MANAGEMENT CONSULTING

A Complete Guide to the Industry

- AN INSIDER'S PERSPECTIVE INTO THE WORK AND LIFE OF CONSULTANTS
- ESSAYS BY LEADING CONSULTANTS
- PROVEN METHODS OF MASTERING THE CASE INTERVIEW
- STRATEGIES FOR NEGOTIATING YOUR BEST OFFER

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and supporting clients in plan administration. It also includes helping clients manage benefits while keeping an eye on the bottom line. Health benefits consulting is part of a broader approach to human resource consulting.

Health benefits consulting is changing because human resource management is changing. More and more, senior and operations managers are directing corporate benefits managers to make benefits contribute directly to productivity, profitability, and other fundamental business goals of firms.

In the future, employers may hire benefits consultants primarily to learn how to use benefits as tools that encourage employees to perform at higher levels. Employers will more likely want to focus on how benefits can fulfill employees' fundamental needs for security and quality of life, which will motivate them to achieve higher levels of productivity.

Consulting to the Nonprofit Sector

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To effectively help nonprofit organizations, we, as consultants, must have a strong understanding of the nonprofit sector and its typical organizational structures. We need to convince our nonprofit clients that we have strong functional and industry expertise. And we also have to prove that we understand the organizational behaviors arising out of the three economic sectors: private, pubic, and nonprofit. Since organizations tend to experience similar issues regardless of sector, the solution to a nonprofit's problem may be similar to those for the private or public sectors. As a result, we can ask the same question of any of the three sectors: How does being a nonprofit—or a for-profit, or a

public—organization either affect or create the issues our client faces? Although this question applies to all three sectors, the context within which we ask it leads to very different answers.

THE THREE SECTORS OF THE U.S. ECONOMY

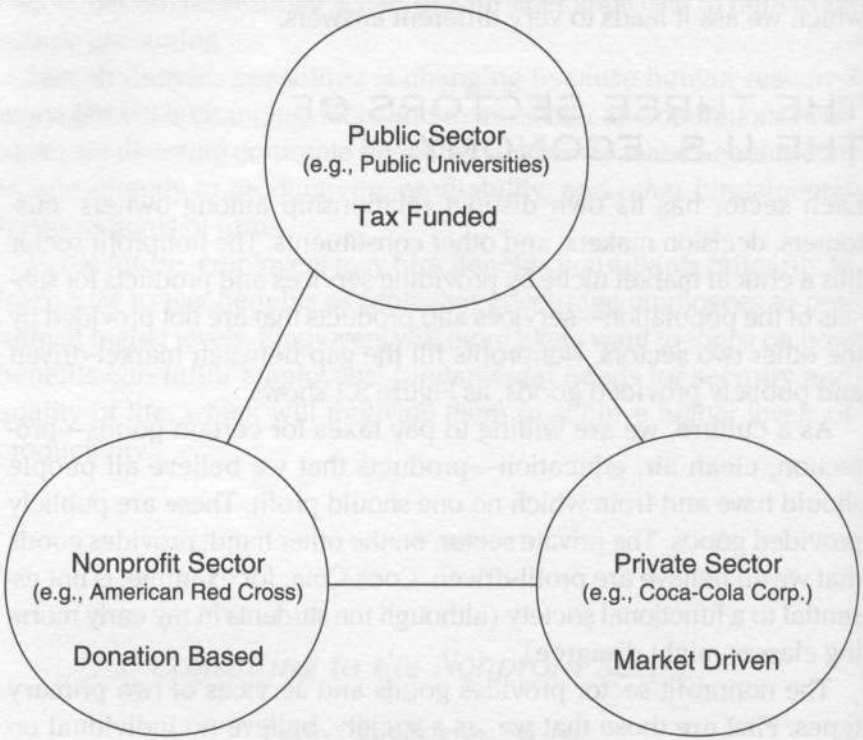
Each sector has its own distinct relationship among owners, customers, decision makers, and other constituents. The nonprofit sector fills a critical market niche by providing services and products for subsets of the population—services and products that are not provided by the other two sectors. Nonprofits fill the gap between market-driven and publicly provided goods, as Figure 3.1 shows.

As a culture, we are willing to pay taxes for certain goods—protection, clean air, education—products that we believe all people should have and from which no one should profit. These are publicly provided goods. The private sector, on the other hand, provides goods that we all believe are profit-driven. Coca-Cola, for example, is not essential to a functional society (although the students in my early morning classes might disagree).

The nonprofit sector provides goods and services of two primary types. First are those that we, as a society, believe no individual organization should profit from, and only a subset of the population believes are important to society's well-being. It would be considered morally inappropriate, for instance, to profit from providing housing for the homeless or food for the hungry.

Second, the nonprofit sector provides goods and services that we feel the public sector is often not suited to provide. The bureaucracy of the public sector can inhibit its ability to respond to crises, except through public organizations specifically designed for that purpose, such as the military, police and fire departments, and emergency medical teams. For example, the Red Cross manages the national blood supply. We do not feel that the public sector is capable of managing this type of operation since the technical knowledge required to run a blood bank is not the same as the knowledge required to be a good soldier or fire fighter. We look to the nonprofit sector to provide specialized

Figure 3.1
Sources of Capital by Sector



skills or services to fill just such gaps between the public and private sectors. Table 3.3 summarizes the key differentiating characteristics of each sector.

