2001 William P. Ryan

A Day of Learning

Summary Report

Nonprofit Dilemmas: The Struggle Over Values, Capacity and Identity

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~ William P. Ryan

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2001 Distinguished Lecturer

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Bill Ryan is a consultant to foundations and nonprofit organizations and a research fellow at the Hauser Center for Nonprofit Organizations at Harvard University. His work focuses on nonprofit organizational capacity, primarily among community development and human service organizations. He has explored how several forces – including grantmaking practices and competition with for-profit firms – shape the capacity of nonprofits to deliver on their missions.

More recently, he has begun to extend his analysis to a broader set of questions about the future of the nonprofit sector.

- What makes nonprofit organizations distinctive from their public and private-sector counterparts?
- Are distinctive nonprofit assets put at risk in an increasingly competitive environment?
- Can our well-intentioned efforts to build nonprofit capacity and measure outcomes actually have the unintended consequence of damaging these distinctive assets?

Ryan has written or co-authored several influential publications exploring these questions, including, "High Performance Nonprofit Organizations: Managing Upstream for Greater Impact" and "The New Landscape for Nonprofits," in the Harvard Business Review.

Before beginning his consulting practice in 1993, he worked in community planning for nonprofit and government agencies in New York City. He holds a BA from Columbia University and an MPA from the Kennedy School of Government, Harvard University.

Nonprofit Dilemmas The Struggle Over Values, Capacity and Identity

Identity as Destiny

One thing that's clear to Bill Ryan is that, behind the rhetoric celebrating the nonprofit sector's work and distinctive role, there's a struggle going on over the assumptions about and images of nonprofit organizations.

"We don't share one view of the nonprofit organization," he said in opening his presentation. "There are at least several and, in fact, they conflict.

"We want nonprofits to be outcome-driven, entrepreneurial and competitive. But we also want them to be mission-driven, civic and collaborative. To choose one set of assets to the exclusion of the other seems wrong. Yet having them both seems impossible. We're facing a dilemma about the identity of nonprofits.

"This is of more than academic interest," says Ryan, "because the ideas we carry about what a nonprofit organization is shapes funding, government policy, board attitudes, the environment in which we work and public confidence in our sector."

Ryan postulates three prevalent images of nonprofits to illuminate the underlying dilemma:

Three Identities

The Competitive Nonprofit

Ryan believes that government funding is transforming the nonprofits into the image of competitive organizations.

Drawing on his research on the growth of for-profit social service providers for the Pew Charitable Trust, Ryan explored what it is that government wants from providers that is making for-profit organizations interested in work that was once considered the exclusive domain of nonprofits.

"These for-profit players understand that government is spending its money differently," said Ryan. "Thirty years ago, government contracted with nonprofits, at least in part, because of their mission and values. Now, you get contracts based on what you can do. It's all about performance and outcomes and much less about the character of the organization."

Needs of the Competitive Nonprofit

Ryan traces part of this change in culture to former Vice President Al Gore's "Reinventing Government" effort. The language of government today is the language of business, and it's spilling over into the nonprofit sector, as we can see from what the new culture demands from providers of social services:

CAPITAL – For-profits have capital; nonprofits tend not to have it but want it for the same reasons: to expand into new markets, underwrite research and development, invent new ideas, and pay for facilities and infrastructure. The most frequent substitute for working capital for a nonprofit organization is typically foundation grants, especially when they provide general operating support.

RESPONSIVENESS – For-profits pride themselves on being responsive, not to human services clients, but to government. They turn on a dime to meet government's needs. Thus government has a new set of providers without independent missions – providers whose missions are to find out what government's mission is and be responsive to it.

In contrast, nonprofits generally see themselves as having independent missions, which can be the basis of partnership with government when both parties' missions align.

SIZE AND MOBILITY – The mantra of many for-profits is "grow or die," reflecting the attitude that size is critical because money is tight and the only way to survive is to have lots of contracts and economies of scale.

