Eight Characteristics of Nonprofit Organizations

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Understanding context is critical to being helpful in any environment. The authors provide valuable context for working within the nonprofit world by identifying eight key characteristics of nonprofit organizations. These characteristics affect the nonprofit culture sufficiently that any prospective nonprofit board member or nonprofit consultant needs to understand them to be successful.

The work of nonprofit organizations touches every person who lives in the Bay Area. Our air is cleaner, our culture is enlivened, our freedoms are protected and enhanced, the poor and sick among us live better lives all because of the work of nonprofit organizations.

While as a group "nonprofit organizations" cover a wide spectrum of size, scope and sophistication, the vast majority of the one million nonprofit organizations in the United States are small, with fewer than fifty staff, and have a mission focused on service.

Many consultants who work with organizations in all three sectors (nonprofit, private and public) see similarities between small businesses and small nonprofits. We recognize the similarities in organization life for organizations with a similar number of staff. Still, from our experience working with hundreds of nonprofit organizations and through discussions with clients and colleagues, we have identified eight "key" characteristics of these organizations:

- Passion for mission
- Atmosphere of "scarcity"
- Bias toward informality, participation and consensus
- Dual bottom lines: financial and mission
- Program outcomes are difficult to assess
- Governing board has both oversight and supporting roles
- Mixed skill levels of staff (management and program)
- Participation of volunteers

It is our belief that enhanced awareness of these distinct characteristics will help boards and consultants to work more effectively in nonprofit organizations.

1. Passion for mission

The passion for mission is a great source of strength for nonprofit organizations. The institutionalized impulse to "change the world" has brought about many important advancements in American society. As a strength, the passion for mission taps incredible creativity, energy and dedication for the work of an organization. However, zeal for the mission can lead staff board and volunteers to discount "business" realities, to turn strategic differences into interpersonal conflict, and to work with an urgency that borders on a crisis mentality.

Example:

A consultant was called in to help with clarifying roles and resolving conflicts among the management team of a housing organization for seniors. The managers had spent the past few months arguing over decision-making processes. The consultant was able to help the group see that beneath the conflict was a deeper division over mission. The Executive Director felt that the organization's mission was to care for sick and frail elderly residents. The Associate Director, however, saw the organization as having a social change oriented mission - providing housing was a means to a larger advocacy role on behalf of poor senior citizens. Other managers were roughly divided along these lines. This conflict was really a power struggle over the fundamental focus of the organization's mission. Once the underlying issue was identified, the managers were able to agree on their decision making process while the broader issue was referred to the Board. Ultimately the Board backed the more ambitious mission and the Executive Director eventually left the organization.

2. Atmosphere of "scarcity"

There are factual and perceptual components to scarcity in nonprofits. Most nonprofit leaders could do more work if they had more money, more access to decision making, more talented board members, etc. They are often, **in fact**, "under-resourced". Since money takes a lot of energy to acquire, hyper-cost-consciousness is often present. In addition, organizations may carry an altruistic sense that "most of our resources should go to the clients". As a result, many nonprofit organizations frequently have underdeveloped infrastructures. Nonprofit staff are often more willing to spend time (their own volunteers', board members') rather than money to get work done.
Example:
An organization serving the homeless engaged a consultant to lead their strategic planning. Little information had been collected from the organization's clients about their needs or their satisfaction with services. Both consultant and the organization agreed that client input would be essential to meaningful strategic planning, but the foundation grant the organization had would not cover this type of survey.
The consultant helped the group develop a survey that could be administered by staff and volunteers. With a small amount of guidance, a staff member was able to tabulate the data and develop useful findings The data had a profound impact on the planning process. The organization was able to do thorough planning within the limits of its resources.

3. Bias toward informality, participation and consensus

A sense of friendliness and welcoming atmosphere with little attention to hierarchy are often described as attractive dimensions of nonprofit culture. Taken too far, informality can limit the appropriate exercise of authority, over-participation can inhibit appropriate division of labor, and the tendency toward consensus can bog down decision making.
Example:
One local community health clinic had long-standing roots as a center of service and advocacy for an inner city neighborhood. The staff had always made nearly all decisions as a group. When the organization encountered a budget shortfall, the Executive Director called the whole group (of 45 staff) together to decide how to cut salaries. The discussion devolved into name-calling and tears. In this situation, the habit of participatory decision making led to unhealthy conflict and paralysis. In this case the consultant persuaded the group to let the board handle the matter with limited input from staff. Although the situation was not pleasant, the Board's authority to make this decision alone was seen as a fair and appropriate role by the staff.

4. Dual bottom lines: mission and financial

Tension between mission and financial results is fundamental for nonprofit organizations. (One can debate to what extent this is unique. For-profit organizations have increasingly focused on the importance of mission, relative to the priority of return on investment. Governmental organizations have increasingly focused on the importance of mission relative to the priority of political impact).
Internally, the tension between bottom lines influences many strategic decisions as well as the sense of "how well the organization is doing" at all operational levels. Externally, some stakeholders of a nonprofit care about both bottom lines (funders, competitors, and regulators) and some stakeholders care primarily about mission (clients and community). The complexity of dual bottom lines figures in many consulting engagements.

Example:

The primary government funder of a multi-service organization called a consultant to work with an organization that "couldn't get its financial reports in on time." Focusing most of his energy on the program, the organization's Executive

Director tripled the program funding over four years. However, he had paid little attention to managing the "business" functions and felt that he "couldn't afford" to increase the capacity of his financial management function. He simply put pressure on his bookkeeper about the reporting problems, to no effect.

