

White Paper #5

# Best Practices – Fact or Myth?

## New Research Challenges Conventions in Nonprofit Management

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### Summary

Public Interest Management Group conducted an applied research project in partnership with the Nonprofit Association of Oregon, The Impact Foundry and 43 charitable nonprofits between 2015 and 2017. The research objective was to identify nonprofit management practices linked to organizational success. In this paper we present findings and discuss implications for nonprofit leaders, funders and capacity-builders. The results confirm some commonly-held assumptions about best nonprofit practices and challenge others. The findings further suggest that nonprofits and technical assistance efforts may be out of synch with a range of success factors. We summarize a prevailing approach employed by successful nonprofits in the study and identify important questions for further research.



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## Introduction

*How do we distinguish effective from ineffective practices in nonprofit management?*

*How can we identify needed changes in a given nonprofit, and advise organizational leaders on changes most likely to improve their results?*

*Can we define the profile of an organization likely to be successful in achieving its mission and sustaining its impact?*

These basic questions, and a dearth of tangible evidence for best practices in the nonprofit sector, led Public Interest Management Group (PIMG) to design an organizational assessment methodology focused on two specific outcomes:

- Identify those changes most likely to help improve a given nonprofit's results, and
- Help practitioners, capacity-builders and funders understand which practices and traits are (and are not) associated with organizational success.

The process is called Success Factor Analysis. PIMG first tested it with a historic dataset of 40 organizations. After refinement, we applied the methodology to 43 nonprofits in an applied research study over a period of three years.

What we learned supports some conventional nonprofit management practices and raises significant doubts about the efficacy of others. It also raises questions about prevailing approaches to organizational development in the sector. In this paper we summarize applied research findings and discuss their implications for nonprofit management.

## Success Factor Analysis

PIMG's organizational assessment methodology is rooted in quantification of a wide range of organizational practices and characteristics (success factors) and an objective measure of organizational success. We have applied the process to individual nonprofits, producing a customized report of findings and recommendations for the organization's internal use. Each report includes a common success factors scorecard, which can then be aggregated for broader research purposes.

The Success Factor Analysis system has three key features:<sup>1</sup>

- A set of 35 defined organizational practices and attributes, or success factors, spanning five categories: organizational strategy, culture, internal operations, external orientation, and revenue structure (described in Appendix 1)
- A rating system for evaluating an organization's status on each factor at a point in time
- An institutional health metric called the Organizational Success Index (OSI).

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<sup>1</sup> For detail on the Success Factors Analysis methodology see the document [Success Factors for Nonprofit Organizations](#) by Public Interest Management Group (2015).

Developed with input from an advisory group of nonprofit sector capacity-builders, the OSI is a composite indicator that incorporates a nonprofit's performance in three areas: achievement of mission-related goals relative to subsector peers (50%); financial health (30%); and programmatic growth (20%) over a four-year period. For the purposes of assessment and research, this is how we define success. The OSI is bright line for a nonprofit, a basis for measuring progress. As a common measure of success, the OSI also allows us to identify statistical relationships between individual factors and performance in a population of nonprofits.

Combining the OSI with the full set of factor ratings, Success Factor Analysis reveals how a nonprofit's management practices compare to those of its peers, and where organizational development action may be most impactful. It also helps us understand how each factor correlates with organizational success in the larger population. The latter forms the basis for applied research.

## Applied Research Study

PIMG partnered with the Nonprofit Association of Oregon (NAO) to pilot the system with a set of charitable 501(c)(3) organizations. Serving as the state association, NAO has an interest in promoting healthy nonprofits and sector-wide impact.

PIMG deployed Success Factor Analysis with three cohorts of nonprofits between 2015 and 2017.<sup>2</sup> The result is a set of data on organizations working in fields including health, social services, housing, education, community development, and the environment. Appendix 2 includes detail on the composition of the study population.