With size comes mobility. Most for-profits have the ability, for example, to be in Milwaukee working on welfare-to-work and simultaneously open an office in New York. Or conversely to say, I don't like the way things are going here in Connecticut, let's pull out. This is anathema to most nonprofits, who see their missions as rooted in community. Consequently, they find themselves stranded to tough it out even in hostile public policy environments.

Risks of Competitive Identity

Ryan fears that the very assets that nonprofits covet to be competitive, if acquired, might actually alter the "DNA" of nonprofit organizations. What we value about nonprofit organizations may be compromised:

VALUE #1– Nonprofits are capable and willing to provide a special, more human, higher quality of service.

RISK – Delivering that level of service is not compatible with being a cost-competitive, market-driven provider.

VALUE #2 – Nonprofits serve as gap fillers, doing what government won't do and the market can't.

RISK – Resources to cross-subsidize the cost of various services, which have in the past enabled many nonprofits to survive, will dry up, particularly as large and predominantly for-profit providers go after clients who are the easiest and least expensive to serve.

VALUE #3 – Nonprofits advocate for change.

RISK – Nonprofits in competitive environments cannot afford to bite the hand that feeds them.

The Techno-Rational Nonprofit

The government-driven, competitive nonprofit emphasizes costs and outcomes, perhaps to excess. The techo-rational nonprofit focuses on managing human behavior and organizational performance through the application of technical, rational knowledge.

What's ironic about the image of the techno-rational nonprofit, says Ryan, is that it may seem far removed from the daily chaos of the average nonprofit, yet it is the most prevalent – and troubling – image shaping the nonprofit sector today.

The Techno-Rational Theory of Action

The essence of the techno-rational identity might be the formula:
Programs + Evaluation + Replication = Social Progress

PROGRAMS – Programs are increasingly the lifeblood of nonprofits. Programs are what we invent, fund and depend on to create social change. Programs, by nature, are based on the supposition that you can reduce all of your work to a precise formula for action which, if you follow it, will produce the results you seek.

EVALUATION – The sector has made major investments in evaluation in recent years in order to determine whether programs work, based on the techno-rational conviction that our work should lead to specific, measurable outcomes.

REPLICATION – This is the "crowning glory" of techno-rational social progress, based on the idea that we can, not only develop programs and evaluate them to be sure they're effective, but we can replicate them on a large scale and change society.

When Ryan considers this theory in action, he worries in light of one question: Why is it so hard to scale programs up?

"We find again and again," says Ryan, "that a program may work well at a demonstration site or yield excellent outcomes as a pilot, but when we attempt to replicate the program, it produces uneven or disappointing results."

The typical response to this conundrum has been to demand even more obedience to the techno-rational approach, assuming that problems are not with the approach but with the fidelity of the nonprofits and practitioners to the models prescribed. If the program didn't work at Site B, we conclude that it must be because Site B didn't follow the program prescription. We offer more technical assistance. Maybe Site B doesn't get it!

Critique of the Techno-Rational Image

Ryan doesn't believe there some "mystical force" in effective nonprofit work. Just that the techno-rational framework limits nonprofits in at least three ways:

SOFT-HEADED AND NAÏVE – We tend to think of techno-rationalism as disciplined and coldhearted. Michael Oakshaw, in his book, "The Politics of Faith and the Politics of Skepticism," counter-intuitively posits that techno-rationalists are the ones who are operating on faith that linear-rational program prescriptions will produce the results they want in a highly imperfect world. The skeptic recognizes it's not that easy.

Ryan's favorite techno-rational scheme to thrash is Esperanto, the international language constructed to promote social harmony. The founder of Esperanto identified a problem, discord leading to war. He found a root cause, lack of communication. He proposed an answer, a language that everyone can use based on the science of linguistics.

"Perfectly rational, perfectly functional and perfectly wrong," said Ryan. "It's off by just 10 degrees for not understanding that people do not want to give up their language and speak Esperanto."

