Effective Performance: Guidelines for Not-For-Profits

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Introduction

The effects of not-for-profit organizations (NFPs) on our daily lives are immense. Their importance demands that we take notice that many NFPs—from hospitals to environmental groups, from school boards to trade associations, and from large volunteer organizations to small self-help groups—are facing tight economic times, and are grappling with the question of what they must do to ensure their success or even survival.

In order to gain insight into the problems and issues they face, Cortex Research conducted detailed interviews with directors and senior staff of over 30 of Canada's largest NFPs. This process was supplemented by a detailed questionnaire to provide in-depth information on not-for-profit practices. This paper provides a brief summary and analysis of our findings.

We define NFPs as organizations whose products and services are not subject to market exchange in a competitive environment. In our research, we focused on large, structured NFPs, thus our findings may not be applicable to the entire not-for-profit sector. In fact, several smaller human service organizations we spoke to indicated that some of our conclusions were not in line with their experience. Such organizations are less structured and are often subject to different problems than those facing the larger organizations that made up the majority of our sample.

In most cases, our conversations with interviewees quickly turned to a common set of concerns, such as an ever-growing number of worthy causes coupled with decreased funding, the scarcity of staff and volunteer resources, board effectiveness, constituency dissatisfaction, a rapidly changing environment.

Delving more deeply into these issues revealed more fundamental problems. If left unresolved, each of them may severely diminish the effectiveness of NFPs with adverse effects on the constituencies they serve.

Importance of Clear Direction

"If you don't know where you are going, any road will take you there." Our interviewees were well aware of this adage. Upon further discussion, however, it became clear that organizational missions were rarely focused enough to provide operational guideposts, and they certainly did not permeate every aspect of the organizations' activities. In many cases, senior staff admitted that even the top level of the organization, the board of directors, was not as familiar with the organization and its mission as one might hope.

These findings are cause for concern. An organization without a clear and, equally important, focused mission—internalized by everyone in the organization—is prone to several ills: it will chart courses in many directions ultimately leading nowhere; board and management may regularly collide as each pursues what it interprets are the proper goals of the organization; and, finally, the organization will become an uninspired, troubled bureaucracy.

An acid test of mission effectiveness is the extent to which mission drives action. For example, one national health organization was faced with a decision about whether or not to sue a major Canadian corporation that was also one of its largest contributors. The reason? The corporation's personnel policies discriminated against one of the organization's major constituencies—its patients.

The organization eventually turned to it mission. Concluding that the issue at hand struck at the very heart of the organization's existence, it sued the corporation. Today, the corporation is still one of its largest financial supporters.

Importance of Feedback

NFPs are in a bind; they operate in a peculiar market. Unlike in the private sector, market exchanges rarely take place, i.e., buyer and seller do not meet and negotiate a mutually acceptable price for the service under a threat of competition. By definition, therefore, NFPs do not automatically receive information signalling that they are serving their constituencies effectively. Automatic feedback is a luxury reserved for private sector firms where the profit measure that results from free market exchange demonstrates how effectively the firm is serving its customers.

Most NFPs do use some alternative measures of their performance: donations received, number of patients treated, number of meals provided, dollars spent on research, etc. In many cases, however, such measures are not relevant. For example, the number of patients treated by a hospital provides little information about how *well* patients are being treated.

In the case of trade and professional associations, membership or user fees can provide useful feedback on performance, particularly when competing services are available in the private or not-for-profit sectors. Attendance figures for art organizations may also be revealing. Most other NFPs, however, have to shoulder the burden of deliberately seeking out relevant performance feedback. Should they refuse to do so, they will seldom know whether their services are, in fact, the ones their constituents need and value most, or whether their service delivery is satisfactory. As a result, they will be unable to ascertain whether or not they have been truly successful in their endeavours, nor will they be able to take corrective action should a problem exist.

A large labour organization became acutely aware of its lack of relevant performance feedback when it unexpectedly lost several of its largest members. This sent shock waves through the organization, and eventually forced it to ask tough questions about how well it was serving its constituencies. Obtaining performance feedback might have avoided this unfortunate crisis.

The Imperative of Effective Boards

Those searching for the cause of organizational malfunctions have recently shifted their attention from the lower and middle levels of organizations to the very top—the board of directors. Generally, boards have not been found to be effective.

Our research supported this conclusion. Admittedly, only a few directors acknowledged boards' deficiencies. Staff, as might have been expected, were more forthcoming.

