THE NPO DILEMMA: HR AND ORGANIZATIONAL CHALLENGES IN NONPROFIT ORGANIZATIONS

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Running a nonprofit organization (NPO) is challenging. As an executive, your responsibilities include strategy, program delivery, fundraising, and day-to-day operations. Not to mention board relationships, managing your numbers, keeping the lights on, and the "care and feeding" of the folks who arrive at work every day.

NPOs require skilled staff in order to address strategic and operational challenges and to meet business and program objectives. The effective attraction, retention, and motivation of these employees can be accomplished by having an overall human resources (HR) strategy.

An HR strategy is a concrete plan created to direct the development and improvement of HR policies, processes, and approach. It identifies the connection between the business of the organization and its employees, and the alignment of the HR function to the organization's business strategy. It is a "conscious and explicit attempt to maximize organizational value by gaining a sustainable competitive advantage from human capital" (Kearns, 2010, p. 10).

At a working level, NPO executives face a series of HR and organizational dilemmas on a daily basis. A dilemma is a problem offering only two possibilities, neither of which is practically acceptable. (Of course, we all know that there are always more than two choices.) The dilemmas include the following:

1. CEO vs. COO? Where is the executive director's time best spent?
2. Do you have the right jobs in your organization? How do you know?
3. Will the people you hire stay? Why?
4. Public sector or private sector? Which are you?
5. Are you paying properly?
    a) Are you being fair? Do you know what "fair" is?
    b) Do you pay for performance? Should you?
    c) Internal communications? Who knows what, when?

CEO vs. COO? Where is the executive director's time best spent?

This can be a challenge for many executive directors. The executive director is often called upon to play two distinct roles:

- chief executive officer – with an upward, external perspective, and
- chief operating officer – with a downward, internal perspective.

In any given week, it may be difficult for the executive director to be flying across the country giving speeches or attending meetings with board members and key clients/stakeholders, while at the same time being in the office directing and managing day-to-day operations.

Those NPOs with the right size and funding levels can easily split the job in two and have both a CEO and a COO. Others survive by:

- minimizing the CEO-type activities, and/or by
- having a strong team of Directors in-house to "manage the store."

This latter structure requires department directors who are very qualified in their own disciplines and who can also interact as an effective team ("play well") with the other directors.

Do you have the right jobs in your organization? How do you know?

Is your organization well designed? What does a well-designed organization look like, and how does it feel to work there? How is it different from a poorly designed one? There are many questions here, and always choices and trade-offs to be made.

Organization design is the way your NPO is structured to comply with the strategic plan. It is the link between your program goals and how managers and staff achieve those goals. It helps achieve full alignment between your business strategy, your structure, and the key functions and roles in your business.

Organization Design focuses on determining the proper assignment and division of labour; establishing the appropriate level of coordination, control, authority, and responsibility; and designing jobs that match the needs of your NPO and the skills of your employees.

Effective organization design drives productivity, communications, and innovation. It creates an environment where people can work effectively. The benefits of effective organization design for NPOs include improved:

- employee, client and stakeholder satisfaction,
- financial performance,
- relations with your board, and
- return on resource investment.

A redesign may be called for when your NPO evolves to the point where there are substantial congruence problems between the formal organizational arrangements and the other components of your operations. Problems to look out for include:

- lack of inter-office coordination;
- excessive friction and conflict among internal groups;
- the existence of silos that block intra-organizational coordination;
- unclear roles;
- under-utilized and/or misused resources;
- poor work flow;
- reduced responsiveness to change;
- decreased financial performance;
- high employee dissatisfaction and turnover; and
- the proliferation of extra-organizational units such as task forces, committees, and projects (Nadler & Tushman, 1997).

Organizational dilemmas often arise from the following:

- mergers and acquisitions *(even in the nonprofit sector),*
- changes in technology,
- cultural or political change,
- growth or downsizing,
- staffing changes, or
- the arrival of a new leader *(who comes in and doesn't like what s/he sees)*.

The solution can be an organizational design review. Organizational analysis and design involves reviewing your vision, mission and strategy; assessing your current structure relative to your mission and strategy; drilling down to departmental levels to understand how units function; and addressing challenges and opportunities.

Implementation involves identifying options for the appropriate delineation of functions, roles and structure; vetting these options for 'best fit'; and developing an implementation plan that addresses change management. You can then assess the "people impact" of changes and take steps to address potential retraining, re-assigning, replacement, and recruiting needs.

Will the people you hire stay? Why?

Are your employees there because they need a job or because they are committed to your cause?

As employers, NPOs generally only have one way to hire someone, although there are several sub-option choices in terms of employment status: full time, part time, permanent, temporary, casual, contract etc. Employees, on the other hand, have at least nine ways to leave their job. These are:

1. walking away (job abandonment),
2. death,
3. demotion (constructive dismissal),
4. being fired,
5. being laid off (permanently),
6. retirement,

7. transfer,
8. promotion, and
9. resignation.

While most of these actions are at the employer's discretion, it is number 9 that strikes fear into the hearts of NPO executives. Unplanned, voluntary resignations can be a major challenge. While some turnover is generally considered a good thing, what concerns managers the most is the unwanted and unexpected separation of high-performing talent.