So-called "perfect solutions" to problems, such as lack of communication, can also yield unintended consequences. Consider the spring 2001 negotiations between the U.S. and the Chinese governments over the return of an American spy plane and its crew after a forced landing in China. In the end, agreement hinged on the meaning of the word "apologize."

"What would have happened," said Ryan, "if both countries had equal understanding that the United States was not apologizing?"

PREFERENCE FOR TECHNIQUE OVER PRACTICAL WISDOM – Practical wisdom doesn't deny the importance of technique. Rather, it holds that programs, practices and technical assistance are not enough. Sometimes we need things that can't be reduced to a model program or prescription. In fact, a lot of what counts for success in the real world is practical knowledge, also known as "tacit knowledge."

We use tacit or hidden knowledge to get work done, but we can't explain how. Great athletes and musicians, for example, cannot explain how they run faster or create beautiful music.

The organizational corollary to this, says Ryan, is that we don't always know how organizations achieve great social outcomes nor how to convert their successes into programmatic models.

DEPENDENCE ON "CERTAIN KNOWLEDGE" – "Sometimes your good guess may have more of the truth than what we can be certain about," says Ryan, "because the only things we can be certain about tend to be very narrow things."

Devaluation of probable knowledge has led to some misguided behaviors and beliefs:

- **Looking for outcomes where outcomes are not the goal.** For example, Ryan suggests, exposing infants to Mozart to produce high school achievement illustrates an absurd case of over-emphasis on outcomes. There are many activities we pursue in life for reasons that have nothing to do with outcomes. Parents, for example, don't necessarily want to produce sports heroes or professional musicians when they enroll their children in soccer or sign up for music lessons. They're simply looking for ways to enrich their children's lives. Yet, today, if a nonprofit seeks funding for such services, funders will likely want to see plans to measure outcomes, such as building self-esteem to improvement of job prospects.
- **Even where outcomes are the point, they're not the only point.** The quality of an experience also counts. You can show a parent evidence that a military academy will improve their child's school performance, but the parent is likely to consider other reasons – beyond outcomes – when choosing a school.

The Civic Nonprofit

The nonprofit community has very consciously developed and promoted the idea that nonprofits are a special social resource, independent of their effectiveness. Ryan agrees wholeheartedly that, this is an important aspect of nonprofits but suggests that this, too, is an insufficient identity for operating in the real world.

Ryan identifies two ideas that define the civic nonprofit:

SOCIAL CAPITAL – One of the most exciting social policy ideas to come along in the past 50 years, according to Ryan, has been the concept of social capital, described by its earliest articulators – Robert Putnam and David Matthews – at previous Edward A. Smith Lectures.

Social capital, as Putnam describes it in his landmark book, "Bowling Alone: The Collapse and Revival of American Community," refers to the formal and informal bonds between people that result from participation in community endeavors. These connections, according to Putnam, are as important to a productive society as an educated workforce and efficient business practice. Putnam largely attributes the growing gulf between individuals to the more materialistic, less patriotic, more cynical and less politically interested baby boom generation.

Now, nonprofits are to some degree attempting to establish an identity as the ideal purveyor of social capital and thereby solving the nation's problems.

PLURALISM – Americans value giving voice to lots of people with lots of ideas because this is what makes democracy work. Nonprofits offer an important venue for creating and advocating for ideas, which is why we have nonprofits for every imaginable cause and political perspective.

But, says Ryan, the idea of the civic nonprofit is limited by its lack of concern about results. Providing a place – anyplace – to be good citizens isn't enough. Results count. If you're offering services to people who depend on those services or really care about a cause, it's not enough to justify nonprofits simply as great resources for citizenship.

Thoughts about Stakeholders

Stakeholders in the nonprofit community – boards, government, funders and others – each have their own views about what makes nonprofit organizations distinctive from their public and private-sector counterparts and the roles they play in society. Understanding these views, says Ryan, is important because stakeholders' perceptions significantly mold the environment in which the nonprofit sector does its work.

