Reference Article: Characteristics of Nonprofit Organizations -- Implications for Consultation

By Mike Allison and Jude Kaye

Introduction

This article is written by and for consultants who work with nonprofit organizations. Our intent is twofold. First, we hope to help consultants tailor their services to the special circumstances they may encounter with their nonprofit clients. Second, this is a work in progress. Any description of “characteristics” is a set of broad generalizations, and we hope to begin an ongoing dialogue about what makes nonprofits unique, and the implications for how we all, as consultants, can be most helpful!

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 liver 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 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 nine “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
- Third-party funding
- Mixed skill levels of staff (management and program)
- Participation of volunteers

In this article we are primarily thinking about small to medium sized organizations (with budgets less than five million). We developed this set of characteristics as part of an initiative to improve consulting services for nonprofit organizations created by the David and Lucile Packard Foundation’s Organizational Effectiveness division. These characteristics have been identified through our experience as consultants and managers of nonprofit organizations and through discussions with our clients and colleagues

Nine Characteristics of Small and Medium Sized Nonprofit Organizations

The first characteristic of small and medium sized organizations is that they are, well … small and medium sized. We have had many conversations with colleagues about the parallels between consulting with small nonprofit organizations and small businesses, or with small, relatively autonomous governmental units. The group dynamics, requisite blending of roles, and potential to involve the entire organization in many decisions, are characteristic of small to medium sized groups (usually fewer than 100 people), rather than characteristic of nonprofits.

The characteristics we have described here are in addition to the generic characteristics of smaller organizations.

We have grouped the characteristics into three levels—corresponding to the three levels of diagnosis and intervention for consultation. The broadest category is <u>organization culture</u>, the normative behaviors and assumptions that tend to pervade life in nonprofit organizations. The second category is <u>organization structure</u>, the aspects of how nonprofit organizations are put together. And finally, the third category is <u>individuals</u>, the people who work in the nonprofit sector.

Characteristics of Nonprofit Organizations	**Implications for Consultation**
Organization Culture	
1. Passion for mission (values driven)	▪ Consultants must "speak the language of mission," find the source of passion, in order to understand, and tap into, the energy in the organization. ▪ Mission debates can paralyze groups; resist pull to "take sides;" use "objectivity" of outsider role to surface strategic differences, put interpersonal conflict into appropriate context. ▪ Sense of urgency can lead to a demand to "fix-it" quickly; help the group slow down long enough to consider the situation and develop appropriate response. ▪ Staff may resent the fact that the consultant is being paid "the big bucks" while they are being paid (more often than not) below-market wages, or may even be volunteering their services.
2. Atmosphere of "scarcity"	▪ Clients may be unable/unwilling to pay market rate for services; consultant must be prepared to negotiate and/or develop creative solutions to share tasks with staff and volunteers ▪ Underdeveloped infrastructure may present implementation barriers; attention to potential limitations is essential in developing appropriate action plans. ▪ Consultants may need to put extra effort into making explicit cost/benefit trade-off of using time versus money
3. Bias toward informality, participation and consensus	▪ Lack of formal hierarchy may lead to confused, or confusing, interactions with the consultant; the consultant may have to pay extra attention to role clarification ▪ Informality may blur the professional relationship with the client; place extra attention on the appropriate boundaries between the roles of consultant, staff, board, etc. ▪ Assumptions about who will participate in various types of decision making may be inconsistent and inappropriate: consultants should clarify early on who will participate in a consulting process and in what ways.

Organization Structure	
4. Dual bottom lines: financial and mission	▪ Different stakeholders value these bottom lines differently; consultants must understand the salience of both bottom lines, and the importance of each to various internal and external stakeholders ▪ Clients may respond to the tension between the two bottom lines by