Senior staff complained that boards are often mired in minute operational issues that are better left to staff. They expressed their desire for boards to be selective, choosing only to address the broad, but critical, issues that affect the long-term health of the organization, such as direction and management accountability.

Maintaining selectivity is difficult, however, because many operational issues arise that seem to demand the attention of the board. The effective board will resist the temptation to act on them.

One executive director expressed great concern and frustration over the fact that his board was made up predominantly of lawyers. A major portion of every board meeting was consumed in debating the intricacies of minor contractual arrangements while critical issues such as service delivery went unattended.

Boards often fail to demand from senior staff a clear work plan, criteria to be used in measuring success, criteria for hiring and evaluating staff, or details of the size of expenditures or risks senior staff may incur. As a result, the board's expectations are rarely confirmed, and management remains in the dark as to how it is to perform its duties—until the end of the fiscal year when the board's expectations surface retroactively. By bringing their expectations to the forefront, carefully and firmly, boards can avoid both unpleasant surprises and aggravation.

One interviewee related an incident in which the chief provincial executive of a charitable organization was dismissed and threatened to sue the organization for wrongful dismissal, costing it thousands of dollars in legal fees and staff time. In the interviewee's opinion the underlying cause of the incident was the failure of the board to define clearly the responsibilities of senior staff and provide performance standards by which they could be evaluated.

Numerous reasons underlie boards' difficulties. First, the duty of the directors is to force an accountability structure upon management and monitor it. Many directors, however, are uncomfortable with this role. They are not accustomed to simply overseeing organizations; they are accustomed to managing them. Hence, their desire for day-to-day involvement.

Many interviewees indicated that boards are often too large and unwieldy to engage in effective decision making. Large boards are usually the result of an evolutionary process in which vested interests are created, entrenched organizational cultures formed, and traditions born. Once boards are institutionalized, changes to their size and operations can only be achieved with great difficulty.

Not-for-profit boards, particulary national ones, are often made up of representatives from various regional offices. These directors bring to the national table their own distinct attitudes, biases and, sometimes, stereotypes. Managing this multitude of views and biases can be a major undertaking, and arriving at policies that satisfy all regions may seem nigh to impossible.

Another barrier to board effectiveness we found is "The Mystery of the Switching Hats". Directors sitting on the national board normally hold senior positions at the regional level. When participating in national planning they wear their national hats and work feverishly at developing sound national policies. Upon returning to their regions, something mysterious occurs: they invariably toss off their national hats and don their regional ones. They proceed to ignore the very policies that they helped create at the national level.

A variation of this phenomenon occurs when directors do not remove their regional hats at all during national board meetings. Unable to put aside their regional perspectives in favour of a national one, these directors significantly reduce the effectiveness of national meetings.

In conclusion, all of our interviewees agreed that the board of directors is central to the success of NFPs. Any attempt at improving organizational performance should, therefore, strive to enhance the effectiveness of the board.

Defining the Relationship of Board and Staff

While it is important that board effectiveness be enhanced, it is equally important that the relationship between board and staff be free of unnecessary conflict. We discovered several impediments to such a conflict-free relationship.

Boards often fail to define clearly the manner in which decision-making authority is to be divided between board and senior staff. As a result, staff tend to take on too many of the decision-making responsibilities, first to the surprise, and then to the fury of the board. Boards, however, should expect this reaction; professional managers abhor a vacuum and will instinctively fill it according to their best judgment.

Several senior staff members pointed out that there is an important emotional aspect to many not-for-profit boards. "We deal in bloodlines, not in bottom lines", exclaimed one executive director. The loss of a loved one to a terrible disease, a passion for art, pride in one's professional designation, all may cause an individual to seek out a directorship in an NFP. Such emotional factors make it difficult, if not impossible, for senior staff to force boards to eschew particular issues or follow a structured approach to their operations. The personal stakes involved may lead boards to address issues that are seen by senior staff as outside the board's proper jurisdiction.

Politicking poses another obstacle to effective board and staff relations. The board has legitimacy only when acting as a group. Boards, by definition, however, are subject to internal politics. Individual directors often try to influence senior staff without the knowledge of other board members. This will create friction as staff are placed in untenable positions and the other board members are made to feel their authority is being undermined.

The chair has an important role to play in minimizing disruptions. Though executive directors voiced concern over their chairs' abilities, it appears that little effort is being expended to ensure that the chairs are given the necessary education and training to fulfil their duties.