Ryan briefly contrasted stakeholders' perceptions of the nonprofit sector:

Boards – Board perceptions about the nonprofit organizations they serve may be compromised by their exclusion from anything having to do with day-to-day management. There is no doubt that boards are concerned about the nonprofits they serve, but Ryan believes many nonprofit executives – fearing micromanagement – pay a price for withholding operational issues from board consideration. By confining boards to strategic planning and oversight, we handicap their ability to develop comprehensive understanding of what the organization is all about and what types of capacities it needs to perform and become a real agent for change.

Government – The question we must ask about government, says Ryan, is whether it views nonprofits as independent organizations or as mere inputs into the public system. While for-profit organizations lobby for policies that will enable them to take advantage of markets, nonprofits typically lobby on behalf of client and community needs, if they lobby at all. The challenge for nonprofits is to build an agenda to change the way government relates to nonprofits as providers.

Funders – The rallying cry of today's funders – show us the outcomes – has left nonprofits stranded. This is because funders, for the most part, leave unanswered the question of who's going to invest in capacity. Who's going to invest in the inputs to achieve the outcomes?

Resolving the Dilemma

Which brings us back to the dilemma: No single identity is satisfactory on its own, but combining them seems impossible.

Ryan argues that what's missing from all discussions on the topic is any sense of what a nonprofit organization really is, why a particular nonprofit organization might have value and how we can improve and invest in it.

His response to the dilemma is to propose a fourth identity, which for lack of a better name he refers to as the "Nonprofit Organization."

"If we worry more about the capacities of each particular nonprofit organization, we can begin to create a framework that supports the work we try to do," says Ryan. "Our challenge is to move beyond this image of the passive organization that's merely a life support system for programs or a club for democracy and to move beyond the conceptions we have about organizational capacity."

Ryan proposes four capacities needed to support mission and convert aspirations into results:

LEARNING – Instead of relegating learning to program development, Ryan urges nonprofits to pursue organizational learning that focuses not on a particular program but on how the organization operates the program to get results. "Best practices" exemplify how we limit learning. Best practices take the essence of success and try to convert it into a practice. Conversely, in a learning environment, organizations identify their own problems. Then – instead of browsing websites, reading newsletters and going to conferences to discover someone else's best practice – staff and volunteers focus on their own needs and ways to address them.

QUALITY – We confuse quality with program effectiveness. We look at whether programs work and not how they work. What is the experience of participating in this program and how can we make it better?

INNOVATIVENESS – As noted by Paul Light of the Brookings Institution, in his recent book on nonprofit organizations, we tend to confuse innovation and innovativeness. We focus exclusively on new innovations and pay little attention to how organizations continuously create innovations. By focusing on that, we could teach organizations to be more innovative; we could "scale up" innovativeness.

MOTIVATION AND PASSION – We need to think more about how to motivate people and make room for their passion. What research we have on this topic suggests the following:

- **Money isn't everything.** What motivates people is having a good job.
- **Mission isn't everything.** Mission might attract people to organizations, but won't keep them there if the job isn't interesting or manageable.

All of which establishes a foundation for Ryan's answer to the dilemma: We must create an image of the nonprofit that "puts the nonprofit sector back into the nonprofit organization," that focuses not just on individual workers, programs or systems reform but on nurturing mission capacities throughout the entire organization.

"If we can develop an affirmative mental model of the nonprofit organization," says Ryan, "we can make nonprofits successful, independent, mission-driven organizations that not only realize democratic values and make programs work, but get results."

PARTICIPANT REFLECTIONS

Day of Learning participants convened in small affinity groups following Ryan's presentation to respond to four questions. Below is a sampling of their answers:

What have you heard this morning with which you agree?

- Nonprofits are ill-defined; need for new identity
- Outcomes have become a driving force
- Nonprofits are not learning organizations
- Over-emphasis on techno-rational reliance on programs
- Growing competitive environment
- Process, not best practices, are key
- Boards are often out of the mix
- Need to be more responsive to clients and the government
- Improving innovativeness
- The funders' perspective on building capacity

What have you heard that troubles you or with which you disagree?

