

PART ONE

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UNDERSTANDING,  
ENVISIONING, AND CREATING

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## UNDERSTANDING NONPROFIT ORGANIZATIONS

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It all starts with the mission. Nonprofit organizations have a distinct mandate to be good stewards of the resources they receive toward the pursuit of their mission, whether those resources come in as philanthropic dollars, government contracts and grants, membership dues, or earned income through revenue-generating activities. In this book we focus primarily on how nonprofits pursue their missions in the general social, cultural, legal, historical, and economic context of American life. We offer some examples from other countries and believe much of what we offer is applicable to international contexts. Still, this is a book about leadership and management and thus needs to be embedded in a particular place and time.

The importance of context becomes clear when we look at the competencies proposed in November 2011 for nonprofit managers and leaders by the Non-Profit Management Education Section of NASPAA (National Association of Schools of Public Affairs and Administration). Members of this NASPAA section suggest that students pursuing nonprofit careers should be able to apply knowledge and understanding of

1. The history, values, ethics, and philosophies of nonprofit organizations, and the need for transparency in nonprofit management practices to maintain the public trust
2. The current legal frameworks for operating a nonprofit organization, and the process of forming an incorporated nonprofit organization

3. The fundamental principles and concepts of fiscal management, revenue generation, and fundraising, and the ethical imperative to be a good steward of the financial resources of the nonprofit sector
4. The leadership challenges of the sector as they relate to the strategic management of nonprofit organizations, which requires integrating the roles, responsibilities, and relationships of the board of directors, the executive director, the employees, the volunteers, and all stakeholders in meeting the mission of the organization
5. The human resource and volunteer management principles necessary to manage a nonprofit organization's core services and functions
6. The standards for accountability, performance measurement, and program evaluation, and the appropriate techniques for using both quantitative and qualitative methods to measure the performance of nonprofit organizations

The contents of this book can serve as a foundation for these six competency areas. We go beyond building knowledge and understanding in each area and add additional topics to enhance leadership and management capacity. To orient readers and provide a roadmap of what is to come, we offer a quick overview of each part and chapter.

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## A Roadmap Through the Chapters

Our comprehensive approach to excelling at managing and leading nonprofits is built around competency and curriculum guidelines developed by NASPAA and by NACC (Nonprofit Academic Centers Council). A summary of the NACC guidelines appears in the Appendix, where they are mapped to the chapters in this book. The six NASPAA competency guidelines have been given earlier in this chapter. Both NASPAA and NACC recognize the importance of understanding the historical development of the nonprofit sector and its values base. These issues are touchstones for our chapters. We discuss how ideas about specific management and leadership topics evolved over time and whether or not they are backed up by theory and empirical evidence. We repeatedly return to the ways in which values influence management and leadership decisions as well as the behaviors of board members, donors, staff, volunteers, and others, and how all this affects the effectiveness of a nonprofit.

As a social psychologist and a sociologist, we are steeped in our respective disciplinary traditions. However, we draw from additional disciplines as well to introduce readers to source documents and thought leaders for the ideas in

the book. All our topics and recommendations for practice are grounded in the academic literature. In choosing our main examples we made sure that readers would have enough background information and in some cases even videos for a further exploration of these cases. We also provide additional learning tools in the form of questions for discussion and exercises at the end of each of the main content chapters.

In Part One, we discuss understanding, envisioning, and creating nonprofit organizations. In Chapter One, after this introduction to the book, we give a general overview of the nonprofit sector. In Chapter Two we explore ways to consider the effectiveness of nonprofits and encourage ethical behavior among those working within them. We look at multiple dimensions of organizational effectiveness: goal achievement, resource acquisition, health and efficiency of internal processes, stakeholder satisfaction, and ability to learn and adapt. In Chapter Three we examine topics important to those interested in establishing a nonprofit organization and laying an effective groundwork for future action. We show the many different origins of nonprofits. Drawing on the entrepreneurship literature, we consider how people, capital, and opportunity come together in nonprofits to deliver social value. We also discuss how to make the case for a new nonprofit, including writing the business plan. Chapter Four covers options for organizational structure. We look at formalization, complexity, and other structural elements that influence information processing, and we consider possible structural deficiencies.