Your NPO's ability to achieve its business mandate and serve its members is highly dependent on the performance of your employees. Unanticipated changes in your employee resource pool can have devastating business impacts – disrupted projects, overruns on schedules and budgets, quality issues, and loss of corporate memory, to name just a few.

Do you have a retention deficit?

How many of your top performers are simply biding their time – waiting until the market improves before bolting to the next job?

The term "warm chair attrition" describes this. Employees suffering from warm chair attrition have already left their jobs, at least mentally. Their physical departure only awaits the first uptick in the job market. Look down the hall. How many of your people fit this category?

When employees do leave, it's generally not the laggards who go. The first people out the door will be the folks with the most options – the best employees in your organization.

Retention getters

So how do you get people to stay? The ability to retain staff so that they can provide effective contributions to your NPO's success is an outcome of your HR practices. But what works, and what doesn't work?

More money is not the answer. In any case, most NPOs these days don't have any more money. HR practices that an NPO can employ to increase commitment and decrease turnover include:

- non-monetary recognition of performance (try saying 'thank you'),
- empowerment (increased responsibility for work and decision making),
- fairness (equitable rules and procedures),
- employee development (job rotation, mentoring, training),
- work-life policies (flextime, flexible leave practices), and
- information sharing (communicate, communicate, communicate).

For most professionals, a significant portion of their motivation is derived from the recognition they receive from their managers for a job well done and the feeling that they are truly an important part of the organization.

Training is too often seen as a perk when it should be viewed as an essential investment in the intellectual capital of the organization. Training, coaching, developmental assignments, and job rotation programs send a clear message that management is seeking to establish a long-term relationship with employees. Managers must help employees shape and direct their careers so they can gain experience within the NPO rather than outside it. Your NPO's ability to do this, however, is a function of your size.

Public sector or private sector? Which are you?

What most NPOs have in common is not what they are, but what they are not. They are not the government (municipal, provincial or federal) nor are they private sector, for-profit companies. They are in the middle. NPOs tend to have HR policies and practices that are in between these two extremes, yet often wish to have "the best of both worlds." Many human resources policies, practices, and procedures found in government and/or the private sector will apply to NPOs. Some will not.

So what does an NPO compensation program look like? Do you pay like government, that is, with annual step increases based primarily on tenure and experience? Or do you pay like the private sector, with a strong emphasis on performance and merit pay? This is a pervasive issue. We are constantly asked about it. Every single CEO, executive director, and director of finance and administration we meet with about compensation raises this question.

Are you paying your employees properly?

Payroll costs usually represent 60% to 85% of the total operating budget for most NPOs. Spending your money carefully is therefore vitally important.

Compensation can be viewed as a tool to effectively reward employees in order to achieve maximum productivity. You need to decide if it is a blunt instrument or a precision tool.

Compensation creates several dilemmas for NPOs:

- What is our market position? Many NPOs are in the social services sector, funded by donations or government grants, and pay far lower than government or the private sector. This makes it difficult to attract and retain the right skilled staff.
- A related challenge is when an NPO has a pay policy position for most staff that is at a low level, but finds itself having to pay much higher for specific hot skills such as IT or development (fundraising).
- Performance management and pay for performance (merit pay) are also challenges. Do NPOs provide equal annual cost-of-living adjustments to all staff (like the government)? Or do they differentiate salary increases based on results-driven performance? But how does an NPO quantify results?

Are you being fair? Do you know what "fair" is?

Your compensation program must be fair. Employees expect this. But what is "fair?" The word "fair" means free from bias, dishonesty, or injustice. Is equal (identical) treatment to all "fair?" Or is unequal treatment based on individual performance more "fair?"

Do your offer letters or employee manuals use the word "fair?" Most do not. NPOs do not explicitly tell employees that we will pay them fairly. We tell them that our pay is "competitive," but what exactly does that mean? Yet employees will often be upset to learn that their neighbour or co-worker is earning more for the same job, or that NPOs down the road are paying more.

In HR terminology, the term "equity" is used to denote fairness. This has four dimensions:

- internal equity – the relative ranking of positions and pay inside the organization;
- external equity – how the organization pays compared to similar organizations in the same labour market;
- employee equity – how pay is different for employees in the same job (or same grade) depending on seniority and performance; and
- pay equity – the legal requirement for equal pay for work of equal value between males and females.

The academics define fairness as follows:

> The more an employee will perceive a high level of internal equity (in comparison with other employees of the same department and/or the same company) and external equity (in comparison with individuals occupying a similar job in other organizations) in regard to issues such as compensation and benefits, performance evaluation, and promotions, the less s/he will intend to leave his/her current employer. It seems clear that the notion of equity, both internal and external, must be considered as a critical component of a corporate retention strategy. (Pare & Tremblay, 2000, p.12)

Translated, this means that employees will leave if you don't treat and pay them fairly – as seen from their perspective. This is the fairness dilemma.

Do you pay for performance? Should you?