- Trying to create one identity for nonprofits
- Nonprofits acting like for-profits
- Little emphasis on learning in nonprofits
- Who sets the government agenda?
- Trend toward responding to government agenda
- List of stakeholders left out staff
- Replication studies
- Little hope on changing funders
- Less mission-centered work
- Lack of staff longevity
- Incompatibility of techno-rational and civic image

How might we use ideas worth pursuing in Kansas City?

- More communication and interactions among organizations
- Get funders and nonprofits together to set priorities and socialize; offer more networking opportunities
- Hold dialogues with government agencies
- Create cross-functional organizational learning environments to uncover what's really working even though specific outcomes may not be apparent
- Promote stakeholder clarity on nonprofit identity
- Re-examine relationships between government, private and nonprofit organizations
- Create a database: Who are we serving and where are the overlaps?

What assets do we have in Kansas City to work on these ideas?

- Community spirit and tradition of generosity
- People who understand benefits of learning communities
- Organizational resources, such as the Midwest Center for Nonprofit Leadership, Center for the City, Arts Alliance, Council on Philanthropy, Coalition for Community Collaboration and more
- Funders who are beginning to talk
- Consulting resources
- Experienced, knowledgeable nonprofit leaders
- Greater Kansas City Community Foundation and Ewing Marion Kauffman Foundation

QUESTIONS & ANSWERS

What's your opinion of the faith community providing services?

Political calculation has something to do with it. Two presidential candidates articulated policies stating their preference to engage more faith-based organizations. A lot of people think that faith-based organizations have an organizational identity that represents real social change.

Why are funders requiring groups of service providers to apply together?

People want nonprofits to do the work that government used to do. In other words, to look like coordinated, collaborated local or regional government agencies.

We are dealing with two government/foundation funding models, typically expressed as follows:

A. "I'd love to see your application," says the funder. "Come in and show me how you're related to everything else and represent a holistic comprehensive service network."

B. "We're giving out big contracts to lead nonprofits. We expect the lead agencies to figure out how to stitch together the entire system."

I think funders owe nonprofits an explanation for this excessive requirement for collaboration. The better solution is to let nonprofits be independent, collaborating when there's a purpose and letting government deliver coordinated services.

Can the civic nonprofit accomplish its goals without involving diverse populations?

No. Social capital can produce good or for ill. There are many different missions that engage people and make them effective. Not all are good, such as the Mafia. It's not enough to get lots of poor people in an isolated community together to build social capital among themselves and lots of downtown elites together in a separate group. Groups have to connect to create a healthy civic dialogue.

Sociology teaches us about the strength of "weak ties." You don't have to have close connections with everyone in the community. What's important is to have at least a few ties outside the community with entities that can supply things you'd never have a chance to get otherwise.

Can for-profit organizations be profitable and effective providers or are they apt to lose their shirts?

There's not much research on this question. Are for-profits going to stay with this? We don't know. I think we're likely to see a lot of mobility as for-profits move in when government funding is high and move out when the funding tightens up.

Making a profit and dealing with difficult populations are not incompatible, and we delude ourselves if we think they are. If government is willing to pay, for-profits are willing to do the work.

The research on outcomes to date shows little difference in terms of quality, which is troubling for nonprofits. A colleague is working on research that seems to suggest that as for-profits come in to a market, nonprofits begin to imitate their lower quality behaviors.

Where do clients and participants needs and wishes fit in this paradigm?

I don't think we need to mobilize clients because they're the one group that understands the value of nonprofit organizations. Clients know when an organization is serving their needs. They don't want to hear about the program and collaboration.

But this raises the question of how organizations are responsive to clients. There's a difference between being responsive to clients and having clients run the organization. We tend to believe that dealing with clients with integrity means putting them on the board or holding focus groups. That's great but insufficient.