In Part Two we turn to strategizing, resourcing, and aligning, because throughout their existence nonprofits should have a mission and a vision and should acquire and manage resources to pursue them. Chapter Five covers the formulation of strategy. Topics include the general strategic orientations that nonprofits adopt and the strategic planning process. We also consider the emergence of strategies in nonprofits. Chapter Six covers resource acquisition. In this chapter we examine the variety of revenue sources employed by nonprofits, including grants, gifts, and earned income. We discuss philanthropy, addressing types of gifts and donors, as well as fund development and grant proposal writing. Chapter Seven reviews financial stewardship and management. We outline best practices for policies, accounting, budgeting, banking, borrowing, financial risk management, auditing, and financial analysis. Chapter Eight provides knowledge and tools for effective marketing. We cover the philosophy of and orientations to marketing, marketing planning, and branding. In addition we explore options for the pricing, promotion, and distribution of goods and services.

In Part Three we focus on human resources and discuss leading, managing, and delivering the mission. Chapter Nine covers boards and the broader topic of governance. We discuss the responsibilities of boards, roles of executive directors in

relation to boards, determinants of board effectiveness, options for board configurations and composition, and tools for facilitating governance and managing conflict. Chapter Ten adds leadership and executive directors to the mix. We explore the basis of leadership and the responsibilities of executive directors. We also consider nonprofit founders, leadership transition, and leadership development. In Chapter Eleven we turn our attention to strategic human resource management. We look at ways to measure and build human resource capacity. We then look at human resource management through the stages of initial involvement, development, maintenance, and separation. As a follow-up to Chapter Eleven, in Chapter Twelve we explore performance as determined by ability and motivation. We offer tools to increase ability and to enhance motivation to perform.

Our final section, Part Four, covers evaluating, connecting, and adapting the nonprofit. We begin with program evaluation in Chapter Thirteen. We see an effective program evaluation process as key to accountability management. We review how to prepare for evaluation, choose an evaluation approach, apply theories of change and logic models, clarify program goals, and collect data, all with an eye to meeting the practical challenges to effective evaluation. Chapter Fourteen covers public and government relations. In this chapter we look at image and reputation, strategic communication, and the public relations process. We also cover risk assessment and crisis management. Focusing on government relations, we discuss lobbying and advocacy. Chapter Fifteen covers partnerships, alliances, and affiliations. We examine reasons for collaboration, types of relationships, the collaboration process, and ways to promote successful collaborations. Chapter Sixteen introduces readers to models of organizational change and innovation in nonprofits, external and internal drivers of change, and resistance to change. We lay out strategies for managing change and innovation processes and include ideas on how to generate innovations. In Chapter Seventeen, our final chapter, we consider the future of nonprofit management. We share both our own and others' thoughts on trends in the nonprofit sector and how they may change nonprofit management practices. Our goal is to leave readers with ideas on how they may develop their leadership skills for an ever-changing world.

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## The Nature of Nonprofit Organizations

This book is not about management and leadership in general; it is about management and leadership in the *nonprofit* sector. Yet it may not be clear what we mean by *nonprofit*, given the many different types of nonprofits in the United States and the alternative terms used to describe the sector. Although none of these terms describe the nonprofit sector completely, each emphasizes an important aspect

