

# New Strategies for Operational Excellence for Non-Profit Organizations in Tough Economic Times

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## Abstract

The ideological commitment of the founders and generous funders; altruism, passion and compassion of the board, management, employees and volunteers are essential to understanding non-profits. The vision, mission and organizational structure of non-profits are geared towards creating a social, environmental and indirect economic impact. While focusing on achieving the social mission, one usually does not think about competition, strategy and innovation. The fiscal discipline of the free market and share-holder value which drive operational excellence do not exist in the nonprofit world since there are no owners or shareholders. How can nonprofits achieve operational excellence in tough economic times when resources are scarce and there is competition for funds? We propose a conceptual framework in terms of governance, resources and processes that allows one to systematically analyze a nonprofit organization in terms of competitive analysis, strategic planning, market orientation, cause-marketing, niche-marketing, branding, learning organization, social networking, cost reduction, collaboration and innovation. Non profits are mission driven but the competition for funding resources and volunteers in tough economic times require them to work more creatively and efficiently for survival. Transparent and accountable governance, finding new and maintaining existing funding resources, streamlining processes; and innovations in governance, resources and processes are crucial to survive in tough economic times.

## Introduction

Non-profit organizations serve a vital role in society. The goal of non-profit organizations is to offer services or products that bring about a social benefit including environmental and indirect economic impact. They supplement the government contribution towards the welfare of a society. Historically, the non-profit organizations were named so as to distinguish them from the businesses that exist for profit. There is a growing movement to name the non-profit organizations for what they are rather than what they are not. To get away from the “non” image, they are being called civil society organizations or citizen sector organizations or organizations for social profit (1, 2). According to the National Center for Charitable Statistics, the number of nonprofits exceeds one million in U.S.A. The nonprofit sector accounts for about 5 percent of gross domestic product of the U.S. economy (3). The stakeholders of a typical nonprofit are shown in Figure 1. They include the founder, the funders, the board, the chief executive officer,

employees, volunteers, clients in the community and the regulatory agencies. Note that there are no owners or shareholders.

