the other hand, is literally speaking, the medium of exchange created by the government to enable commerce and profit making. Money is a piece of paper (or the numbers in an electronic bank account) --- and sellers of goods and services accept the pieces of paper money or the electronic numbers transferred to the seller's account because the seller knows that it can turn around and use the same pieces of paper or electronic numbers to pay for the goods or services the seller needs to stay in operation (and to keep the excess or profit in the seller's account).

The point is that in a free exchange of a buyer's money for a seller's goods or services, there are no losers even though the seller takes in more money than was spent to create the good or service in question.

So, What's the Point?

I decided to include this material because nonprofits need money to operate, and because profit, earned by some person or institution (measured in terms of money) is the font of the economic resources nonprofits need to fulfill their mission.

Even more, to the extent profitable business enterprises operate in a community, the jobs, taxes, and the like they create provide a direct benefit to the community --- a point that should never be underestimated or taken for granted by nonprofit organizations in the same communities. It is in this sense that both nonprofits and for-profits contribute to the wellbeing of their communities.

The TANGO Nonprofit Principles: Businesses make a profit so that nonprofits do not have to do so.

The thoughts expressed above are embedded in the five principles which appear at the beginning of our Textbook (The TANGO Nonprofit Method), as follows. I will discuss each of these principle in the August 2018 edition of this newsletter to set the stage for the Annual Meeting presentation on September 13th.

1. Nonprofit organizations and business organizations are equally important to the health and welfare of their communities.

2. Nonprofit and business organizations are both responsible to the community for the successful fulfillment of the tasks within their mission or line of business, as applicable.

3. Nonprofits are operating enterprises with perpetual missions and finite resources, and they must be sensitive to the underlying tension between the two. Nonprofits have a duty to deploy available resources effectively, cognizant of practical limitations in the face of enduring need and with respect for the challenges awaiting future members of their communities. Nonprofits are not entitled, simply by virtue of their mission, to donations, contributions, or gifts of goods or services. They must operate lawfully, efficiently, and effectively to deliver quality goods and services in their communities, and to establish a positive reputation and goodwill that will attract donations and support. Nonprofits are "private" organizations in that they are managed by private individuals (the board of directors), but operate for public purposes.

4. Businesses are accountable to their communities for the sale of quality goods and services at reasonable prices. They must operate within the law, create bona-fide opportunities for gainful employment, and generate new wealth in the community through innovation and expansion. Business organizations should also, directly and indirectly, provide meaningful financial and in-kind support to well managed nonprofit organizations within the community.

5. Rigorous governance, management, and ethical principles and practices at all levels within nonprofit and business organization are essential to their success and longevity. The total is greater than the sum of the parts. The entire community benefits when its nonprofits and businesses succeed. ***Business organizations make a profit so that nonprofit organizations do not have to do so.***

The Alliance For Nonprofit Growth And Opportunity

Contact Jack
Jack Horak
Director, TANGO Nonprofit Education & Consulting
135 South Road
Farmington, CT 06032
860-507-8902