

Introduction to OD and the Nonprofit Sector

This special issue of the *OD Practitioner* attempts to capture the nonprofit sector's current challenges and opportunities and some of the distinct approaches and practices OD practitioners are developing within the sector.

The Nonprofit Sector

The nonprofit sector includes a wide variety of organizations with a wide range of sizes and structures: hospitals and universities, environmental advocacy and civil rights organizations, family and children services, community development and antipoverty organizations, community health agencies, professional associations, foundations, community chests, orchestras, opera companies, theatre companies, religious congregations, and many more. The sector itself also has many identifying titles: social sector, third sector, independent sector, civil society, voluntary sector, and nongovernmental organizations (NGOs).

In the US alone there are 1.6 million nonprofits including 501(c)(4) social welfare and lobbying organizations and 501(c)(3) public serving organizations, the largest category of nonprofits.

- » Nonprofits account for 10% of the entire US labor force, making them the third largest employer; only surpassed by retail trade (15.4%) and manufacturing (14.1%) (Salamon, et al., 2012).
- » 17% of nonprofits have budgets ranging from \$1m to \$10m+; 83% have budgets under a million.
- » The total assets for the US nonprofit sector in 2011 were \$2.9 Trillion.
- » An estimated \$836.9 billion was contributed to the US economy by the nonprofit sector in 2011, which is 5.6% of the country's gross domestic product.
- » The major sources of revenue are fees

Former Editors

Larry Porter	1973–1981
Raymond Weil	1982–1984
Don & Dixie Van Eynde	1985–1988
David Noer	1989–1992
Celeste Coruzzi	1993–1995
David Nicoll	1996–2000
Marilyn E. Blair	2000–2008

Table 1. *Values Most Important to the Nonprofit Sector*

Effective —providing programs and services of the highest quality at reasonable cost; making a difference in the lives of individuals and the community.	99%
Responsive —responding to clients, patrons, and communities; meeting needs that the market and government do not meet; pursuing innovative approaches when needed.	99%
Reliable —resilient and demonstrating staying power both in good times and bad; operating in a trustworthy and accountable manner.	98%
Caring —serving underserved populations; providing services/programs at reduced or no cost to disadvantaged populations; community focused.	96%
Enriching —giving expression to central human values; providing opportunities for people to learn and grow; fostering intellectual, scientific, cultural, and spiritual development; preserving culture and history; promoting creativity.	94%
Empowering —mobilizing and empowering citizens; contributing to public discourse; providing opportunities for civic engagement for the public good.	88%
Productivity —creating jobs and economic value; mobilizing assets to address public problems; enhancing local economic vitality.	87%

for services and goods from private sources, 46.6%; payments (e.g., Medicaid and Medicare) and contracts/grants from government sources, 32.7%; and philanthropy 12.6%. (Pettijohn, 2013)

Even with the sector's diversity, many nonprofits share basic agreements about the sector's core values. The John Hopkins Nonprofit Listening Post Project heard from 731 US nonprofit organizations in the fields of human services, community development, and the arts about the sector's core values (Salamon et al., 2013). *Table 1* lists the core values; the percentages are how many of the respondents indicated the value was important to very important.

The Challenges and Opportunities for the Sector

Although these common values are strongly held, a vast majority of nonprofits are dealing with persistent challenges as

they attempt to enact these values. The interviews we conducted with nonprofit leaders in preparation for this special issue and the literature we reviewed identified three major challenges: Financial Sustainability, Increased Demand for Accountability and Assessment, and the Shifting Structure of the Sector.

Financial Sustainability

The nonprofit leaders we spoke with talked about the challenges of constant fund raising, trying to motivate and reward an often underpaid and over-worked staff, and the increasing demand for their agency's services with diminishing resources to provide those services.

Wilson and Taylor (2004), Miller (2008), and the Nonprofit Finance Fund (2014) describe the constant challenge of most donors and foundations funding projects but not funding the administrative expenses needed to manage the projects. There is also limited funding to help nonprofits build their capacity to effectively

meet the needs of their current clients and the growing demands for their services. The Nonprofit Finance Fund's 2014 survey of nonprofits found that 53% of the 5,019 respondents from 50 states and Puerto Rico said funders were interested in supporting program expansion and never or rarely interested in covering the full cost of programs. NFF also found:

- » 80% of respondents reported an increase in demand for services, the 6th straight year of increased demand.
- » 56% were unable to meet demand in 2013—the highest reported in the survey's history.
- » Only 11% expect 2014 to be easier than 2013 for the people they serve.
- » More than half of nonprofits (55%) have 3 months or less cash-on-hand.
- » 28% ended their 2013 fiscal year with a deficit.
- » Only 9% can have an open dialogue with funders about developing reserves for operating needs, and only 6% about developing reserves for long-term facility needs.

