CHAPTER II

NONPROFIT MANAGEMENT: THEORY, CONCEPTS AND PRACTICES

For long, organizational theorists have grappled with the issues of relationship between organizational structure and task environment, rational behavior of organizations and their evolution which culminated in development of theories that explain how task environment influences the choice of structures, the extent to which organizations behave rationally in decision-making and their limitations and how the organizations respond to the environmental influences and continuously evolve in order to sustain themselves.

For organizational theorists “organization” means; a social entity that includes people, some form of resources and technology; a goal directed entity that serves an explicit purpose; a structured arrangement where tasks are divided into separate activities and coordinated; a bounded entity with an identifiable boundary that makes it possible to judge the organization from its environment. The following section offers a broad understanding of different organizational theories.

2.1 Modern theories of organizations

2.1.1 Bureaucracy

Max Weber’s (1978) seminal essay on bureaucracy is considered to be the landmark in development of modern organizational theories. According to him bureaucracy is characterized by division of labour where activities are divided systematically among various positions; selection and promotion of employees on the basis of professional and technical competence; hierarchy of positions and the job descriptions they entail; formal rules that provide guidelines for best practice and job performance; maintenance of records on administrative decisions, rules and guidelines, and organizational activities; impersonal office where officials are entrusted with responsibilities and receive a salary in return, but they cannot appropriate the positions and offices they occupy.
It has been argued that bureaucracy is best suited for stable, routine task environments and is less suited for organizations in changing task environments with high degrees of uncertainty. It is only the task environment that matters rather than ownership or stated objective and therefore any organization, be it forprofit, nonprofit or public, can be bureaucratic. It is to be noted that, elements of bureaucracy like written rules, formal job descriptions, performance criteria, and hierarchies exist in most organizations. The extent of bureaucratization depends on organizational age and size. Larger organizations tend to have more bureaucratic elements, in particular a more formal administration, and older organizations tend to be more routine and stable in their task performance.

The bureaucratic management model emphasizes the need for organizations to operate in a rational manner with specialization of labor, formal rules, and regulation, based on impersonality, a well-defined hierarchy, and a system of career advancement based on merit. The key factors are stability of the task environment, possibility of standardized procedures, well-defined and hierarchically arranged job descriptions.

### 2.1.2 Scientific Management Theory

The theory of scientific management developed by Frederick Winslow Taylor (1967) was one of the first attempts to use scientific methods to organize the workplace more efficiently. It assumes that workers would accept highly directive management as well as fractionated and routine jobs in exchange for higher pay. Another assumption is based on acceptance theory, a notion introduced by Chester Barnard (1938), which states authority in organizations does not rest on managerial capability alone but primarily on the willingness of subordinates to accept orders.

### 2.1.3 Human Relations Theory

The simplistic motivational model that linked worker motivation to pay alone and the emphasis on hierarchy and authority relations between management and workers are fiercely contested on the ground that they create organizations without human beings. This led to the development of human relations approaches that include a broader set of motivations, in particular self-fulfillment, autonomy, and social needs. The importance of small group
behavior is recognized and the need for critical match between formal and informal structures in organizations is emphasized.

2.1.4 Theory X, Theory Y and Theory Z

Douglas McGreogor’s (1960) distinction between Theory X and Theory Y reflects the tension between scientific management school and human relations school. Theory X states that most people dislike work and will try to avoid it, most people need to be coerced, controlled, directed to work toward organizational goals, most people shun responsibility, have little ambition, and seek security above all. In contrast, Theory Y states that people do not inherently dislike work, will exercise self-direction if given the chance and favor self-control over external control. They accept responsibility, value creativity and seek ways to express it. Rewards are more important than punishment.

This dichotomy is further expanded by Theory Z which emerged from analyzing American and Japanese management models and the theories underlying their assumptions (Ouchi 1991). Theory Z states that people seek long-term employment, consensual decision-making and individual responsibility, a combination of informal control with explicit and formalized evaluation criteria, moderately specialized job descriptions that allow for personal advancement and a holistic concern for the organizational culture, including the well-being of employees and their families. Management by Objectives (MBO), developed by Peter Drucker (1954) and Total Quality Management (TQM) developed by Deming (2000) are related to Theory Z approach.

2.1.5 Bounded rationality

The assumption that there is one best way of doing things and decisions are based on administrative rationality is far removed from reality. Management and organizational design are intrinsically political and decisions are made under certain constraints. This gave impetus to the notion of limited or bounded rationality (Simon 1976). Bounded rationality suggests that managers have inadequate information not only about the decision they reach but also about alternative options and their implications, face considerable time and cost constraints in decision-making and have certain preset “frames” of reference that lead them to overlook some aspects while overemphasizing others.
It is argued that managers act more like “satisficing beings” than “rational beings”. In the course of making decisions they seek alternatives until they find one that appears satisfactory rather than continue searching for optimal decisions.

2.1.6 Neo-institutional theories

Neo-institutional theories have also deeply influenced management and organizational thinking (Powell and DiMaggio 1991). It is called “institutional” because the theory focuses on the socially constructed, script-bound, embedded nature of mundane everyday behaviors as well as their importance. The belief that the rational actor model of organizations is insufficient and that organizational actions are formed and shaped by institutions i.e. the prevailing social rules, norms, and values that are taken for granted is at the core of neo-institutional thinking is. Institutions constrain and also form individual and organizational behavior by limiting the range of available options that are perceived as legitimate. Legitimacy, understood as conformance with institutional expectations, thus becomes the central resource that organizations require for long-term survival. In addition, since all organizations in a particular organizational field are subject to the same institutional expectations and constraints, they will tend to become homogeneous over time, a process called isomorphism. Powell and DiMaggio (1991) differentiate between three mechanisms of institutional isomorphic change.

Coercive isomorphism

Coercive isomorphism appears as a reaction to direct or indirect pressure to abide by institutional expectations. Such pressures are typically exerted by organizations on which the pressured organization depends. For example, coercive pressures exerted by government and other funders help explain how nonprofits change from informal, voluntary and amateur groups to increasingly bureaucratic and professionalized organizations through the coerced adoption of accounting, monitoring, performance, and certification requirements. Similarly, with the replacement of volunteers by service professionals, such as trained social workers, counselors, art historians, or educators, normative pressures effect change in the same direction (Sokolowski 2000).
Mimetic isomorphism

Mimetic isomorphism occurs in situations of technological or environmental uncertainty. Faced with uncertainty, organizations may mimic, or model themselves after, other organizations that are perceived as successful. For example, mimetic pressures help explain why nonprofits, facing considerable financial uncertainty, begin to utilize business techniques and profit-making activities.

Normative isomorphism

Normative isomorphism derives from professional norms and standards that guide the work of professionals in organizations and thus shape organizational behavior. For example, the rules, regulations, and ethics of the social work profession contribute to similarities across social service and welfare agencies, irrespective of organizational form.

2.1.7 Contingency Theory

Contingency theory views organizations as systems of interrelated parts, stresses the importance of environmental factors, and suggests that there is no one best way to manage. In contrast to scientific management, contingency theory argued that, rather than seeking universal principles that apply to all or most organizations, analysts should identify contingency principles that reflect the demands of particular types of task environments organizations work in.

2.1.8 Population ecology Theory

One of the most influential schools is population ecology, which models systems of organizations. Its key insight is that much change occurs as a result of variation in the birth and death rates of organizations, through selection rather than adaptation (Aldrich 1999). The notion of niches, resource dependencies, comparative advantages, and environmental carrying capacities are concepts to explain organizational development over time both at the individual and aggregate level. Recombination (use elements from different forms) and re-functionality (move into new niche, field) are important processes. Several concepts are important for understanding the approach of organizational population ecology.
Niches are relatively distinct combinations of resource sets that organizations use as input and which make them less prone to competition from others. Finding, defending, and optimizing niches on either the demand or the supply side become a key task of organizational survival and organizations that fail in these tasks are more prone to extinction over time. The term “niche” is a relative one, as the resources condition on the demand and supply side are relative to those of other organizations and potential competitors. Next to organizational niches, there are form niches, and they consist of “the social, economic, and political conditions that can sustain the functioning of organizations that embody a particular form” (Hannan and Carrol 1995: 34). Nonprofit organizations would constitute one such form. The survival of nonprofits generally and irrespective of particular fields and organizational niches depends on the extent to which general form conditions can be maintained.

Related to the term niche is the notion of environmental carrying capacity, which refers to the number of organizations that can be supported by the social, economic, and political conditions, given available resources. To the extent that existing or newly founded organizations can draw on resources without competing against each other, the limits of the environment’s carrying capacity have not been reached. However, once resources become scarcer, or some organizational forms become more efficient in resource use, the survival of other organizations will be put in question.

Behind this reasoning is a basic insight of organizational population ecology, which sees organizational forms as being in more or less open competition with each other (Aldrich 1999). While policies define the rules of the game, over time mismatches develop between the potentials and constraints they impose on forms, and thereby either increase or decrease their competitive edge over others. Over time, this dynamic leads to shifts in the composition of organizational fields in terms of form.

Organizational theory offers a threefold explanation for the varying compositions of nonprofit, forprofit, and public agencies across different fields. First, for some periods, the carrying capacity of organizational fields may be such that different forms can survive, each operating with a comparative advantage that reduces direct competition. Second, once conditions change, some organizations may be more favored in their survival than others and begin to expand, and others may succeed in establishing niches that allow them to continue to
exist. Third, new organizations may enter, being enticed by new opportunities and other considerations. It is thus concluded that form diversity and different form composition are a function of environmental changes.

Organizational theory also points to two basic processes, re-combination and re-functionality, that lead to the development of new forms (Romanelli 1991). Re-combination involves the introduction of new elements into an existing organizational form, for example, benchmarking, franchising, branding, and other corporate management tools in nonprofit organizations, or corporate responsibility programs in businesses. Re-functionality means the relocation of one form in a different context, e.g. the migration of for-profit providers into fields previously populated primarily by nonprofits.

2.1.9 Resource-dependency theory

Next to population ecology, resource-dependency approaches recognize the contingent, open systems nature of organizations (Pfeffer and Salancik 1978). Resource-dependency theory argues that organizations face environmental constraints in the form of external control over resources the organization needs to ensure operational efficiency and continued survival. Since few types of organizations are resource independent, they necessarily become interdependent with their environments. At the same time, external actors in control over critical resources will attempt to influence the organization and threaten managerial autonomy. Organizations will, however, not simply comply with external demands, but attempt to employ various strategies to manage dependencies and regain managerial freedom and autonomy. In the process, the organization influences and changes its environments as well. Pfeffer and Salancik (1978) suggest that among the strategies organizations employ are various types of inter-organizational linkages, including mergers, joint ventures, and the movement of executives within industries. This may either help reduce dependence on given critical resources or help obtain other resources that are in turn critical to the external actors trying to exercise control.

In the nonprofit context, the resource-dependency perspective is particularly useful in understanding the perpetual quest for a balanced mix of revenue sources. In both Western Europe and the US, the overly heavy reliance of some types of nonprofits on government
financing has given rise to concerns about governmentalization, bureaucratization, and loss of autonomy, as well as goal deflection of nonprofits (Kramer 1981; Anheier et al. 1997). All of this can be understood as a failure of nonprofits to manage and neutralize dependency on government resources. It may also partially explain the current revived interest in fostering philanthropy and civic engagement in many countries as an attempt to regain resources with no “strings attached” that increase the managerial scope of action.

2.2 Organizational Development

Organizations develop not only in response to external forces inherent in the organizational environment but also due to internal forces that shape organizations and their structures and cultures. Organizational theorists speak of life cycles and developmental stages through which organizations typically pass. Most of the stages organizational theorists have identified reflect the experience of forprofit businesses, but they are to some extent also applicable to nonprofits.

2.2.1 Organization life-cycle

The organizational life-cycle comprises of four stages- birth stage, youth stage, midlife stage and maturity stage. At the founding stage of organizations, few formal procedures are in place, the culture and mode of operation is largely entrepreneurial and informal with a premium on survival. Relations among staff are often trust-based and leadership is based on creativity, even charisma. As the organization continues to grow and to implement a bureaucratic structure, formalization and standardization set in to improve efficiency and streamline administrative procedure. Staff relations become more contract-based, and mission statements rather than entrepreneurial vision guide the organization. Midlife stage is marked by the organization's emphasis on control and accountability. Decision making would be centralized. During maturity stage it experiences push towards decentralization with extensive financial controls and focus on renewal. Leadership will be team based and enabling. Each of the four stages points to typical crises that help the organization in its transitions from one stage to the next.

Organizations, in the course of their development, move through different stages identified as entrepreneurial stage, collectivity stage, control stage and elaboration stage. The role of
planning and management changes as the organization moves from an initial entrepreneurial state to a phase where managers take on the role of the founders and become consolidators and strategists. During each of the successive phases i.e; entrepreneurial, collective, control and elaboration, planning tends to be little, short-term, long-term and strategic respectively.

2.3 Distinctiveness of nonprofit organizations

Nonprofit organizations are distinct from public and private organizations because of their voluntary nature, non distribution constraint and adherence to values. Unlike public or private organizations they are accountable to multiple stake holders and have multiple bottom lines. They are expected to perform different roles such as the service-provider role, the vanguard role, the value-guardian role and the advocacy role (Kramer 1981).

2.3.1 Service provider role

As service-providers nonprofits can perform various important functions in the delivery of collective goods and services, particularly for minority preferences when the government programs are typically large scale and uniform addressing the choice of median voter. They can be the primary service providers, where neither government nor business is either willing or able to act. They can provide services that complement the service delivery of other sectors, but differ qualitatively from it. Or they can supplement essentially similar services, where the provision by government or the market is insufficient in scope or not easily affordable.

2.3.2 Vanguard role

In their vanguard role nonprofits innovate by experimenting with and pioneering new approaches, processes, or programs in service delivery. This is possible because they are less subjected than business firms to the expectations of stakeholders demanding some return on their investment, and not subject to the electoral process as are government entities. Thus, nonprofit organizations can, in their fields, serve as change agents.
2.3.3 Value guardian role

Nonprofits are the primary mechanism to promote and guard particularistic values and allow societal groups to express and promulgate religious, ideological, political, cultural, social, and other views and preferences thus contributing to pluralism and democratization.