In presenting findings, we note several caveats: While the study population is diverse, it is not a representative sample of all charitable nonprofits and is not large enough to draw distinctions between different types or subsectors of organizations. In addition, statistical correlations show relationships but do not, in themselves, establish causality.<sup>3</sup> The study is not intended to reveal definitive findings. It is intended to serve as an exploration of the connections between a range of variables and organizational success, and to highlight key questions for future study.

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<sup>2</sup> The study group includes a 2015 cohort of Oregon nonprofits, which participated in an NAO-coordinated pilot project, a 2016 cohort conducted in partnership with The Impact Foundry, a Sacramento-based management service organization serving Northern California, and a 2017 Oregon cohort coordinated by NAO. In addition, PIMG conducted several individual organizational assessments included in the study population. The pilot projects included evaluation components which informed subsequent adjustments to the methodology and components. All participants were rated on the full set of metrics presented herein.

<sup>3</sup> Detail about the statistical methodology employed is available on the [PIMG website](#).

## Findings

Study results show a range of significant associations between individual factors and organizational success. Appendix 3 summarizes data findings.

For each of the 35 factors, our hypothesis was that we would find a significant association with success. Just under half of these relationships appeared in study results.

Seventeen of 35 rated success factors show medium or large correlations with organizational success, meaning that successful organizations tended to have high ratings in these areas, while unsuccessful organizations generally had lower ratings. Figure 1 lists these 17 factors by category.

Figure 1 Factors with Medium/Large Correlation with Success	
<b>Strategy</b>	<ul style="list-style-type: none"> <li>• Clarity of the organization's theory of change among key stakeholders</li> <li>• Depth of proof of concept regarding program methodologies</li> <li>• Definition of results goals and objectives</li> <li>• Partner/stakeholder engagement as an organizational strategy</li> <li>• Investment in generation of revenues</li> </ul>
<b>Culture</b>	<ul style="list-style-type: none"> <li>• Cohesiveness of overarching philosophy</li> <li>• Business focus overlaying management and operations</li> <li>• Inclusiveness of strategic decision-making</li> </ul>
<b>Internal Operations</b>	<ul style="list-style-type: none"> <li>• Data orientation in management</li> <li>• Quality control systems</li> <li>• Staff recruitment attribute-skill fit</li> <li>• Clarity of performance accountability</li> </ul>
<b>External Orientation</b>	<ul style="list-style-type: none"> <li>• Constituent access/communication channels</li> </ul>
<b>Revenue Structure</b>	<ul style="list-style-type: none"> <li>• Diversity of revenue sources</li> <li>• Intentionality of subsidies and profit centers</li> <li>• Renewability of revenue sources</li> <li>• Major individual donor share of the revenue mix</li> </ul>

Sixteen rated factors show small or no correlation with success, meaning that the ratings of successful and unsuccessful nonprofits show similar distributions. These are listed in Figure 2.

Figure 2 Factors with Small/No Correlation with Success	
<b>Culture</b>	
<ul style="list-style-type: none"> <li>• Predominance of mission values in decision-making</li> <li>• Predominance of social justice values in decision-making</li> <li>• Tolerance of change</li> </ul>	
<b>Internal Operations</b>	
<ul style="list-style-type: none"> <li>• Efficiency of operations</li> <li>• Client-centricity of service delivery</li> <li>• Job definition clarity</li> <li>• Staff support systems</li> <li>• Staff training investment</li> </ul>	
<b>External Orientation</b>	
<ul style="list-style-type: none"> <li>• Involvement in advocacy</li> <li>• External CEO focus</li> <li>• Volunteer engagement</li> <li>• Social media engagement</li> <li>• Board engagement in revenue development</li> <li>• Urgency/priority of organization's key issue in the media</li> </ul>	
<b>Revenue Structure</b>	
<ul style="list-style-type: none"> <li>• Earned income share of the revenue mix</li> <li>• Event-based fundraising share of the revenue mix</li> </ul>	

Two rated factors show significant *negative* correlations with success, meaning that successful organizations tended to have low ratings in these areas, while unsuccessful organizations generally had higher ratings. These are summarized in Figure 3.

