

Assessing the problem: Underinvestment in organizational infrastructure

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Assessing
the problem

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the solutions

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the results

The first in a series of three reports exploring common capacity constraints in the nonprofit sector, critical benchmarks for healthy investment levels, and the relationship between capacity building and impact.

Creating the conditions for maximum social impact.

Increased competition, different needs. Nonprofits are working harder than ever to solve homelessness, create new educational opportunities, and improve healthcare in communities across the country. Yet as they work to solve social problems, nonprofits also face growing competition in a sector that has nearly doubled in size over the past decade. In this increasingly crowded marketplace, nonprofits must focus on delivering high-quality programs, building strong organizations that will be sustainable over the long run, and raising enough money to support their work.

However, many donors focus on supporting program implementation and push nonprofits to keep their overhead rates low. Unlike the corporate sector—which invests heavily to keep star employees and find ways to deliver services more efficiently—recent studies have shown that nonprofits rarely have the time, money, or expertise to devote to building more effective organizations.

To learn more about these critical issues, Common Impact surveyed over 125 nonprofits to understand their greatest challenges beyond programming and fundraising. The results paint a sober picture: nonprofits are significantly underinvesting in organizational development, creating a sector that addresses today's problems but may not be sustainable to meet tomorrow's.

Key Findings

→ ***Nonprofits face a wide range of organizational development challenges***

We began by asking survey respondents to identify their two most challenging functional areas from a list of six. While technology and marketing topped the list, getting 21 and 19 percent of the votes respectively, the remaining four areas also represent significant pain points—including program operations (16%), public relations (16%), human resources (14%), and financial management (12%). With only a 10 percent difference separating the highest and lowest challenge, organizations clearly need assistance in all areas.

→ ***Nonprofits underspend significantly on organizational development***

With mounting pressure from donors to keep overhead costs low—and little money available for “infrastructure” projects—many nonprofits simply avoid spending money on capacity building. The majority of survey respondents spent less than two percent of their operating budget in any one functional area, leaving them with little capital to invest in building strong, effective organizations.

→ ***Few nonprofits have functional expertise on staff—relying instead on volunteers and consultants for help***

Given the high cost of hiring a full-time technology, marketing, or finance professional, less than 15 percent of survey respondents said that they had a full-time employee with expertise in a given functional area. Instead, most nonprofits rely on untrained employees (41%), consultants (25%), or volunteers and board members (19%) to staff these functions.