	focusing on one to the exclusion of the other. "Mission is the only thing" or "we have to be business-like first"); consultants need to be aware of the importance of both bottom lines in given situations and ensure that the implications of both are taken into account.
5. Program outcomes are difficult to assess	▪ Clients may have difficulty establishing outcome-oriented criteria for decision making; consultants must make a decision about the salience of program outcomes to a given engagement and if necessary, develop a way to work with limited objective data. ▪ Because of the difficulty in using program outcome data, clients may ignore the importance of linking consulting projects with program outcomes; consultants may have to heighten awareness of program outcomes with clients.
6. Governing board has both oversight and supporting roles	▪ Board members are an important resource to nonprofit organizations; consultants should consider ways to leverage the expertise and contacts of board members as ways to conduct a consulting engagement or execute resulting plans of action. ▪ Lack of clarity, or lack of agreement, about the division of responsibility and authority between board and staff can lead to confusion; consultants must be able to negotiate the appropriate involvement of board members in a given consulting engagement, including making clear who the ultimate client is for the project ▪ Lack of expertise or experience with content may require education before decision making; consultants will sometimes need to help train board members to engage in a given consulting project
7. Third Party Funding	▪ Many nonprofit organizations are heavily dependent on third parties (government, foundations, and corporations) for funding. This funding is usually restricted, that is, allocated for a specific purpose. Often there is not sufficient money to cover administrative costs. Consultants may need to coach clients regarding how to get their indirect costs funded, or they may find themselves working with clients who lack sufficient administrative support to follow through on commitments. ▪ "Follow the money" is a strategy often used by nonprofit organizations. Consultants may work with clients who are providing a service not because it fits with other programs but because the "funder" wanted the organization to provide the service. Consultants will sometimes need to help an organization figure out whether the program fits within its mission or whether the funder-driven program is taking the organization in a direction that is not aligned with its vision or values. ▪ Consultants' fees are sometimes paid for not by the client but by a third party. Because they are paying the bill, funders may expect (or request) that the consultant report directly to them regarding any problems the nonprofit is experiencing. This puts the consultant in an extremely awkward position, and, more importantly, can impede on his or her work with the nonprofit because of issues of trust and confidentiality. The consultant will need to negotiate up-front regarding "who is the client", and be clear as to what information will or will not be given to the funder.

Individual	
8. Mixed skill levels of staff (management and program)	▪ Nonprofit organizations often trade low compensation for increased responsibility and the opportunity to do more advanced work; consultants should look at consulting engagements as a potential source of "professional development" for less experienced staff members. ▪ Individuals negotiating and participating in consulting projects may have limited expertise in their own area of responsibility; consultants must often help clients assess the level of skills. ▪ The level of skills across a group may be inconsistent; consultants will have to gauge the ability of clients to implement various solutions when making recommendations.
9. Participation of Volunteers	▪ Many small to medium size nonprofits are dependent on volunteers to provide needed services or administrative support. While volunteers may be the heart and soul of many nonprofit organizations, they may have other work and personal commitments that can result in a lack of follow-through on tasks. ▪ Consultants may need to work on weekends and evenings, since that is the time many volunteers can attend meetings that don't interfere with their paid employment.

1. Passion for mission

The passion for mission characteristic of nonprofit organizations is one of their greatest sources of strength. The institutionalized impulse to "change the world" has brought about many of the most important advancements in American society. As 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 involved with nonprofits to discount "business" realities, to turn strategic differences into interpersonal conflict, and to work with an urgency that borders on a "crisis mentality."

A consultant was called in to help with role clarification and conflict resolution among the management team of a housing organization for seniors. The managers had spent the past few months arguing over decision making process. The consultant was able to help the group see that beneath the conflict over process 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 process conflict was really a power struggle over the fundamental focus of the organization's mission. Once this division was identified by the consultant, the group of managers was able to negotiate a working compromise on the question of mission and 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 is a factual component and a perceptual component to this characteristic. Most nonprofit leaders could do more work to accomplish their missions if they had more money, more access to decision making, more talented board members, etc. They are often, in <u>fact</u>, "under-resourced" relative to their optimum scale. The fact that money, especially, takes a lot of energy to acquire, can lead to a hyper-cost-consciousness. In addition, the altruistic orientation of the organization also often leads to a sense that "most of our resources should go to the clients." One implication is that small and medium sized nonprofit organizations often have underdeveloped infrastructures. Another implication is that nonprofit staff are often more willing to spend time (their own, volunteers', board members') rather than money to get work done.

An organization serving the homeless engaged a consultant to do strategic planning. Little information had been collected from the organization's clients about their needs or their satisfaction with services. Both the consultant and the organization agreed that this input would be essential to a meaningful strategic planning process, but the foundation grant the organization had secured would not cover this type of survey work.

Working within the limits of the organization's resources, 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 and the organization was able to do a thorough planning process within their budget limitations.

3. Bias toward informality, participation and consensus

The lack of attention to hierarchy, a sense of friendliness, and a welcoming atmosphere are often described as attractive dimensions of nonprofit culture. On the other hand, taken too far informality may limit the appropriate exercise of authority, over-participation can inhibit appropriate division of labor, and the tendency toward consensus can bog down decision making.

One local community health clinic had long-standing roots as center of service and advocacy for an inner city neighborhood. The staff had always made nearly all decisions together as a group. When the organization encountered a budget shortfall, the Executive Director called the whole group together to decide how to cut salaries. The entire discussion devolved into name-calling and tears.