Figure 3 Factors with Medium/Large Correlation with Success	
<b>Strategy</b>	
<ul style="list-style-type: none"> <li>• Emphasis on new revenue sources</li> </ul>	
<b>Internal Operations</b>	
<ul style="list-style-type: none"> <li>• Board role in decision-making</li> </ul>	

Correlations tell us about *distinctions* between more and less successful organizations in the study group. Medium and high positive correlations may reveal practices that contribute to success or, alternately, may be “symptoms” of high performance. Medium and high negative correlating practices may contribute to poor performance or may be byproducts of that state.

The story may be more complex, however, for factors showing low (close to zero) correlations with OSI. These practices may have little or no relationship to a nonprofit’s performance. Alternately, they may be important elements of success that need other high-correlation ingredients to be present. For example, the factor *predominance of mission values in decision-making* showed a low correlation with success by itself. However, this factor has a high mean rating, which reveals that the full range of nonprofits score well on this factor. We cannot draw conclusions on whether this factor is critical or irrelevant to success.

In addition, a low correlation value can mask multiple effects. For example, community-based organizations often show low percentages of earned income, regardless of overall organizational performance, while direct service providers, strong and weak, often have high ratings on this factor.<sup>4</sup> We currently lack enough representative data to identify a clear general conclusion about this factor’s association with organizational success. For this reason, we must be cautious in interpreting low correlation values.

While the methodology used in PIMG’s historic analysis (of 40 organizations) has several differences with that of the current study (of 43 organizations), we compared the two sets of findings for directional consistency. Twenty-eight success factors show consistent results, while four factors show directional differences.<sup>5</sup>

<sup>4</sup> PIMG defines several functionally distinct types of nonprofits, including community-based, direct service, system impact and network management organizations. For definitions and discussion, see PIMG’s [white paper on this topic](#).

<sup>5</sup> The four directionally different factors are: emphasis on new revenue sources, job definition clarity, staff support systems and training investment level. See Appendix 3.

## Discussion

These findings lead us to six overarching conclusions:

### **1. Sound strategy with specific characteristics is closely associated with success.**

This finding concerns both the presence (or absence) of strategy and the characteristics of an organizational strategy. The characteristics we examined are independent of operational effectiveness. Even though strategy development requires a small fraction of the time and resources that organizations devote to program delivery and administration, its impact may be as large or greater.

Successful organizations tended to assemble detailed goals and objectives, employ future financial projections, allocate resources to the generation of revenues, and use partnerships strategically.

By contrast, vague strategic plans (found in 60% of participating nonprofits with a formal plan) do not appear to be linked with organizational success. Participating nonprofits with poorly-defined or undefined organizational strategies tended to be less successful than those with well-defined plans, regardless of the strength of their operations.

### **2. Attention to the business of running organizations is tightly linked with success.**

This includes emphasis on financial, human resource and data management, and data-based decision-making. All this is often supported by an organizational culture that values mission commitment and business focus on equal footing in high-performance organizations.

Further, successful organizations in our study group were led by autonomous staff leadership with authority to make a large share of business decisions.

### **3. Communication and engagement matter.**

Successful nonprofits tend to actively communicate with the communities they serve, build broad support, engage various stakeholders in establishing strategy, and systematically engage outside partners in meeting their missions.

### **4. Attention to the revenue structure – beyond revenues themselves – matters.**

Nonprofits can have complex business models, with multiple funding streams and varying value propositions to different groups of supporters. To achieve a sound business model, an organization must weave the streams together to support program delivery capacity and a positive bottom line. Successful organizations in our study tended to:

- Build diverse funding streams
- Focus on renewing familiar funding sources as a base, and
- Be intentional about which activities, will generate internal profits, and which activities will *by design* receive internal subsidies.

By contrast, less successful organizations tended to exhibit one or more of the following traits: rely disproportionately on one funding stream; focus disproportionate attention on new

revenue streams (rather than building from their bases); set fundraising expectations based on need rather than value propositions and/or; maintain deficit-funded programming by default – often due to a dearth of financial data. These nonprofits adopted a more passive view of the competitive landscape.