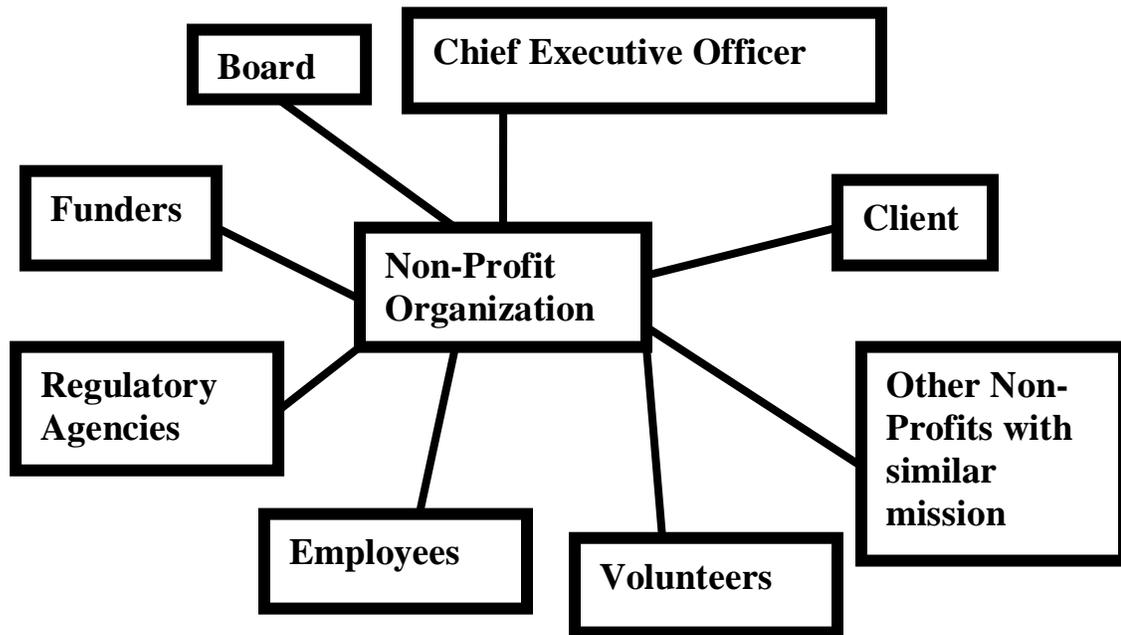


Figure 1: Stakeholders of Non-Profit Organizations

The organizational structure of the non-profits can be of two types– membership elected board and self-directed board. When the membership elects the board, they have the power to amend bylaws. For the self-directed board, the membership powers are decided by the board and it raises concerns regarding openness and accountability. The non-profits generate social profit and the goal is to maximize social profit. The non-profits can have earnings but these earnings do not benefit the stakeholders. Earnings are retained by the non-profit organization for the purpose of operations and growth. The fiscal discipline of free market and shareholder value do not exist for non-profit organizations since they do not have owners or shareholders. In the absence of such a discipline, how can nonprofits achieve operational excellence in tough economic times when resources are scarce and there is competition for funds? The nonprofits can bring efficiency, accountability and transparency through competitive analysis and marketing orientation (4).

### **GRP Model for a Nonprofit Organization**

We propose a conceptual framework for a non-profit organization in terms of governance, resources, and processes, Figures 2. Using this framework, one can clearly see how non-profits can benefit from the for-profit concepts of competitive analysis, bench marking, transparency, accountability, collaboration, cause-marketing, branding, market orientation, niche- marketing, social networking, and innovation to achieve operational excellence in tough economic times. Using the governance, resources and processes, a non-profit organization has to produce an

output that is greater than the input to survive.

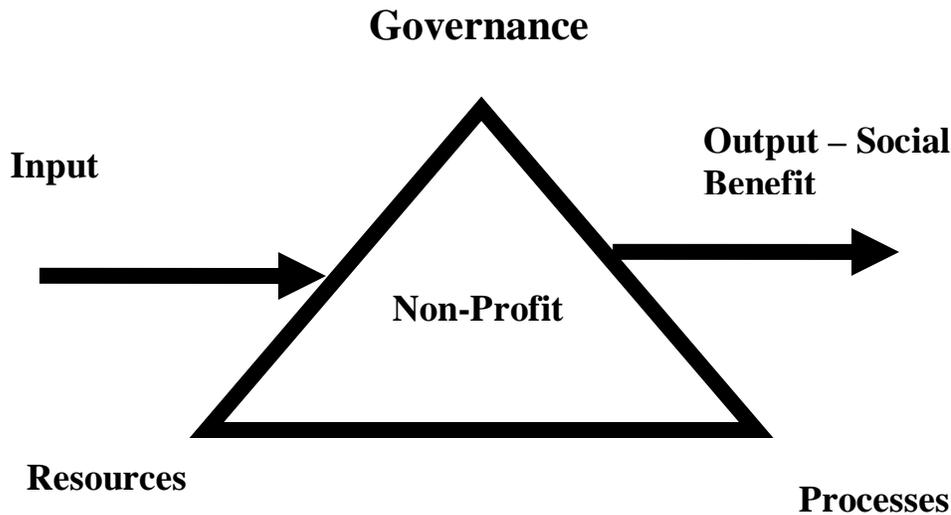


Figure 2: GRP Model for a “Non-Profit” Organization

The governance includes the mission and strategy, leadership, strategic management, ethics and culture. The resources include funding, employees and volunteers. The processes include the operational details. Using the governance, resources and processes, the non-profit organization produces an output in terms of social benefit which includes the services or products for the clients in the community. The organization can continue to survive so long as the funds are available to run the operations. The predictability of funds, availability of volunteers, long hours, low pay, employee burnout and high rate of turnover are some of the major issues faced by the non-profit organizations. Non-profit organizations deal with many of these issues through passion for compassion.

### **Governance of Non-Profits**

The governance of non-profits, in many respects, is more challenging than that for profit organizations since the traditional agency theory and market efficiency do not apply to non-profits (5, 6, 7). A non-profit organization has no owners and its clients are not the revenue stream. The board should be diverse representing the community in terms of the ideology and clients. The self-directed board raises more concerns regarding openness and accountability which has an impact on the trust with the funders. Leading nonprofits in the age of transparency requires one to pay attention to their externalities or the impacts that they may have on its broader environment, either directly or indirectly (8). One has to internalize the externalities and think about the unintended side effects and spillover effects.