2.3.4 Advocacy role

In the political process that determines the design and contours of policies, the needs of under-represented or discriminated groups are not always taken into account. Nonprofits, in their advocacy role, fill in to give voice to the minority and particularistic interests and values they represent and serve in turn as critics and watchdogs of government with the aim of effecting change or improvements in social and other policies.

2.4 Comparison between nonprofit organizations, business firms and government agencies

Several analysts including Kramer (1981; 1987) and Najam (1996) have developed lists of characteristics that allow ideal–typical comparisons between nonprofit organizations, business firms and government agencies. These authors suggest that the objectives pursued by different sectors are fundamentally different. The general concern of the government is to optimize overall social welfare by redistributing resources and providing for basic needs that are not otherwise met. The primary criteria for distribution of publicly provided goods and services are equity and social justice.

In contrast, profit maximization for owners through the production of private goods that can be sold in markets is the key objective pursued by private firms. Production is regulated by the interplay of supply and demand, and distribution is based on exchange. Unlike private and public agencies, nonprofits typically aim at maximizing member benefits around some value. If motivated altruistically the aim is to maximize client group benefits. Products have either club or collective good character, and their distribution is either based on collective interests among members or involves solidarity with the client group. Nonprofits also produce private goods, but do so only to cross-subsidize their collective good provision (James 1983, Weisbrod 1998b).
At the organizational-structural level, the bottom-line measure of profit allows business firms to set clear and specific goals that are also easily monitored and measured. High goal-specificity translates into clearly delineated tasks and a formalized structure. Decision-making is top-down and hierarchical, and the controlling authority is vested in the owners or shareholders to whom the organization is also primarily accountable. Government agencies, by contrast, lack a clear bottom-line measure. Goals and mandates are both complex and ambiguous due to changing and at times conflicting political imperatives as well as interventions from outside interest groups. External accountability and the locus of control are split, with public agencies being ultimately accountable to the voters, while direct control is vested in elected officials, which serve as the electorate’s proxies. The decision-making process is thus indirectly democratic but internally and directly hierarchical. Ambiguity and conflicting accountability lead to rules-based formalized structures (Rainey and Bozeman 2000). Like public agencies, nonprofits also lack clear-cut bottom lines. Missions tend to be broad and vague, and members and stakeholders may join and support the organization for a diverse set of reasons leading to a complex and diffuse sets of goals. In contrast to public agencies though, nonprofits are primarily accountable to their members who vest operational control into the governing board. The proximity between membership as principal and the board as agent, however, is closer, decision-making procedures are directly democratic, and the organizational structure is informal.

Regarding participation, individual participation of citizens in the state is typically automatic and, given eligibility requirements, the same is also true for public sector agencies whether individuals choose to avail themselves of entitlements or not. In certain cases like prisons it may even be coercive. Participation in business firms is voluntary, although necessitated by economic needs. Participation in nonprofits is typically purely voluntary.

Choices concerning work participation can also be understood as a managerial sorting process (Weisbrod 1998b; Steinberg 1993) that depends on organizational objective functions and individual preferences, motivations, and perceived incentives. There are basically three types of incentives- material, solidarity, and purposive (Clark and Wilson 1961; Etzioni 1975). Material incentives, such as tangible monetary rewards, dominate in business firms whereas government agencies attract participants that respond more to purposive incentives that is
goal-related intangible rewards. Purposive incentives are also critically important for members and participants in nonprofit organizations (e.g. religious and political groups, human rights campaigns) in addition to the solidarity incentives resulting from the act of association itself.

Lastly, organizations across the three sectors principally differ in the way they generate financial resources. While public agencies are predominantly financed in a coercive manner through the government’s power to tax business firms employ commercial means of financing by way of charging market prices. Nonprofits, by contrast, ideally or typically rely on donations or philanthropic resources, including gifts and grants, dues, and public subsidies. Due to the free-rider problem experienced in financing through donations, nonprofits face chronic resource insufficiency issues (Salamon 1995), which tend to restrict organizational size in comparison with public and business organizations.

Despite the similarities noted between nonprofits and both public agencies and business firms on a number of dimensions it would be problematic to sort them into either public or business administration. On some dimensions they are similar to public agencies and on some other they are similar to business firms thus cutting across both sectors. Therefore both apply partially, but neither fully and nonprofits have retained organizational characteristics that are specific to them. The implication for the development of management models is therefore that nonprofit management is, at the minimum, characterized by greater stakeholder, goal, and structural complexity, resulting from push and pull between the state, market, and civil society underlining the need for a multifaceted, organization-focused approach.

Nonprofit organizations consist of multiple components and complex, internal federations or coalitions among stakeholders and may require a multifaceted, flexible approach to management and not the use of singular, ready-made models carried over from the business world or from public management. Managing organizations that have multiple bottom lines and are therefore intrinsically complex is the true challenge that nonprofit management theory and practice face.
2.5 Nonprofit Management

Nonprofit management is multifaceted. It encompasses administration of an organization’s human and material resources, management and development of its finances, marketing of its services, strategic decision making with respect to the organization’s environment, including its competitors, collaborating partners, and market niche, measurement, reporting, and guidance of the organization’s overall performance, and management of its governance and accountability relationships with its board of directors, funders, clients, and other stakeholders. Most of these dimensions are common to the management of business-sector organizations. However, nonprofit management is specialized in the manner in which it must address many of these functions. Thus nonprofit management and business management are parallel in some ways and different in others.

An attempt to discuss the theory, concepts and practices encompassing governance, strategic management, marketing management, human resource management and financial management is made in the following sections.

2.6 Governance in nonprofit organizations

In the nonprofit sector, financial profits may be generated as a means of supporting the mission, but it is accomplishment of the social mission itself that constitutes the ultimate criterion of success. However, measurement of mission success can be elusive, and appropriate criteria vary from one field of nonprofit endeavor to another and even from one nonprofit organization to another within various fields. As a result, nonprofit organizations must depend on other mechanisms to gauge their performance and guide themselves forward. In particular, it falls to the board of trustees or the governing body of a nonprofit organization to clarify and interpret the mission and determine the extent to which management of the organization is succeeding or failing. The trustees, rather than governing in their own interests, are empowered as agents of society to ensure that the nonprofit organization is meeting its social obligations as effectively as possible. As such, the trustees must use their judgments and interpretations, with whatever quantitative and qualitative information may be available, to assess performance and
take actions that will improve performance over the long run (Smith 1995). It is the trustees who are empowered with decisions to hire, fire, reward, or penalize management for the performance of the organization. The separation of management and governance through an independently constituted volunteer board of trustees provides a mechanism of objective oversight of potentially wayward nonprofit management.

The multiplicity of performance indicators reflects multiple bottom lines and the interests different stakeholders will have in monitoring and emphasizing those performance aspects that are of greatest interest to them. These render the governance and management of nonprofit organizations quite complex. Nonprofits operate in areas that are often difficult and where state or private sector can operate efficiently. Social services to the marginalized, and care facilities for children, elderly, women, international humanitarian assistance, advocacy groups, and local community associations are riddled with externalities, and operating in them involves trust and a concern for public goods.

These and similar factors, as Hansmann (1996), Rose-Ackerman (1996), and others suggest, make business transactions more precarious, less efficient, and perhaps even inequitable. The intricacy of governing and managing nonprofit organizations referred to as “law of nonprofit complexity” states that nonprofit organizations tend to be more complex than business firms of comparable size. At a given size, any nonprofit organization would easily surpass the complexity of an equivalent for-profit firm of equal size in terms of its environment comprising diverse constituencies, stakeholders, and multiple revenue sources including donations and grants, fees and charges, and public sector payments such as subsidies, grants and contracts, and its internal components comprising of board, staff, volunteers, members, and clients.

Handy (1990) suggests that many voluntary organizations contain three distinct components. These components are mutual support, service delivery, and campaigning. It could be suggested that nonprofit organizations are frequently several organizations or organizational components in one. More generally, from a governance and management point of view, a nonprofit organization is a combination of different motivations, standards, challenges, and
practices. Each component part, while not wholly self-sufficient, puts forward claims on the organization, and develops its own “culture,” routines, and procedures over time. Indeed, Kanter and Summers (1987) suggest that the existence of multiple constituencies lies at the core of governance and management dilemmas in nonprofit organizations. Various theories relevant for understanding the functioning of boards’ or governing bodies are briefly discussed below.

2.6.1 Agency theory – a compliance model

Principal-agent theory, or agency theory for short, has been the dominant theory of the corporation and corporate governance arrangements. It assumes that the owners of an enterprise (the principal) and those that manage it (the agent) will have different interests. From this perspective the main function of the board is to control managers. This suggests that the majority of a company’s directors should be independent of management, and that their primary role is one of ensuring managerial compliance, i.e. to monitor and, if necessary, control the behaviour of management to ensure it acts in the shareholders’ best interests.

One difficulty in applying an agency perspective to nonprofit organizations is that there is much more potential ambiguity over who the principals or owners are. However, many aspects of this perspective still have relevance. The principles and regulations concerning nonprofit organizations embody similar ideas on the role of governance. The key role envisaged of the governing body or board in any nonprofit is to see that the staff and management of the organization carry out the objectives.

2.6.2 Stewardship theory – a partnership model

Stewardship theory (Donaldson and Davis, 1991; Muth and Donaldson, 1998) is grounded in a human relations perspective and starts from opposite assumptions to agency theory. It assumes that managers want to do a good job and will act as effective stewards of an organization’s resources. Hence, the main function of the board is not to ensure managerial compliance or conformance, but to improve organizational performance. The role of the board is primarily strategic, to work with management to improve strategy and add value to top decisions. In this context it is not surprising that management ideas and practices should be applied to governance. From this perspective board members should be selected on the basis
of their expertise and contacts so that they are in a position to add value to the organization’s decisions. This perspective is evident in various models of governance across different sectors. Carver (1990), in his policy governance model for non-profit organizations, advocates that the real business of governance is to make policy, articulate the mission and sustain the vision of the organization.

2.6.2 Resource dependency theory – a co-optation model

Resource dependency theory (Pfeffer and Salancik, 1978) views organizations as interdependent with their environment. Organizations depend crucially for their survival on other organizations and actors for resources. The main function of the board, whatever sector the organization is in, is to maintain good relations with key external stakeholders in order to ensure the flow of resources into and from the organization, and to help the organization respond to external change. From this perspective the board is part of both the organization and its environment. The role of the board is one of boundary-spanning. Board members are selected for the important external links and knowledge they can bring to the organization, and to try to co-opt external influences..

2.6.3 A democratic perspective – a democratic model

A democratic perspective on governance suggests that the job of the board is to represent the interests of one or more constituencies or groups the organization serves. The role of the board is to resolve or choose between the interests of different groups and set the overall policy of the organization, which can then be implemented by staff. Central to this view is that any member of the electorate or membership can put himself or herself forward for election as a board member. Expertise is not a central requirement, as it is in the partnership model.

2.6.4 Stakeholder theory – a stakeholder model

Stakeholder theory is based on the premise that organizations should be responsible to a range of groups in society other than just the organizations’ ‘owners’ (Hung, 1998: 106). By incorporating different stakeholders on boards, it is expected that organizations will be more likely to respond to broader social interests than the narrow interests of one group. This leads
to a political role for boards negotiating and resolving the potentially conflicting interests of different stakeholder groups in order to determine the objectives of the organization and set policy.

2.6.5 Managerial hegemony theory – a ‘rubber stamp’ model

Managerial hegemony theory relates back to the thesis of Berle and Means (1932) that although shareholders may legally own and control large corporations, they no longer effectively control them, control having been ceded to a new professional managerial class. From this perspective the board ends up as little more than a ‘rubber stamp’ for management’s decisions. Its function is essentially symbolic to give legitimacy to managerial actions. Although this theory was developed in the study of large business corporations, many of the processes it describes seem just as relevant to nonprofit organizations.

2.6.7 A paradox perspective

Morgan (1986), in his ground-breaking study of organizations, argues that many of the theories and ways of thinking about organizations do not match the complexity and sophistication of the organizational realities. In order to address this problem he argues that it is necessary to take a multi-paradigm or perspective approach in to understand and grasp the multiple meanings of situations and to confront and manage contradiction and paradox, rather than pretend they do not exist. At the same time there has been a growing recognition that many management problems and issues require a move from linear thinking and simple either/or choices to seeing them as paradoxes. Managing paradox means embracing and exploring tensions and differences rather than choosing between them.

2.6.8 Governance and Management

Governance is different from management, which is primarily a staff function, although in many smaller and medium-sized organizations both functions overlap. Harris (1996) suggests that ‘there are few, if any, functions which in practice belong unequivocally or on a long-time basis to either board or staff’. In a small voluntary agency the distinction between ‘steering’ and ‘rowing’ cannot be made with any confidence and attempts to distinguish between board and staff roles in this way are unhelpful.
It is useful to think of the board as the focal point of governance, and the chief executive officer as the focal point of management. It is about ensuring that the organization is well managed, but not about managing it. It is about giving guidance on the overall allocation of resources but is less concerned with the precise numbers.” Thus, governance involves the responsibility for the organization’s performance and direction.

Governance is primarily an organizational steering function and closely related to the notion of stewardship. The board or the governing body of the nonprofit is the locus of the governance function. The board or governing body represents the organization to the outside world, in particular vis-a-vis legal authorities and the general public. In nonprofits, where no strict equivalents to “owners” exist, the board is entrusted with the organization and therefore board members are trustees. The task of the board is to make sure that the organization carries out its agreed-upon mission “without the objective of making profit and with the promise not to distribute organizational assets to benefit individuals other than the clients the nonprofit was formed to serve. All nonprofits, even associations, have a binding legal commitment to this overall principle” (Bryce 2000: 31). In essence, governance is about ensuring the fit between the organization’s mission and its activities and performance.

2.6.9 Roles and responsibilities of nonprofit boards

Kumar and Nunan (2002) examined the various functions and roles of boards, and the responsibilities that follow from them, and developed a useful classification. Though this is done in the context of United States, in general, it can be construed as relevant to Indian context.

Ten basic responsibilities of nonprofit boards

1. Determine the organization’s mission and purpose. It is the board’s responsibility to create and review a statement of mission and purpose that articulates the organization's goals, means, and primary constituents served.
2. Select the chief executive. Boards must reach consensus on the chief executive's responsibilities and undertake a careful search to find the most qualified individual for the position.

3. Provide proper financial oversight. The board must assist in developing the annual budget and ensuring that proper financial controls are in place.

4. Ensure adequate resources. One of the board's foremost responsibilities is to provide adequate resources for the organization to fulfill its mission.