There's much value to add by trying to figure out things that clients can't or don't have the experience to ask for. We need to do more than value participation.

The under-30 population does not seem to have passion for mission. What's the secret to keeping people in nonprofit work?

Many people under 30 have the impression that people over 30 have taken the best jobs in the sector and show no promise of dying, leaving the under-30 population with no career ladder. I think this helps explain an unhealthy phenomenon. Every time someone under 30 gets an idea, it leads to a new nonprofit organization.

We can't necessarily offer a long career ladder or lots of money. We can offer them challenging, stimulating jobs. We don't need to protect them from hard work; we need to create a horizontal career ladder by giving them harder, more interesting work.

How can the resource potential of the board be used if they are kept at arm's length?

This is one of the great puzzles that we can manage but never solve. We've bought in too much to the fear of board micromanagement and that the only thing boards should do is strategic planning. I don't think anyone – boards or staff – can set real strategy unless they're fairly involved in the work of the organization.

Consider the concept of "emergent strategy." Nonprofits should note that the most effective strategies do not always emerge from deliberate discussions in a boardroom around a blank piece of paper. Effective strategies emerge from day-to-day work. I recognize that having more traffic between the board and the organization does not necessarily appeal to executive directors. Still, research has proven that the closer the board gets to the organization, the more committed its members become.

Please elaborate on involving board members in operations without allowing them to become micromanagers.

Neither boards nor staffs can set real strategy unless they're involved in the work of the organization. With respect to boards, part of the problem is that we've bought into the idea that if we don't want them to micromanage, the only thing we can allow them to think about is strategy. When we allow boards to get closer to operations, we provide them the opportunity to have more strategic insights.

Executive directors can facilitate board involvement in capacity building without encouraging micromanagement by:

- Guiding the board to address only those capacity issues that have strategic significance. Micromanaging is bringing up suggestions and ideas that may not relate to a strategic issue (e.g., client intake process).
- Framing operational and capacity issues in terms that enable boards to do something about the problem

How can we redefine relationships between funders and nonprofits?

I'm doing a project now called "Rethinking Nonprofit – Funder Relations." We're asking the question, What creates value in that relationship, for whom and how? What's good practice, what's bad?

Two options are emerging:

- Funders can improve relationships by reducing hassle, almost a contractual relationship.

- Funders and nonprofits can agree to high engagement relationships.

The latter option, while risky, offers much potential. What funders are doing in these relationships is what we wish boards would do. They provide flexible money you can use however you want. They believe in your mission and your organization, so they're not interested in program specific grants. They help set strategy. Sometimes, as we wish board members would do, they actually contribute the pro bono assistance.

Funders in high-engagement relationships are committed in an extraordinary way to the work of the nonprofit but hold the nonprofit accountable. They combine support and pressure for performance. While painful for many nonprofits, these relationships often get good results. Nonprofits should welcome them, but only with one or two funders at a time.

What about the civic nonprofit that creates a for-profit business to compete and reduce public/foundation dependence?

It looks a lot easier than it is. What I see – instead of for-profit subsidiaries that are lean, mean and profitable – are struggling organizations with a wobbly for-profit they manage on the side.

I would recommend starting a for-profit only where the for-profit is doing the same work as the parent nonprofit. Disseminating your services to a wider audience is not the same as creating a profitable business.

Similarly, I think diversification of funding is terrific, but the only way you get that is to get up and work every day. That's sustainable funding. We have this misguided idea that money will just pour out of the spigot if we're in the right business.

Is bigger better? Do the big eat the small or is it the fast eat the slow?

Do the fast eat the slow? I am suspicious of discussion about speed in the nonprofit sector. I'm not sure where we need it or if we're really committed to it.

In some areas, big is definitely better. Government increasingly seeks to outsource larger and larger contracts to one provider and say, "here, you figure out how to make this into a service system." If you're in that kind of contract environment, you have to be big. Big is also better and necessary when big players get in the game because they gain efficiencies of scale and drive the price down.