Another issue related to governance is the founder’s syndrome where the founder continues to exercise excessive control. This causes a governance conflict that can have implications with respect to the accountability, mission and operational excellence. Many founders are afraid to create an objective board of directors due to the fear that their “baby” will

be taken away from them. The board members should be committed to the mission of the non-profit but not to the founder personally. The founder should be open to the idea of innovation and that his/her original framework for the non-profit may change with the input of the board and demands of the external environment. The founders of the non-profits need to become objective social entrepreneurs deeply committed to social change, social justice and social impact.

## **Mission and Strategic Management**

A nonprofit organization has two missions – business and social. Many nonprofits make decisions based on a broad, inspiring social mission rather than a strategy (9, 10). In the absence of a clear and focused operational strategy, a nonprofit organization can go in unintended directions that are tangential to the core mission. The nonprofits need to be selective in choosing a specific platform to serve instead of trying to be all things to all the people. From the broad mission statement, a nonprofit can develop a narrow operational mission leading to strategy platform (11). The strategy platform includes governance, resources and processes including organizational development, funder development, employee and volunteer development and client service delivery.

The strategic management in non-profits must address the social dimension and the different nature of competition and collaboration in non-profits (12). The strategic planning and effective implementation can result in new and increased resources, efficient management of the resources, improved process design, lower cost and improved quality. One has to think about strategy implementation as one is developing the strategy. The strategic management involves scanning the environment for information, selecting relevant data and applying to the context of non-profits. The SWOT analysis provides one insights into the existing state when one begins strategic planning. This tool looks at both the internal and external environment in the non-profits. Processes leading to the service or product need to be continuously redesigned to maximize output and minimize cost. Strategic alliances with other nonprofits and with for-profit organizations with a similar mission increase the resources available. Effective strategy implementation (13) requires removing all the barriers including organizational structure, coordination, information sharing, incentives, controls, change management, culture and the role of power and influence.

## **Leadership**

Leadership in non-profit organizations has to focus on social change through transformational leadership (14). Distributive leadership is more prone to bring about social change where leadership is shared, relational, inclusive and supportive. Leaders of nonprofits need to move beyond the normal leadership which is self-focused, externally directed, internally closed and comfort-centered. To be effective, they have to change themselves and be other-focused, internally directed, externally open and purpose-centered. Leadership is not about what we do, it is about whom we are (15). The five components of emotional intelligence - self-awareness, self-regulation, motivation, empathy and social skills are essential to achieve the social mission of the nonprofits (16). The level 5 leadership (17) which blends the paradoxical combination of deep personal humility with intense professional is great model for a leader of a nonprofit organization. The non-profit leader has to be a strategist and an alchemist (18). The strategist generates organizational and personal transformations by exercising the power of

mutual inquiry, vigilance, and vulnerability for both the short and long term. The alchemist generates social transformations by integrating material, spiritual and societal transformation. One has to emphasize the discovery-driven planning that requires constant learning from the emerging data from the business and social model (19, 20).

### **Ethics and Culture**

Ethics take on even larger role for non-profits. Ethical climate of a non-profit organization can be measured using the six climate types – professionalism, caring, rules, instrumental, efficiency and independence (21). Ethical improprieties by management can result in a permanent damage with respect to fund-raising. Ethics in non-profits is concerned with the proper use of the donors' funds for the intended purpose. The organizational structure of the non-profits must have checks and balances to represent the interests of donors and clients. Transparency and accountability need to be maintained for donors to keep them motivated for future donations. An ethical culture is an important barrier to ethical misconduct (22). The governance of the non-profits is influenced by the organizational culture in ways that are quite different from that in the for-profit organizations (23). The organizational culture is focused on social benefit and social change. The role of employees in creating social benefit is rewarding and gives job satisfaction even if the pay and benefits are not very high. The lack of competitive pressure in non-profits is perceived as more pleasant working conditions (24).

### **Resources of Non-Profits**

The resources for non-profits include funding, employees, volunteers. Using resources, the processes in non-profits convert input into an output which can be a product or service. In tough economic times, funding gets reduced and there is increased competition. Developing and managing the resources in a cost-effective manner is crucial to maximize the social benefit in tough economic times.