Though, usually well-meaning and intelligent, the chair, even with a clear purpose in place and in mind, often lacks the skills to shepherd a group through the minefield of contentious issues. The chair has to be carefully selected and, equally important, educated in group dynamics in order to ensure that the board as a whole, will discharge its stewardship function.

One might expect that differences in outlook between board and senior staff would be a source of continuous friction. After all, the board and its members are transient and will often concentrate on the impact of their particular tenure, rather than on the long-term survival of the organization. Senior staff, on the other hand, have a longer-term perspective; they deal in careers. Surprisingly, and fortunately, our research did not reveal such tensions.

The Elusive Strategic Plan

Most organizations indicated that Strategic Planning was one of the areas most in need of improvement. In our discussions on this topic a number of issues arose.

In carrying out Strategic Planning, most organizations expended great effort in formulating their mission, goals, objectives, and values—what one executive termed the "nice things"—but failed to make the Strategic Plan the cornerstone of operations, i.e., the Strategic Plan had little or no impact on day-to-day activities.

Participants often enter the planning process with preconceived notions of what the strategic issues are, and what should be done about them. Rigorous analysis is often lacking and, therefore, relevant solutions can be difficult to achieve.

A major criticism levelled at Strategic Planning is the tendency of national headquarters to "pile" new initiatives on provincial and local organizations without considering their effects on day-to-day operations.

Finally, NFPs are frequently overly ambitious in their Strategic Planning efforts. They usually set out to complete the entire process at once. In the end, however, they find that most of their efforts are spent on redefining the mission and values, leaving no time to actually address strategic issues and effect change.

NFPs would be better served by accepting the fact that Strategic Planning is a continuous and arduous exercise with implementation and education as important components. Without these elements, it is not a plan; it is a dream. Plans should specify-for each planning cycle-where to start, what to tackle, and when to stop. The remaining issues can then be deferred to the next planning cycle.

One executive director suggested that, before embarking on a strategic planning process, it is essential to develop a glossary of terms. This will ensure that everyone involved is speaking the same language, and that "jargon" will not obstruct the efficiency of the process.

It was encouraging that, despite the difficulties involved, most NFPs intended to continue their strategic planning efforts.

Need for Lean Organizational Structures

The past decades were a time of relative largesse in Canada, and NFPs took on new services and programs without hesitation. Organizational structures became towering hierarchies with numerous administrative layers between the national and local levels. Today, the pool of funds has run dry; the monolithic and inefficient structures remain.

The executive director of a large national health organization informed us that, previously, his organization's structure necessitated a national head office in Toronto, an Ontario provincial office in Toronto, a Toronto chapter office, and a chapter office in London, Ontario. Fifty per cent of the organization's staff budget for the entire country was expended to support four offices located within 300 kilometres of each other. He effected major organizational changes to eliminate this waste.

Many NFPs find themselves in a similar predicament. Most of our interviewees indicated, however, that attempting to streamline was futile because fierce opposition was sure to ensue.

The above problems may seem daunting. Our research, however, has shown that remedies exist for overcoming them.

Remedy One: Affirm the Purpose of the Organization

Any organization worthy of respect causes its environment to change: pensions are paid, students are educated, the sick are cured, blood is collected and distributed to hospitals, etc. In achieving these "ends", organizations use funds, capital equipment, and people. Before valuable resources are consumed, however, the "ends"—the purpose—should be clearly defined. This is the primary task of the board.

The importance of this task cannot be overestimated. A clear and meaningful purpose will serve as a powerful tool that guides the organization and unites everyone in it.

As society changes, the purpose of the organization should change, too. Still, many boards carry on with the obsolete purpose, tasks, and structures of previous administrations.

To affirm its mission the organization should undergo a carefully designed and executed process involving active participation of board and staff, and input from constituencies. Board and staff must painstakingly "work" through relevant data to arrive at their own conclusions. Only then will the mission be internalized by those involved. Unless boards spend the necessary time and effort on such a process, the relevance of the organization will eventually come into question.

Arts organizations may be exceptions. In our interviews we found that boards of arts organizations usually do not play, and in fact are discouraged from playing, a major role in shaping the "product" or the artistic direction of the organization; this is left to the artistic director. The major role of the board is to assist in fund raising, and to ensure that an administrative structure exists to support effectively the artistic core of the organization.

Remedy Two: Develop Performance Feedback Mechanisms

Many of the senior staff and directors felt that the composition of their boards would ensure that the organization received useful feedback. At the same time, they also admitted that their boards only meet six times, or less, each year, and that sheer size makes them too unwieldy to provide performance feedback.