**5. A range of common understandings of best practices in nonprofit management may be incorrect.**

We found evidence of a disconnect between assumptions about best practices and the evidence. For example, a majority of executive directors interviewed in this study believed that:

- External focus of their own job would likely make them more effective (88%, though the study suggests no differentiation in performance of internally- versus externally-focused leaders).
- Working with and developing their boards is a top priority (58%, though the study suggests that most impactful success factors typically fall in the domain of staff authority and influence).
- Their organization has a clearly understood theory of change (84%, though only 51% of participating nonprofits met this condition).
- Strategic planning is primarily a consensus-building activity (67%, though the study suggests effective strategy is generally a function of content), and strategy development was not a current priority (53%, though only 12% of participating nonprofits had clearly defined strategic goals).
- The data they use for financial decision-making is adequate (60%, though only 23% had specific information on full costs and funding needs of internal activities).

**6. Much of the body of technical assistance marketed and delivered to nonprofits may be of marginal value or counter-productive.**






Technical assistance often focuses on areas not found to be tangibly linked with success. For example, many capacity-building resources are devoted to topics such as board development and engagement, and consensus-focused leadership, which may have small impacts on performance. By contrast, relatively few resources are directed to data management and financial strategy, which appear to have large impacts.

In short, our data supports some conventional understanding of best nonprofit management practices, while also raising key questions about the validity of assumptions commonly held by nonprofit leaders, funders and capacity-builders.



## Managing for Success: Themes from the Study

Successful nonprofits in this study shared an approach incorporating most or all of the following elements:

	<p><b>Rigorous Planning</b></p> <p>Collection of data and critical examination of internal capacities, external needs and constraints, and the financial and operational implications of key choices.</p>
	<p><b>Detailed Strategy</b></p> <p>A clear theory of change, well-defined goals, financial projections, appropriate resource allocation.</p>
	<p><b>External Orientation</b></p> <p>An externally-focused communication regimen that engages a range of constituents, such as supporters, public officials, funders, clients and community members.</p>
	<p><b>Disciplined Execution</b></p> <p>Systematic use of established human resource management practices, data in program management, fundraising and administration, ongoing evaluation of each of these areas of work and continuous improvement based on evaluation results.</p>
	<p><b>Balanced Mission/Business Culture</b></p> <p>Values business functions on equal footing with the organization's mission and supports the high-level priorities of program effectiveness, operational efficiency and financial health.</p>

The average OSI score of participating organizations that have adopted at least four of these five elements is 76 (relative to an overall median score of 63, and a sample range of 36-82). By contrast, participants meeting two or fewer of these conditions had an average OSI score of 56.

While the approach outlined here may be consistent with business model textbooks, it appears to be the exception rather than the rule in the nonprofit sector. This study suggests that clarity about practices likely (or unlikely) to tangibly improve organizational performance can help nonprofit leaders focus their efforts. Funders and management consultants may improve results by targeting technical assistance toward gaps in areas linked to organizational success.

## Questions for Future Study

This analysis provides an initial set of insights and presents questions worthy of future study. It's an important step toward better understanding what makes nonprofits tick in a competitive, resource-constrained environment.

Expanding the dataset can help clarify the statistical significance of these findings. Further research can also shed light in differences among the broad diversity of nonprofit organizations, for example large versus small, growing versus mature, direct service versus system impact focus, and distinctions between different fields (subsectors) of work.

Additional research may also reveal important relationships between success factors, dynamics of particular factors that may carry multiple effects, and clarification of those factors that may have optimal points between the highest and lowest values in the rating benchmark continuum.

A key question, perhaps the holy grail of nonprofit capacity-building, is this: How can we best promote a highly effective ecosystem of nonprofit organizations that deliver optimal value to society?

Nonprofit leaders, funders and management consultants can best answer this by tenaciously pursuing evidence-based practices, challenging untested assertions and digging deeper into the true sources of organizational success.