5. Ensure legal and ethical integrity and maintain accountability. The board is ultimately responsible for ensuring adherence to legal standards and ethical norms.

6. Ensure effective organizational planning. Boards must actively participate in an overall planning process and assist in implementing and monitoring the plan's goals.

7. Recruit and orient new board members and assess board performance. All boards have a responsibility to articulate prerequisites for candidates, orient new members, and periodically and comprehensively evaluate its own performance.

8. Enhance the organization's public standing. The board should clearly articulate the organization's mission, accomplishments, and goals to the public and garner support from the community.

9. Determine, monitor, and strengthen the organization's programs and services. The board's responsibility is to determine which programs are consistent with the organization's mission and to monitor their effectiveness.

10. Support the chief executive and assess his or her performance. The board should ensure that the chief executive has the moral and professional support he or she needs to further the goals of the organization.

2.6.10 Typical Structures and Characteristics of Nonprofit Boards
Nonprofit boards/governing bodies have specific positions such as president, secretary and treasurer. In some nonprofits committees and task forces that help the board organize and accomplish its work are also constituted. The typical nonprofit board or governing body in
India has seven to thirteen members. Boards must meet regularly, but the frequency of meetings varies from quarterly to bimonthly or annual.

**Officers**

The officers of the typical nonprofit organization are the key leaders for the organization. In most states in India the legal framework is provided by the Societies Registration Act, 1860 with state-specific amendments or variants. The most common positions are board/governing body chairperson (or president), vice chairperson (vice president), secretary, and treasurer. The chairperson is the chief voluntary officer of the organization and is responsible for organizing and conducting the meetings of the board. Further, it is the chair’s responsibility to facilitate the board’s work as a team and to ensure that meetings and other board activities are conducted in an effective manner. It is common for the chairperson to oversee the performance of the organization’s chief executive on behalf of the board, although some organizations elaborate the process by involving the executive committee in executive performance management.

**Committees and Task Forces**

Boards/governing bodies engage in much of their work as a full group and, ideally, all members work as a team to accomplish the work of the board/governing body. Nonetheless, most boards also develop committees and task forces to help the board/governing body do its work, and these entities are part of the governance system of the organization. For most boards/governing bodies, some of these units are permanent or “standing” structures, whereas others accomplish a specific task and then disappear. It is increasingly common for boards to refer to the permanent structures as committees and to the limited-term entities as task forces or ad hoc committees, although some organizations do use the labels interchangeably. It is common for board/governing body committees to be comprised entirely of board members, but it is increasingly common to also invite non-board members with unique expertise or knowledge to serve. Often, the standing committees are specified in the organization’s bylaws, which explain their duties and responsibilities. For boards with elaborate committee systems, the following are among the most common types of committees.
Executive committee
This committee is typically comprised of the officers and sometimes also includes committee chairs or selected other board members. It usually has the authority to act on behalf of the board between meetings and to address organizational emergencies. Some executive committees have the authority to act independently, but many are required to have their actions reviewed and ratified by the full board.

Fundraising or Development Committee
This committee usually is responsible for working with staff and board to organize and implement the organization’s fundraising events and activities, including the solicitation of major gifts and grants.

Finance Committee
This committee is responsible for planning, monitoring, and overseeing the organization’s use of its financial resources, including developing a budget to allocate the organization’s funds. It develops for board action the financial policies the organization requires. Unless the organization has a separate audit committee, the finance committee also oversees and reviews the organization’s independent audit.

Personnel Committee
This committee usually is responsible for planning, monitoring, and overseeing the organization’s use of its human resources (paid and volunteer). It develops needed personnel policies, including policies guiding performance management and supervision, employee compensation and benefits, and handling of grievances.

Program Committee
It is common for nonprofits to have one or more committees to oversee the organization’s system(s) for delivering quality services to clients and to ensure that these services are provided in a timely and responsible manner. This committee may handle certain relations with community leaders and interest groups that have key interests in the programs of the organization and plan for program development or refinement to meet future needs.
It is important that committees and task forces do only work that legitimately is the responsibility of the board, taking care that these structures do not interfere with the operations of the organization.

2.7 Strategic management practices in nonprofit organizations

The concept of strategy has had long use in diplomatic and military history. Since 1960s it has been developed extensively to help private sector organizations improve profitability. Many definitions of strategy have been developed for use in private sector organizations. However, all of them may not be suitable for using them in nonprofit context. Fortunately some of the definitions are equally applicable to the nonprofit organizations as they are to the private sector organizations. It is relevant at this stage to go through some of the definitions of strategy.

2.7.1 Strategic Management

Strategic management is the process by which organizations develop and determine their long-term vision, direction, programs, and performance. Strategic planning involves various techniques and tools to ensure careful formulation, effective and efficient implementation, and evaluation. Strategic management integrates organizational functions and units into a more cohesive, broader strategy. In most cases, it involves the ability to steer the organization as a whole through strategic change under conditions of complexity and uncertainty. Specifically, strategic management encompasses the whole organization (mission, goals, structure, revenue, stakeholders); is outward-looking, and examines the organization in the context of the larger field or environment for developing strategies for action based on a broader understanding of the organization’s position; is forward-looking, tries to anticipate the likely conditions in the external environment in the medium to long term, and seeks to identify the major changes that will have to be made to the organization if it is to pursue its mission effectively in the future.

The need for strategic management arises from social change. Most organizations operate in environments that are changing at a different pace, sometimes for unknown reasons and with uncertain outcomes. This creates a need to understand these changes and their implications for
the benefit of the organization’s mission, operations, and accomplishments. In the business sector, strategic management is used primarily to improve a firm’s medium- to long-term profitability; by contrast, in the nonprofit sector, strategic management is used for (re)formulating a mission and objectives, and for achieving them more effectively and efficiently. Strategic management involves self-examination and reflection, which require the organization to look backward as well as forward and to formulate post hoc as well as ad hoc rationalizations of objectives, programs, and activities. For Mintzberg (1979) and others, the process of strategic management is as important as the outcome.

Strategic planning is a systematic process through which an organization agrees on - and builds commitment among key stakeholders to - priorities that are essential to its mission and are responsive to the environment. Strategic planning guides the acquisition and allocation of resources to achieve these priorities. The process is strategic because it involves choosing how best to respond to the circumstances of a dynamic and sometimes hostile environment. Nonprofit organizations have many choices in the face of changing client or customer needs, funding availability, competition, and other factors. Being strategic requires recognizing these choices and committing to one set of responses instead of another.

Strategic planning is systematic in that it calls for following a process that is both structured and data based. The process raises a sequence of questions that helps planners examine past experiences, test old assumptions, gather and incorporate new information about the present, and anticipate the environment in which the organization will be working in the future. The process also guides planners in continually looking at how the component programs and strategies fit with the vision and vice versa.

Strategic planning involves choosing specific priorities. The collection of data should (1) surface a variety of choices about what the organization will and will not do, (2) analyze the implications of those choices, and (3) result in making choices, some of which have significant tradeoffs.

Hard choices are often not overly complex, but are those that require making agonizing or unpopular decisions. Planners must strive for consensus on priorities at many levels, from the philosophical to the operational.
The process is about building commitment. Systematically engaging key stakeholders, including clients and the community, in the process of identifying priorities allows disagreements to be engaged constructively and supports better communication and coordination. An inclusive process allows a broad consensus to be built, resulting in enhanced accountability throughout the organization. This commitment ensures that a strategic plan will actively be used for guidance and inspiration.

Finally, strategic planning guides the acquisition and allocation of resources. Too often, decisions are made quickly about new funding opportunities or spending for program and administrative needs in response to situations as they arise without a thorough assessment of the implications. An approved strategic plan helps leaders make proactive and realistic choices between competing funding strategies and between spending for various program and administration needs. Balancing the resource acquisition and spending plans is the essence of the business side of strategic planning.

Strategic planning, however, assumes that an organization must respond to an environment that is dynamic and hard to predict. Strategic planning stresses the importance of making decisions that position an organization to successfully respond to changes in the environment, including changes by competitors and collaborators. The emphasis is on overall direction rather than predicting specific, year-by-year, concrete objectives. The focus of strategic planning is on strategic management (i.e., the application of strategic thinking to the job of leading an organization to achieving its purpose). As a result, although some organizations may develop visions that stretch many years into the future, most strategic plans discuss priority goals no further than five years out, with operational objectives identified for only the first year.

**Strategy**

Like businesses, most nonprofit organizations operate in a multifaceted, competitive environment. For example, they compete for personnel in the labor market and for consumers in the markets for their services. Unlike the business context, however, those who pay for nonprofit services (donors) are often different from those who consume them (clients). Hence, nonprofits must also compete not only for customers in the conventional sense but also for resources in the markets for grants and contributions. Hence, like business organizations, they
seek to find their own competitive niches within which they can excel and assure themselves of sustainable support. Identification of that niche involves several special considerations. First, nonprofit managers must be clear about their social missions and the special “core” competencies of their organizations. It is the mission that differentiates one nonprofit organization from another, and it is the primacy of the social mission that differentiates nonprofits from their for-profit counterparts. Further, reliance on core competencies can assure a nonprofit that it can deliver a particular service better than its current or prospective rivals.

Second, nonprofit managers must evaluate each of their possible service activities in terms of their potential contributions to both mission and to net revenue (Kearns 2000). Such evaluations allow nonprofit managers to make choices of appropriate services, and combinations of services, which in tandem allow both fiscal integrity and maximal achievement of mission.

Finally, strategic decision making involves efforts to change and manage an organization’s environment as well as determining how to accommodate within it. This is another area of contrast between nonprofit and business management. Generally, for-profit businesses attempt to manage their environments in three ways: (1) by advertising to shape consumer demand for their products and services; (2) by trying to dominate markets so that they can control prices and other key product parameters; and (3) by lobbying through trade associations for favorable treatment in public policy. Although nonprofit organizations also engage in these various strategies to some degree, their emphasis is different. First, although many nonprofits do advertise their services, indeed increasingly so in recent years, often such advertising is aimed at potential donors as opposed to consumers, or to “members” who are both donors and consumers. Second, it is expected that such advertising will be more subtle and subdued than it is in the for-profit sector, if only because nonprofits are subject to criticism and scrutiny if they are seen as too controversial or political, overtly competitive, or spending too much on self-promotion versus direct programming. Third, though nonprofits do advocate within the public policy domain for their own interests, the nature and volume of lobbying is subdued and limited. In a more fundamental sense, however, nonprofits generally try to alter their environments in a different manner than businesses usually do. In particular, they frequently endeavor to educate the public, influence lawmakers, and project public service messages
aimed at reducing the social ills or needs to which their organizations are addressed. In short, they attempt to influence the environment in a way that could eventually reduce, rather than strengthen, the demand for their services. In some real sense, the environmental strategy of many nonprofits, especially in fields such as health, social service, or the environment, is ultimately to put themselves out of business. Needless to say, this rarely happens, especially in the short run. When it does happen, however, that is, when nonprofits are successful in fully achieving their social missions, it poses an organizational dilemma for nonprofit management: to find a new mission or to go out of business (Sills 1957).

2.7.2 Models of strategic management

There is no single strategic planning model that applies to all organizations and every situation. The process of strategic planning and the models and tools involved all depend on circumstances, type of organization, and field. In many instances, organizations develop their own approach to strategic planning over time and modify models and tools as part of the planning process.

2.7.2.1 Basic strategic planning

This model is best suited for organizations that are small, with little planning experience, and limited resources available for planning purposes. Some organizations begin the planning process soon after their establishment to take advantage of initial learning experiences. Given the size of the organization, planning activities typically involve most members of the board and staff as well as other key stakeholders, and are conducted by senior management. The process involves several steps:

1. Identify and revisit the vision and mission statement.

2. Select the goals that follow from the mission statement and prioritize those that the organization must reach if it is to accomplish the mission.

3. Identify specific strategies that must be implemented to reach each prioritized goal and explore synergies across strategies. In newer organizations strategies are likely to change and be modified more often than the actual goals.
4. Identify programs and activities for implementing each strategy and specify performance criteria and measures. As in the case of strategies, look for synergies across activities to capitalize on scope economies.

5. Monitor and update the plan through ongoing planning and performance sessions between board, management, staff, and other stakeholders.

2.7.2.2 Issue-based planning

This approach may not involve the entire organization but will focus on particular issues or areas that require strategic attention and managerial action for medium- to long-term performance and sustainability. While the process may begin with the basic planning model shown above, it may evolve into a more in-depth and concentrated seven-step approach:

1. Conduct a full assessment of the organization using tools such as SWOT (strengths, weaknesses, opportunities, and threats) and PEST (political, economic, social, and technological factors), and including financial and other relevant information.

2. Identify and prioritize what emerges as the major issue or issues.

3. Revisit the organizational vision and mission, including the value statement in the light of issues identified.

4. Design strategies for each issue looking for synergies.

5. Establish programs and activities, including performance measures, and assign responsibilities for implementation.

6. Develop an annual operating plan and accompanying budget that can be updated and revised over time for multi-year plans.

7. Monitor plan and conduct annual reviews.

2.7.2.3 Alignment model

The alignment model seeks to ensure strong and close alignment between the organization’s mission and its available or potential resource base. The basic assumption is that organizational structure, programs, and activities have to reflect both mission and resources. Alignment models are frequently used by organizations experiencing operational inefficiencies or suffering from overreach, overly ambitious plans, or shifts in their resource base. Overall steps include:
1. Establish a planning group among key stakeholders to revisit and examine the organization’s vision and mission to determine if objectives, programs, and activities are in line with resources.

2. Identify programs and activities that are not central to the mission, and seek to reorganize or reduce them.

3. Identify programs and activities that are central to the mission, and examine their efficiency and effectiveness using the full range of available performance measures.

4. Identify areas that need adjustments and improvements.

5. Identify how these adjustments should be made by designing strategies including programs, activities, and performance measures.