A consultant was called in to deal with "conflict resolution" but identified instead a mismatch between the policy issue and the composition of the decision making body. The consultant persuaded the group to let the board handle the matter with limited input from staff. Although the situation was not pleasant, the willingness of the Board to accept decision-making authority in this situation was seen as a fair and appropriate role by the staff.

4. Dual bottom lines: mission and financial

One can debate to what extent this characteristic is *unique*. For-profit organizations have increasingly focused on the importance of mission, relative to the primacy of return on investment. Governmental organizations have increasingly focused on the importance of mission relative to the primacy of political impact. Nonetheless, the tension between mission and financial results is a fundamental characteristic of nonprofit organizations. Internally, management of this tension is a factor in many strategic decisions, in making sense of "how well the organization is doing," and 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 has implications for many consulting engagements.

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." After brief analysis, the consultant found that the organization's Executive Director had focused most of his energy on the program and had 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 had simply been putting pressure on his bookkeeper about the *reporting problems to no effect. The consultant discovered that the accounting function was woefully understaffed, and a major reason was the small allowance the government 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 with the appropriate expertise necessary to manage the finances of the organization.*

5. Program outcomes are difficult to assess

In addition to the complexity involved with dual bottom lines, most nonprofit organizations have limited program evaluation capacity. This limitation is both partially caused by, and exacerbated by, the lack 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 organizations, mental health agencies and community development corporations face substantial challenges in measuring their effectiveness. One implication is that assessing cost-effectiveness, and thus comparison of alternative actions, is difficult. Another implication is different individuals may make different *assumptions* about the relationship between cost and effectiveness. Finally, some groups essentially ignore the issue assuming their efforts are as effective as they can be.

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 various program initiatives, and because much of their funding was raised through private contributions, the organization could not decide how to manage the cuts.

In the absence of meaningful outcome-oriented data with which to make these decisions, a consultant worked with the management team to: a) develop a short-term plan whereby cuts were made essentially across-the-board and b) to create a longer term plan to collect outcome data with which to more strategically select the 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 or government boards—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 often 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 various initiatives. Furthermore, board members are often not expert in either nonprofit management or in the organization's field of service. Board members may either be unprepared to make decisions, or they may give up their authority inappropriately, to staff.

The president of an eighteen-member board of an animal shelter, with fourteen standing committees, called a consultant to assist in facilitating 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." Some of the standing committees (such as one for facilities) had been formed when the organization was quite small. A few of the old-time board members still wanted to, literally, decide on the color of paint for the walls of 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 first on the most important areas for both oversight and support by the board at the present juncture. As a result, the group reduced the number of committees to 6. Two long-time board members who had always been active volunteers, and really only *wanted* to be active volunteers, left the board but stayed involved with program volunteer activities.

7. Third party funding

Many nonprofit organizations rely on third party funding – grants from foundations, government agencies, and corporations. Third party funding provides necessary support for services that cannot generate (sufficient) fees from client population. However, this funding usually comes with strings attached – restrictions, excessive reporting requirements, and/or directives regarding which services the funder thinks are in the best interest of the community (or support the funder's own needs or focus). This can result in a "tail wagging the dog syndrome" where the funder drives the nonprofit's programs rather than the nonprofit being pro-active and intentional about what services it should offer.

A consultant was brought in to mediate a dispute between two organizations, which, because of a funder mandate, were being required to cooperate and integrate their services. Because of need for quick turn-around in response to a last minute "request for a proposal", the integrated program was put into place by the two executive directors without involvement of program staff and without sufficient attention to structures and systems to support effective coordination and cooperation. The lack of buy-in as well as a lack of a shared philosophy created extraordinary tension among staff and an atmosphere of blaming and low-morale.

8. Individuals have mixed skill level

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. And, because these organizations are small, there is seldom much internal capacity to provide training for staff.

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 situation is not atypical in small nonprofit organizations: individuals do the work that is in front of them as well as they can. In this case, as part of a merger process, a consultant had to call in the Board Treasurer who was a well-respected CPA, to put the books into more standard formats and to help develop a staffing plan for bringing in more professional accounting resources.

9. 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 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 to catch up-to-date over committed volunteers who may miss meetings. 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.

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.

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Note: A previous version of this article was first published in the Fall 1998 issue of Vision/Action: The Journal of the Bay Area Organization Development Network. The original article was called "Seven Characteristics of Nonprofit Organizations." Right after the publication of that article, the authors added two additional (and very obvious) characteristics: "participation of volunteers" and "third party funding."