Clearly, then, boards need to develop other performance feedback mechanisms than board meetings. In doing so, boards should carefully determine the criteria which, when met, constitute success for their organizations in the eyes of their constituencies.

They should then develop monitoring systems to measure how well the criteria are met. For example, boards may measure the qualitative output of the organization vis-à-vis its stated purpose, or mission. Alternatively, they may develop specific measures of constituency satisfaction that will serve as barometers of success.

In designing these measures, it is not the ease of data collection that should be the guiding principle; in fact, NFPs provide a range of "soft" services that are difficult to evaluate. Rather, it is more important that the performance feedback system offer mission-relevant information sufficiently often to make it possible to discern important trends.

Performance data should also be specific. Organizations should gather data at a level of detail that allows them to put specific actions in motion. Feedback on specific service levels (frequency, content and degree, or the lack thereof) is always preferable to a measure of general satisfaction (good, acceptable or inadequate) of the whole. Feedback measures should include constituency satisfaction with the scope of the services, cost measures and board satisfaction measures.

The theory behind performance feedback mechanisms is not new. The concept stems from Total Quality Management and is based on the premise that to improve quality, one must undergo a continual process in which an operation is executed, the outcome measured, and adjustments made. Applying this process can result in dramatic improvements.

A few organizations reported that while they did not have a formal feedback mechanism, they did use an Advisory Committee that served a similar purpose. Advisory Committees act as "radar" communicating with constituencies on issues of new or proposed programs and services, and general organizational performance.

Overall, there was strong agreement that without some sort of regular feedback, NFPs are like rudderless ships facing an oncoming storm.

Remedy Three: Put Your Money Where Your Mission Is

Many NFPs undergo a long, costly, and strenuous process in formulating their mission, goals, objectives, and values. Once this is accomplished, however, they continue to spend their resources as they did in the past, irrespective of their new objectives. In effect, resource allocation, or the budget, is disconnected from the organization's mission. Without forging a direct link between the budget and the Strategic Plan, there is no guarantee whatsoever that resources are being used appropriately to accomplish the declared mission.

Purpose-based (or priority) budgeting can go a long way towards forging this link. It requires that expenditures be classified according to the program they support rather than by organizational function or line item. This method allows organizations to determine how much of their resources is being channelled into each of their priority areas, and, more importantly, whether their spending patterns are in line with their mission.

To illustrate: an organization's major aim may be to provide shelter for the homeless. If, however, the larger portion of its budget is spent on providing job training, that aim will not be achieved. The organization's mission demands that it ruthlessly eliminate any programs or services that do not uphold the mission.

Eliminating services is by no means easy. NFPs are driven by social and humanitarian causes, and it is thus easier to take on new programs than to eliminate them. Imagine the difficulty and agony involved for a hospital in cutting chronic care from its services.

Purpose-based budgeting, however, can ensure that the organization's perception of what it is doing corresponds to the reality found in the ledger books. Without it, perception and reality will undoubtedly drift apart. Despite this, few—if any—of the organizations we spoke to had adopted purpose-based budgeting.

Remedy Four: Define the Role of the Board

This also is no easy task; academics and practitioners alike have been struggling with it for decades. We know that the role of the board cannot be to run the day-to-day affairs of the organization; that belongs to the senior executives.

Our interviewees agreed with the theory that one role of the board is to define the jurisdiction within which senior staff can reasonably interpret its mandate and act freely on behalf of the organization. This implies that the board consider every significant facet of organizational decision-making and make a conscious choice as to which decisions it will make and which it will delegate to staff.

While the above process is difficult, researchers have provided a framework to assist NFPs. It is based on the premise that organizational decisions arise in logical sequence and can be ranked in layers. The top layer consists of directional decisions that affect the organization as a whole. These include taking on new constituencies or new services, i.e., areas that touch on the purpose of organization.

Beyond this concept, however, they had very serious implementation difficulties.

The board's task is to decide at which point in the decision-making hierarchy it will cease to be involved, the aim being to achieve adequate control of the organization while allowing staff enough flexibility for effective operations. It sounds simple and logical; in reality it is an exhausting and iterative process.

When the jurisdictions of board and staff are carefully defined, the potential for confrontation is drastically reduced and, more important, boards will stop wasting time on trivia. Our research shows that most boards avoid looking into these issues because of the time and effort involved but such avoidance will, without fail, consume more of the board's time and effort in the end. It is suggested, then, that the chair or executive director ensure that the board takes the necessary steps to define clearly its role and decision-making responsibilities.

