Fund the People Toolkit

Case Making

Talent-Value Chain in the Nonprofit Sector

Talent-Value Chain in the Nonprofit Sector

By Rusty M. Stahl, President and CEO, Fund the People

In recent years, many funders and nonprofits have turned to business for everything from branding to technology to strategy. Everything, that is, except staff development.

The business world has entered a networked "knowledge economy" in which there is a "war for talent", and the best and most successful companies develop a competitive advantage by investing intentionally and significantly in their employees. Meanwhile, many in the philanthropic community still fund nonprofits as if we operate in the industrial age -- as if staff work on conveyor belts, and programs are machines that produce outcomes. This is a trend repeated from the "scientific charity" of the late 19th century; it didn't work then, and it isn't working now.

There's a reason we are sometimes called the social sector - we don't produce widgets, we advance the common good. And that is all about people. Nonprofit people are nonprofit programs. There's no education without teachers, no health care without health workers, no youth development without youth workers, no community organizing without community organizers, no social work without social workers. And there's none of it without the managers and administrators who support them.

Investing in the nonprofit workforce is perhaps the most important -- and least explored -- area where philanthropy and nonprofits could learn from our business counterparts.

Business management literature is chock full of evidence showing the value of investing in staff and leaders. It is such a common sense, self-evident value that in some companies it is an unquestioned assumption about how business happens.

But in the nonprofit sector, we face daily questions about the value of investing in our workforce. There is scarce rigorous data showing the return on investment. Why so little research? It may be because it is difficult to do experimental studies in a nonprofit context in which real lives are on the line. Or because nonprofit outputs and outcomes are challenging to measure compared to those in business. Or because that research has simply not risen to a high enough priority in our field. Whatever the reason behind it, the lack of evidence creates a vicious cycle in which we don't have evidence of the value of investing in nonprofit people, so we don't invest in nonprofit people, and therefore we don't have evidence...

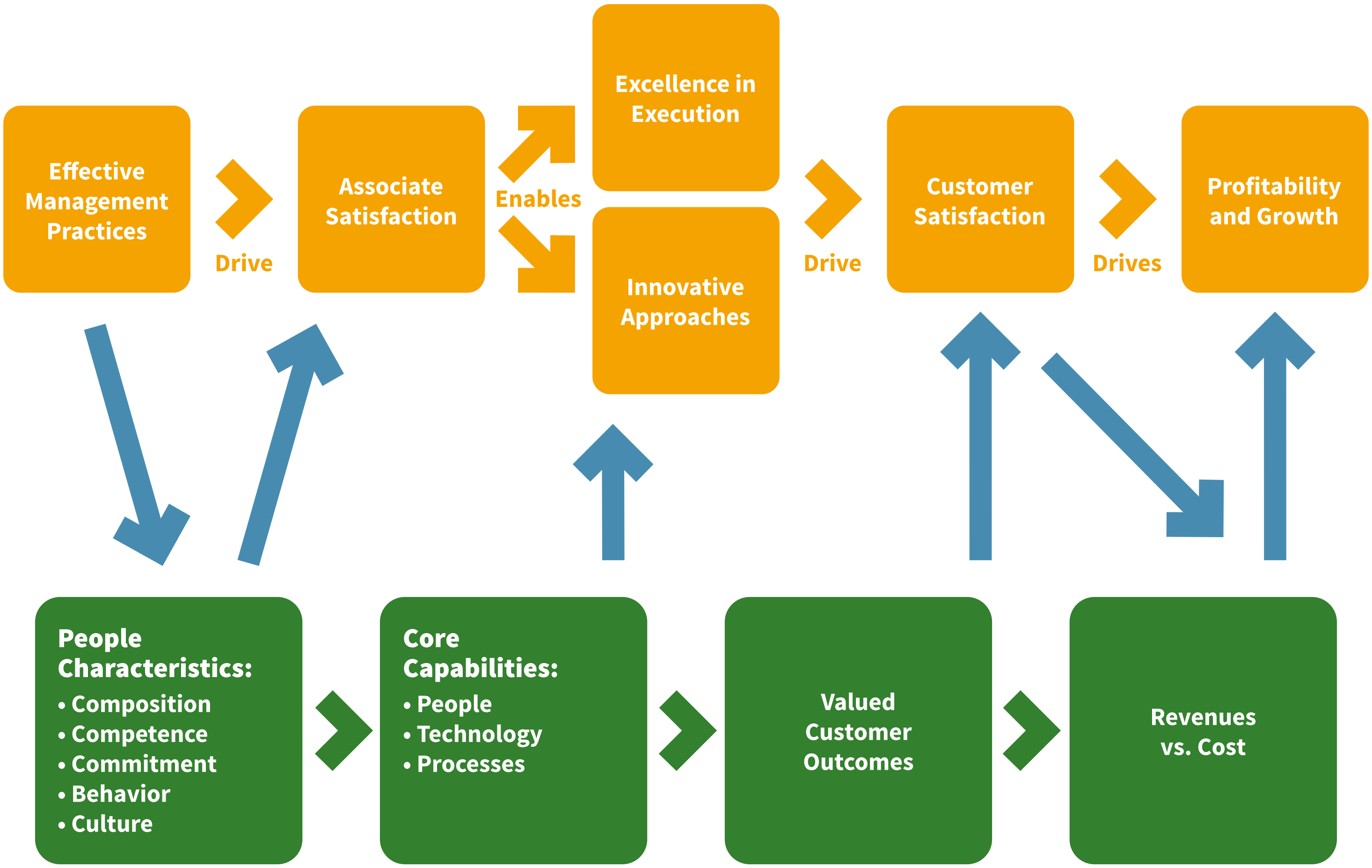
To begin breaking this cycle, we have compiled our own **Top Reasons to Invest in Nonprofit Talent,** and sought to debunk the myths that tamp down investments by funders and nonprofits. In this document, we examine the value proposition businesses gain from investing in employees. And we propose an interpretation for the value funders and nonprofits can gain from investing in nonprofit employees. It is our hope that this preliminary thinking may contribute to further research and practice in the field.