### **Funding**

The funding may come from government, membership, a group of philanthropists or from other foundations. The non-profit organization has to demonstrate social benefit and build trust with the donors to receive funding. In the current tough economic times, the non-profits need to develop a funding strategy that serves both short-term and long-term needs Foster, et.al. proposed ten funding models for nonprofits(25). These include heartfelt connector, beneficiary builder, member motivator, big bettor, public provider, policy innovator, beneficiary broker, resource recycler, market maker and local nationalizer. The funding strategy must be consistent with the mission. The funding strategy of “wherever you can find it” can cause mission drift and reduce operational excellence.

### **Employees and Volunteers**

The nonprofits have a social mission that makes performance goals harder to specify for use in performance-based pay systems. Nonprofits find it more problematic to recruit qualified employees with great work-ethic than the private sector due to relatively lower wages (26). The employees of nonprofits are not there for the money alone. They work long hours for the feeling that they are making a difference. Performance management of employees and volunteers has to be linked to the mission, objectives and strategies of the non-profit organization. The Individual

job descriptions, performance appraisal criteria and plans for employee training should be developed to increase job satisfaction and retention.

Volunteers are a critical human resource for nonprofits. Volunteers represent nearly half the workforce of the world's nonprofit organizations (3). Nonprofit managers should adapt their behavioral style to complement their volunteers. The managers at nonprofits have to continually locate, recruit, mentor, motivate and retain volunteers. Recruitment and retention enhance each other. Careful recruitment improves retention and improving retention reduces the need to recruit. Nonprofits have high volunteer turnover rate. Non-profits need to adopt a marketing approach to the recruitment and retention of their volunteers (27). Karl, et.al. found that creating a fun work environment that "gives them something to smile about" and "hanging out with the guys" help with volunteer retention(28). A perceived fun work environment was associated with higher job satisfaction and low turnover intention. Social interaction and task meaningfulness can be used to maximize the richness of the volunteering experience (29). A segmentation strategy proposed for retirees on volunteer motivation was found to relevant for the young adult market (27). Building on the theory of unified responsibility, Dutta-Bergman (30) found that the psychographic variables of health consciousness, consumerism or engaged in consumer choices, and environmental consciousness are positively related to volunteerism. Education and age were positively related to volunteerism whereas the effect of income was not significant. Women were more likely to volunteer than men. To attract volunteers, nonprofit organizations should highlight their responsible commitment to the community and incorporate communicative strategies appealing to different aspects of a responsible lifestyle such as health consciousness, consumerism and environmental consciousness. These insights can be helpful to develop strategies for maximizing organizational effectiveness by socializing, mentoring and motivating the volunteers.

### **Processes in Non-Profits**

Using resources, non-profits convert input into an output through the organizational processes. The output can be a product or service which is a direct result of the objectives of the organization. The output for non-profits is a social benefit which has a long-term indirect economic effect. A social outcome is the social change that occurs over long term. For example, as a result of job training, the trainees had increased income; increased taxes paid to government and reduced support by the state. These social outcomes results in a social impact which has economic consequences. One can compute that social impact in financial terms (31) to compute social return on investment (SROI). To compute social impact, one has to adjust the outcome to take into account what would have happened anyway. This is similar to the standard return on investment (ROI) for for-profit firms. The SROI measure can highlight the social benefit for the funder's investment. This measure can also provide a satisfaction index to motivate the funder for future donations.

Processes need to be designed to maximize output and minimize cost. The operational cost of non-profits should be tracked for the sake of accountability and transparency. A low operational cost motivates the donors for future funding. Process design should include the volunteer labor which can be a significant fraction of the total labor pool. The volunteer labor can be variable and of varying skills. Benchmarking, process redesign, continuous improvement and best practices should be implemented to optimize the processes, reduce funding and administrative cost and increase efficiency.

## **Innovation in Nonprofits**

Non-profits need innovation in governance, resources and processes to achieve operational excellence with a goal to maximize the social profit. Innovation has to be viewed as a discipline rather than a matter of mere inspiration (32). It should be managed like any other corporate function through systematically analyzing seven areas of opportunity - unexpected occurrences, incongruities, process needs, changes in the Industry structure, demographic changes, changes in perception, and new knowledge. Unexpected occurrences, incongruities and process needs are internal to the organization.