of it. The term *voluntary sector* emphasizes that the sector benefits greatly from the work of volunteers. The sector has always been rooted in voluntarism and although the degree of voluntary participation in service delivery and management varies across the organizational types in the sector, all have boards of directors and most do not offer any form of monetary compensation or reimbursement for expenses to board members. *Independent sector*, or *third sector*, emphasizes that the sector is part of neither government nor the business sector, although it may have close relations with both. *Not-for-profit sector* emphasizes the distinction from profit-focused enterprises. *Charitable sector* underscores the sector's role in providing direct relief to those in need. *Philanthropic sector* highlights the fact that many organizations in the sector receive charitable donations. *Civil society sector* emphasizes that many organizations in the sector are the embodiment of an engaged group of citizens with a shared interest in improving their communities. *Tax-exempt sector* points out that these organizations are eligible for exemptions from most taxes. These exemptions are granted to promote activities benefiting the public. *Social sector* captures the role of the sector in enhancing the social fabric. Other countries use yet other terms to describe the organizations that people in the United States call nonprofits. Popular names include *nongovernmental organizations* (NGOs) and *civil society organizations*.

Throughout this book, we use the term most commonly used in the United States, the *nonprofit sector*. It does not mean that the organizations in the sector cannot make a profit. Organizational growth may rely on obtaining more resources than are needed to cover current expenses. What the term *nonprofit* stresses here is that these organizations do not exist to make a profit to enrich private owners, as businesses do. In fact, nonprofits do not have owners or stockholders who are legally entitled to a share of the organization's profits. Any profits made should be allocated toward the accomplishment of the organization's mission.

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## Diversity in the Nonprofit Sector

In the United States the common feature of all nonprofit organizations is that they qualify for tax-exempt status under the U.S. Internal Revenue Code.<sup>1</sup> Of the close to 1.6 million registered nonprofits in the United States, the majority are *public charities*, about 1 million. This group, exempt under Section 501(c)(3) of the tax code, includes but is not limited to churches, hospitals, clinics, schools, day-care centers, all manner of human service organizations, museums and theaters, and a variety of neighborhood organizations. Members of this group have broad public support, rather than funding from a single source, and are considered *public-serving* organizations. In Chapter Three we go into more detail on the qualifications an

organization must meet to be classified as a public charity. Public charities employ over 7 percent of the country's paid workforce.

The U.S. tax code recognizes twenty-five types of nonprofits, including public charities, the most common type. About 100,000 nonprofits are classified as *private foundations*. These nonprofits make grants to support worthy causes and may operate their own programs using funding from a single source or a small number of sources. Over 500,000 tax-exempt organizations are classified as other types of nonprofits, such as chambers of commerce, fraternal organizations, social and recreational clubs, and business leagues. These nonprofits provide valued services and attract resources as mutual benefit (*member-serving*) organizations. Overall in 2009, registered nonprofits in all Internal Revenue Service (IRS) categories accounted for 9 percent of the wages and salaries paid in the United States.

There is no precise, accurate count of the number of organizations making up the U.S. nonprofit sector. The U.S. government does not require churches and other religious places of worship to register as nonprofits, so it is difficult to get a handle on how many exist. One estimate is that there are close to 280,000 religious congregations in the country, all eligible for the benefits given to 501(c)(3) nonprofits.<sup>2</sup> There are also many grassroots organizations that are not legally incorporated and thus left uncounted. These may be local, volunteer organizations that have a political change agenda or that rely on volunteer workers to care for and help others using little financial capital or physical infrastructure. David Horton Smith suggests that the nonprofit sector also contains what he refers to as deviant nonprofits, such as gangs, cults, covens, and quasi-underground organizations such as the Ku Klux Klan. These organizations operate outside normal conventions and are not legally recognized or tax exempt, but they are like nonprofits in not being organized to make a profit.<sup>3</sup>

A variety of factors account for the existence of this diverse set of organizations.<sup>4</sup> In the early history of the United States, voluntary action was the primary way things got done in communities. Lacking an extensive government and with limited private wealth, citizens voluntarily banded together to deal with social problems. Some nonprofits were established to provide services that neither government nor businesses would or could effectively provide. Nonprofits often function in areas where markets are lacking, such as the provision of food and shelter to those without money to pay for them. In addition, nonprofits provide services that government, with its reliance on voter mandates, cannot. For example, nonprofits provide public health services and education that government is unable to fund with public dollars.