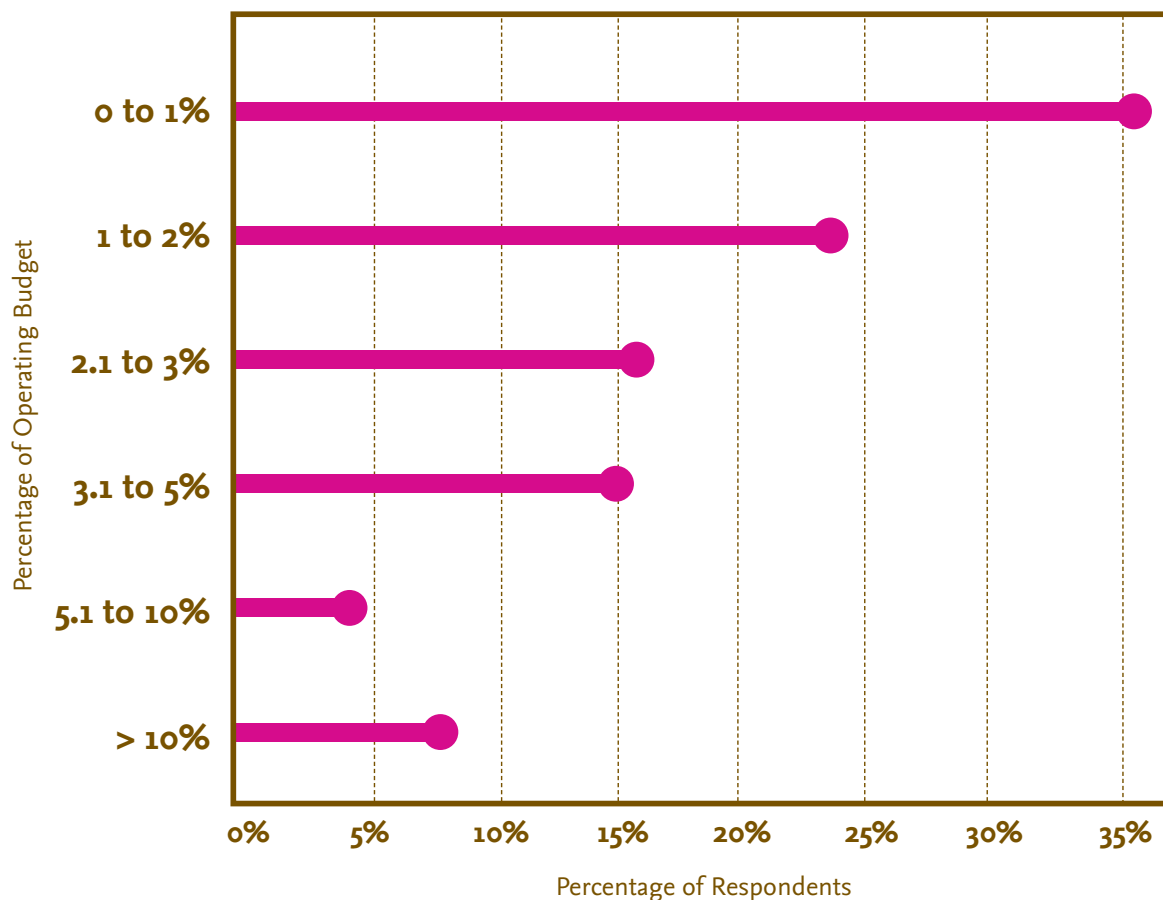
→ ***Most organizations have reservations about working with consultants***

Despite their heavy reliance on external assistance, many nonprofits were wary of engaging consultants—listing several reasons why they would prefer not to outsource these functions. Survey respondents said that:

- High quality consulting services can be difficult to find—only 33 percent of organizations said that nonprofit consultants produce high quality work.
- Consultants too often deliver a template solution, rather than spending the time to truly understand the nonprofit and its mission.
- Consulting engagements are only successful when both sides spend the time to build trust, establish good communication, and speak a language that everyone understands.

Fifty-eight percent of nonprofits surveyed are allocating 2% or less of their annual operating budget to support key functions.

fig 1.1
Budget Allocation



Values indicate spending in any single functional area: program operations, public relations, human resources, financial management, marketing, or technology.



Compared to their small business counterparts in the private sector, **nonprofits are severely underinvesting in the pillars of organizational health.** This underinvestment limits our collective ability to create lasting impact and strengthen our communities. New resources must be unlocked to address the need.

Common Impact's View

→ ***Stronger organizations will create greater social impact***

While a nonprofit's mission and programs must always come first, we believe these data indicate a major opportunity for the nonprofit sector to increase its effectiveness and sustainability. If the sector can place increased focus on improving staff retention, helping program delivery models become more efficient, and building effective brands that increase customer loyalty and support, donor dollars will go farther and nonprofits will amplify their social impact.

→ ***An untapped philanthropic resource exists to fill the organizational development gap: skilled corporate employees***

One reason that nonprofits have difficulty investing in capacity building is the cost: hiring a marketing, technology, financial management, or human resources professional is expensive, and most donors want their money to support direct programmatic activities.


Nevertheless, this expertise is readily available: many corporate employees live and work only a few steps away from local nonprofits and address these issues daily. Yet while most US companies offer formal employee volunteer programs, the 2006 Deloitte IMPACT study found that only 12 percent of nonprofits actually engage corporate employees to use their professional skills.

Common Impact estimates that corporate employees could generate \$1.1 billion in net new resources for nonprofits over the next decade while delivering reciprocal value back to their companies. However, these employees will only truly help nonprofits when they are prepared for cultural differences and have the support of their employers to spend a couple of hours each week building a high-quality product.