## Appendix 1

### Success Factor Variables by Category

#### Strategy

##### **Clarity of theory of change**

Clarity and consistency of understanding of the theory of change across stakeholder groups

##### **Proof of concept**

Depth of evidence for efficacy of program methodologies

##### **Definition of results goals and objectives**

Specification of future targets for programmatic, operational and financial results

##### **Partner/stakeholder engagement**

Degree and range of stakeholder engagement included as core components of organizational strategy

##### **Investment in revenue-generation**

Planned investment in revenue-generation infrastructure and/or personnel as a percentage of operating budget

##### **Emphasis on new revenue sources**

Degree of planned reliance on one or more new revenue sources within five years

#### Culture

##### **Cohesiveness of overarching philosophy**

Clarity of organization's operating philosophy to staff and volunteers, and its role as a source of group focus

##### **Business focus overlaying management and operations**

Cultural integration of established business sector practices (financial, HR, business development, etc.)

##### **Predominance of mission values in decision-making**

Degree to which core values are incorporated into criteria for business decisions and internal processes

##### **Predominance of social justice values in decision-making**

Degree to which social justice values are incorporated into criteria for business decisions, internal processes

##### **Inclusiveness of strategic decision-making**

Extent of inclusion of staff subgroups, volunteers and stakeholders in strategic decision-making processes

##### **Change tolerance**

Demonstrated response of leaders and staff to significant internal and external change events

#### Internal Operations

##### **Data orientation in operations and decision-making**

Degree to which data is used in program and relationship management, administration and decision-making

##### **Efficiency of operations**

Perceived process- and cost-efficiency of service delivery relative to norms in agency's field of work

##### **Quality control systems**

Service quality performance and, where applicable, system evaluation relative to standards in agency's field

##### **Client-centricity of service delivery**

Degree of client focus and input into program/service design

##### **Staff recruitment attribute-skill fit**

Identified balance of appropriate skills and behavioral attributes across staff groups

##### **Job definition clarity across positions**

Consistency of perceived roles and expectations throughout the staff

<b>Internal Operations, continued</b>
<b>Performance accountability clarity</b> Consistency of understood accountability standards and application of standards across positions
<b>Staff support systems</b> Consistency of perceived support, demonstrated by a range of supervisory actions, across positions
<b>Training investment</b> Annual investment in staff development as a percentage of operating budget
<b>Board role in decision-making</b> Degree of board involvement in organizational leadership decision-making
<b>External Orientation</b>
<b>Involvement in advocacy</b> Role of advocacy in organization's work plans, strategy and budget relative to other activities
<b>External CEO focus</b> Degree of external focus and recognition of CEO's distinct identity in association with the agency
<b>Constituent access channels</b> Consistency of understood accountability standards and application of standards across positions
<b>Volunteer engagement (non-board)</b> Degree of non-board volunteer involvement in integral roles, demonstrated by in-kind value
<b>Social media engagement</b> Role and extent of social media in organization's external communication activity
<b>Board engagement in revenue development</b> Degree of direct board involvement in revenue generation, demonstrated by percentage of total revenue
<b>Issue urgency/priority</b> Relative perceived prominence of agency's key issue in national and local media
<b>Revenue Structure</b>
<b>Diversity of revenue streams</b> Number and spread of major revenue streams as proportions of the operating budget
<b>Intentionality of subsidies and profit centers</b> Level of financial analysis and proactive use of data in service mix decisions
<b>Renewability of revenue sources</b> Consistency of major revenue streams over time relative to total revenues
<b>Earned income contribution to revenue mix</b> Percentage of annual operating revenues from recipient or third-party fees for service delivery
<b>Major individual donor contribution to revenue mix</b> Percentage of annual operating revenues from individual charitable contributions of \$1,000 or greater
<b>Event-based fundraising contribution to revenue mix</b> Percentage of annual operating revenues from gross special event receipts

## Appendix 2 Composition of Study Population

Field of Service	Count	Share
Health/Human Services	18	42%
Education	11	26%
Community Development	9	21%
Arts	2	5%
Environment	3	7%

Budget Range	Count	Share
< \$750,000	12	28%
\$750,000-1.5 million	15	35%
\$1.5-3 million	10	23%
\$3-10 million	5	12%
> \$10 million	1	2%