So size is the issue in some areas. In others, it's simply delivering the outcomes and the quality, which is easier when you're bigger.

Why aren't more people involved in urban settings?

I have worked with corporate CEOs who have taken up inner city distress as one of their objectives. The difference between their connecting and not connecting was a nonprofit that could show them not just problems but prospects for a solution. People aren't moved to become adventurers in alien, hostile-looking places on their own. They need someone to help get them there.

How can we educate funders about the enormous cost of accounting they demand and the difference between certain and probable knowledge?

One of the biggest pities is the more funding streams you get, the more outcome and performance systems you have to report, none of which correspond to the whole picture of the nonprofit. We end up running books for each funder.

What can we do about this? I believe we need to have more direct feedback from nonprofits to funders. Dialogues like this where issues are aired are a beginning.

I recommend that nonprofits cultivate funders who already respect their work. I would not try to go and convert a stranger. Say you have a funder who's interesting in funding a certain program. Take that opportunity to say: Let me talk about what we need in order to be able to deliver this program. This is where nonprofits usually fall silent because we've created a culture where any organizational problem is stigmatized.

Another option is to shuffle things we tend to consider indirect costs into direct costs. What we want to do on the pie chart is shrink the overhead. I would relocate things that truly aren't overhead – that shouldn't be equated with rent and utilities – and assign them to programs.

As we design an image for the nonprofit community, who do we sell it to and how?

I don't think we have too few people involved in designing a system. I think we have too many people trying to build a system in the image of their own experimental systems. So we have parallel, non-integrated systems based on asset maps that don't line up. The idea of private funders trying to create the map and get everyone lined up on it isn't necessarily going to work.

What do you do about this? Funders can get below that system and work with specific organizations. Organizations themselves can find one another and create a more organic system around real, self-determined purposes.

We have hammered at the system problem and haven't made progress. We could make progress if we started paying attention to government again. Large scale public funding can, in fact, support more collaboration among organizations if it sets clear goals and lets people know how to connect.

My organization was turned down for funding. We were told that our weakest point was our outcomes. What is your opinion on outcomes?

This is a big conundrum for funders, particularly in terms of timing. Some funders try to get you focused on outcomes very early, before you start developing a grant proposal.

Another model, which I prefer, is to let organizations offer their proposal. If the funder finds merit in it and the organization has a track record, then work with the organization to develop a mutual statement of desired outcomes.

Has the competitive trend changed nonprofit ethics?

I don't believe competition is corrupting or compromising nonprofit ethics. What's happening is more subtle. It's gradually taking away nonprofits' choices. The more contracts get specific and cost constraining, the less opportunity for the nonprofit to operate flexibly. Nonprofits aren't making conscious decisions to neglect clients. Rather, they get boxed into a market where they don't have the latitude, the money or the support to do what they'd like to do.

If you served on the board and wanted to help them move to Nonprofit Image #4, what would you do?

One, I would never talk about strategy without talking about capacity. Second, I would want to ask the difficult questions that tend to get displaced by all the information placed in front of us.

What can we do to educate philanthropic community members who may have already long-range strategic plans on huge issues like capacity building and changing funding systems?

The education process is already happening. There are alternatives to stealth capacity building. One is a charity model. The second alternative is generic capacity building, where funders hand over money and technical assistance to do whatever is needed.

I worry about the second model. How long are funders going to pour money into a black box for training, consulting and education before they sit back and ask whether this makes sense? The capacity movement – just starting to gain traction – will get its legs cut off from under it. Capacity building will become today's fad.

I'm focused on this middle ground where we think about what capacities we need to pursue a program or goal and build funders' confidence that they're putting the money in the right place.

How do I elicit funders to enter into a high-engagement relationship?

What I think will drive the movement is nonprofit organizations in dialogue with funders, consistently seeking to establish shared social visions. This is where I've seen change. I see no alternative to this step-by-step frustrating process. If you can just get one funder semi-interested, that would be better than getting all the funders talking the talk but not walking the walk.