Remedy Five: Implement "Best Board Practices"

During our interviews, a number of proven ideas came to our attention that should be part of the arsenal of every effective board.

Since the board is going to retain decision-making authority, it should prescribe its modus operandi. Both content and form should be established and should cover all significant aspects of board operations. A formal written set of guidelines centering on what a director is and is not supposed to do would also help the chair immensely.

Boards should, on a periodic basis, informally discuss and assess their collective skills. They should aim to build up an inventory of valuable and relevant talent that will support the organization's mission.

Larger organizations should ensure a balance of outside directors and member representatives on their boards. This will simultaneously provide a source of fresh ideas and perspectives and ensure commitment throughout the organization.

Effective boards should, at the beginning of the year, identify and schedule five or six topics to be addressed over the course of the upcoming year. They will then be sure to cover necessary areas, rather than addressing issues on an ad hoc basis.

Executive committees help overcome the drawbacks of large boards, and assist in effective decision-making. Despite the natural resistance by boards to having an A and a B team, many of our interviewees strongly supported the use of executive committees.

Unwieldy boards can be made more effective through the use of carefully designed committee structures. A minimum number of committees will reduce complexity and waste; committees that interlock and share members will ensure that the different committees work in tandem; and the use of temporary ad hoc committees or task forces to deal with specific and finite issues will prevent an accumulation of committees that no longer serve any useful purpose.

Career paths should be designed so that before serving on the executive committee or as chair, directors occupy other key board positions that provide them with the necessary knowledge and experience to lead the organization successfully.

Today, high director turnover is generally thought to promote innovation. Most of our interviewees, however, felt that this was not practical. It requires several years for a director simply to understand the issues; hence board terms should be at least five or six years in duration.

Finally, boards should consider setting aside at least one meeting a year to discuss issues pertaining to their stewardship of their organization.

Remedy Six: Free Up Internal Resources

In a financial crunch NFPs, like other organizations, tend to concentrate on income as opposed to the expense side of the equation. There is strong and understandable resistance to giving up any of the services currently provided; the first reaction is to put effort into fund-raising activities and turn to governments at all levels for extra funding.

This approach raises fundamental issues. Recently, there has been a sharp decline in the "return on investment" for fund-raising activities. With all the costs honestly accounted for, organizations may be spending as much as 50-70 cents for every dollar raised.

In light of the predictable and chronic financial crises of governments at all levels, this strategy does not offer real relief; there are just not enough funds to go around. Also, with the slow recovery continuing, the competition for donors' attention is getting fierce.

If the organization expends too much effort on fund raising, service delivery will inevitably suffer and, equally important, valuable volunteer efforts will be channelled away from the real purpose of the organization.

What is the answer? The private sector has, especially in the past few years, gone through a painful readjustment to new economic realities: "delayering" of organizations, increased focus on core services and products, outsourcing, strategic partnership and productivity increases have become the staple of the business world. "Doing more for less" has become their guiding principle.

The same imperatives operate for NFPs in frugal times. Most of the interviewees indicated that under the fiscal pressures they are experiencing, a two-pronged approach is needed. First, measuring the unit costs of each service or program should be introduced, so their effectiveness can be compared. Once this is done, future budget requirements can be projected, based on changes in the size and composition of the constituencies. For example, one large health care organization found that due to the general aging of the population, their budget would have to grow threefold in less than 10 years unless major changes in service delivery were effected.

Second, through the use of surveys and focus groups, the most pressing needs and priorities of constituencies should be identified so that viable cost-reducing alternatives which would cause the least pain can be presented to the board.

Working with a large number of NFPs, we have found that this approach not only can lead to significant productivity gains without reducing the most essential services but, more importantly, will lead to a rejuvenation of the organization as well.

In frugal times, it is increasingly important that both the executive staff and the board undertake a critical review of the relevance of all services delivered and how the unit costs of service delivery can be significantly reduced. This is a challenging and, frankly, not too pleasurable task, but this is exactly what the private sector has done in the past few years. Strategic partnerships with other NFPs, increased use of volunteers, eliminating management layers and non-essential services, outsourcing and the like are concepts NFPs too can utilize to great advantage.

In conclusion, NFPs make up a prominent and essential sector of our economy, and the fact that they face difficult times should concern us all. The aim of this article has been to shed light on the specifics underlying these difficulties, and to offer remedies for dealing with them. Though every organization is unique, we trust that these remedies will prove valuable in achieving the one objective common to them all—effective services meeting real needs.

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