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Three Corners

Why you can't be more 'like a business'

Here is another installment in an ongoing attempt to grapple with the enduring question that gets asked of many nonprofits in different ways but always boils down to the same simple question: *why can't you be more like a business?*

At the risk of oversimplifying, the answer is *because we don't run like a business*. Usually what the questioner has in mind is a litany of vague characteristics the person doesn't see in a nonprofit organization, such as brisk decision-making, streamlined operations, and a clear-eyed focus on the bottom line. People like this typically have a model in mind, and the only thing they know is that the nonprofits they see don't fit that model. The challenge is to explain to them, in terms they'd understand, the reason for the gap.

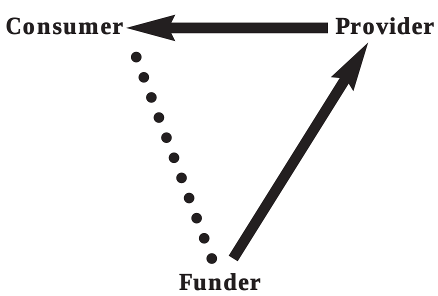
IT'S THE PHILANTHROPY TRIANGLE

Tell them it's because of the Philanthropy Triangle, which is at the heart of almost all nonprofit activities. Tell them that, in their business dealings in the private sector they don't need to bother with triangles but instead engage in large numbers of simple two-way transactions.

The standard commercial transaction is composed of two parties, a Consumer and a Provider. Each has value the other wants. The Consumer has money, and the Provider has a product or service. They exchange money for products or services, and both go away satisfied. This uncomplicated relationship is shown below.

In contrast, the standard philanthropic transaction is a three-way affair. There is still a consumer and a provider, but there is also a Funder. Unlike in the standard commercial exchange where the Consumer is also the Funder, the Philanthropy Triangle splits the Provider role into a provider and a funder, and that makes things complicated. For one thing, the consumer is often not giving the provider any money, or at least not an amount of money that is dictated by market forces. For another, the consumer might not always want to be there (think programs for adjudicated delinquents). Finally, the funder usually never engages directly with the consumer. In fact, there is an excellent chance that the funder will never know much about the consumer at all, since the face-to-face contact is often awkward or inappropriate.

This is a confusing mixture of unbalanced relationships, as shown below.



Just to complicate matters, in the Philanthropy Triangle the funder could be an entity, such as a foundation or a unit of government, or it could be an individual donor. And the consumer might actually "give" something to the funder -- such as refraining from a second offense -- but it's more likely that the funder's real intention is to "give" something to society as a whole, such as a scholarship recipient who goes on to win the Nobel Prize.

This might look like bad news, or at least a messy situation, but it's not. In fact, it is at the heart of the nonprofit sector. When a social dysfunction or need exists, the first call goes out to the standard commercial sector. Individuals and companies in the commercial sector are wildly ingenious about finding ways to solve problems while making money in the process. But for certain situations there is no commercial ("money-making") opportunity or interest. Think of how uninterested the commercial sector was in responding directly to the early stages of the AIDS epidemic, tsunami relief, or the situation in Darfur.

The voluntary sector excels in these situations because of the Philanthropy Triangle. Unlike with the direct, personal receipt of value in a commercial transaction, donors ("funders") in a philanthropic exchange expect a social return on their investment.

THE IMPLICATIONS

Many implications flow from these differences. First, most managers are conditioned to evaluate economic exchanges against the simple, well-understood metric of commercial transactions. Evaluating philanthropic exchanges requires a deliberate shift of gears, and if one is steeped in the commercial world that gearshift is not easy to make.

This is why the general public will never regard nonprofit, public charities as efficient. They're not intended to be efficient, at least not in the same way, because if they were able to be efficient by classical measures it would probably be because they are encroaching on an area of commercial interest.

It is also why the philanthropic exchange is satisfying only in an indirect way. The commercial model depends on direct consumer feedback, both for financial reward and for adjustments. In the Philanthropy Triangle the donor gets no personal contact with those they are funding, a public charity has to play an intermediary role, and in any case the results might be hard to measure and could well take a long time to be clear.

Further, one can't necessarily trace a given effect back to an individual donor, which is why funding buildings is popular while funding building maintenance expenses is not. No wonder that traditional commercial entities aren't interested in the same things as those in the Philanthropy Triangle.

Still, the philanthropic exchange is usually satisfying, if only because for the vast majority of donors the emotional distance between giver and recipient is, up to a point, navigable. When the donation is to a local homeless shelter the donor can feel a high degree of assurance that the money is benefiting the more or less definable population of local homeless people, whereas small donors to a medical center are likely to feel like they're throwing pennies into a 10-story kettle.

The growth in the numbers of nonprofit entities, in combination with government pullbacks, is ramping up interest in earned income, a key component of social enterprise. For most mission-based organizations, earned income will rarely be more than a supplemental revenue source. The investment in time, energy and resources alone will be enough to constrain interest in this approach.

TOO MUCH OF A GOOD THING

But for a small number of nonprofits, earned income actually represents a subtle threat to their ability to manage the Philanthropy Triangle. The two-way commercial exchange is based on a transaction, whereas for the Philanthropy Triangle to work it has to be based largely on relationships. When a nonprofit emphasizes earned income at the expense of philanthropic revenues, it risks weakening the trusting relationships that make funders willing to give monies that produce a hard-to-verify social return. Earned income strategies always have their limits, if only because of the tax code.

What it takes to please donors is different from what it takes to please paying customers. Commercial transactions, better known as earned income strategies, definitely have their place in the mission-based world. But, for many reasons, the Philanthropy Triangle must predominate. It's not that nonprofits can't be like a business. It's that, beyond a point, they shouldn't. ***NPT***

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