It sounds like you're saying what I've heard in education for years. There's a new way to do something every year, but the administration says we're going to do it this way. Then the next year they do something else.

The only way I see to establish momentum for capacity building is if it begins to work for individual funders.

It worries me when I look at the number of foundations now operating under the capacity building banner. Foundations move through fads, but this is too fundamental. So I wouldn't try to convert the field as a whole.

Shouldn't we be inviting program staff to become part of capacity building?

Yes. There are serious obstacles to building internal capacity. Staff want to provide direct service. This other stuff sounds like MBA talk. I would try to do internally at a staff level what we've been talking about doing with funders. Ask them what would make life better for their clients and what it would take to do it.

How can we get things out of indirect costs and over to the other side?

We should think about how we can improve cost accounting and, especially, how can we better understand how much it actually cost to deal with clients. This is important so we can get the correct amount of money to do the job efficiently.

I believe nonprofits have become complicit in their own underfunding. Good cost accounting really does relate to mission.

Reporting on outcomes creates more administrative costs. Doesn't this justify increasing indirect cost or listing previously designated overhead costs as programmatic.

It might be worth getting together to talk about rationalizing some of the reporting that funders require of nonprofits. This is feasible only at a community level.

You cautioned about for-profit ventures. Yet, each of us will probably go to a workshop this year on entrepreneurial partnerships. How can we become more entrepreneurial without jeopardizing mission?

I haven't seen that many examples where for-profit spin-offs have generated substantial revenue flow. There might be other reasons to do it. I'm not opposed to entrepreneurial thinking. But at a time when we have more philanthropic and government capital than ever despite the economic downturn, I don't think we have to convince ourselves that the only nonprofit we can accept is the one that can pay its own way. There's work that's important to be done that doesn't have a market.

CONCLUDING THOUGHTS

By calling attention to disparate and often conflicting perceptions of the nonprofit sector in post-twentieth century America, Bill Ryan forces us to examine much that we take for granted about the sector:

- That what matters most is performance and outcomes.
- That capital acquisition, responsiveness, size and mobility are key to survival.
- That the best way to solve social problems is to develop programs based on replicable formulas.
- That discipline and technique are superior to tacit and probable knowledge.
- That the most valuable resource nonprofits provide is social capital (i.e., bonds between people).

Unfortunately, notes Ryan, most of these perceptions are not compatible with one another. An organization whose highest priority is to produce measurable outcomes probably doesn't excel in creating social capital. Conversely, an organization that spends a great deal of its time and resources developing bonds between people is likely ultimately to disappoint stakeholders who eventually want to see community outcomes and results.

These observations lead to the fundamental dilemma posed by Ryan: No single nonprofit identity is satisfactory on its own but combining them seems impossible.

This dilemma – while drawing serious academic attention – significantly affects the real world of nonprofit management, grantmaking and volunteerism. Stakeholders who believe nonprofits should primarily function as inputs to public well being, as opposed to operating as independent organizations, will promote and support very different programs and policies than a stakeholder whose primary concern is performance measurement or strategic planning.

Ryan's solution to the search for a nonprofit identity begins with a call to expand our thinking about nonprofits beyond competition, technique and social capital. He would rather that we focus on nurturing the four mission capacities he views as essential for all organizations to thrive:

- ***Learning***
- ***Program Quality***
- ***Innovativeness***
- ***Motivation and Passion***

Ryan also cautions nonprofits against pursuing capacity-building relationships to the exclusion of all others. Such relationships present challenges to both funder and grant recipient. For the grant recipient, engaged relationships invite in-depth scrutiny and demand much time and attention. For the funder, they require time, money and a leap of faith that investing in training, technology and the like will produce commensurate returns.

To realize is potential to build capacity, the capacity-building movement must offer more than vague language and short-term solutions to today's management problems. It must be more than a fad.

It can and must be part of the solution to the nonprofit identity dilemma.