6. Assign responsibilities for implementation and monitor performance, including annual reviews.

2.7.2.4 A Ten-Step Strategic Planning Process

The Strategy Change Cycle may be thought of as a process strategy (Mintzberg, Ahlstrand, and Lampel, 1998, p. 199), processual model of decision making (Barzelay, 2001, p. 56), or activity-based view of strategizing (Johnson, Melin, and Whittington, 2003), in which a leadership group manages the main activities in the process but leaves much of the content of individual strategies to others. The ten steps (or occasions for dialogue and decision) are as follows:

1. Initiate and agree on a strategic planning process.

2. Identify organizational mandates.

3. Clarify organizational mission and values.

4. Assess the external and internal environments to identify strengths, weaknesses, opportunities, and threats.

5. Identify the strategic issues facing the organization.

6. Formulate strategies to manage the issues.

7. Review and adopt the strategies or strategic plan.

8. Establish an effective organizational vision.

9. Develop an effective implementation process.

10. Reassess the strategies and the strategic planning process.
These ten steps lead to actions, results, evaluation, and learning at each step in the process. In other words, implementation and evaluation doesn’t wait until the “end” of the process but are integral and ongoing part of the process. The general requirements are a dominant coalition (Thompson, 1967), or at least a coalition of the willing (Cleveland, 2002), able to sponsor and follow the process and a process champion willing to push it. In small organizations well-informed strategic planning teams that are familiar with and believe in the process would be able to complete most of the steps in a two- or three-day retreat, with an additional one-day meeting three to four weeks later to review the resulting strategic plan. Responsibility for preparing the plan is delegated to a planner assigned to work with the team or the organization’s chief executive who may choose to draft the plan personally. Additional time might also be necessary for securing information or advice for specific parts of the plan, especially its recommended strategies. Large organizations, however, are likely to need more time and effort for the process. And when applied in a network or community, the effort is likely to be considerably more time consuming because of the need to involve substantial numbers of leaders, organizations, and in a community, citizens. Strategy change cycle bears little resemblance to the rigid, formal, detached process. Instead, the Strategy Change Cycle is intended to enhance strategic thinking, acting, and learning; to engage key actors with what is as well as with what can be; to engage with the important details while abstracting strategic messages from them; and to link strategy formulation with implementation in wise, technically workable, and politically intelligent ways.

2.7.3 SWOT analysis

SWOT analysis is a very effective way of identifying the strengths and weaknesses as well as opportunities and threats an organization faces. Using the SWOT framework helps an organization direct its attention and focus its activities into areas with greater opportunities while being aware of its limitations and external threats: strengths and weaknesses are largely internal factors over which the board and management have some influence; threats and opportunities are external factors over which the organization has less influence, sometimes none.

A SWOT analysis involves a series of direct questions developed in the context of the planning issue or problem at hand. These questions are answered either individually or as part
of a group process. Answers are collected, analyzed, and interpreted and fed into the various planning models.

2.7.4 Intensity in the planning process

The models, process, tools and techniques discussed appear to be very elaborative, time consuming and resource consuming and may discourage many nonprofits, particularly small in size. It is not always necessary to involve in elaborate and in depth planning exercise. Planning can be undertaken with various levels of intensity.

2.7.4.1 Abbreviated analysis

This uses a typical format of a day-long retreat (plus time to plan retreat) and follow-up meeting(s) by staff to develop detailed annual operating plan to implement strategic plan and involves entire board and staff in respect of small organizations or the board and staff representatives in respect of medium and large organizations. Staff may be entrusted the responsibility of developing annual plan. This exercise would produce a strategic planning document that is 3–8 pages in length and includes mission statement, summary of strategies and list of long-term and short-term program and management/operations priorities and a detailed annual operating plan as prepared by staff.

2.7.4.2 Moderate analysis

For moderate analysis the format that can be adopted is one or two days of larger group meetings with a smaller meetings of entire board and line staff prior to larger group meetings Few planning committee meetings to discuss past strategies, current issues, and future priorities some collection of data regarding the external environment and stakeholder expectations and needs are also necessary. For smaller organization, usually the entire board and staff and for a larger organization usually the entire board and staff representatives (management team) participate in the process. It includes some external stakeholders input such as clients or funders as well.

Process may require one to three months to complete plus some additional time for staff to develop annual plan. Typical products that come out of the strategic planning process are strategic planning document that is usually 8–12 pages in length and includes and includes
mission statement, summary of strategies, list of long-term and short-term program and management/operations priorities, program and management/operations goals and objectives (optional), summary of environmental assessment (optional), detailed annual operating plan prepared by staff.

2.8 Marketing Management Practices in Nonprofit Organizations

2.8.1 Marketing

For decades, marketing has been defined as the facilitation of exchange (Bagozzi, 1975). In this conceptualization, marketing is concerned with the relationships between, most obviously, an organization that produces products or services and the customers that pay for and use them. However, a focus on exchange also suggests that marketing is concerned with the relationships that link an organization to other publics such as donors, governments, media, taxpayers, other organizations. In the nonprofit sector, marketing must be stretched to include relationships with all these key stakeholder groups. Marketing is therefore understood not simply as the facilitation of the exchange of money for goods and services but as the facilitation of exchanges that are often of a nonmonetary nature. This might, for example, involve an exchange transaction in which one party offers money while the other offers something more abstract like “a good feeling,” a sense of community, or social prestige. Furthermore, the exchange could be nonmonetary in both directions, such as an organization involved in advocacy work that offers messages embodying new ideas to the public, some members of which change their attitudes and behaviors in return. Moreover, nonprofit marketing encompasses not simply two-party exchanges but multiparty exchange relationships that are much more complex than those characteristic of the private sector. Thus marketing for nonprofit organizations, unlike private sector marketing, which defines the market solely in terms of customers, is always focused on two major market constituencies, namely, the resource provision market (volunteers, donors, funders, government grantors) and the resource allocation market (clients, patients, students, legislators, the general public). An organization must manage its relationships in both of these basic markets simultaneously. The
complexity of an organization’s marketing relationships in these markets will vary, depending on the organization’s mission or mandate.

In transaction marketing, the elements of the marketing mix are used to trigger an isolated transaction, whereas in relationship marketing, the long-term quality of the interface between the organization and the customer is paramount (Conway, 1997). It has been argued that transaction-based marketing and relationship marketing are ends of a continuum and that the particular characteristics of nonprofits mean that a focus on relationships is more appropriate (Brennan and Brady, 1999). Relationship marketing is based on the idea that a focus on the provision of continuous value to key constituencies will provide a more valuable set of exchanges with the organization over time than “losing” customers continually and having to develop new ones.

The most common application of this principle is in high-end fundraising, where relationships are assiduously cultivated and sustained to tap extremely generous past donors for second and even third major gifts. This application of relationship marketing involves a great deal of personal contact but not always. Relationship marketing would be equally effective applied to a service-providing nonprofit that wanted to build long-term goodwill in particular communities or an advocacy organization that dealt with public issues where a loyal and strong public response would be needed on a frequent and immediate basis.

What marketing contributes to the management of all of these relationships is an understanding that they are based on mutually beneficial exchanges. It also contributes to understand the wants and needs of the exchange partners and to satisfy those needs, on a short- or long-term basis, which is critical to a nonprofit organization’s survival and success. This has been characterized as the marketing concept (Kotler and Armstrong, 1994). The operationalization of the marketing concept in organizations has been described as a market orientation.

Market orientation not only predicts success in attracting financial resources in nonprofit organizations but is also associated with other variables important in mission-driven
organizations such as higher degrees of client satisfaction (Gainer and Padanyi, 2002). Sargeant, Foreman, and Liao (2002) have argued that although the marketing concept has relevance in the nonprofit sector, the characterization “societal orientation” is more accurate than “market orientation” when it comes to implementing marketing because nonprofit organizations must be oriented to many groups of key stakeholders as well as to society in general. Regardless of the terminology that is used, the marketing concept appears to be useful to nonprofit organizations by focusing attention on the importance of satisfying the needs of the multiple external constituencies with which they interact.

Marketing has strategic value to nonprofit organizations of all types in terms of enabling them to achieve goals that are much broader than the merely financial and are in fact intimately connected with the fundamental mandate of these mission-driven organizations. It will be seen that the adoption of a market orientation by nonprofit organizations is a way to drive the mission as opposed to detracting from it.

In an era of increasing demand for service, crowded markets, declining sources of traditional support, and a rapidly changing social and economic environment, there is a growing interest in many nonprofit organizations in practices and ideas imported from the business sector (Siciliano, 1997). Nonprofit marketing, once considered controversial in the marketing literature and by many nonprofit managers, is now widely accepted as an effective management tool for nonprofit organizations (Sargeant, 2001). While there is almost universal enthusiasm for the idea of marketing in the nonprofit sector, in many organizations, marketing continues to be understood primarily as “selling,” and the activities associated with marketing continue to be mostly advertising, communications, and public relations tasks. Marketing theory, research, and practice in the nonprofit sector have advanced considerably and strategic role that marketing can play in achieving the overall goals of an organization through more explicit focus on its exchange relationships with its various stakeholders is slowly gaining recognition in the nonprofit sector.
2.8.2 Marketing strategies and the marketing mix

To promote mutually beneficial exchanges with a large number of stakeholders, an organization must first understand its market or markets. Research, formal or informal, will be necessary to identify the potential groups the organization wants to interact with as well as to clarify what other organizations or alternatives may exist that also serve the needs of those clienteles. On the basis of this information and analysis, an organization will then be able to decide which groups it makes most sense to serve or to target, based on analysis of the possible clienteles, the alternatives that exist, the human and financial resources that are available to the organization, and its mission. Once these decisions have been made, an organization will then tailor its products, services, and messages, adjust its prices and delivery systems, and promote itself in ways that truly serve the exchange partners.

To be successful nonprofit organizations must develop a solid knowledge of the external and internal capabilities and goals and must then blend its products, prices, promotions, and delivery systems into a “marketing mix” that meets the needs of both the organization and its target markets. Marketers refer to it as “the four P’s of the marketing mix”- “product, price, promotion, and place.”

2.8.3 Marketing research

If marketing is based on satisfying the needs of an organization’s various clienteles, its plans must be grounded in a thorough understanding of these markets. Therefore, the manager must usually preface the crafting of marketing strategies by undertaking some form of marketing research. Formal market investigations in nonprofit enterprises are quite rare. The reasons are several. One is management’s belief that it already has an informed relationship with the populations it serves. This conviction is nourished by the fact that nonprofits often do seem to be closer to their clients or customers. Generally nonprofits tend to operate on a small scale in local communities and the interaction that results may furnish the service provider with substantial personal information about the clients. In these circumstances, marketing research may seem unnecessary. In some settings market studies may appear unwarranted because the
service deliverer seems to be in a better position than the user to specify the appropriate product. It is however not prudent for the professional nonprofit managers to bypass an earnest and open-minded exploration of their markets (Andreasen, 1982). It has been suggested that because clients and funders are separate constituencies in nonprofit organizations, there is no direct feedback loop as in business marketing, which can lead to poor-quality service over long periods of time (Connor, 1999). Moreover, when clients are ill-served, their remedies may be few and frail. Often the customers of nonprofit organizations are more likely to be disadvantaged and vulnerable or at least to have fewer opportunities to complain or to switch to other offerings. Therefore, despite their apparent closeness to their customers, many nonprofits are sufficiently insulated from and unresponsive to their clienteles. Moreover, market investigations need not be unsupportable in a nonprofit enterprise. Quite simple probes can produce highly profitable insights. Many organizations could easily collect and collate in a more systematic way information that they are already receiving through frontline staff. Nonprofits may also find it more possible or more necessary to rely on publicly available secondary information. Nonprofits may also undertake joint projects with organizations with a common interest.

2.8.4 Segmentation and target marketing

Target marketing is the process whereby decisions are made about which groups an organization will choose to serve. It is achieved by first identifying the main population groups that might be addressed by the enterprise, then selecting those market segments that best fit the organization’s objectives and abilities, and tailoring marketing programs to each chosen segment. In an environment in which human needs are huge and escalating while resources are constrained and shrinking, no organization can reach all possible constituencies. The question then is not whether the enterprise will constrain its domain but how. Market segmentation allows nonprofit organizations to control whom they serve by choosing where it is most effective or most important, according to organizational mandate or mission, to spend limited resources, as opposed to letting the limits of their funding arbitrarily make that decision for them. Segmentation helps an organization focus its resources on the clienteles that best fit its mission, capabilities, and aspirations.
The first step in segmentation is to divide the total market into meaningful groups. There are many possible lines along which the manager may form clusters of potential clients. The most conventional divisions are demographic, geographic, and socioeconomic. These include age, sex, marital status, education, and income because available data are most often arrayed along these lines. Against the operational convenience of segments bounded by demographics, the marketer must weigh the conceptual richness of segments defined by psychographics. Psychographic descriptors include lifestyles, values, attitudes, opinions, and personalities. One may also consider assigning marketing efforts to different groups segmented according to the benefits they seek. A similar scheme is often used in fundraising. An organization may deal with some donors who are motivated by public recognition while others are motivated by the concrete benefits awarded for “membership” donations. Benefit segmentation is attractive because it indicates to the marketer the types of products and appeals that will find favor with the other party. Put another way, benefit segmentation is efficacious because, being rooted in the fundamental notion of exchange it not only identifies homogeneous client clusters but also is suggestive of the most relevant offer for each.

In choosing target markets, the manager may apply several criteria. Logically, the first is whether a candidate segment fits the mission of the enterprise. Because nonprofits must be mindful of many constituencies whose aims and values will not fully mesh, accommodating this criterion may be challenging. A second test is whether the segment aligns with the organization’s present or potential capabilities. Here, too, discerning judgment can be called for. In appraising their goodness of fit with potential target markets, nonprofit managers must take care not to overvalue the capabilities of their organizations and underestimate the strengths of competitors. A third criterion is whether the segment is sufficiently large to justify a special marketing treatment. Many a times nonprofits over ride financial considerations and offer services to small groups. This is acceptable if the organization has other resources available to offset the loss associated with the program but not if the loss associated with serving a particular market endangers the survival of the organization and its ability to continue to serve its mission.
2.8.5 Competition

Competition is an idea that is often rejected in the nonprofit sector or at least understood to apply only to “commercial” markets, such as the market for donations or other markets which involve financial transactions. Adherents of economic theories of the nonprofit sector that consider these organizations to have developed out of market failure argue that nonprofit organizations respond to need and do not compete for clients. Often there is a philosophical aversion to the idea of competition on the part of nonprofit managers, who would prefer to think of their organizations as engaging in cooperative, as opposed to competitive, behavior. Nevertheless, competition is a reality in the nonprofit sector (Oster, 1995). In many countries, the number of nonprofit organizations has exploded, and many of them have been founded specifically because they intend to provide alternative programs or philosophies to the offerings of existing organizations. Moreover, nonprofit organizations are always trying to influence behavior, and their clienteles always have choices about how they choose to act - even if it involves choosing not to avail themselves of services at all, as opposed to choosing the services of another agency (Andreasen and Kotler, 2003). There is no escaping the inevitability of competition.

