Nonprofit Sector Introduction

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A PURPOSE-DRIVEN WORKFORCE.
A STRONGER COMMUNITY.

The nonprofit sector is a significant economic driver and a key partner to the public and private sector in providing critical services to our communities, such as healthcare, education, childcare, shelter and nutrition.

Just like the business world, the nonprofit sector has its own "lingo" and operating norms. Though the sector is diverse, there are commonalities amongst most organizations in both the language they use and the environment they operate within.

Use this resource to brief yourself on the sector prior to engaging in pro bono activities with a nonprofit partner.

The Language: Nonprofit Glossary

501c3 – The tax code for nonprofit organizations. Nonprofits can accept tax-deductible donations, making them an attractive investment to individual and institutional donors. To qualify for 501c3 status, an organization must benefit the broad public interest

Board of Directors – A group of appointed or elected members that have governance and fiduciary oversight of a nonprofit organization. The Board is responsible for selecting the chief executive, maintaining financial health, and ensuring that the organization's strategy and operations are aligned with its mission

Capacity Building – Investment in infrastructure (such as IT, HR, Finance, Marketing, etc.) that allows organizations to effectively run their programs

Direct service – A program or activity that works directly with an intended population. The term is used to distinguish such programs from those that seek to change conditions through advocacy or public education. This term is also used to distinguish hands-on work with affected populations from supporting services, such as administration, fundraising, research, or the aforementioned capacity-building activities

Donation – A voluntary gift (usually money, but also service, property, assets) to a cause

Development – All an organization's activities related to fundraising: grant writing, donor relations, capital campaigns, annual fund drives, and revenue-generating events

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Executive Director –Often abbreviated as "ED," this title is a nonprofit-specific term for the CEO or president of an organization

Fiscal Year – Nonprofits can use the calendar year as their fiscal year, but can also use other ranges. Typically, nonprofits end their fiscal years on December 31st or June 31st

Nonprofit – A shorthand term for an organization that does not include making a profit for owners or shareholders among its goals. "Nonprofit" is often used as a general description for groups that are organized and operate for charitable purposes, and that use any surplus of income over expenses ("profit") to expand their services

Nonprofit Sector – A way of referring to the activities of nonprofit organizations inclusively. The nonprofit sector consists of everything done directly by agencies and organizations that are neither businesses nor governments and that are more or less supported by donations, program service revenues, and volunteers

Outcomes Measurement – The measurement of a nonprofit's programmatic end results. Right now in the nonprofit sector, there is a focus on moving beyond "outputs" (the immediate results of a program, such as number of clients served) to "outcomes" (a measurement of long term impact on the core social challenge that the program addresses)

Restricted vs. Unrestricted Funds – Donors often control their charitable donation by restricting it to a particular purpose or program. Unrestricted funds are flexible, allowing the organization to invest in the activity it determines to be in best service to its mission

Scale – A goal for many nonprofits, scale refers to expanding the reach of the organization and/or access to its services

Social Entrepreneur – Someone who addresses community needs with creative business practices that can yield financial support for the work or result in significant cost savings through innovative program design

Stakeholder – A common term used to refer to the various audiences a nonprofit needs to consider, including donors, clients, staff, Board of Directors, and the broader community

The Environment: Nonprofit Operating Conditions

Nonprofits rely on third party funding to fuel their organizations, with most funding coming from government grants, private foundation grants and individual giving

→ The individuals paying for services are different from those receiving services. There are **always at least two stakeholders for nonprofits to consider**, and they may have different needs and goals

Most funders want their investment to go directly to programming, so there is a **push to keep "overhead" low**

→ There is an **underinvestment in the key infrastructure,** such as technology, human resources, and operations

> The average nonprofit reports spending only **2-8%** of its total budget on "overhead," compared to the **25-35%** average traditionally spent by companies to build a strong infrastructure.

This underinvestment in infrastructure results in an operating environment that looks very different from that of larger companies.

- Most staff members **wear multiple hats**

- They are willing to accept lower pay and play additional roles because they're **committed to the mission of the organization**

- They **may not have formal training** in some of the elements of the job they're responsible for, such as finance, HR, or technology

Read on to see how these operating conditions commonly play out across the different business functions at a nonprofit

OPERATIONS

Challenge

- Operational management is one of the most under-resourced functions at small nonprofits
- Program operations (i.e. the work to run and manage programs) are often more robust than internal operations (i.e. internal processes, communications and systems)
- High staff turnover and the lack of documentation/operational systems often result in significant loss of institutional knowledge and long-term inefficiencies

Systems

- A set of spreadsheets or several databases (Excel, Access)
- Client database/CRM (e,g, Salesforce)
- Word of mouth

People

- Executive Director
- Director of Operations
- Program Director
- Technology Manager

FINANCE

Challenge

- Financial Management is typically focused on (1) forecasting and managing grants and individual donations and (2) reporting to the Board of Directors
- The Executive Director and one supporting staff member typically manage finances
- The Board of Directors has fiduciary responsibility and is often involved in some aspect of financial management

Systems

- A set of spreadsheets
- Accounting Software (QuickBooks)
- Fundraising Software (Raiser's Edge)

People

- Executive Director
- Finance Director
- Development Director
- Board of Directors

Guidestar provides financial statements for all registered nonprofit organizations

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HUMAN RESOURCES

Challenge

- Most nonprofit organizations operate with a base-level HR function (i.e. payroll and benefit management, legal regulation)
- They often lack infrastructure in recruiting and onboarding practices and talent and performance management (clear role descriptions, defined promotion paths, professional development opportunities)
- High performing organizations are twice as likely to invest in HR infrastructure

Systems

- Payroll and benefits management systems (typically outsourced)
- Paper files

People

- Executive Director
- HR Director (uncommon)
- Pro Bono Counsel

MARKETING

Challenge

- Most nonprofit organizations combine marketing work with fundraising function under the umbrella of "development," which focuses on outreach to earn support of funders and donors
- Very few organizations have the resources to define a branding and marketing strategy
- Networks and word of mouth are critical components of nonprofit marketing

Systems

- Website/Social Media
- Newsletters
- Events

People

- Executive Director
- Development Director (Fundraising)
- Interns

Effective marketing and differentiation is critical for nonprofits, since they must compete with peer organizations for limited funding

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TECHNOLOGY

Challenge

- The combination of a rapidly changing technology environment and a lack of resources often leaves nonprofits struggling with out-of-date systems
- Many nonprofits spend a significant amount of time troubleshooting technology challenges that are a result of older systems

Systems

- IT infrastructure/Networking
- Website
- Client Database/CRM

People

- Executive Director
- Director of Operations
- Outsourced Technology Consultant

Nonprofits are increasingly leveraging new open source and cloud computing options

PROGRAMS AND SERVICE DELIVERY

Challenge

- It can be difficult for nonprofits to judge when it is prudent to invest and scale some programs and pull back on others
- Programs must align with both community needs and funders' priorities, which can be contradictory
- Though funders and nonprofit professionals agree that verifying success and measuring programmatic impact is key, it can be tricky to build and maintain sound and accurate outcomes-based evaluation systems
- Frequent staff transitions impede continuous project development and improvement

Systems

- Program Database/CRM
- Physical infrastructure for program delivery (i.e. training or learning spaces)

People

- Executive Director
- Director of Programs
- Program Managers
- Volunteers