Unexpected successes and failures of a nonprofit are a source of innovation opportunities. They should be viewed as unanticipated possibilities (32). Incongruities are taking place within the logic of a process, between economic realities, between expectations and results and between assumptions and realities. An incongruity between expectation and results can become an opportunity for innovation. Incongruity between economic realities can be a source of innovation. For non-profits, an uncertain economic environment increases the need for services but reduces the sources of funding. This is an opportunity for an innovative response. Process needs emphasizes the proverb, "Necessity is the mother of invention". A bad economic time can lead to increase in the number of volunteers. This offers an opportunity for an innovative response. Innovation helps deal with the continuous changes in the internal and external environment. The internet-connected society requires an on-line presence for non-profits also. Building relationships, trust and communicating social benefit through social media - Face book, Twitter, LinkedIn, is another innovative approach that non-profits have to adopt.

Changes in the industry structure create opportunities for innovation. Non-profits serve a variety of social and environmental needs .As the social and environmental needs change, non-profits need to change their structure to maximize output. The demographic changes offer opportunities for innovation. Changes in the number of people, their age distribution, education, occupations, geographic location, race, religion, ethnicity all offer opportunities for innovation. Demographics change over time. Non-profits need to watch the trends in demographics and come up with innovative ways to adapt to these changes. For example, fluency in Spanish language became a requirement for many non-profits that serve the social needs of people at a lower socioeconomic level. Changes in perception deals with attitude- half full vs. half empty. Applying new knowledge to existing processes offers opportunities for innovation half-full perspective leads to more innovation opportunities. A change in perception does not change the facts but it changes the attitude to build on what is there to create more innovation (32).

New knowledge leads to innovations. This can be used to improve design and/or a process. Non-profits need to be learning organizations that aim for continuous improvement. Knowledge is the strategic resource for all organizations including non-profits. Non-profits have to visualize and understand the organizational intellectual resources of employees and volunteers. It is a tool to convert intangible assets such as corporate culture and employee knowledge into tangible outcomes. It monitors organizational performance across financial, customer, internal process and organizational learning. One has to adapt this to non-profits since the concept of "customer" is different in non-profits and the focus of non-profits is on social profit rather than the financial profit. Intellectual capital consists of three interrelated non-financial components. These include human capital, structural capital and relational capital (12). It focuses on processes rather than financial results. It stresses competence enhancement but not cash-flow improvement. Intellectual capital is most relevant to social service non-profit organizations.

Human Capital includes attitude, talents, competencies, experience, skills, tacit knowledge and innovativeness. The structural capital includes learning and knowledge enacted in day-to-day activities. Relational capital deals with organization's formal and informal relations with its external stakeholders. It also includes the perceptions they hold about the organization and the exchange of knowledge between the organization and its external stakeholders. The relational capital creates value by connecting human capital and structural capital with the external stakeholders. Intellectual capital focuses on processes rather than financial results (12). It emphasizes on competence enhancement and not the cash flow improvement.

An innovative approach to fundraising and marketing are the social networking sites or blogs which are increasingly and successfully used by all organizations. Nonprofits need to use networking sites like Face book, Twitter, MySpace and YouTube to raise awareness, gather volunteers, share stories and build a community of people with the same interest and resulting in a tremendous increase in fundraising activities and volunteer participation. Cause-related marketing (33) helps a non-profit organization to generate publicity and public awareness. It allows a non-profit to form strategic partnerships with for-profit a firm which allows increase volunteer-base and access to professional skills, technical knowledge and distribution networks. The funders are looking for strategic alliances among non-profits to promote collaboration to maximize social impact.

In summary, the ideological commitment of the founders and generous funders; altruism, passion and compassion of the individuals involved in policy making and day-to-day operations are essential to understand non-profits. A nonprofit organization has two missions – business and social. In the absence of a clear and focused operational strategy, a nonprofit organization can go in unintended directions that are tangential to the core mission. The nonprofits need to be selective in choosing a specific platform to serve instead of trying to be all things to all the people. Nonprofits have to manage the organizational, human, structural and relational capital of the employees and volunteers. Non-profits have to demonstrate effectiveness, transparency and accountability to their donors for continued support and long-term survival. The conceptual model of governance, resources, and processes for a non-profit organization helps one to systematically evaluate each of the three aspects of the organization. Transparent and accountable governance, maintaining existing and finding new resources, streamlining processes help one to achieve operational excellence. Innovations in all three aspects of the organization-governance, resources and processes are crucial to survive in tough economic times.

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