The Society for Human Resources Management (SHRM) is the major HR association in the United States and around the world. It is almost exclusively composed of and focused on for-profit businesses. (There is, to our knowledge, no association for nonprofit HR professionals.) In 2006, SHRM published the book *Building Profit Through Building People: Making Your Workforce the Strongest Link in the Value-Profit Chain* (Carrig, K. & Wright, P. (2006). Society for Human Resource Management). The text lays out a clear logic model showing how investing in employees creates significant value for companies and their customers.

Nonprofits differ from businesses in a variety of ways. Nonprofits have stakeholders, not shareholders or owners. And nonprofits seek public impact, not private profit, as their end goal. So we sought to translate the Value-Profit Chain to a logic model that speaks specifically to the needs and values of our sector.

First, here is the Value-Profit Chain as illustrated in the book (page 19). The items across the top show the primary stages, and the boxes below show the underpinning conditions or processes.

Value-Profit Chain in the For-Profit Sector



Carrig and Wright, *Building Profit through Building People: Making Your Workforce the Strongest Link in the Value-Profit Chain*. Society for Human Resource Management (SHRM), 2006.

The chart shows how management practices aimed at building a skilled and motivated workforce drive employee satisfaction. In turn, this enables excellence in both implementation of routine tasks and new ways of doing work. These effective practices ensure satisfied customers, which enables profitability and growth.

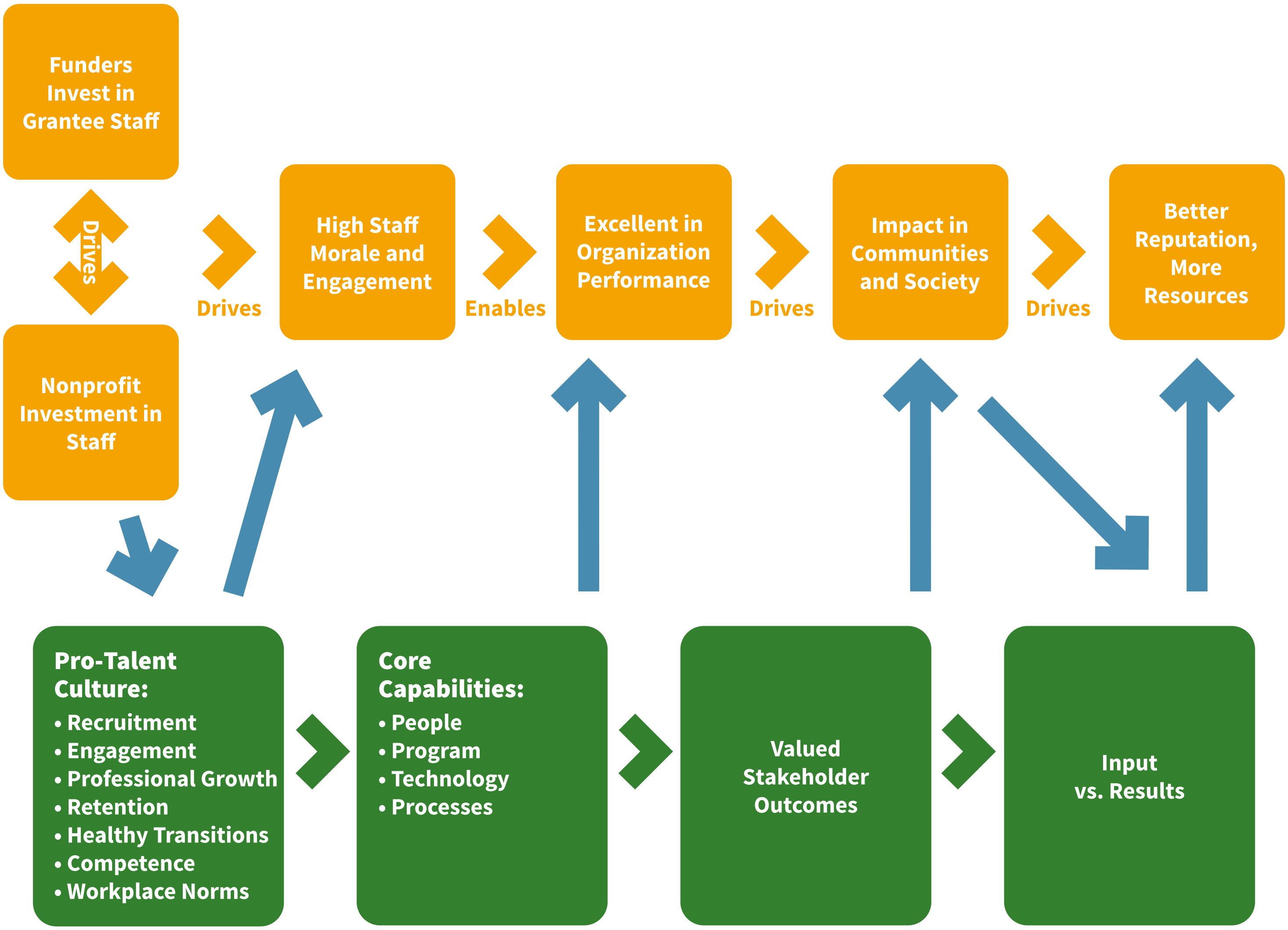
The book discusses how companies that invest in their workforce intentionally, intensively, and consistently see "significantly higher profits and market values" compared to firms with lower levels of investment in the staff. Indeed, the authors cite multiple studies in diverse industries and countries that demonstrate that, on average, a one standard deviation increase in employee-investment management practices was associated with a 20% increase in profitability (page 26). Here's our six-word summary:

