

Nonprofit Notes

Capacity in Nonprofit Organizations

October 2014

Report of the

NONPROFIT MANAGEMENT PROGRAM

The Bush School
OF GOVERNMENT & PUBLIC SERVICE
TEXAS A&M UNIVERSITY 

Directors of moderately sized nonprofit organizations in Texas identified over 40 factors they thought were crucial to organizational success. Analysis of those factors led to the formation of nine propositions considered crucial to nonprofit performance. Additional analysis showed that nonprofit managers considered their performance in some areas more successful than in others. This research is crucial as nonprofits face higher expectations, increased competition, and growing demand in the face of scarce resources and a harsher economic climate.

Propositions

1. **Human Capital** - A reliable, talented, and committed workforce (volunteer and paid) is associated with organizational capacity.
2. **Financial Capital** - Organizational capacity is reflected in organizations that have sufficient financial reserves, can raise necessary capital, and have reliable revenue streams.
3. **Physical Capital** - Organizational capacity is associated with having the necessary physical assets, such as facilities and equipment.
4. **Social Capital** - Organizational capacity is associated with bridging (external) and bonding (internal) aspects of social capital.
5. **Human Resources** - Human resource tasks that build and utilize human capital will be reflective of organizational capacity.
6. **Internal Systems** - Organizational capacity is associated with efficient and high-quality internal systems.
7. **Open Systems** - Management systems that attend to the external environment will be reflective of organizational capacity.

Description of Key Findings

- **Board of Directors**

Nearly every manager discussed board leadership. Ninety-five percent of those interviewed discussed the board’s role fulfillment —whether or not members accomplished their obligations and provided insight to the organization. Concerns were expressed about the commitment of members and the need for increased training and education.

- **Human Capital**

Another important factor, discussed by 94% of the respondents, was human capital. Interviewees consistently mentioned the importance

and contribution of “the people” and that the members of the organization significantly contribute to organizational effectiveness.

- **Social Capital**

Eighty-five percent of respondents discussed social capital. Of those, 70% discussed external relationships (bridging) with other nonprofits, governments, and communities. Only a small percentage (15%) thought they needed to improve these relationships. Fifty-two percent discussed internal (bonding) relationships between staff, volunteers, and the board.

- **Financial Capital**

Approximately 71% of the interviewees said financial capital significantly affects their effectiveness. Respondents most often discussed the lack of sufficient resources but also talked about reliability of revenue streams and access to different sources of revenue. Many respondents have a serious concern about losing money and always need more funds to expand programs and serve more people.

- **Open Systems**

Around 70% of managers commented on the need to respond to key external stake-

holders, including community members, donors, and potential service partners. The main activities discussed were fundraising, marketing and public relations, and networking with other nonprofits.

- **Human Resources**

Close to 67% of those interviewed emphasized the importance of HR practices in the organization, and a majority of respondents believed they had strong HR practices in place.