According to the NFF survey, nonprofits indicated they would respond to this financial sustainability challenge in the following ways:

- » 31% will change the main ways in which they raise and spend money.
- » 26% will pursue an earned income venture.
- » 20% will seek funding other than grants & contracts, such as loans or other investments.

Another way nonprofits are responding to the financial sustainability challenge is through initiatives that bring together funders (e.g., individual donors, foundations, and government), local communities, and other nonprofits to agree on specific changes and develop collaborative processes for achieving those changes. Some examples are:

- » In the 1990s, when new HIV/AIDS drugs became available, New York City funders representing corporate, individual donor funds, and private foundations came together with a nonprofit consulting group to fund and

facilitate capacity development for HIV/AIDS services organization to make the cultural and structural transition from providing services for “dying with dignity” to services for “living with dignity.”

- » The Centers for Disease Control's Healthy Communities Program worked with the National Association of County and City Health Officials, the National Association of Chronic Disease Directors, the National Recreation and Park Association, and the YMCA of the USA to assist in the local development and implementation of needed health-related environmental change strategies; provide linkages to resources and other funding opportunities; and connect local communities to national partners and experts (www.cdc.gov/nccdphp/dch/programs/healthycommunitiesprogram/).
- » In spring 2014, the Hispanic Federation, Coalition for Asian American Children and Families, and New York Urban League formed an alliance to provide capacity-building support to Black, Latino, and Asian-led community-based nonprofit organizations throughout New York City's five boroughs. These three organizations, along with the Asian American Federation and Black Agency Executives, developed this initiative to generate new levels of support for the city's community-based organizations. The New York City Council has allocated \$2.5 million for this alliance (www.cdc.gov/nccdphp/dch/programs/healthycommunitiesprogram/).

Increased Demand for Accountability and Assessment

Scandals about use of funds have threatened public trust in the sector and increased the call for greater accountability and performance measures (Aviv, 2004; Strom, 2008; Chan & Takagi, 2011). However, tracking the relevant data and producing the required reports can strain the organizational capacity of small nonprofits (Campbell, 2003; Gammal, 2006). Respondents to the NFF survey said that more than 70% of their funders requested

impact or program metrics. While 77% of the respondents agreed that the metrics funders ask for are helpful in assessing impact, only 1% reported that funders always cover the costs of impact measurement; 71% said the additional costs were rarely or never covered.

Emphasis on performance measures can also contribute to mission drift. “On the one hand, performance measures drive nonprofits to focus on outcomes, instead of just inputs and outputs. On the other hand, an obsession with particular measures can lead to mission drift and the cherry-picking of services and clients, such that performance looks best along just the dimensions measured” (Brooks, 2003, p. 504). In order to be accountable, community development agencies focus on what can be measured and not on what effects long term change. There are also limited methods and resources for measuring long-term social change efforts (Taylor & Saol, 2003).

Shifting Structure of the Sector

The traditional boundaries that have divided the three sectors: private (for-profit), public (government), and nonprofit are becoming blurred (Guo, 2004; Shoham, et al., 2006; Martin & Osberg, 2007; Paton et al., 2007). Many nonprofits are depending more on fee for services, and many for-profits are providing services that have traditionally been the purview of nonprofits, such as health care and job training (Guo, 2004). Social entrepreneur approaches are producing organizations that utilize for-profit business methods and income generating strategies with mission driven ways to affect social change (Martin & Osberg, 2007; Phills, et al., 2008).

The nonprofit leaders we spoke with want to be mission focused and business smart. They want to develop organizational structures that exemplify their mission and values and support their services.

Many nonprofits are experimenting with various organizational designs and income generating business approaches. They are becoming social enterprises whose primary purpose is to directly deal with a social need as either a nonprofit using earned income strategies to pursue its mission or a for-profit that pursues a

social good using commercial strategies (Social Enterprise Alliance, www.se-alliance.org).