As noted above, NPOs face a dilemma when it comes to salaries; they are not government and they are not the private sector. So what does their compensation program look like? Do they pay like government, that is, with annual step increases based primarily on tenure and experience? Or do they pay like the private sector, with a strong emphasis on performance and merit pay?

A policy on pay for performance typically refers to the relative emphasis that your NPO wishes to place on rewarding individual employee performance. For example, should one staff member be paid differently from another if one has better performance? How much differently? Should more productive teams of employees receive higher annual increases than less productive teams? This is a philosophical question that NPO management must answer.

Many NPOs blend COLA (annual cost-of-living adjustments) with merit pay. They reward employees on the basis of performance (following an annual performance appraisal) by providing annual merit increases that effectively have a cost-of-living adjustment built in. Higher-level performers receive slightly larger increases (i.e., 1 or 2 percent) than poorer performers. The question is: Is the "monetary motivation" of 1-2 percent sufficient?

The degree of emphasis to be placed on performance is an important policy decision, since it directly affects employees' attitudes and work behaviours. Recognition of their contributions also affects employees' perceptions of management's fairness. They need to understand the basis for judging performance in order to believe that their pay is fair.

A key guiding principle of a pay-for-performance program is alignment. There needs to be considerable alignment between:

1. the defined (and communicated) corporate goals of the organization,
2. the measurement of how goals are accomplished (and communication of same).
3. determination of the employee behaviours that are needed to support and drive these goals,
4. identification and measurement of these behaviours through performance appraisal objective setting and assessment, and
5. calibration of economic rewards (annual salary adjustments) to the performance appraisal results.

The advantages of a well-run pay for performance system are as follows. It:

- clarifies performance expectations,
- improves individual performance,
- rewards employees for achieving performance results and exhibiting behaviours that are aligned with the mission and goals,
- improves employee satisfaction with work and pay,
- rewards performance rather than seniority or skills,
- provides rewards commensurate with contributions (i.e., bigger pay increases for stronger performers, and very low increases for poor performers), and
- assists in attracting and retaining highly motivated employees.

The disadvantages are:

- the effort required in managing the guidelines and factors outlined above,
- the work involved in upgrading the organization's performance appraisal process,
- training supervisors and manager on the documentation and assessment of performance standards,
- properly communicating the plan, and
- managing the process on an annual basis.

By comparison, cost-of-living adjustments give employees the same percentage salary increase across the board. This is given to everyone, regardless of his or her performance. The primary advantage of COLA is that employees feel their salaries are holding ground against the steady erosion of buying power caused by inflation. The main disadvantage is that the organization has no means by which to distinguish the rewards given to low versus high performers.

Internal communications: Who knows what, when?

The compensation communication dilemma is a key aspect of compensation planning. This decision is unique to every organization. How much do you tell your staff?

Should staff know:

- their own salary? *(presumably)*
- other employee salaries?
- their job grade?
- their salary range?
- how they progress through the range?
- when and how annual salary increases are managed?
- your compensation philosophy/policy (e.g., COLA versus merit pay)?
- your pay policy position (i.e., how competitive your pay is in your labour market)?

You need to sell your compensation plan to employees. The best-designed plan won't be effective if the people who are supposed to benefit from it don't really understand how it works. No other topic is more important to an employee in his/her relationship with the organization.

Effective communication of your compensation plan can boost employees' satisfaction with their pay, enhance the commitment level of employees to the organization, and improve trust in management.

Poor communication can lead to misinformation seeping into the organization and see employees internalizing incorrect information, whether it's valid or not. It can also damage employee morale and create a misalignment of employee and company objectives.

In our experience, we have found that:

- many organizations don't do compensation planning at all.
- the plan does not align with the organization's strategy, goals, objectives, and culture.
- management does not effectively communicate the plan to employees.
- the plan changes every year. It does not remain consistent or constant.
- management uses inappropriate methods in determining individual pay (e.g., personal favouritism).

Conclusion

An old adage states that to be effective, organizations should have the right people in the right place at the right time, doing the right things. This directly relates to the specific HR and organizational dilemmas addressed above.

CEO or COO? Executive directors are often torn between strategy and operations. It's a question of role perception. Based on your organizational size, resources and priorities, what is the best place for you?

Do you have the right jobs in the right places? What exactly is a "job" anyway? It's a series of tasks and duties bundled into a package performed by an employee. Defining your "jobs" is a top-down exercise. It involves taking the programs of your organization and breaking them down into logical sets of inter-related tasks in order to reach your goals. When is the last time you did this?

Will the people you hire stay? By this we mean the "right" people. As the airlines say: "We know you have a variety of options in your travel plans, thank you for flying with us." Your best employees have options. Give them reasons to stay.

Public sector or private sector? This can be an identity crisis. Both sectors follow good and bad approaches. Decide what is best for you.

Are you paying properly? When it comes to pay, recognize that your employees are walking around every day carrying a "fairness" balance. (Picture the statue of Lady Justice.)

Overall, the solution to these HR dilemmas is an HR strategy. To be an effective manager, you should think through all of these issues and determine your position (what your policy is and where you want to be). Once this is accomplished, you will be ready to respond to these dilemmas as they arise.

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