THE NONDISTRIBUTION CONSTRAINT OF THE NONPROFIT SECTOR

The nonprofit sector involves three parties: the donor, the organization, and the recipient of the service or goods. That is, this sector is funded by donors, who pay for an organization to deliver a product to needy recipients.

Table 3.3
Key Characteristics of the Three Economic Sectors

Sector	*Goods and/or Services*	*Owners*	*Customers*	*Source of Funds*	*Customer's Recourse*	*Key Decision Makers*	*Managers*
Private	Market-driven goods: (e.g., Coca-Cola houses)	Shareholders	Purchaser of good or service	Customer purchase; borrowing; equity offerings	Stop purchasing item	Board and top managers	Hired managers
Public	Public welfare goods (e.g., clean air, public education policing)	Unclear (Taxpayers? Voters? Citizens?)	Unclear (All citizens? Voters? Taxpayers? Users of the service?)	Taxes, fees, bonds	Withhold votes; lobby; run for office	Legislators	Government employees
Nonprofit	Gray market goods (e.g., some cancer research)	None; quasi-"owners" are members of the board of directors	User of good or service	Donations, grants, borrowing, fees (not commonly paid by users)	Limited; stop using good or service	Board of directors and executive director	Hired managers and executive director

Unlike the private sector customers, the customer of a nonprofit may never have a financial transaction with the organization; the donor provides the funds that are transformed by the organization into goods or services for the "customer," without accruing a profit for the effort. Thus, nonprofits are subject to the "nondistribution constraint."

The nondistribution constraint provides the psychological trust donors need when giving money. The blood bank, the soup kitchen, and the homeless shelter are all examples of organizations that must not accrue a profit or, more accurately, must not distribute profit to any one individual or group. For example, the donor believes that when she gives her $1,000 to CARE (a worldwide agency working to eliminate hunger), most of the money will be used for the "consumer" or client, with some portion of the donation going to operating or fundraising expenses. She believes that no single person or group will reap personal wealth from her donation. Without this psychological contract, which is encoded in law, the nonprofit sector could not exist.

The nondistribution constraint, and the donors' trust it generates, is the primary differentiator of how nonprofits operate. Still, some 80 percent of the organizational issues occurring in nonprofit organizations are the same as in the private sector: teams still start, stop, succeed, and fail for many of the same reasons. And strategies are conceived and carried out for many of the same reasons.

The remaining 20 percent of the organizational issues are unique to the nonprofit sector because the nondistribution constraint drives nonprofits to pursue a mission—not a bottom line, as in the private sector. Nonprofits do not pursue missions such as "the best customer service in the world," or, "the largest bank in the universe." Rather, nonprofits must strive for missions that serve either the nonmonetary purposes of a group of people or the higher good of humankind.

A CAREER IN CONSULTING TO NONPROFITS

What does this mean for a career in consulting to nonprofits? Primarily this: a "nonprofit" consulting focus works only to a certain extent—one also needs to acquire both industry (e.g., healthcare, transportation, education) and functional (e.g., human resources, marketing, finance) expertise. All too often, nonprofits are lumped together, and consultants assume they can provide services to any nonprofit. This may work for certain functional issues, but a consulting practice focused on nonprofits must be enhanced by elements other than a generic "nonprofit expertise." For example, a few areas of expertise are particular to consulting to nonprofits: developing a board of directors, managing endowments, and fund-raising. The following discussion is an example of one we frequently have with applicants:

> A young, recent MBA graduate is sitting across from me at my desk. He eagerly asserts, "I want to be a consultant."
>
> I look at him with curiosity, "Why?"
>
> After a very brief pause, he responds, "I like to work on a variety of projects and I do not mind working long hours," having practiced his response in many interviews.

"Well, that tells me *how* you like to do your work, but it still does not answer why consulting? And why Good Work Associates?" I ask.

Earnestly, he replies, "I really care about the nonprofit sector—I want to help make the world a better place."

When we encounter such unbridled and idealistic enthusiasm, we are certainly pleased by the candidate's good intentions. But we are also concerned that the candidate has not seriously thought through his consulting interests. All candidates, before interviewing, should recognize three characteristics that are essential to success as a consultant, and determine the degree to which they possess each:

1. Consultants do not simply "want to be consultants." Consulting is the means to an end, a path to achieving some larger vision.
2. Good consultants not only have a passion for a topic or field, but they also have a strong liberal arts curiosity. Are you broadly trained? Are you fascinated by Plato, sundials, and the Aztecs? Do you write well? Are you reading *Harvard Business Review* as well as E. Annie Proulx's latest novel? Successful consultants can distill and integrate ideas from the past and from around the world and use those ideas for creative problem solving.
3. Consultants should have a sense of their path of personal development; they should seek to improve both themselves and the working world. And we believe consultants should aspire to balance the "three legs of life"—work, family, community—throughout the three concurrent phases of life—learning, earning, and returning.

Many of our young applicants see consulting as a way to make a lot of money or to build their resume. We believe that both goals are ultimately disappointing to everyone involved—the firm, the employee, and more importantly, our clients. We hope that our staff will see consulting as a means to several ends—an improved society, a meaningful career, and better workplaces for our clients.