→ ***Nonprofits will only become stronger when consultants devote enough time to understand each client's unique situation***

Throughout our study, nonprofits repeatedly expressed difficulty in finding high quality consultants or volunteers who could make a true impact on their organizations. Most organizations had suffered through at least one negative experience of bad advice, poor communication, or an unresponsive volunteer. "Consultants don't understand our operation," said one person. "They don't listen well and then they give us the same template as everyone else."

When volunteers or consultants are working with nonprofits, it is critical to embrace the principles of effective change management and project management. By devoting time up front to clarify project scope, share expertise, involve stakeholders, communicate progress, and transition the project upon completion, capacity building projects will have a longer-lasting effect that is fully embraced by the nonprofit clients.

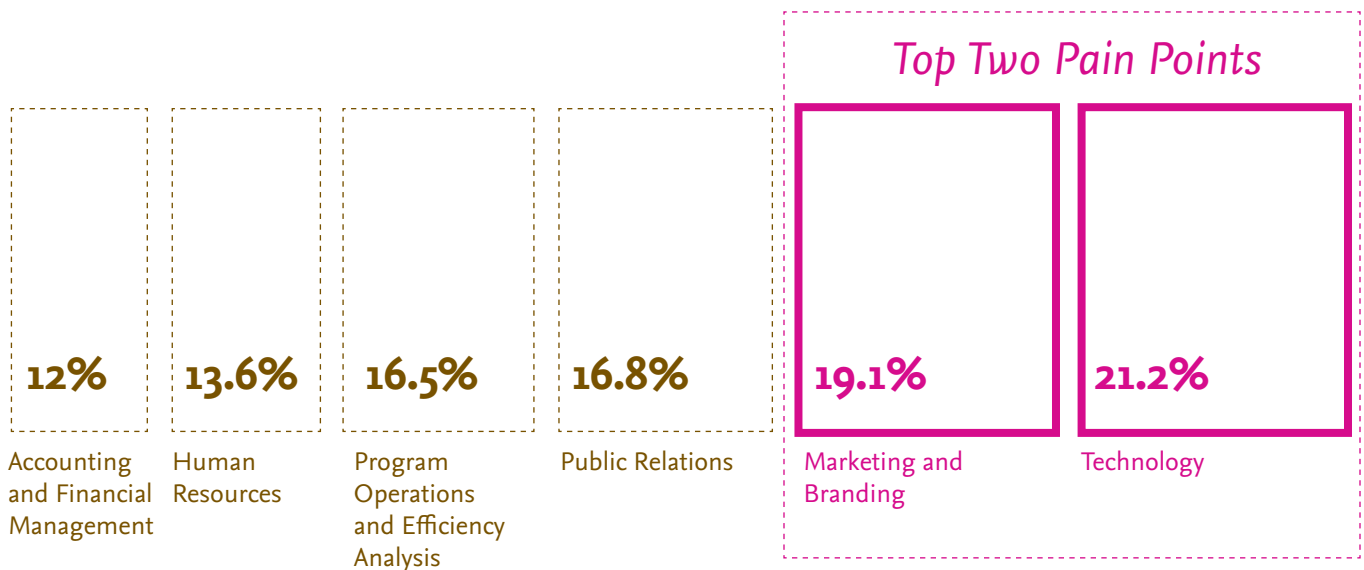


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fig 2.1

Ranking of Functional Challenges



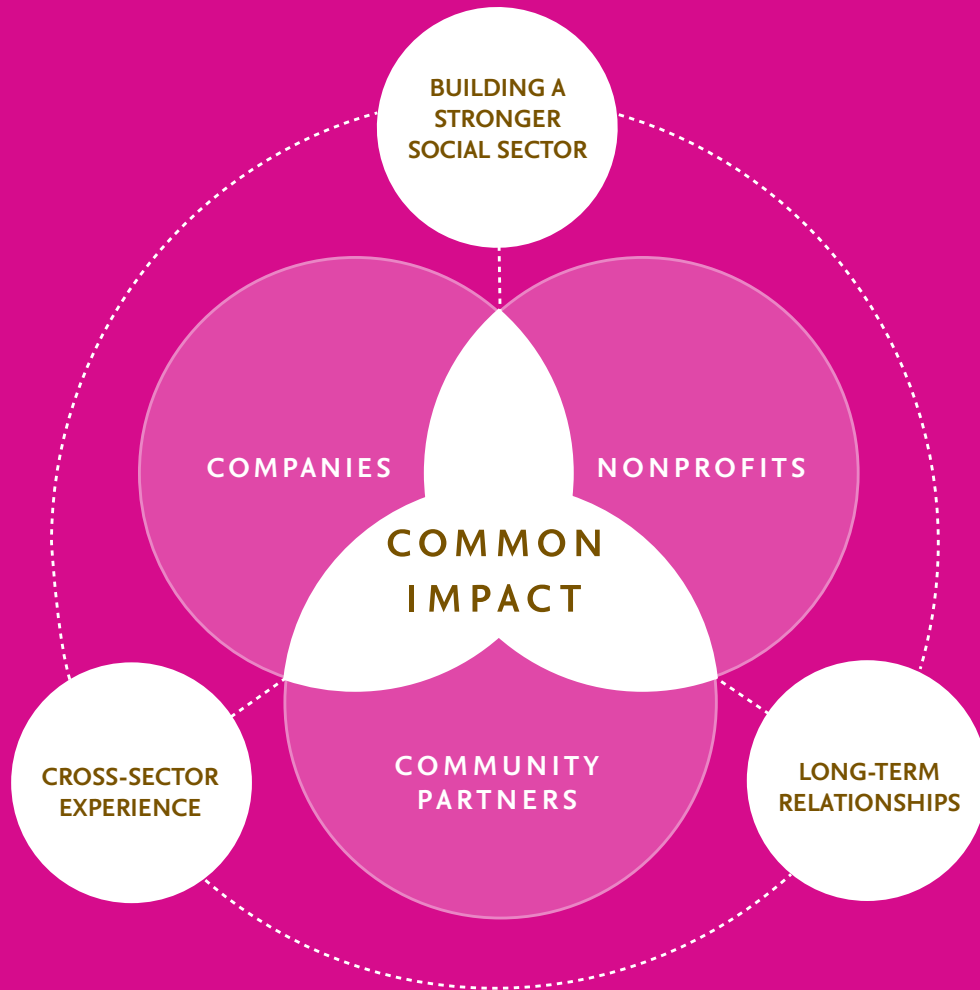
Respondents were asked to select their two most challenging functional areas from a list of six.

Common Impact's Vision

We envision a world where all of America's leading companies invest the talents of their employees in the high-potential nonprofits poised to solve social problems, generating compounding value for local communities and global companies alike.



How We Work

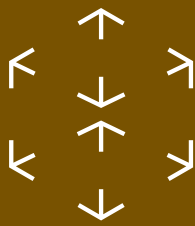


Methodology

In July 2007, Common Impact distributed a survey to 723 randomly selected nonprofit organizations requesting their insights into their two most challenging areas of organizational development other than fundraising or program implementation. Our survey targeted executive directors at social service organizations with annual budgets between \$500,000 and \$5 million. We received responses from 132 organizations in Boston, New York, and Washington DC (an 18 percent response rate). We then conducted a literature review and focus groups to gain additional insights about the survey results.

This report represents a high-level summary of our findings from the survey. If you are interested to see additional data or learn more about Common Impact, please contact Zach Goldstein, Vice President of Consulting and Co-Founder, at zgoldstein@commonimpact.org

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About Common Impact

The mission of Common Impact is to strengthen high-potential nonprofit organizations by helping companies deploy their human capital more strategically in the social sector. Through Common Impact, employee-volunteers from leading companies have provided IT, Marketing and HR solutions to more than 100 high-potential nonprofits addressing basic human needs – housing, health care, and education. Rooted in the growing ethic of corporate responsibility, our approach harnesses the power of skilled volunteers to execute service projects with community-based nonprofits and create successful long-term partnerships that are of value to all. Common Impact has generated more than \$6 million in net new resources for the social sector and a 7:1 social return on investment.