Nonprofits serve a number of other functions. They are an important feature of the U.S. political landscape, providing vehicles for combining people's individual voices and pushing their desires for action. Advocacy nonprofits can

be found on all sides of political issues. In this way they contribute to pluralism in the U.S. political system. Nonprofits may also provide people with places to meet and to relate to others who share their interests and values. This gives individuals ways to have fun and to enjoy activities such as sports competitions or cultural festivals. In this way nonprofits contribute to the establishment of social capital and the solidarity of American society, helping individuals to form bonds of trust and reciprocity with others. These bonds make it easier for community members to jointly address matters of common concern. When community members trust each other and can rely on each other to help when needed, joint actions such as community watch programs are more effective. Nonprofits also help with personal development needs. They allow individuals to express their spirituality, creativity, and altruistic impulses and to develop social and leadership skills. At their core, nonprofits nurture and sustain the values and identities of their participants.

Between September of 2009 and September of 2010, 26.3 percent of Americans over sixteen years of age volunteered through or for a nonprofit. In 2010, nonprofit organizations received \$290.9 billion in charitable contributions (of which \$211.8 billion came from individuals). These figures attest to the importance of nonprofits to the social fabric of American life. Couple this with the financial scope of the nonprofit sector and nonprofits' importance increases. In 2009, the nonprofit sector's share of the gross domestic product (GDP) was 5.4 percent. In that year, public charities reported over \$1.41 trillion in revenues. They also held \$2.56 trillion in total assets.

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## Leading and Managing in the Nonprofit Sector

Leaders and managers of nonprofits face a variety of challenges. One of the most important is to keep the mission in mind in all decision making. Nonprofits must operate to fulfill their mission and are limited in their engagement in activities far afield from it. In addition they must keep in mind that the real owner of a nonprofit is the public.<sup>5</sup> It is the public to whom they are ultimately accountable. There are no designated shareholders or owners to please. Nonprofits are subject to the claims, and possible control, of many stakeholders, including donors, clients, board members, staff, volunteers, government at all levels, and community members. The expectations of these stakeholders can vary widely and leaders must balance competing demands.

Lester Salamon and others describe a number of additional challenges.<sup>6</sup> Many nonprofits face fiscal difficulties, some starting with government cutbacks in the 1980s in areas where nonprofits were active. Government assistance has become more targeted and tied to stricter requirements. Not all nonprofits

experiencing losses in government funding have been able to offset those losses with growth in private giving or earned income. There is growing competition as more for-profits move into areas traditionally served by nonprofits, such as health care, higher education, and employment training. The rise of B corporations, which are required to make decisions good for society, not just their shareholders, adds to the continuing erosion of sector boundaries.<sup>7</sup> In addition nonprofits are under pressure from funders who are demanding more evidence that the nonprofits they fund are making a measurable positive impact, with some funders seeing themselves as investors with rights to influence strategic decisions.

The legitimacy of the nonprofit sector has been challenged on a number of fronts. One challenge is presented by those who feel this sector is part of an expanding government welfare state and is serving as an instrument of government. Another comes from those who feel it is too professionalized and out of touch with those it serves. These criticisms, coupled with a number of high-profile scandals, have raised public concerns about the nonprofit sector. This confronts nonprofits with a *distinctiveness* imperative.<sup>8</sup> Nonprofits need to reinforce their identity and their worthiness for the benefits and discretion afforded them.

As this short summary of challenges illustrates, today's nonprofit leaders must navigate turbulent waters in the pursuit of their organization's mission. As part of a larger network of actors, some with contradictory views and approaches to pressing social problems, nonprofits are shaping our current reality and our future. Innovations that emerge and are tested in nonprofits will contribute to fundamental debates about what is possible and how to achieve it or avoid it.

We wrote this book with the sincere hope that it will not only provide information and tools to enhance the capacity of nonprofit managers and leaders but also inspire individuals to consider careers in the nonprofit sector. Whether serving in a paid position, as a board member, or as a volunteer, individuals working in the nonprofit sector have the opportunity to act on their values and promote their vision for a better world.