Stanford SOCIAL INNOVATION Review
Informing and inspiring leaders of social change

Governance

Filling Essential Gaps in Nonprofit Leadership

New research shows that most nonprofits fall short in important areas of performance. But stakeholders who operate at a systems level can do a lot to help solve this problem.

By William F. Meehan III & Kim Starkey Jonker | Nov. 8, 2017

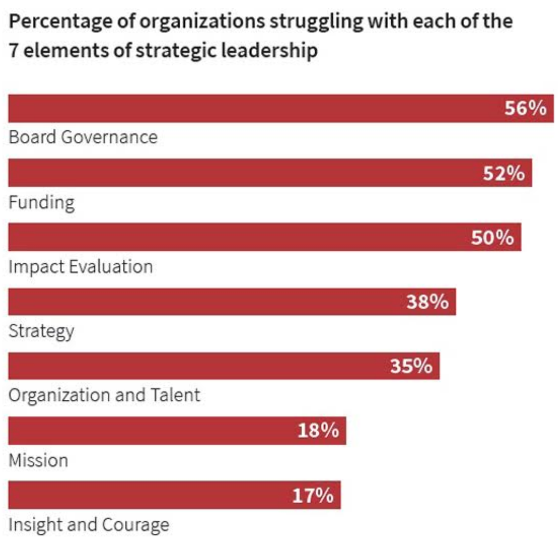
For nonprofits to leverage the potential of new technologies and new ideas—from mobile connectivity to randomized evaluation—everyone with a stake in the sector must work to narrow the distance between what nonprofit organizations might achieve and what they are actually achieving today.

However, our findings from a recent survey (http://www.engineofimpact.org/survey/) we conducted—which drew responses from more than 3,000 stakeholders in the sector, including executives, staff members, and board members at nonprofits and foundations—cast a revealing, and in some cases troubling, light on crucial performance gaps that exist in the sector.

After spending several decades researching, advising, and helping lead nonprofits, we have come to believe that the best nonprofits are able to master seven elements that constitute what we call "strategic leadership": mission, strategy, impact evaluation, insight and courage, organization and talent, funding, and board governance. These elements work together as a system. An organization that exhibits strong performance in all seven areas becomes an "engine of impact" and is capable of achieving real impact on a scale that is adequate to current needs.

Unfortunately our survey showed that a large majority of organizations fail to meet this standard. Looking at responses from nonprofit executives, staff members, and board members, we found that very few of them represent organizations that excel in all seven areas of strategic leadership. According to our analysis, more than 80 percent of nonprofits struggle in one or more of these areas. What's more, in three of these areas—board governance, funding, and impact evaluation—at least half of all nonprofit respondents indicated that their organization struggles to perform effectively. (Those curious about how their own organization fares in its practice of strategic leadership can use our *Engine of Impact* Diagnostic tool (http://www.engineofimpact.org/diagnostic/) . It's based on the same analytical framework we used to develop the survey and takes just 10 to 15 minutes.)

(https://ssir.org/images/blog/meehan_inline.jpg)



But while individual nonprofits have work to do, they alone can’t accomplish the sector-wide transformation that is so necessary. Much of the work of building more effective organizations needs to start, in particular, with the board members who oversee nonprofits and with the donors who sustain them financially. Consider the three areas of performance in which nonprofits are most likely to struggle. In each, influential players within the nonprofit sector can and must help nonprofits develop strategic leadership capabilities.

Board Governance: Demand High Engagement

Better governance at a board level starts with board members themselves. They need to approach their work for a nonprofit as a matter not of passive service but of active participation in the direction of that organization. (They call it a “board of *directors*” for a reason.) While reviewing budgets, project proposals, and strategic plans will always be a core function of a nonprofit board, those who sit on a board should demand opportunities to engage directly with “the thing itself”—the frontline activities that their organization pursues. Chris Bischof, cofounder and principal of Eastside College Preparatory School (http://www.eastside.org/) in East Palo Alto, Calif., cites this aspect of his organization as an important factor in its success. “At least half of the board members are on campus daily or weekly, tutoring or teaching after-school classes to kids or engaging in other ways. This involvement causes the board to really have their pulse on the school,” he says.

Equally important, if not more so, board members must take seriously their duty to monitor the work of their organization’s executive director or CEO. Hiring, evaluating, and setting compensation for that leader is their primary responsibility. Kathy Spahn, president and CEO of Helen Keller International (http://www.hki.org/) (HKI), notes that the HKI board established a framework for evaluation at the very beginning of her tenure at the organization. “In advance of my start date, the board and I developed and agreed upon not only a clear and specific job description, but also mutually agreed objectives and deliverables for my first three, six, and twelve months,” Spahn explains. “Consequently, there were no surprises or speed bumps, and I was able to hit the ground running.” Nonprofit executives, for their part, need to shun the temptation to treat their board as a rubber stamp. The title of an article we wrote in 2014 (https://ssir.org/articles/entry/a_better_board_will_make_you_better) says it all: “A Better Board Will Make You Better.”

Donors also have a decisive role to play in boosting the quality of board governance. In evaluating organizations to support, they should scrutinize the work of board members just as rigorously as they do the work of executive directors and other top staff members. And they should avoid funding nonprofits in which board members seem passive or disengaged, or in which the board displays a lax approach to overseeing executive performance.