- » In New York City, Housing Works provides integrated services for those living with HIV/AIDS. Besides receiving government grants, individual donations, and Medicaid reimbursement, there are linked but separate (with their own boards) for-profit enterprises that help to financially support the work. Those enterprises include a bookstore café, 12 upscale thrift shops around New York City, and a catering service.
- » In Los Angeles, Chrysalis offers a pathway to self-sufficiency for homeless and low-income individuals by providing the resources and support needed to find and retain employment. In order to help individuals with the greatest barriers to employment, Chrysalis provides transitional jobs through social enterprise businesses that include a professional street-maintenance and cleaning service and a full-service staffing agency (Social Enterprise Alliance).
- » Harish Hande co-founded Selco Solar in 1995, to bring renewable energy solutions to India's poor. His approach has been to not just sell solar lighting solutions, but create an entire ecosystem around it, including relations with banks, NGOs, and farmer co-operatives for innovative financing, creation of income generation activities using solar, high-quality products, and superior after sales service. Hande has also started Selco Foundation, the philanthropic arm of Selco, which seeks to provide the rural poor with renewable energy services that can be leveraged for income generating activities (Social Enterprise Alliance).

Some large nonprofits/NGOs are experimenting with heterarchy. Stephenson defines heterarchies as “an organizational form somewhere between hierarchy and network that provides horizontal links permitting different elements of an organization to cooperate while they individually optimize different success criteria” (2009, p. 6). Anita Singh, in this issue, describes one heterarchy that is decentralized at all

levels so that each unit can better serve its constituents, anticipate and plan for change, and respond to increasingly uncertain and complex external environments.

In order to prepare people to be leaders in this shifting nonprofit sector, nonprofit leadership development and education could benefit from a “greater emphasis on leadership in complex inter-organizational settings, where authority may be ambiguous; a focus not only on boards but also on multilevel governance relationships; a greater recognition of the limits of rational management techniques and an appreciation of ‘post rational’ approaches to management and organization using ideas such as complex adaptive systems, sense making, emergence, and managing paradoxes and dilemmas” (Patton, Mordaunt, & Comforth, 2007, p. 1608).

The Articles in this Issue

Miguel Bonilla discusses key theoretical models and practices that are essential to strengthening small nonprofits in times of adversity. Using two case studies, Bonilla provides examples of how to design interventions at an individual, group, or organization level. He also discusses evidence-based resilience assessments that can help uncover organizational strengths that can be cultivated and developed.

When it comes to the real work of social change, are we asking the right questions? **Doug Reeler** offers seven important questions and lines of inquiry that guide his organization's work with a wide variety of community groups, local and international NGOs, donor agencies, and government programs. He cautions that as we desperately seek for answers, we have to recognize that in the sheer complexity of being human and working with change, so much remains that is unknown and even more that is unknowable. He argues for diverse, collaborative, learning-based approaches to change.

Pat Vivian and Shana Hormann share their experiences of working with organizational trauma in highly mission-driven nonprofits. They explore the often unnoticed effects of traumatization on

nonprofits and provide important insights about what interventions work. They also describe a set of characteristics for traumatized organizations and draw implications for effective OD practice.

The Episcopal Church is one of the early adaptors of OD. As the church applied OD it needed approaches that took into account the unique dynamics and issues of the parish church, was expressed in its own language, and drew upon the central process for which it exists. **Heyne and Gallagher** review the history of how OD has been integrated into parish life and how it has been modified to produce a form that enables consultants to work within religious systems.

Mary Hiland offers a study of how the relationship between board chairs and executive directors can influence the effectiveness of nonprofit organizations. Nonprofit leaders need to recognize that the board chair and executive director relationship is an important and powerful resource that can be leveraged in support of the organization's mission. The board chair and executive director need to promote and engage in dialogue about how to best develop and nurture their relationship, recognizing that building the relationship itself is an important component of their work together.

Anita Singh describes the heterarchic structure of an Indian development organization that promotes the rights of women and the marginalized. This emerging organizational design consists of loosely coupled entities within a hierarchy that is held together by a common organizational mission, vital information generation and diffusion through lateral communication, processes and forums where staff from different projects meet frequently either at the headquarters or the project office, and a standardized accounting system across all its decentralized organizations.

Rebecca Slocum shares her experience of working in a consulting team with a school in Johannesburg, South Africa. As a result, she returned home with a new orientation to imagery, enabling her to attune herself to a world rich in metaphor and full of meaning. She was more aware of language patterns and how she can join the

client's use of metaphor and ask questions such as: How do these symbols resolve or spread confusion? How do they provide direction or mislead action? How do they perpetuate identity?

The summer 2015 issue of the *ODP* is dedicated to Design and Organization Development. Further information is contained in the call for articles on page 1 of this issue. Submit all articles to the *ODP* editor, John Vogelsang (jvogelsang@earthlink.net). Submissions should follow the Guidelines for Authors, which appear on page 56.

*John Vogelsang and the Guest Editors:
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