



How Nonprofits Differ From For-Profits – and How They Are the Same

Nonprofits that have governing Boards of Directors (the focus of this book) are corporations. Perhaps the best way to explain the purpose and designs of nonprofit corporations is to compare them to for-profit corporations, a form with which most of us are quite familiar. Table I:1 depicts differences between both types of organizations.

Table I:1 – Comparison between For-profit and Nonprofit Corporations

For-Profit Corporations	Nonprofit Corporations
Owned by stockholders	Owned by the public
Generate money for the owners	Serve the public
Success is making sizeable profit	Success is meeting needs of public
Board members are usually paid	Board members are usually unpaid volunteers
Members can make very sizeable income	Members should make reasonable, not excessive, income
Money earned over and above that needed to pay expenses is kept as profit and distributed to owners	Money earned over and above that needed to pay expenses is retained as surplus and should be spent soon on meeting the public need (the nonprofit can earn profit from activities not directly related to the nonprofit’s mission; however the nonprofit often has to pay taxes over a certain amount)
Chief Executive Officer is often on the Board of Directors, and sometimes is the President of the Board	Conventional wisdom suggests that the Chief Executive Officer (often called the “Executive Director”) not be on the Board
Usually not exempt from paying federal, state/provincial, and local taxes	Can often be exempt from federal taxes, and some state/provincial and local taxes, if the nonprofit was granted tax-exempt status from the appropriate governmental agency
Money invested in the for-profit usually cannot be deducted from the investor’s personal tax liability	Money donated to the nonprofit can be deducted from the donor’s personal tax liability if the nonprofit was granted charitable status from the appropriate government agency

Although Table I:1 depicts distinct differences between for-profit and nonprofit corporations, there is much more similarity between them than many people often realize. Both types of organizations must have effective governance, leadership, robust planning, quality services to constituents, competent and committed personnel, and cost-effective operations.

Also, the types of issues that can occur in small nonprofits are very similar to the types of issues that can occur in small for-profits, including the constant struggle to obtain funding and good people, reacting to the changing day-to-day demands in the workplace, ensuring that customers are always satisfied, and managing time and stress to avoid burnout. In many ways, a small nonprofit is much more like a small for-profit in nature than a large nonprofit. Similarly, a large nonprofit is much more like a large for-profit in nature than a small nonprofit.

(The Board of a for-profit corporation often is referred to as a “corporate” Board – an insufficient distinction because the Board of a nonprofit corporation also is a corporate Board.)