2.8.6 Positioning

Positioning refers to the place that an agency or its services or ideas occupy in the minds of the individuals in its target market (Trout and Rivkin, 1997). Thus it relates to a concept that is based on understanding how an organization and its offerings are evaluated in terms of the set of alternatives (or competitors) known to the potential clientele. The first step in positioning involves understanding the dimensions that the target market uses to compare organizations and alternatives, and the second seeks to place the alternatives along a continuum of these dimensions.

One of the troubles of positioning in the nonprofit sector is that the multiple constituencies with which organizations interact often evaluate both the dimensions that are used to compare agencies and the position of individual agencies differently. It may also be that different
market constituencies use the same dimensions but evaluate competitors differently. The key point is that positioning refers to the dimensions and the relative positions along those dimensions that are in the minds of each clientele in question. A nonprofit organization that serves several clienteles (donors, clients, funders) will develop a unique map for each. These may form a series of grids in which the axes represent different dimensions that different clienteles use to evaluate alternatives or, if all groups use similar dimensions for comparison, a series of grids with the same axes in which the competitive organizations are placed differently along those axes. In either case, the positioning maps are unique for each market constituency and will dictate a unique strategy for each separate clientele. Of course, the grids cannot be mapped unless the perceptions of the target markets are known, and the best way to collect this information is through some form of market research. However, even a dispassionate and objective “back of the envelope” grid can be mapped without expensive data collection if nonprofit managers are willing to talk to their potential audiences and listen to what they say about the evaluative dimensions that matter to them and how they see the alternatives in terms of these dimensions.

2.8.7 Branding

An important marketing idea related to positioning is branding. A brand is a shortcut means of identifying an organization, program, or cause in a way that differentiates it from alternatives. It will embody a set of organization or program characteristics that customers believe will be delivered consistently. It can convey the organization’s position in the market, build trust between the organization and its clienteles, raise an organization’s profile, and provide insulation from competition (Ritchie, Swami, and Weinberg, 1999). Branding has recently become a popular concept among nonprofit organizations. There are particular challenges to branding in the nonprofit sector. First, branding can absorb considerable financial resources because of the advertising that is required to develop and sustain the brand. This is particularly difficult to justify when a rebranding exercise is undertaken while there are still plenty of old brochures, posters, leaflets, and banners in existence. Second, to create a successful brand, every element of the organization must support the ideas that the brand is trying to communicate. This means that “buy-in” across all functional areas and at all
organizational levels must occur and that it must involve more than simple use of a logo or a tagline and include concrete attempts to change service delivery modes and program elements to be consistent with the brand image. Third, in organizations characterized by a large national office and multiple branches with a high degree of local autonomy, it can be very difficult to standardize not only advertising materials but also organizational cultures around the values inherent in the brand.

2.8.8 Managing products and programs in the nonprofit sector

Having chosen target markets by means of thoughtful segmentation and determined a positioning strategy on the basis of competitive analysis, management is in a position to begin formulating the marketing mix. Among the four P’s, the program is usually shaped first because the choice of “product” tends to set the bounds for decisions on place (distribution channels), price, and promotion (communications). It should be noted that more often than not, the product under consideration will be substantially intangible. The differences between marketing products, services, and social behaviors can be significant. Services and social behaviors have characteristics that call for different marketing treatments than conventional products. Often clients are unable to judge the quality of services for themselves and have to rely on atmospheric cues, such as the physical facilities or the reassurance of a well-known brand name.

Social behaviors, in particular, are products that bring additional marketing challenges (Kotler and Roberto, 1989). Some are controversial; others are deeply embedded in individuals’ lives. Others involve target markets that are entire populations. Moreover, the successful marketing of new or different social behaviors may require changing traditional behaviors for a larger and more remote public good. All of this means that the nonprofit manager who would change social behaviors can expect a formidable task. Among other things, the successful marketer must usually find compelling incentives for individuals to “buy into” what is proposed, mobilize allied organizations to facilitate or even enforce the advocated ways of acting, and counter forceful opposition from determined adversaries.
2.8.9 The Product Life Cycle

The offerings of nonprofits, as in the conventional marketplace, are subject to changing circumstances. A tilt in the balance of competition upon the entry of a new service or service provider, a shift in the market with the emergence of an un served population, or a revision of the organization’s position due to the loss of a funding source are observed generally. This suggests that programs need to be constantly reappraised over the course of their lives and that marketing strategies may need to be revised as products age. To assist in this process, the nonprofit manager can borrow the concept of a product life cycle (PLC) very popular with business executives. The idea that markets evolve over the lifetime of an organization and its products or programs and the necessity for adopting different marketing strategies over that lifetime can be usefully applied in nonprofit settings.

2.8.10 Pricing, Costs, and Value

Nonprofit organizations presume that target market cannot afford to pay anything and offer services free of cost. Even in those cases prices are set, the pricing decisions are taken in casual and arbitrary ways. In an era of increasing funding constraints and growing competition for donated revenues, nonprofit organizations will have to revisit their pricing policies. They may find that they are accepting an unnecessary loss of revenue to the enterprise or a diminution of available benefits to customers. Moreover, as more and more nonprofit organizations address the revenue crisis through activities associated with social enterprise, they are going to be setting prices in a competitive marketplace. For these reasons, pricing decisions in the nonprofit sector need to be made in a logical, orderly, and analytical manner.

2.8.11 Reducing Nonfinancial Costs

It needs to be recognized that using a service or accepting an idea will include nonfinancial costs for the clientele of nonprofit organizations. Such nonfinancial costs might include social awkwardness or embarrassment, time costs such as missing work or having to travel to a
difficult and remote location or psychological costs associated with giving up familiar or pleasurable habits. Nonprofit organizations need to aggressively and creatively search out ways in which the organization might reduce the nonfinancial costs for their clientele. There are, potentially, a significant number of subtle but substantial barriers to patronage in many nonprofit offerings. These consumer deterrents are, in effect, product costs.

A marketing perspective would argue that before putting resources into promoting a service or a behavior, one should search out opportunities to reduce each of these costs. A “value” approach to pricing suggests that customers compare the benefit they receive for the costs they incur. Lowering the costs to the clientele, including nonfinancial costs, can thus increase the value of the offering substantially. Increasing the value of a product by cutting social, psychological, and time costs may be particularly important in a situation where the organization is about to start charging for a service that has previously been free.

**2.8.12 Pricing Principles**

Non-profit organizations do not as a general rule price their services or products in such a way as to maximize the net return. On the other hand, their pricing may be targeted towards what the poorest of users can afford. Sometimes they are based on an external subsidy which has been promised conditional to the product being priced at a certain level. In any case it is not unusual for non-profit organizations to find themselves faced with a continuous loss on certain products. It is also not unusual to find that those very products are making a contribution to the overheads and thereby making some of the other services lower priced.

**2.8.13 Designing marketing channels**

Decisions about how best to distribute an offering to a market or designing suitable marketing channels can have a major effect on the offering itself. A worthy and attractively priced product that is not effectively deployed may well fail. The choice of channels can be more critical in the third sector than in the private sector in some respects. The buyer-seller contact may be of such a nature that makes the quality of the product-channel offering unusually crucial to a satisfactory outcome. It follows from this that the first step in channel design
should be to analyze the requirements of the end user. A basic building block in building a marketing channel is the user’s specification of acceptable performance. Non profit marketing gains from adopting the retail categorization to analyze information for channel decisions. Social marketing messages that advocate changes in behavior, will not be sought out by the target market. Campaigns directed at this target will have to be readily accessible and ubiquitous in order to reach the target because consumers cannot be expected to seek out this information or put effort into finding it. On the other hand, an organization that provides special services probably expect that their services will be sought out by those who are investigating the services and options that are available in their community. The marketer does have to balance the customer’s desire for buying convenience with the service deliverer’s need for operating efficiency. Organizations have found several ways to manage the trade-off (Lovelock and Weinberg, 1989). One is to decentralize the customer contact function. Many third-sector organizations market their programs directly to end users. There are substantial advantages in the short, controlled channels that result. Sometimes it is necessary or advisable to take an indirect approach by using channel intermediaries. Channels handled by others may be cheaper, more quickly activated, more expert, and more accessible to end users.

Enterprises that seek changes in social behavior often collaborate with other players in order to complete the “sale.” The experienced nonprofit manager will know that inter-institutional cooperation is anything but automatic, however. Even enterprises that want to collaborate will not only bring complementary competencies but also potentially competing values, goals, perceptions, and priorities which may lead to some channel conflict. The management task is to keep it to levels that are workable rather than pathological. Therefore, the third-sector administrator should be cautious in forging channel partnerships that work to the advantage of the distribution system as a whole, including the end user, and recognizing the need for continuous attention to the power relationships and their management that a complex channel requires.
2.8.14 Managing communication programs

Often nonprofit managers tend to equate marketing with advertising. They would be inclined to define all marketing challenges as “communication” problems and overlook opportunities for improved products, prices, and channels. Advertising is burdened the entire marketing task. To avoid charging advertising with more than it can accomplish management should remember that the market is a clamorous place and that people develop built-in defenses against its noise. The advertising program must flow logically from, and fit consistently with, the other parts of the overall marketing strategy. To accomplish that overall effect, management should begin with the embracing objectives of the total marketing effort. Reliance on the goals and guidelines drawn from the mission, portfolio, and priorities of the enterprise as a whole is required. To give further focus to the promotional effort, there should be a subset of targets for the advertising program in particular.

Large nonprofits, have seen the rapid adoption of sophisticated marketing systems and thinking particularly in the market for financial resources and thus in the area of fundraising. But in the competitive markets for the services and social ideas and behaviors that nonprofit organizations offer or advocate, experience has been more mixed. In nonprofits that deal in social services, the influence of the market may be even less evident partly due to the fact that demand for services often outstrips supply. Where the need is vast and the supply of services is limited, rationing is construed to be the central management task, and marketing can seem to be illogical exercise.

These customary organizational arrangements are highly significant for anyone who would champion marketing within a nonprofit organization. They testify to the fact that in many parts of the nonprofit sector, key decisions about the most pivotal parts of the marketing mix are not made solely by marketing professionals but by experts who, in their training and their experience, have little exposure to, curiosity about, or regard for marketing. One must accept that in mission-driven organizations, this is as it should be. The primary purpose of nonprofit organizations is to serve the public good through the production of goods, services, and ideas that are generated on the basis of expert knowledge and not on the basis of market demand.
However, once it has been accepted that expert knowledge is critical to achieving the mission of nonprofit organizations, it is also essential to recognize that facilitating mutually advantageous exchanges between the organization and key elements of its environments is equally critical. Nonprofit organizations achieve their mission not merely through producing services and advocacy but also by ensuring that this production is adequately funded and that their services and ideas are “consumed” by those for whom they are produced.

Marketing’s fundamental purpose in the nonprofit sector is the facilitation of these funding and consumption exchanges by focusing on the clienteles that the organization seeks to serve. Healthy organizations are fully responsive to their environments. Lacking unambiguous feedback from a conventional market mechanism, nonprofits must find other ways to ensure that they respond effectively to clients’ wants and needs. Without such measures nonprofit managers risk working hard in wrong directions. Marketing can help avoid that by sharing in monitoring the environment, undertaking market research, communicating the changing wants and needs of key client groups, participating in portfolio analysis, suggesting suitable target markets, branding the organization in the public’s mind, participating in the mounting of the organization’s offer, fostering the relationships that are crucial to survival, and appraising client satisfaction levels. To do better while doing good and do good perpetually it is imperative to foster long-term, healthy relationships with clients, donors, corporations, the media, governments, legislators, and the public. Marketing actions contribute to a healthy relationship between a nonprofit enterprise and its most significant others.

2.9 Human resource management practices in nonprofit organizations

2.9.1 Human Resources

In contrast to business management, a major facet of the nonprofit manager’s responsibilities is the management of volunteers. Moreover, the challenges of managing volunteers in the workforce are substantially different from those of managing paid workers. Although there is consensus among practitioners and researchers that volunteers should be managed with the same seriousness as paid workers, rather than be taken for granted as a free resource,
volunteers require a different type of “psychological contract”- one recognizing that their motivations for working, the ways in which they can be best deployed, the sources of their satisfaction, and the means that are appropriate and available for rewarding them vary from those of paid workers (Farmer and Fedor 1999). Individuals volunteer for nonprofit organizations for a variety of reasons, including personal and social satisfaction, work experiences that may ultimately be useful in the paid labor market, and belief in the values and missions of the organizations for which they volunteer. Hence, volunteer motivations and skills must be carefully matched with the particular needs of the organization, and reward systems must reflect the sources of satisfaction that volunteers seek. Moreover, nonprofit managers must recognize the costs of administering volunteer programs and utilizing volunteers and make efficient decisions with respect to the number and types of volunteers engaged, the mix of paid and volunteer workers, and the resources devoted to administration of volunteer programs (Young and Steinberg 1995, 105–107).

Nonprofit organizations also tend to differ from business in the management of paid workers. Although nonprofits often compete in the same labor markets with businesses for paid workers, evidence suggests that there is sorting of workers between the two sectors, with nonprofit workers putting more emphasis on non pecuniary sources of satisfaction and reward. This sorting has several implications for the management of paid staff in nonprofit organizations. First, nonprofits may find that they can successfully compete for needed talent on the basis of alternative rewards, even where they cannot afford to match the monetary salary and benefit levels offered in the business sector. Second, nonprofits may need to manage their paid workers differently, providing them with the job autonomy, nonfinancial means of recognition, and opportunities to contribute to socially worthwhile objectives that will maintain their loyalties and motivations in the context of more modest pay scales.

2.9.2 Nonprofits human resource advantage

The primary goal of nonprofits, for example, is to maximize the ability to deliver on mission. Nonprofits begin with staff attracted to and motivated by their organization’s mission and therefore has an extremely powerful “human resource advantage.” Watson and Abzug have
put forward “people first” human resource approach that emphasized the unique elements of nonprofit sector organizations. It is argued that the nature of nonprofits makes them ideally suited to maximize their outcomes through the people of the organizations. Focus on people results in additional organizational capacity, effective succession planning, engaged and motivated staff, and improved client service delivery. These are not just effectiveness outcomes. They are also the keys to the time, money, and information organizations need to survive and thrive. They also lead to reputation effects that attract staff and funders. Such approach is characterized by the belief that organizational success lies in the creative engagement of the human resources of the organization.