Figure 1: Percentage of Respondents That Identify Propositions

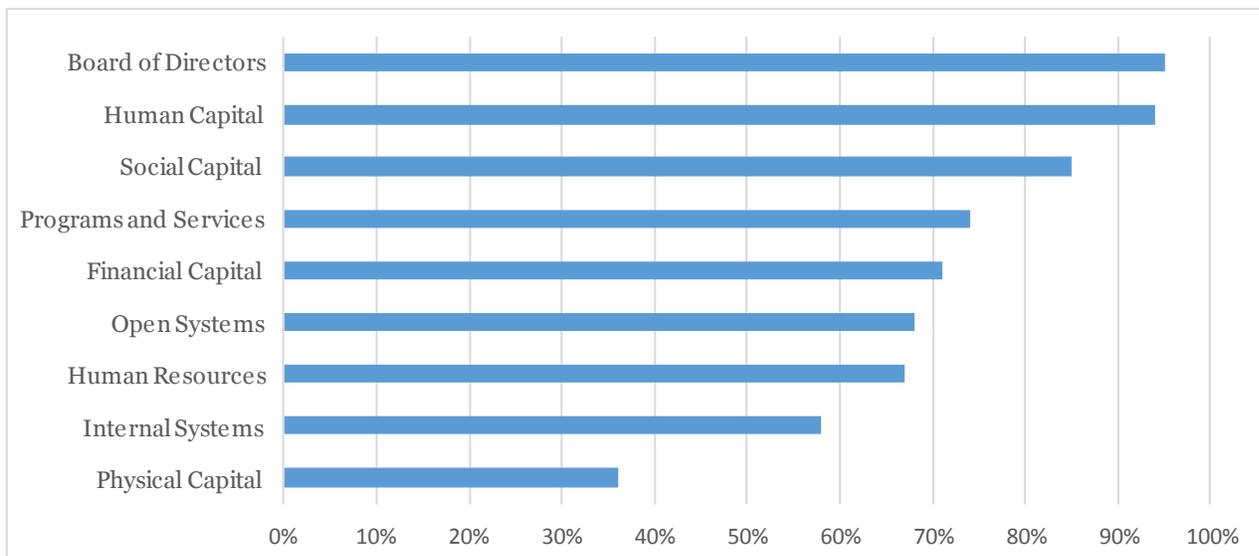
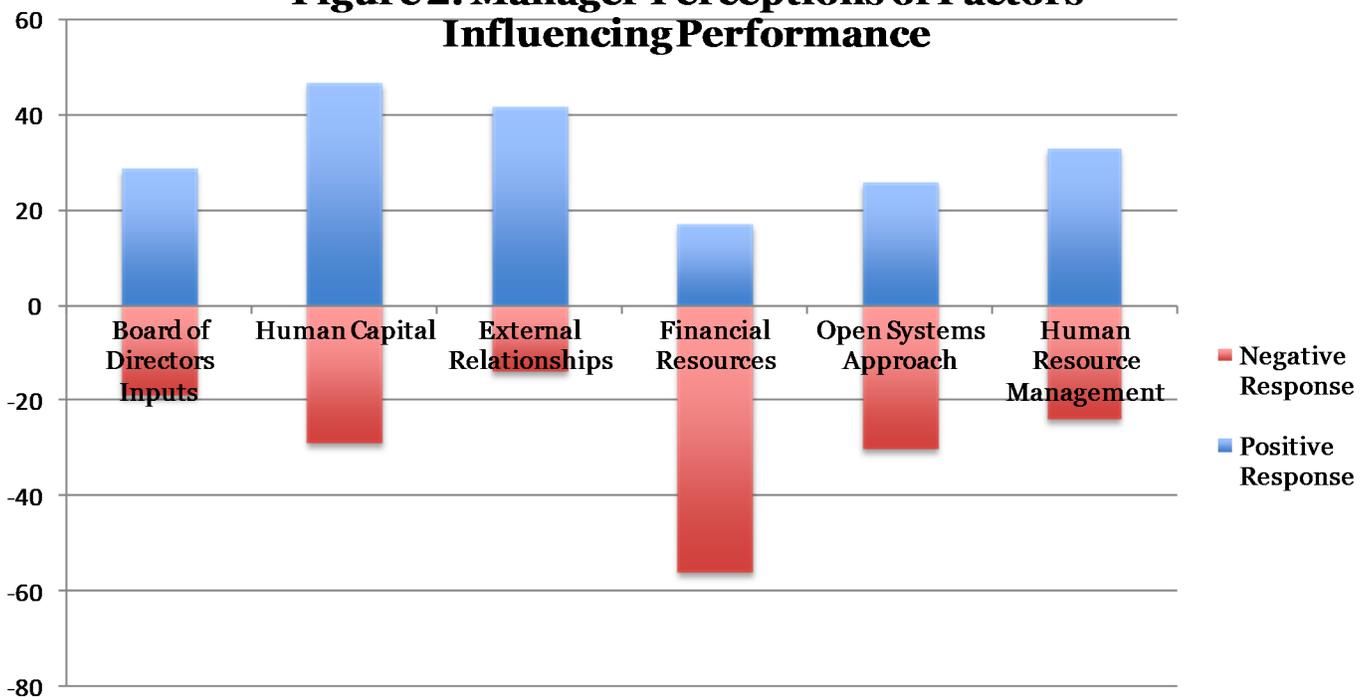


Figure 2: Manager Perceptions of Factors Influencing Performance



Perceptions of Performance

Further analysis of six key factors shows that while all nine propositions are of importance to nonprofit managers, they perceive their performance in some areas more favorably than in others. Generally, areas relating to people and services were viewed favorably. Many organizations wanted to expand their services or client base but described their current service and scope positively. Human capital was viewed positively, especially as related to providing services. External relationships received the most favorable remarks. However, mixed comments highlight the challenges of effectively managing external relationships.

Finances were regarded the least favorably, and very few managers thought they had succeeded in overcoming resource issues. Based on the comments made, it was apparent that many organizations lacked specificity in tactics for gaining substantial success. While perceptions of the board were mixed, those related to financial resources were generally unfavorable. Buy-in was the other major concern expressed by managers about the board.

Importance of External Relationships

This study captures the importance of external relationships to the functioning of nonprofit organizations. While there is a substantial literature supporting the importance of social capital to organizational capacity, there is little research highlighting the importance of external or bridging relationships. External relationships were mentioned by managers as many times as financial resources during interviews. This and the largely positive view held of them demonstrate their importance to nonprofits' ability to perform in the current climate.

Board Leadership Is Key

Executives were extremely interested in support from the board. Respondents relied heavily on the board for fundraising, oversight, public relations, and guidance. Managers with high-quality boards often said their organizational abilities were superior, but those without strong boards often lamented about the difficulty of bringing it all together. These results support the idea that boards are an integral part of nonprofit capacity and warrant future research.

Implications

The findings presented in this study suggest a few implications for managers, funders, and boards.

1. People Matter

Managers should prioritize their human capital. Improving human capital through training, education, and affirmation will benefit the organization. Increasing the productivity and capacity of staff and volunteers will increase organizational productivity at potentially a lower cost than many other capital improvements.

2. Interconnected Goals

Open systems, bridging relationships, and financial capital are interconnected; and financial success is dependent on all of them. Organizations must implement more sophisticated systems to capitalize on strong external relationships and improve their financial standings.

3. Board Productivity is Crucial

Engaging board members through training and support will increase their efficacy and potentially their engagement. Engaged boards can have a large positive impact on organizational performance.



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The Program in Nonprofit Management develops leaders for the nonprofit sector, contributes to understanding nonprofit organizations and their role in society, and supports the practice of effective management.

