

# JACK'S JOURNAL

Building Bridges Between Businesses and Nonprofits

By Jack Horak

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## Building Bridges Between Businesses and Nonprofits

### Part Two

### Hiding behind the Mission

TANGO is an association of business and nonprofit organizations, and one of TANGO's goals is to enhance the relationship between organizations in the two sectors. To this end the theme of TANGO's annual meeting (September 13th in Hartford) is Building Bridges Between For-Profit Businesses and Nonprofit Organizations.

In specific – we want to address (and dispel) the underlying soft prejudice that is often reflected in those business people who criticize nonprofits as “do gooders” always asking for more money without demonstrable progress, and in those nonprofit people who see businessmen as greedy and/or indifferent to the social causes the nonprofits embed in their missions. We maintain that both sectors are necessary conditions to the health of a community, and that people in each sector must recognize and respect the important role played by the other.

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



TANGO - The Alliance for Nonprofit Growth and Opportunity  
2018 Annual Conference

# Building Bridges

Between For-Profit and Nonprofit Businesses

The place to start is with education – making sure the people in the nonprofit sector understand the nature of business entities and the challenges of the business sector, and vice versa, and on a deep and fundamental level. In my May 2018 column I began the process by explaining a fundamental structural difference between nonprofit and for-profit organizations, as follows:

(a) Business organizations sell goods or services in the market and have private owners/investors (shareholders) to whom they are answerable for profitability (dividends and capital appreciation). A business' performance is reflected in the price per share that people are willing to pay in the marketplace. The share price reflects the business' profitability and prospects and is akin to a ball player's “batting average.” In the investment world the term “return on investment” is often used to capture this concept, and this “batting average” allows investors to compare the relative performance of investment options – to decide where to get the best return on investment – to determine which business is better managed than others .

(b) Nonprofit organizations do not have owners to whom they are answerable, and they exist to fulfill a mission and not to make a profit (although it is good to have one). As a result, they do not have a succinct objective numerical metric (a batting average) that can be used to gauge mission performance per se in the same way that profitability and share price can be used to measure business performance. It is inherently more difficult to measure how well mission driven organizations are performing.

**But what does this mean? How does this point contribute to our goal of enhancing the relationship between the two sectors?**

First, the discussion is relevant because there has been pressure on the nonprofit sector to develop metrics of some type to measure mission performance – metrics to use when fundraising or applying for grants to induce donors and grant makers to provide funding -- by showing how much mission impact the funding will have. The metrics issue arose in the 1990s when the “venture philanthropy” movement emerged among newly minted Silicon Valley venture capitalists. They wanted to apply the venture capital investment principles they used to fund tech start-ups to guide their charitable grant making. They thought they would be as successful with the charities they funded as with the tech companies they capitalized.

Second, the mission metrics issue has proven to be a challenge for the reasons discussed above – the subjective nature of a charitable mission does not lend itself to a batting average – even though it is possible to calculate and quantify certain financial and functional data about an organization’s operations.

For example, a donor interested in the alleviation of childhood hunger can look at the number of meals served by a nonprofit food pantry and the cost per meal; but it is much harder to determine if the assistance provided to the children is a temporary palliative (pure charity) or if it helps nudge the children’s lives positively towards self-sufficiency (social progress). This fine distinction --- between what can be measured easily and objectively and what cannot be easily and objectively measured (if at all in some cases) – is a fact and people in the business world must understand when they are asked to provide funding or to support nonprofits in their communities.

Third, while, in our opinion, it is unfair to expect nonprofits to objectify the subjectivity inherent in charitable missions, this does not let nonprofits off the hook for mission success in the following sense:

(a) Nonprofits should quantify what can be quantified -- what is the direct and indirect cost per meal at a shelter, for example. This is important data that is easy to calculate. There is no excuse for not having it readily available.

(b) Nonprofits cannot, and should not, hide inefficiencies or failures behind the mission. The mere fact that an organization exists to perform a social good does not automatically mean it deserve support. Candidly, I have witnessed nonprofit organizations which functioned more as a jobs program for staff members without any measurable mission effects at all. This is too common an occurrence – a problem that sector leaders should address.

(c) The fact that mission performance may be harder to quantify objectively does not take away from the importance of the mission (one hopes that the children fed at the pantries will in fact be better able to rise above their other challenges), but boards of directors and management should be candid with themselves and outsiders about what they can measure and what they cannot, what social benefit they can realistically deliver and what they cannot. Moreover, the subjectivity inherent in a mission puts more of a fiduciary burden on governing boards to be extra diligent in their fiduciary oversight of the organization’s assets and management.

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Finally, in closing let me acknowledge that there are many different types of nonprofit missions and organizations, and that the general propositions I am making will fit differently and more easily in some than others. Hospitals are very different from food shelters, colleges differ from food pantries and homeless shelters. A government funded social service agency is much different from a private grant making foundation.

[To be continued in my July 2018 column: What is money and where does it come from?]

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