Invest in for-profit staff > performance > profit > growth

Given the difference between business and nonprofit institutions, how can we apply the Value-Profit Chain to the nonprofit sector?

We developed the Talent-Value Chain to show how the underlying assumptions apply even in the dramatically different context, inputs, outputs, and outcomes.

Talent-Value Chain in the Social Sector



In contrast to the relatively unrestricted income enjoyed by businesses (sales, investors, shareholders, etc.), most nonprofits rely on relatively restricted income from funders of various types (donors, foundations, government, etc.). This tends to severely limit the ability of the board and management to deploy resources (both dollars and non-cash resources like time, managerial approach, skills, systems, etc.) for investments in the staff. So on the left-hand side of our model, we show intentional funder investments driving the ability of the nonprofit to invest in staff. We show the arrow going in both directions between funder and nonprofit, because nonprofits' interest in investing in staff can and should shape funder investments.

Funder and nonprofit investments in staff are two factors that subsequently drive high staff satisfaction. (It is worth noting here that nonprofits too often over rely on their missions to motivate their staff—and it can backfire. A dearth of investment in staff can lead to cynicism about the organization's real commitment to its stated values, which may lead to bitterness and sinking morale. So, it is recommended to pair mission and staff investments as twin motivators.)

High motivation and satisfaction drives rising performance (both routine tasks and innovation, although we do not highlight that in our chart). This subsequently improves impact by ensuring excellent processes, programs, and goods and services for the people and communities served by the organization. Impact drives reputational capital and the ability to secure diversified resources, thus resulting in the sustainability of the programmatic work, the organization, and the staff. Here's our six-word summary:

Invest in nonprofit staff > performance > impact > sustainability

If you are interested in exploring this further, check out **Top Reasons to Invest in Nonprofit Talent,** which explores in more depth how talent-investment drives improved nonprofit performance, impact, and sustainability.

About Fund the People

Fund the People

Fund the People is the national campaign to maximize investment in the nonprofit workforce. To achieve this goal, we make the case, equip for action, and build a movement to change the attitudes and behaviors of funders, fundraising nonprofits, and the intermediaries that support them. There is a long-standing, sector-wide deficit of investment in the nonprofit workforce. Nonprofit professionals work in environments typified by high burnout and stretched resources. So there is a real demand for equitable salaries and benefits, more and better professional development, improved human resources functions, and healthy organizational culture. Together, we can address these challenges by reshaping existing resources to prioritize nonprofit people as the central asset of nonprofit performance. Now more than ever, we can ensure that America's civic leadership is diverse, well-supported, high-performing, and sustainable for the long haul. Launched in 2014 and headquartered in Beacon, NY, Fund the People (originally known as Talent Philanthropy Project) is a project of Community Partners. Our work is informed by an Advisory Council of diverse leaders and a team of skilled staff and consultants, and is supported by a coalition of regional and national foundations.

To learn more about Fund the People visit:
fundthepeople.org

Acknowledgments

Rusty Stahl is President and CEO of Fund the People, which he founded in 2014. He is also a Visiting Fellow at New York University's Wagner Graduate School of Public Service. Connect with him on Twitter at @fundthepeople.

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