Funding: Put a Premium on Impact

Of course the most direct way donors can improve nonprofit performance is through their funding efforts. Donors, we believe, must stop thinking small and start giving big. And they need to give with the aim of supporting nonprofits in a way and on a scale that will empower those organizations to achieve meaningful impact.

One impediment to effective funding is that donors are too ready to fund projects that will bring recognition—a new hospital wing, a campus building, a research center that will bear their family name. They focus too little on funding projects in which their money can do the most good. We don't question donors' understandable wish to earn a bit of glory for their giving. But we urge them to tap into the deeper source of satisfaction that comes with providing fuel to organizations with a proven record of making a difference in people's lives.

We can think of no better model for donors than that of Tom White, whose largely unsung efforts to support Partners in Health (https://www.pih.org/) (PIH) show what it means to give for impact rather than recognition. Today, PIH is an esteemed nonprofit that provides medical services to some of the world's poorest people. It became a global health powerhouse in part because of the visionary work of its founders, including Paul Farmer, Jim Kim (who is now president of the World Bank), and Ophelia Dahl—and thanks to White, who helped launch the organization in the 1980s with a $1 million donation. White owned and ran the Boston construction company J.F. White Contracting Co., which built the Charles River Dam and Foxboro Stadium, and in PIH he saw a worthy place to direct the fruits of his success.

White continued to support PIH by systematically giving the organization roughly $50 million over a period of more than 25 years. To support PIH projects, he sold his company and many of his assets. He and his wife moved into progressively smaller houses so that they could make stretch gifts to the organization. Then, after taking steps to provide for his family financially, he set out to be as close to penniless as possible when he died. White made his last gift to PIH two weeks before his death, at the age of 90. It was for $5,000; that was all he had left.

Not all donors can be as selflessly or quietly generous as White. But his story shows that impact can be just as inspiring to philanthropists as recognition. White seized an opportunity to help fuel a high-impact organization. If more donors adopt this approach, then more nonprofits like Partners in Health will be able to flourish.

Impact Evaluation: Insist on It—and Pay for It

A chronic problem in the nonprofit sector is that very few people in the sector dispute the value of impact evaluation, yet all too few people are willing to spend money on it. That needs to change, and donors are clearly in the best position to affect the way organizations prioritize and fund efforts to evaluate nonprofit work.

For nonprofit executives, the incentives to pursue rigorous impact evaluation are mixed, at best. Many of them prefer to remain opaque about the effectiveness of their programs, because clarity on that front exposes them to unwelcome pressure for accountability. Many boards of directors, moreover, tolerate their executives' avoidant behavior. Reinforcing this pattern is the indifference that many funders exhibit toward impact evaluation. In our survey, we asked nonprofit executives and staff members how many of their donors demand some kind of performance measurement. Only 42 percent of respondents indicated that more than half of their donors fall into that category. And crucially, a much smaller share of nonprofit respondents (11 percent) indicated that more than half of their donors are willing to pay for such evaluation work.

Yet donors are the systemically pivotal player in this area. They have the leverage to demand evaluation of the programs they fund. They also have an incentive to do so: Why should they invest their capital in a nonprofit whose work lacks empirical support? Most important, they have the means to finance evaluation efforts. If donors routinely decline to pay for impact evaluation, then improving this aspect of nonprofit performance will remain something of a lost cause. If they embrace this responsibility, however, then the nonprofit sector can end the state of gridlock in which nonprofits merely pretend to have impact and donors pretend to believe them.

Pratham, an organization that works to improve learning outcomes among children in India, has incorporated rigorous evaluation—including the use of randomized controlled trials (RCTs)—into its work for many years. To do so, it has relied on support from donors that recognize the value of funding not just educational programs but also efforts to measure program results. The William and Flora Hewlett Foundation, for instance, paid for an evaluation of Pratham's implementation of its Read India program in the states of Bihar and Uttarakhand. In fact, the foundation committed to supporting evaluation work on all of the programs it funded under its Quality Education in Developing Countries

(QEDC) initiative. Other funders, including the Skoll Foundation, the US Agency for International Development, and the World Bank, have also supported Pratham's evaluation projects.

According to Rukmini Banerji, CEO of Pratham, collaborating with funders that are willing to pay for impact evaluation works best when the two parties approach this work in the spirit of experimentation. "None of [these funders] have the view that there is a 'silver bullet.' This is a long-run game. From Hewlett especially, we always got the feeling that we are all learning together. Never was the evaluation for the sake of evaluation," Banerji says.

Before nonprofit organizations can pursue impact at scale over the long term, they must *earn the right* to scale. They can do so only by demonstrating their ability to excel in the essential components of strategic leadership. The best nonprofits are ones that absorb this principle. But even the best nonprofits need help in living up to it.

William F. Meehan III is the Lafayette Partners Lecturer in Strategic Management at Stanford University Graduate School of Business and a director emeritus of McKinsey & Company. He is co-author of *Engine of Impact: Essentials of Strategic Leadership in the Nonprofit Sector.*

Kim Starkey Jonker is president and CEO of King Philanthropies and a lecturer in management at Stanford Graduate School of Business. She is co-author of *Engine of Impact: Essentials of Strategic Leadership in the Nonprofit Sector.*

Our survey, "The Stanford Survey on Leadership and Management in the Nonprofit Sector" *was created in collaboration with* Stanford Social Innovation Review, *the Stanford Center on Philanthropy and Civil Society, the Center on Social Innovation at Stanford Graduate School of Business, GuideStar, and BoardSource.*