2.9.3 Recruitment

2.9.3.1 Identifying Job Characteristics

The first step in recruitment is figuring out what kind of staff the organization is seeking. It is important to begin any search with a clear idea of the characteristics the organization is seeking in a candidate. In human resource terminology, these characteristics are called KSAs, (knowledge, skills, and abilities). Knowledge encompasses the content knowledge a staff person needs to know prior to being hired. Proficiency in many positions presumes a specific body of knowledge that embodies the facts an individual should know. The term skills refer to proficiency in doing things with objects or ideas. Finally, abilities refer to the capacity to undertake certain work responsibilities.

2.9.3.2 Job Analysis

Job analysis is the process through which KSAs desired for a particular position are determined. It is a process of uncovering various perspectives on what the staff position is, might, and should encompass. A variety of techniques can be used to observe, examine, record, and summarize the main components of jobs. However, given the interest in person-based approaches, techniques are now being developed to analyze the work accomplished in organizations when it is done outside of a traditional job context. For example, work within an
entire department, system, process, or skill set may be investigated as the unit of analysis, where multiple people may do many interchangeable tasks (Milkovich and Newman, 2002). Since most organizations have retained the basic job concept for ease in recruitment, hiring, and compensation programs, job analysis is still a viable approach. Through job analysis, data on the content of jobs are gathered, evaluated, quality-controlled, compiled, and summarized (usually in the form of job descriptions) so that jobs are thoroughly and accurately understood.

2.9.3.3 Job Descriptions

After the job analysis phase, most organizations write job descriptions. The job description serves three purposes (i) to help those who will select among applicants consider what is needed for the position; (ii) to advertise to potential staff what the job will entail, and (iii) for use in legal defense against discrimination charges. It is important that the job description be both comprehensive and flexible. No candidate will meet all desired aspects, and the position’s requirements will be fluid over time as needs arise. The effective nonprofit manager strikes a balance, articulating clearly what the organization is seeking without writing an unrealistically rigid characterization. For larger organizations, crafting job descriptions in-house may be easier, as there may be numerous similar positions in-house. For smaller organizations, the task is more difficult and is often best accomplished with outside advice from peer networks combined with available sample job descriptions.

2.9.3.4 Searching

Once the job description is in hand, the organization should consider how it will search for applicants. There are many sources of potential employees, grouped for the purpose of discussion here into external and internal types. The primary consideration when drafting a recruitment strategy is determining the goal of the recruitment program. While deciding on the recruitment strategies one should consider aspects like the need to attract large applicant pool, maintain diversity, implications of hiring from outside on employees promotion prospects and motivation of existing employees etc. There is significant evidence that
recruitment practices do matter to organizations. For example, there is a broad and extensive literature on the effect of different recruitment strategies on applicant perception (Barber, 1998).

2.9.3.5 External Approaches

Under some circumstances, searching for potential staff from outside the organization is deemed desirable. Several types of sources can be used, depending on the applicant pool targeted. Newspaper advertisement, online (Web-based) recruitment, Professional publications, associations, and conferences, college recruiting and internship programs, government job services offices and placement agencies, professional search firms or executive recruiters are some of the external sources of recruitment.

2.9.3.6 Internal Approaches

In some cases, filling staff vacancies from inside the organization is the better strategy. The following are internal approaches that may be undertaken. Employee referral, internal postings and promotion, client and volunteer recruitment are some of the external approaches.

2.9.4 Compensation

Compensation is one of the many important cogs in the total organizational performance machine that must be carefully tended, frequently lubricated and repaired, and upgraded or replaced if it no longer functions adequately in contributing to the achievement of top performance. For example, an organization that is changing its organizational structure must ensure that its pay strategy fits these changes. The most effective pay for self-directed work teams is probably not a traditional salary program; it will probably require careful analysis of the goals of the work teams and their structures, the reasons why teams are being implemented, and the pay strategy history of the organization.
2.9.4.1 Compensation principles

Nonprofits should carefully analyze their organizations’ characteristics, the type of work that needs to get done, and the types of people most likely to have these skills and decide to what extent work should be conceived of as jobs or roles. One way to conceptualize this question is whether the organizations want to pay for a job to be done, in which the work requires a defined set of tasks and duties that are relatively stable and that a reasonable number of candidates in the labor market could be found to fill, or if the work requires a unique person’s abilities and skills to be applied to a variety of changing organizational needs. Generally speaking, this strategy needs to be determined organization wide, not job by job or person by person, so that the entire pay structure is coherent and consistent.

2.9.4.2 External Competitiveness

After ensuring that job information is complete and up-to-date, attention is to be paid to relevant labour markets. In nearly every organization, several salary markets, or relevant labor markets, will exist. The key to answering the question is to determine where the KSAs the organization needs exist in the labor market. Some professional jobs that are technically or specialty-oriented will most likely be recruited regionally, nationally, or even internationally, sometimes from other nonprofits with similar missions and goals and sometimes from other sources. Thus the relevant labor market for these specialty jobs may also include both for- and nonprofit firms. If key executive positions require skills specialized to particular nonprofit organizational needs, then their appropriate labor market will be national (or international) nonprofits in similar sectors. However, some executive roles may benefit from skills found outside the nonprofit arena. As in all positions, the appropriate relevant labor market for the nonprofit’s executives must also be carefully considered and chosen, based on the organization’s goals and strategies.

After identifying the relevant markets, benchmark jobs should be identified. These are jobs on which the salary system will be built, so they should be well defined and clearly understood within the organization. Every organization has its own unique jobs that do not exist in the
rest of the world and for which no market data are available. However, benchmark jobs should be those that are easily found in other organizations in the relevant labor markets. Benchmarks should also be stable and as a group they should represent nearly all levels within the organization. They should also vary in levels of compensable factors and most should have multiple incumbents. Finally, jobs for which the organization is experiencing particular difficulty recruiting should be included as benchmarks (Wallace and Fay, 1988). Salary data are generally collected from one of two broad sources. Published salary surveys or surveys conducted by the organization or its consultants are the common sources.

2.9.4.3 Internal Equity

Internal equity refers to the perception of fairness in pay for various jobs throughout the organization. In other words, in an internally equitable system, jobs that are of similar levels on key compensable factors, such as skill or knowledge required, supervisory responsibilities, accountability for budget and resources, complexity, or working conditions, will be paid at the same general level. In an equitable system, these differences in internal job value would be appropriately reflected in the pay structure.

2.9.4.4 External competitiveness and internal equity

The competitive pressures of the external labor market, plus the importance of creating organizations in which employees believe they are paid equitably relative to each other, require nonprofit managers to carefully weigh the relative importance of internal and external equity. It is possible that organizations that do not have to attract highly skilled technical workers may find their needs better served by ensuring first an equitable internal hierarchy of jobs and then making sure that it generally matches the relevant market. Alternatively, organizations that are dependent on the attraction and retention of highly skilled workers will probably need to first focus on developing a system in which jobs are paid competitively and then check to ensure that internal considerations are taken care of. What the organization wants to reward should inform and guide this strategic decision. It is on the basis of this
important decision that the amount of market data needed and the complexity of the job evaluation procedure should be chosen.

2.9.4.5 Building the externally and internally equitable salary structure

A salary structure creates an administrative means by which pay is determined. It serves to integrate the organization’s policies relative to external competitiveness and internal equity in a manageable system that sets minimum and maximum pay levels for jobs, thereby serving to ensure that pay is within the range that supports the organization’s rewards strategy.

2.9.4.6 Communicating salary plans

An effective compensation program should communicate several basic areas to all employees (Rubino, 1997). The employee’s job description and how it was obtained (job analysis), the methods by which jobs are evaluated and how market data are collected and analyzed should be transparent. Employees should be made clear as to how performance relates to pay and performance is measured and appraised. All administrative policies and procedures and benefit plans should also be communicated. Making the entire salary structure available to all employees is desirable because of the developmental and motivational aspects associated with such disclosure. If individuals know the earning potentials of prospective jobs to which they may aspire, theoretically they may be motivated to acquire the necessary skills and experiences to get them there. Furthermore, the career-tracking characteristics of this scheme should encourage employees to remain with the organization in order to achieve their personal career goals.

2.9.5 Benefits

Careful design and implementation of benefits programs are essential in attracting and retaining a qualified workforce. It is now the rare job seeker who is willing to join an organization unless it offers a reasonable, if not generous, benefits package. Just as salary programs need to be developed with internal equity in mind, benefits programs should
consider factors internal to the organization also. In other words, the program should meet key employee needs while satisfying the employer in terms of financial and other policy obligations. In meeting employee needs, the HR professional should carefully consider what types and levels of benefits the employees want. Demographics of employee groups will undoubtedly have an impact on benefits attractiveness but it is not the sole basis on which employees decide attractiveness of benefits. Organizations can satisfy diverse employee groups through flexible benefits, or “cafeteria plans.” Some of the benefits are discussed below.

2.9.5.1 Health care

An innovative approach that has recently come under discussion is “defined contribution” health care, in which employers shift the responsibility for provision of insurance to the employee, as in defined contribution retirement plans. Though there are many variations under discussion, the basic idea is that the employer would provide some sort of cash stipend to employees, who would either choose their health insurance on the open market or purchase it from providers sponsored by the employer. Advantages to employers are that costs become more fixed and administrative costs are reduced and some employers are already implementing versions of this system (Sanicola and Johnson, 2001).

In India Employee State Insurance Corporation (ESIC) is established to attend to the health care of non-supervisory employees and employers are under obligation to contribute to the scheme. It has been suggested that nonprofits can consider insurance coverage to all employees under group insurance schemes commercially available or can even encourage individual employees to purchase medical insurance policies by partly or fully reimbursing the costs of such coverage depending on suitability.

2.9.5.2 Retirement plans

Two broad types of retirement plans exist - defined-benefit and defined-contribution. Defined-benefit plans have traditionally been the norm in public sector and nonprofits closely
associated with public sector. Defined-contribution plans, on the other hand, define the amount that is put into some kind of investment vehicle. Therefore, the actual retirement income the employee will receive depends on the success of the investment and is therefore unknown, but the amount contributed to the plan is defined. Often the investment is contributed by both employer and employee. These are commonly found in nonprofit organizations in developed countries in the form of tax-sheltered annuity programs. However, like many developing countries, no such mandatory social security scheme exists in India. But provident fund and gratuity are common among nonprofits closely associated with government agencies and large nonprofits. Gratuity is a retirement benefit based on years of service. It is usually 15 days salary for every year served and payable by the employer at the time of retirement of the employee.

2.9.5.3 Housing

Housing is a traditional perquisite and takes different forms. It may be in the form of allowance or subsidy. It is also common for some nonprofits to provide its own accommodation to the employees for a nominal fee or in lieu of allowance. Some nonprofits extend loans at concessional rates of interest. The principal can be repaid in easy installments over a period of time

2.9.5.4 Travel

A fixed allowance to cover the travel expenditure is one of the perquisites offered to many public sector employees. Alternately employees are reimbursed the actual expenses on producing the claim.

2.9.6 Orientation

Most nonprofit organizations provide an orientation for staff and volunteers after they have been hired but before they begin actual work assignments. The material covered in an orientation is usually similar for staff and volunteers. It includes such things as tours of the
facility, introductions to key personnel, an organizational overview, details on strategy and programmes being run, personnel policies and conditions of service and other policies approved by the board or governing body. Part of the orientation is job-related. This training can be done during the orientation or at a second session. The challenge in the orientation is to provide enough information to give people the confidence to go to their work assignment ready to work and to help them feel confident enough to ask questions and listen to the experts who are their supervisors and colleagues. If necessary, specific upgrading in specialized skills is also included in induction training.

2.9.7 Training and development

The dictionary says that training is to “gain knowledge of or skill in a subject through study, experience, or education.” Training has two functions for the nonprofit organization. First, it establishes a minimum level of competency, and second, it is a benefit of being a part of the organization (Laird, 1985). Training is the way an organization publicly acknowledges that there is a necessary level of proficiency for the people working for the organizational mission. It sends a clear message to people that the organization or agency has standards that those in its employ, paid or unpaid, are expected to meet. Expectations of growth and change through guided learning tell the potential volunteer or staff what the organization values.

2.9.7.1 Needs assessment

Before planning training it is necessary to understand the needs of the potential participants. The adult learning principles tell us that learning is more apt to take place if the learner sees the information as relating directly to his or her life. By understanding the discrepancies between what the attendees currently know and what they need to know in order to perform a new job or task, the trainer can make the instruction responsive to learner needs (Knox, 1986). The needs assessment is a process of uncovering information that guides the trainer’s planning efforts. Robinson (1994) identifies three elements that make up a needs assessment. The first is relevancy. The content to be discussed and the activities to be undertaken must make sense to the learners attending the training session. Relationship is the second area to be
considered in doing needs assessment. By this Robinson means that the trainer must learn something about the learners’ previous experience with this topic. Adult learners are aided by the trainer or teacher who helps them take control of their own learning and understand how they learn. The needs assessment process is a means to move control of content and teaching activities into a joint responsibility between the trainer and the learner. Robinson refers to responsibility as the third element in needs assessment. By encouraging learners to take responsibility for participating in the identification of needs, the trainer conveys an interest in moving the responsibility for the actual learning during the training session into the hands of the learners. This is, of course, in addition to giving learners a say in the training course’s content and activities.

2.9.7.2 Sources of needs assessment

Evaluation reports of previous training sessions should be read and the data compiled for future reference. Today’s participants in a training session are excellent representatives of those who will attend the next one. Observation of actual volunteer and staff jobs is another excellent way of determining needs for training. Incumbents in the role being trained for are a good source of information about training needs. People who are currently doing the tasks can identify the gaps between what they learned in training and what they needed to know to do the job. This is especially true for the short-term or episodic volunteer. An exit evaluation for this group of volunteers should ask about the training provided. Past participants (employees or volunteers) are also useful sources of information. They are not so closely connected to the program. Time and distance may have given them perspective on their learning experience. Performance evaluations are done by many nonprofit organizations for both staff and volunteers. These reports may be useful in the planning of training sessions. Experts are good sources of ideas. They generally have the most recent information on a topic and can help the trainer bring learners up to date on the latest developments. Standard measures or pretests are a good way to determine learners’ knowledge of a topic. These can include tests on the use of machines such as copiers, cash registers, and computers, as well as conceptual knowledge.
Formal training does not stop with orientation, nor does informal training end with an on-the-job explanation of duties by the supervisor. Continuing in-service education is a part of all successful nonprofit organizations. Nothing in any organization or agency is static. Social trends, client needs, membership services, and staffing patterns require constant change and updating. The foundation for active participation in in-service training begins with the first contact with staff, paid and unpaid, and continues as long as the person is affiliated with the organization. In-service education programs are designed to enhance current job skills, build new skills, and train the person for expanded duties. In-service training might also include opportunities for personal development, such as stress management, time management, conflict management, and reduction of burnout. Fowler identified eight types of human resource development methods (Fowler, 2002).