Organization Type	Count	Share
Community-Based	17	40%
Service Delivery	22	51%
System Impact	2	5%
Network Management	2	5%

Lifecycle Stage	Count	Share
Startup	0	0%
Growth	8	19%
Maturity	16	37%
Decline	8	19%
Turnaround	11	26%

State of Operation	Count	Share
Oregon	26	60%
California	12	28%
Washington	4	9%
Other	1	2%

## Appendix 3 Statistical Results Summary

Public Interest Management Group Success Factor Analysis Assessment Data Summary 2015-2017					
Success Index/Factor	Mean Rating	Correlation with OSI	Standard Deviation	Directional Consistency with Historic Analysis	
<b>Organizational Success Index (OSI)</b>	63		12.1		
<b>A. Strategy</b>					
1	Clarity of theory of change	3.4	0.5	1.1	yes
2	Depth of proof of concept	2.7	0.5	0.9	yes
3	Definition of results goals/objectives	2.0	0.5	1.1	yes
4	Partner/stakeholder engagement	3.1	0.3	1.3	yes
5	Investment in revenue generation	2.2	0.4	1.3	yes
6	Emphasis on new revenue sources	3.0	-0.3	1.1	no
<b>B. Culture</b>					
7	Cohesiveness of overarching philosophy	3.5	0.5	1.1	yes
8	Business focus in management/operations	2.8	0.4	0.9	yes
9	Mission values role in decision-making	4.3	0.0	0.8	yes
10	Social justice values role in decision-making	2.8	0.0	1.3	NA
11	Inclusiveness of strategic decision-making	3.0	0.3	0.9	yes
12	Change tolerance	2.7	0.2	0.9	yes
<b>C. Internal Operations</b>					
13	Data orientation	2.7	0.4	0.9	yes
14	Efficiency of operations	3.2	0.2	0.9	yes
15	Quality control systems	3.1	0.4	0.9	yes
16	Client-centricity of service delivery	3.6	-0.1	1.0	yes
17	Staff recruitment attribute-skill fit	3.0	0.3	1.0	yes
18	Job definition clarity	3.4	0.2	0.7	no
19	Performance accountability clarity	2.9	0.3	1.1	yes
20	Staff support systems	3.4	0.0	0.9	no
21	Training investment level	2.3	0.1	1.1	no
22	Board role in decision making	2.5	-0.3	0.9	yes
<b>D. External Orientation</b>					
23	Involvement in advocacy	2.2	0.2	1.2	yes
24	External CEO focus	2.6	0.1	0.9	yes
25	Constituent access channels	2.8	0.5	1.2	NA
26	Volunteer engagement (non-board)	3.2	0.0	1.4	yes
27	Social media engagement	3.6	0.2	1.3	NA
28	Board engagement in revenue development	2.2	0.2	1.1	yes
29	Issue urgency/priority in media	2.7	0.0	0.8	yes
<b>E. Revenue Structure</b>					
30	Diversity of revenue sources	3.0	0.3	1.1	yes
31	Intentionality of subsidies/profit centers	2.7	0.3	1.1	yes
32	Renewability of revenue sources	3.5	0.3	1.1	yes
33	Earned income share of revenue mix	2.6	0.0	1.6	yes
34	Event-based fundraising share of rev. mix	2.1	0.0	1.2	yes
35	Major indiv. donor share of revenue mix	1.3	0.3	0.6	yes

The Organizational Success Index and success factors are described in detail at [pimconsulting.com](http://pimconsulting.com). OSI values ranged from 36 to 82, with a median of 65. Mean ratings for success factor metrics are average assigned values based on established benchmarks, using a 1-5 scale. Correlation values are Spearman correlation coefficients.

The historic analysis is an exploratory study of 40 nonprofit sector organizations using a Success Factor Analysis prototype methodology. Its dataset served as a baseline comparison for the 2015-17 assessments, and aggregate comparison here. For more information, see the 2015 [Exploratory Analysis](#) report.