The consultant found the accounting function woefully understaffed. A major reason was the small allowance the funder allowed for non-program ("indirect") expenses. Upon the consultant's recommendation, the funder agreed to raise the indirect cost rate and the organization was able to hire an additional staff member to manage the finances of the organization.

5. Program outcomes are difficult to assess

Most nonprofit organizations have limited program evaluation capacity. This is partially caused by the absence of standardized program outcomes in most fields. In child care for example, standards for adult-child ratios exist, but little is standardized in terms of the quality of care delivered. Similarly, arts groups, advocacy organization, mental health agencies and community development corporations face substantial challenges in measuring their effectiveness. Furthermore, most nonprofit organizations do not have the benefit of unambiguous market feedback to let them know how well they are serving their clients. (Nonprofit organizations exist because neither the market nor government is providing the service; most are funded in part of completely by sources other than the direct beneficiaries of their work.) Thus, assessing cost-effectiveness and comparing alternative actions is difficult. Different individuals also may make different assumptions about the relationship between cost and effectiveness. Some groups essentially ignore the issue assuming their efforts are as effective as they can be.

Example:

A county-wide agency that provided substance abuse counseling and crisis support to youth had divided its programs into several smaller units. When faced with a drop in unrestricted funding, the group had to decide how best to cut back its services. Because the group had little objective data on the outcomes of the carious program initiatives, and because much of their funding was raised through private contributions, the organization could not decide how to manage the reduction in funds.

Absent and meaningful outcome-oriented data with which to make these decisions, a consultant worked with the management team on a short-term plan for across-the-board cuts and a longer term plan to collect outcome data for strategically selecting programs it would keep.

6. Governing board has both oversight and supporting roles

The governing board of a nonprofit has dual roles: it is responsible for ensuring that the public interest is served by the organization, and--unlike private sector boards of directors or government boards and commissions--is expected to help the organization be successful. The first role is analogous to protecting the interest of stockholders or voters. The second role complicates the distinction between governance and management because, in this role, board members do staff-like work. As helpers, board members may raise funds, send mailings, paint buildings, or do the bookkeeping. This can lead to confusion about when, and how, it is appropriate for board members to be involved in initiatives. Furthermore, board members often are not expert in either nonprofit management or in the organization's field of service. They may either be unprepared to make decisions, or may give up their authority inappropriately to staff.

Example:

The president of an eighteen-member board of an animal shelter called a consultant to facilitate a planning retreat. The consultant discovered that a high level of conflict existed between the staff and the board over what the staff considered "micro-management." The board had fourteen standing committees. Some, like the one for facilities, had been formed when the organization was quite small. A few old-time board members, literally, still wanted to decide the color of paint for the walls in the office.

Confusion as well as disagreement about the appropriate role of the board in this phase of the organization's life was the problem here. A consultant was able to help the group agree on the most important areas for oversight and support by the board. As a result, the group reduced the number of committees to six. Two long-time board members who had always been active volunteers, and really only wanted to be volunteers, left the board but stayed involved with volunteer activities.

7. Individuals have mixed skill levels

As a function of passion for the mission, limited financial resources, and a shallow pool of candidates, nonprofit organizations often hire managers with limited management training and program staff with little program experience. Though the staff is often composed of professionals (e.g. social workers, artists and scientists), because most organizations are small, there is seldom much internal capacity to provide training for staff for the particular roles they are playing.

Example:

An organization whose budget had grown from $600,000 to over $2,000,000 in three years was preparing to spin off from its parent agency. Their bookkeeper was a long time employee who liked working with numbers but who had no formal training in accounting. This self-taught accountant had developed all of the accounting systems over a period of years. This is not atypical in small nonprofit organizations. Individuals do the work that is in front of them as well as they can. As part of this organization's merger, the consultant asked the Board Treasurer, who was a well-respected CPA, to put the books into more standard formats and help with a staffing plan for bringing in more professional accounting resources.

8. Participation of Volunteers

Many nonprofit organizations rely on the active participation of volunteers. Members of the Board of Directors are normally not paid for their work, and individuals contribute considerable time and effort in delivering services and providing administrative support. The contribution that volunteers make to the nonprofit sector is significant; indeed without volunteerism many needed social services would not be available to the public. However, volunteers usually have to juggle multiple commitments, and the relative priority they assign to their volunteer job may have to be balanced with their paid job, family responsibilities, and other volunteer commitments. As a result, consultants working with volunteers have to be willing to meet with a Board of Directors in the evening, facilitate a board and staff retreat on the weekend, and find ways bring busy volunteers up to date. Finally, there may be resentment on the part of certain volunteers; that some people are being paid for work that they are doing for free, and that everyone should be volunteering.

Example:

An all-volunteer organization providing computer technical assistance to nonprofit organizations decided to hire its first paid staff. The consultant brought in to help with this transition period worked with the board to clarify issues of authority and responsibility. While the all-volunteer board was more than willing to give the new staff person all of the responsibility for running the program, they were less clear as to what authority they were willing or able to delegate to the new Executive Director. The consultant helped the board understand that they needed to empower the Executive Director with some necessary authority while retaining its oversight function.

The descriptions above of the eight characteristics are broad and general and represent a "work in progress." However, we think that they offer a framework for consultants that can improve their effectiveness in working in nonprofit environments. We encourage dialogue about what makes nonprofits unique, and how we consultants can be most helpful.

Source: http://genie.org/op_8_characteristics.html