**Internally designed courses**
These are designed to meet the specific needs of the organization and cost effective when large number of people need to learn the same things.

**Pre-packaged courses**
The content is sufficiently similar to the needs of the individual and per capita cost is high.

**Workshops**
Workshops are output oriented and useful for solving a particular problem, especially where joint ownership is needed.

**Seminars and conferences**
Seminars and conferences provide an exposure to issues or people, network information, create relationships and facilitate individual broadening or gaining insights.

**On-the-job training**
It is a method of practically exchanging expertise between one person and another and is suitable when the tasks involved are technical or routine or when detailed observation is needed to ensure that competence has been gained.
Exchanges
Exchanges tend to be short-term visits to gain an understanding of other ways of doing things, to see innovations, to gain new ideas and horizons and to introduce new staff.

Secondments
It involves taking up a known role in a different setting and help people do old things in new ways as they adapt to other circumstances.

Self-study/correspondence courses
It is systematic way of gathering knowledge by an individual and at times by group work with others doing the same study. They are often chosen where access is difficult, the topic is specialized and there is no urgency and where a recognized qualification is required but course attendance is not an option.

2.10 Financial Management Practices

2.10.1 Finances

Nonprofit organizations are unusual in their diverse mixes of income sources. Nonprofits draw not only on such earned income but also on charitable contributions, government grants and subsidies, and investment income for substantial amounts of revenue. Moreover, the mix of these revenue streams varies widely among nonprofit organizations. Most nonprofit organizations must manage and develop a combination of these sources, using a variety of special skills, including fundraising, investment management, proposal writing, and marketing. Moreover, nonprofit managers must develop appropriate portfolios of revenue sources that maximize the contributions of their organizations to their social mission while maintaining fiscal integrity and balancing the risks associated with the volatility of different revenues sources.

In recent years, nonprofits have given increasing attention to so-called social-purpose enterprise projects that are intended to generate profits while also contributing to mission
through the employment or training of target group clientele or by other means. Although these ventures resemble profit-making businesses in many respects and require business-related management skills, their performance must be judged differently in terms of social impacts as well as financial success.

Differences also arise in the area of investment and fund management, where nonprofits must account for the mission impacts of their investments as well as the financial returns. Finally, the management of fundraising is an area of financial management virtually unique to nonprofits. Here, management must consider the appropriate levels of expenditure on fundraising operations, taking into account the returns on investment in fundraising infrastructure, the potentially negative reactions of donors to high administrative overhead, and the policies of regulatory bodies and watchdog groups (Cordes and Rooney 2003).

2.10.2 Financial Accounting

All organizations, commercial as well as non-profit, report their financial status periodically as of a particular date and their performance as of a period, ending with that particular date to meet statutory and legal obligations. Accounting rules and standards are developed and promulgated by standards-setting bodies of respective countries. In India the standards are prescribed by Institute of Chartered Accountants of India- a statutory body - and the fundamental accounting principles, rules and standards for commercial and nonprofit entities are not very different. The principal reason for having rules is to provide comparability across organizations. Without the same rules for preparing financial statements, it would not be possible to compare the financial statements of one organization with those of another. Accounting concepts and principles provide general guidance for determining the rules. Several of the most important concepts and principles are discussed below.

2.10.2.1 The Historical Concept

The amounts reported on the balance sheet are the amounts as of the end of the period. The income statement and statement of cash flows report the activities during the period. They are
not estimates of future activities or future status or performance. Some estimates of future performance are necessary, but these are kept to a minimum.

2.10.2.2 The Monetary Concept

All accounts and the numbers on the financial statements are monetary. The common denominator is money and without this common denominator one could not add or subtract from one another.

2.10.2.3 The Realization Principle

Revenue is recognized when goods are delivered to customers, when services are performed, or when contributions are made that are related to the period. Cash may be received either prior to or following the realization of revenue.

2.10.2.4 The Matching Principle

Expenses are incurred in the period in which the related work is performed. In effect, they are “matched” to the revenue that was earned during the period. This does not mean that the expenses need to be equal to the revenue but rather that any expenses incurred in conjunction with the revenue that was realized must be included on the same income statement.

2.10.2.5 Double entry book keeping

Each transaction affects a minimum of two accounts and after recording of transactions in the affected accounts the balance sheet will balance.

2.10.3 Types of financial statements

There are three kinds of financial statements that the executive should be familiar with.
2.10.3.1 The Balance Sheet

Every unit or entity keeping accounts produces a balance sheet as of the last day of an accounting period. The position of the entity in financial terms, as of that day, is presented by the balance sheet. Basically it consists of two sides. One side titled 'assets' contains a list of all the resources owned by the entity and includes cash, bank balances, inventories (stocks of goods), land and buildings, machinery and equipment. The other side titled liabilities and equity lists the amounts owed by the entity to outsiders under liabilities. Assets and liabilities are reported in more or less the same way in the balance sheets of both commercial entities and non-profit entities. However in reporting of 'equity' there is a basic difference. In case of nonprofits capital is not raised from investors and therefore, there is no such item as 'paid up capital'. All the earnings are retained and they are referred to as 'net assets' or 'fund balance'.

The capital contributions, if made as money, are referred to as 'endowments' and if contributed in the form of goods or other assets, they are identified as 'contributed plant' or 'contributed equipment'. It is essential that contributed capital should be separately identified from operating capital and maintains separate statement of contributed capital. This type of capital contributions for acquisition of assets or for endowments is not a feature of commercial operations and finds no place in commercial accounting.

Nonprofits generally follow the 'funds' format in preparing their financial statements. On the liabilities and equity side it uses the terminology of liabilities and fund balance. This is divided into four categories of funds. On top is the maintenance fund, which is basically working capital. The next category is endowment funds, specific to certain commitments such as scholarships, prizes, patient care, specialist chair, etc. The third category is special funds. These include department funds, staff welfare, staff retirement funds (provident fund, pension, gratuity, etc.). The fourth category is capital funds, which includes plant capital, fund for capital expansion, loan from a sponsor and development fund. Since the endowments and the special funds are earmarked for specific purposes it is appropriate that the balance available in these funds should be indicated as being balanced by investments on the asset side. The capital fund account should be reduced by the same amount of cumulative depreciation as the amount of depreciation shown against fixed assets on the asset side.
2.10.3.2 Operating statement

A balance sheet presents the financial picture of the entity as of a point of time but does not indicate or describe the activities during the accounting period. An operating statement summarizes the operations of the entity over a period, describes the events that have taken place between the balance sheets and the reason behind the changes in the balance sheet.

The operating statement starts with 'revenues'. They are increases in equity associated with the operations during the period. Revenues arise when an increase in assets is not accompanied by an equivalent decrease in another asset or an equivalent increase in liabilities. From the revenues expenses are deducted. Expenses are decreases in equity associated with operations during the period. They represent decreases in assets with no equivalent increase in another asset or an equivalent decrease in liabilities. The grants and donations are brought in at the end of the statement as 'other income'. In a commercial statement this would be treated as 'non-operating income'. Depreciation figures areas other expenses. In most commercial operations and many of the non-profit operations, depreciation being a non-cash expense, is added on to expenses at the end as one single number or a group of numbers where depreciation is calculated separately for different depreciable assets. From a management point of view there is merit to this treatment since management can immediately identify the non-cash expenses.

2.10.3.3 Cash flow statements

Balancing of inflow and outflow of cash is a major finance function. An inability to meet payments as they become due cannot only be embarrassing but may lead to legal problems. For executives with responsibility for the longer term sustainability of a project or a non-profit operation, the cash flow statement is a very significant source of information. Cash flow statements also indicate the working capital squeeze often experienced by non-profit organizations operating on a pricing system designed to just recover costs.

The statement of cash flows reports the receipts and disbursements of cash. These flows are organized into three categories: operations, investing and financing. The operations portion of
the cash flow statement can be prepared using either the “direct” or the “indirect” method. The direct method shows how much cash was collected from customers and how much cash was paid out to suppliers and employees. The indirect method begins with organization’s net income or loss and reconciles it to the change in cash.

2.10.4 Budgetary Control

All transactions carried out in an organization should, be in accordance with the activities that are stated in the annual budget. It is therefore essential to evolve the budget control mechanism, which involves planning, executing the plan, monitoring and evaluating the performance and financially managing the activities of the organization. The system will also help to interpret the vision by preparing a detailed plan of activity in physical and financial terms and provides a yard stick for measuring the performance by comparing the plan with the actual performance activity-wise both in physical and monetary terms. The system will determine the objective to be achieved over the budgeted period and the policy to be adopted to achieve objectives and determines the activities to be undertaken to achieve the objectives.

2.10.4.1 Operations budget

The standard operations budget consists of four components. These are:

Revenues or income

Expenses or expenditure

Quantitative measures of output

Explanations and notes on background, environment, etc.

The first three are numerical projections and the last is descriptive. These components do not differ much between commercial organizations and non-profit organizations. In the commercial ventures additions to resources could consist of realizations from sale of products; capital inflow from promoters or loans from financial institutions. For the nonprofit organizations, the equivalent would be realizations from sales, income from endowments,
donations and loans. Both commercial ventures and non-profit organizations make a distinction between pure operations budget and a capital budget, separating sales revenue from other inflows on the one hand and regular expenses from capital expenditures on the other. However, non-profit organizations often tend to treat donations and income from interest on investments of endowment funds, as part of regular income in planning activities.

The normal practice in budgeting exercises is to assume a certain percentage of annual growth and project everything else accordingly. This percentage is usually based on the 'trend' over a period of time. The trend line, based on historical data, is projected to estimate the new levels. This reduces the budgeting operation to a ritual. Thereby organizations lose the effectiveness of the budget as a useful control mechanism and of setting meaningful goals. Exceptions to this practice occur when somebody notices a serious change in the trend or when some responsible executive or a donor has decided that the operations must be expanded in volume or variety or both.

**Revenue items**

In considering revenue, non-profit organizations face the same uncertainty in regard to income from sales as the commercials do. They face an additional uncertainty in so far as donations are not assured and may fluctuate from year to year. Income from investment of endowments is moderately steady over short to medium terms and can be included as a reasonably certain income in the budget estimates. Donations create a problem of uncertainty, which is taken into account by some of the non-profit organizations.

**Building in uncertainties**

Non-profit organizations handle this uncertainty by having a budget which provides for certain specific activities to be taken up or certain capital expenditures to be incurred, only if donations are received over and above a certain figure for the year. Conversely certain donations are specific to certain activities and are budgeted accordingly.

A break up of the sources of revenue by different types of services, by interest income from endowments and from donations will provide greater precision in revenue forecasting. Each individual source can then be examined for the probable revenue for the next year. Where
different categories of services are provided, the individual estimate should be built up from the respective departments providing the different services. This is true even in situations where the total number of clients or customers is a determining factor. For example, the total number of inpatients and outpatients will determine the volume of total activities. The various services that are provided by the various units within the institution then become the revenue sources. Assumptions on the individual trends of each service units and factors affecting them, including trends in paying patients versus free work, will have to be estimated through careful analysis at the unit level.

**Expenses**

Expenses can be handled in two formats. The first is to go by categories of expense, one line for each category. For example, all wages are shown as one item; employee benefits become the next item. The total is indicated as employee costs. Similarly, each item of expense is listed, such as communications, power, water, repairs and maintenance, etc. The second format is to show the expenses as related to specific programmes. In other words, each individual unit or activity is shown as earning its anticipated revenue and incurring anticipated expenses. Some allocation of overheads or indirect costs may be necessary.

Control is facilitated if each individual unit can be treated as a revenue and expense centre. Each unit, department or programme, would show both the revenue expectations and the expenses, broken up by personnel costs, (salary and benefits) and other major items of expense. A supplementary statement could indicate the aggregates of categories of expenses for the organization as a whole. A simple computer program can take care of this. The following illustrations are only of the formats and not indicative of all items to be included in these statements.

**Quantitative measures of output**

Process or output measures are particularly useful in evaluating lower level staff performance. But while they measure efficiency they do not necessarily relate to the objectives of the programme. However, they are the easiest to measure and can be usually related to manpower requirements and manpower planning. Result measures or outcomes are more oriented to the purpose of the project. It may therefore be more indicative of the actual value of money spent
on the cause. Even so, there may be doubts as to the final result that is being measured. It should be noted that the use of process measures and result measures are not mutually exclusive. Every organization needs to decide on the measures or combination of measures that it wants to review and include in its plan. They consider the measures that are most useful for control purposes.

**Background and environmental factors**

A budget represents a plan for future action. It is, therefore, necessary to set out in detail the background and other factors likely to influence the assumptions underlying the budget. Such background information is usually prepared ahead of time and circulated to all executive who are likely to be involved in the planning or budgeting process. The information provided would include the state of the economy, prognosis for the immediate future, new legislation in the offing and other political and/or social factors: supportive of the programme or factors to be recognized as being against the programme.

In order to use the budget as a control device, the operating departments need to be kept informed of how their revenue or other measures of output or process on the one hand and expenses on the other hand are holding up against the budget. This is a function of the budget manager or a person who is assigned the budget control responsibility in the finance function.

Budget managers or their equivalents in the finance department have a tendency to concentrate their attention only on the expense side. A periodic evaluation of performance, preferably every month, is necessary to ensure that the performance is keeping more or less in line with the projections. Serious deviations, even when they are positive on the revenue side, need to be examined with the same concern as there is an apparent tendency towards overrunning of expenses. The point is to ascertain whether what looks like an aberration represents a random event or some more serious and permanent development. Experts do recommend that the budget should be built up on the basis of a distinction between fixed and variable costs. There is merit to this approach. Fixed costs cannot be controlled in the short run. If the programme is not performing as projected, variable costs are the ones that can be reduced and the relative amount of fixed costs, included in the total cost and expenses, do not make the expenses performance elastic.
2.10.5 Financial Management

A commercial organization works towards maximizing the return to the investor. In other words, the investor envisages that the operations will generate a net surplus of funds accruing to him. The finance function becomes primarily responsible for ensuring this. The related responsibilities fall into three broad areas (i) raising funds, (ii) allocation of funds for various uses, and (iii) ensuring adequacy of funds to meet the needs from day-to-day. These responsibilities are not very different in nonprofit organizations the difference is on emphasis.

Finance function in a non-profit organization

2.10.5.1 Raising Funds

Initial funding of non-profit organizations is usually by the sponsoring donor. The significant difference is that unlike promoters of commercial entity the sponsors do not expect a return on investment. The funds can be raised on a convincing 'cause' and not on the basis of expected returns. However, stating expected results in convincing quantitative terms could often be a significant requirement for funding commitments. Commitment is almost always for an indefinite period. In course of its existence nonprofits can raise funds from different sources discussed in brief below.

*Endowments*

These are usually for a specific purpose and are restricted as to usage. From a financial management point of view the significant aspects of an endowment are that they are for specific purpose and that they are often endowed with the proviso that the endowment be invested and the earnings utilized for the particular purpose. Endowments or grants which are to be invested and the income alone to be used, maintaining the capital intact, is also a common funding arrangement for non-profit organizations.

*Donations*

Donations may be for specific purpose or general purpose. They do not usually carry the restriction that the original corpus must be preserved, and only interest can be used. It can be assumed that donations are the major source of funds for non-profit organizations. These may
be one-time grants or recurring on a regular basis, for example annually, from donors who have made a commitment to support the operations.

_Fees_

Membership fee collected from members and fee charged on the services offered to the clientele which is much less than the cost of producing the services.

_Cash generated through sale of paid services_

Generally nonprofits provide services free of cost or below cost to the deserving. However, it is not uncommon to find some nonprofits particularly in the health and education fields selling services to the paying clients. Even in the case of other types of institutions, to the extent to which some services are sold, it is a source of funds.

_Interest income_

Endowment funds generally tend to be invested in fixed income securities. In addition, a non-profit organization may have accumulated funds over a period of time awaiting investment in buildings or equipment. These would also be kept in fixed deposits with banks, in fixed income securities or savings accounts with banks. All these produce income. In many cases both the investments and the income from them are quite substantial.

2.10.5.2 Allocation of funds

Nonprofits generally have very limited flexibility in terms of allocation of funds for the reason that major portion of their income comes in the form of donations meant for specific purpose or project or programme. Where ever some flexibility exists the resources are to be allocated in best possible manner to realize the objectives of the organization.

_Salaries and related expenses_

These include all personnel-related costs, including salaries, other benefits including retirement benefits and perquisites. Many of the non-profit organizations are 'service'
organizations and consequently personnel costs form a high proportion of their total requirements for funds on a regular month to month basis.

**Expenses**

Include in this category are all operating expenses such as materials, water, power, communications, rent, repairs and maintenance. Most of these are regular recurring costs and have to be met and payments made promptly to keep the operation going.

**Capital expenditures**

Capital expenditures fall into two broad categories. The first is replacement of worn out or obsolete equipment or buildings. The second category is the totally new acquisition. It may be to make an existing operation more efficient or to start a new product. The first two items of cash outflow, namely, salary and salary-related expenses and other running expenses tend to be regular. Capital expenditures in regard to need and timing are, by and large, under the control of the organization.

**Debt servicing**

If the organization has taken loans, the requirements of debt servicing have to be met. These include interest payment and return of the principal. The quantum and timing are covered by the loan agreement and there is usually very little flexibility.

**2.10.5.3 Balancing inflow and outflow in a non-profit operation**

A non-profit organization does not have the pressure to maximize profits. However, it needs to deploy funds at its disposal to provide more or better service to whomever the organization is supposed to serve. Idle funds often reflect the inability of the organization to utilize them for the purposes for which it exists. The challenge to the non-profit finance executive in short-term cash management arises more from the inflexibility due to funds being 'designated' or earmarked for specific purposes. It is imperative for the nonprofits to ensure timely receipts and payments for smooth functioning of the organization.
2.10.6 Managing Investments

Non-profit organizations face a special challenge in managing their investments. Often they have property funded by the original promoters. Such property may consist of land, buildings and equipment. In addition there are usually endowments of various amounts, the income from them being earmarked for designated purposes. Specific research or development grants are also available as funds to be invested for income or for temporary safe keeping while being drawn down to meet the related expenses as they arise. Some non-profit organizations fund their legal obligations to employees, such as gratuity or provident fund, by handing it over to external agencies such as Life Insurance Corporation or Provident Fund Commissioner's office. Many organizations do not, because self-financing of these obligations would be cheaper by managing the funds internally. External agencies compute the annual premium for gratuity liability based on projected retirement age of employees and a notional return on the premiums cumulatively. In addition there is an administrative charge. In fact by investing the equivalent premiums prudently, it is not difficult to reduce the total cost of gratuity benefit to the employer, assuming normal retirement patterns. Managing the provident fund liability internally gives the same advantage. Market returns on investments are generally higher than the notional return.

The magnitude of these funds is often very substantial and the responsibility of managing them lies with the treasurer's office or the general administration. The funds may be designated but for investment purposes they are often pooled. Irrespective of the actual size of the funds, there are very few instances where specific guiding principles are laid down by the board or management. Rather, the boards tend to decide on investment on a situation to situation basis at board meetings. These meetings may take place only after a lapse of several weeks or months (three months is customary). Consequently, the organization could find itself sitting with large amounts held in short-term bank deposits, earning nominal interest or seeking advice from the banker.
2.10.6.1 General principles for managing investments

Liquidity

There should be enough liquidity in the system to meet day-to-day obligations. The outflow of cash is usually easier to predict. Mostly there is a pattern. Wages and salaries have to be met on a monthly and weekly basis. Other bills - supplier's, telephone, wage and salary-related legal payments are predictable. If construction work is going on, there is usually an agreed schedule of payment. If equipment has been ordered the delivery dates are known, at least approximately, and terms of payment are known early. A detailed projection of anticipated payments for three months on a weekly basis and for another three months on a monthly basis is not difficult. Many commercial corporations use such forecasts and non-profit organizations can easily emulate their counterparts.

The inflows are usually more difficult to predict. Revenue generated in the form of fee are normally predictable. Investment income is also predictable as to quantum and time. Grants from foundations can be usually predicted within reasonable time margins. Governments grants are less predictable and are often delayed due to excessive formalities and bureaucratic apathy.

Depending on the matching of the inflow and outflow of cash, it is a general rule of thumb, to hold in current account or very short-term bank deposits, enough funds to meet a month's normal expenses. However, this is a very general rule and each organization can decide, based on its particular circumstances and experience, how much liquidity is required for carrying on its operations without financial embarrassment.

Safety versus returns

Non-profit organizations generally tend to consider safety of the principal to be more important than the actual return. Funds provided for a 'cause' is not a suitable vehicle for anything that seems speculative.

Fund managers now experience great difficulty in managing fund due to substantial decline in interest earnings. There has been erosion of principal on investments in mutual funds. The
fund manager has to keep in close touch with what is happening in the business world and market outside. He cannot simply rely on the advice given by the local bank manager or the stock broker any more. He must assess the current available return on investment with the assumed return for self-financing of legal obligations such as provident fund and gratuity. The same is true of pension plans where they exist. These require regular deductions from salary and funding of employers' contribution.

An option of handing over the liability and the fund management to external funding agencies such as the Life Insurance Corporation is available. The differential earned in interest and the rate offered by LIC made self-financing attractive at one time, but this differential may not be adequate any more. All investment in securities such as bonds, mutual funds must be kept track of in terms of market prices on a weekly basis and any drastic changes investigated. It is advisable to inform the changes in the financial markets at frequent intervals to the head of the institution who may then want to consult the executive committee or finance advisory committee on any disturbing aspects. In the changed circumstances the non-profit organizations may have a good case to consider appointment of a financial consultant on retainer. A professional who is not a broker or a banker would have to be considered.

2.10.7 Strategies for Generating Revenue

Nonprofit organizations have been facing the difficult task of soliciting financial support to pay for the programs and projects created and implemented by them. It does not sound naive when it is said that the fate of the majority of nonprofit organizations is in the hands of their funders. Nonprofits create a host of programs in concert with their mission and then seek grant monies to support them. Soliciting financial support may be direct or indirect. It is direct when the nonprofits that seek support implements programs or projects on its own and indirect when the support is sought through an intermediary or umbrella organization. Many grassroots NGOs in South Asia seek support through intermediary organizations with which they maintain network relationships. When programs are fresh and innovative, the fundraising task is easier. But as programs become more commonplace, regardless of their need and importance, the task gets more difficult.
The problem posed due to heavy reliance on funding agencies have led many nonprofits, particularly in the western context, to explore the potential for generating earned income by charging fees for service, selling products, the development, sale, and lease of buildings and land, and “soft” property or income-earning assets such as copyrights, patents, and trademarks. Popularly known as “social enterprises’ these earned income ventures, if successful, provides its organization with an additional stream of revenue or support. But they are serious endeavors that require not only a significant amount of research and planning but also a change or shift in attitude among board and staff as well. This model is being replicated in South Asia and other developing countries which have witnessed the rise in micro finance business models with NGOs playing key role. A third scenario that has surfaced is the corporate-nonprofit joint venture. Nonprofits are working with the business community in a variety of innovative ways to accomplish their own goals and often those of their partners too. The e-choupal business model of ITC portends similar corporate - nonprofit partnership in Indian context.

2.10.7.1 Program-Related Products

Program-related products are those that are closely identified with the organization and promote the organization’s mission as well as earn money. The nonprofit Scojo Foundation combines a number of strategies in its business. Scojo’s enterprise distributes high-quality, low-cost near-vision (“reading”) glasses to women-run microenterprises in India. These women then sell the reading glasses to a portion of the more than 200 million people in India who need glasses to accomplish tasks such as reading a ledger, threading a needle, mending a shoe, or fixing a radio. To meets its mission, Scojo markets the reading glasses to one group of its constituents so that they can “see up close” and to another so that they can earn enough money to support their families. Still other nonprofit organizations provide job training for their clients and employ them in their business to manufacture a product or supply a service in the commercial arena. These enterprises are often called “affirmative” businesses.
2.10.7.2 Program-Related Services

Nonprofit organizations involved in economic and community development offer brokerage services, environmental organizations run landscaping businesses. Under the financial inclusion policy of Reserve Bank of India, NGOs are recognized as eligible entities to act as Business Facilitators and Business Correspondents and such services enable NGOs to earn income from the activities which are mostly programme related. In another type of program-related service, nonprofits market the expertise of their staff members.

2.10.7.3 Hard Property

The sale, lease, development, and rental of land and buildings sometimes referred to as hard property offer ways of making use of an organization’s downtime. Unlike the business activities cited earlier, these are not always related to the mission of the nonprofit organization. Colleges and universities renting excess dormitory, cafeteria, gymnasium, and field space during slack summer months to such groups as professional sports teams and summer camps, nonprofits renting their facilities for conferences and meetings and developing commercial space are examples of generating revenue from hard property.

2.10.7.4 Soft Property

“Soft property” is a form of income generation that exploits income-earning assets such as copyrights, patents, trademarks, and even art and artifacts. In this category, nonprofit organizations can generate earned income in several ways, including cause-related marketing and licensing.

2.10.7.5 Cause-Related Marketing

Cause-related marketing, also called joint-venture marketing, links a for-profit organization with a nonprofit organization for their mutual benefit. For some nonprofits, cause-related marketing can offer new sources of financial support and increased public exposure. For their
corporate partners, cause-related marketing can provide an opportunity to increase product sales and gain public recognition while supporting the causes they care about. Corporations such as McDonald’s work with nonprofit social services agencies to hire people with disabilities.

One of the more recent types of corporate-nonprofit collaborations is one in which the nonprofit organization helps market the products or services of the corporation in return for a donation or a percentage of sales. Corporations view this supplemental sales force or distribution arm as another vehicle to enhance their marketing efforts. For corporations, this approach also helps improve brand image and increase awareness. Nonprofit organizations view this approach as a way to increase and diversify their revenue, as well as to enhance the ways in which they are viewed by potential contributors and other important groups. One way in which this happens is when a corporation secures the permission of nonprofit management to offer its products or services to the members of the nonprofit. Here the nonprofit organization makes various plans available to its members and receives a commission from the corporation in return for sales to members.

2.10.7.6 Licensing

Licensing is the term commonly used for the legal agreement whereby one party authorizes a second party to use its name, logo, characters, or products. In the case of corporations and their nonprofit partners, it is typically the nonprofit that grants a license to a corporation, for which the nonprofit receives a royalty based on sales. When licensing arrangements are well targeted, both licensor and licensee benefit financially, as well as in increased publicity. For example, the Save the Children Federation licenses the rights to its children’s designs to companies that manufacture greeting cards, calendars, eyeglasses, and decor for children’s rooms.

From the discussion above it is evident that nonprofit organizations have begun to view business venturing as a viable way to obtain revenue to support program budgets. Many have experimented and succeeded in creating businesses that offer various products and services to
the public and have co-ventured with the private sector in cause-related marketing campaigns and licensing agreements. The trend is quite pronounced in developed countries and there are signs of this trend emerging in developing countries. The institutional environment prevailing in developed countries and the support from various associations, foundations, professional bodies and academic institutions made it possible for nonprofits in respective countries successfully explore the potential of raising revenues from business ventures.

Although many nonprofits may be eager to plunge into earning income, they should not do so without thoroughly exploring the risks and returns associated with business venturing. Creating successful enterprise is hard work. It is not for everyone, and it is not a quick fix. Before beginning to think about specific businesses, a nonprofit is advised to take a critical look at whether nonprofit enterprise is compatible with its organization’s culture and mission. A nonprofit should explore how earning income will fit into the overall structure of the organization, and it should secure the support of staff and other key constituents. The extensive investigation and analysis to explore the marketplace, develops a marketing strategy, operating plan, financial plan, and legal structure for each business contemplated should be undertaken. With the selection of the most promising venture and an organizational commitment secured once again, the nonprofit should develop its business plan and seek the capitalization required for start-up and ongoing operations.
References


