

# What Makes an Effective Nonprofit

The nonprofit sector now encompasses 1.5 million organizations, from universities to hospitals to environmental groups. Human service organizations alone account for nearly one-third of public charities.

With so much choice, donors tend to consider two questions as they decide where to invest philanthropic dollars: the donor's philanthropic goals and the nonprofit's effectiveness, which is the degree to which a potential grantee delivers results over time.

*What makes an effective nonprofit?*

To a significant extent, a nonprofit's effectiveness depends on your goals as a donor. For you, effectiveness will mean delivering results on issues you deem important. That being said, in this paper we address five qualities and characteristics common to effective nonprofits. Organizations with these elements are likely to deliver results and have impact. Keep in mind: Effective nonprofits—and those having the potential to be effective—are often underfinanced and stretched to their limits. Many worthy nonprofits suffer cash flow problems; poorly developed finance, management, and fundraising systems; and inadequate training of board and staff in essential skills. If you are open to strengthening those organizations aligned with your goals, then huge opportunities emerge for you as a donor.



# Qualities and Characteristics Common to Effective Nonprofits

The five qualities and characteristics that follow are common to effective nonprofits.

**Clear mission and purpose.** The most fundamental quality of an effective nonprofit is clarity about its mission—both what it seeks to accomplish and why this purpose is important.

The nonprofit should communicate its mission clearly to all its stakeholders—board, staff, donors, volunteers, partners, and the general public—so that everyone understands its goals and works toward a common purpose. All the nonprofit’s programs and operations should be aligned to advance its mission.

In addition, effective organizations document the need for their services and explain the value they add. For example, human service organizations should be able to explain how their services meet real demands and fill gaps. Arts and culture groups should be able to describe how their work enriches the community and specific audiences.

**Ability to perform key functions.** Effective nonprofits are able to perform essential functions necessary to fulfill their missions. The authors of *How Effective Nonprofits Work* cite six essential functions:

- Communicate vision and mission
- Engage and seek stakeholders’ input in designing programs, including people who use its services, and serve its target community appropriately
- Achieve results and track impact against a few key measures, at least through basic means
- Manage an active and informed governance structure
- Secure resources appropriate to its needs
- Plan for the future

A seventh function is key to effectiveness: making it part of the organization’s culture to evolve its programs and operations as it learns from stakeholders, from its assessment of impact, and from new knowledge in its field. In short, the nonprofit should be a learning organization.

**Strong practices, procedures, and policies.** Effective nonprofits also follow good practices in three functional areas: finance, governance, and organizational and program development. (*Thanks to How Effective Nonprofits Work* for this framework.) As a donor, look for the following factors:

### **Financial**

- Yearly audits are conducted and made available to you upon request. (If a small nonprofit, it should provide you with a copy of its IRS Form 990. Or you can look up Form 990s for any nonprofit at GuideStar®, [www.guidestar.org](http://www.guidestar.org).)
- Financial statements are prepared quarterly, following a consistent format.
- Solid fiscal management processes are in place. Good practices include a board finance committee, careful cash monitoring, and regular budgets monitored with monthly cash flow statements.
- There is a diverse range of supports, such as individual donors at varying levels, foundations, and government or other institutional contributors.
- Efforts are in place to establish and maintain a reserve fund, ideally equal to 3 to 6 months of operating expenses.

### **Governance**

- Strong leadership runs the organization.
- An active process exists to properly handle governance issues.
- A board nominations process and board term limits are in place.
- Regular and ongoing evaluation of programs and fundraising plans takes place.
- Board meetings are scheduled for the year.
- Written policies set expectations, increase efficiency, and promote transparency and accountability in operations. Examples include policies for board term limits, personnel hiring and management, conflicts of interest, and investments.
- The organization demonstrates flexibility to adjust to environmental shifts.

### **Organizational and program development**

- A strategic plan is in place and used. It is reviewed annually and adjusted as necessary. Key staff refer to it when talking to you.
- Regular client input is welcomed and used for continual program improvement. The organization can demonstrate involvement of constituents in planning and evaluation.

- Other organizations doing similar work speak highly of the organization.
- Staff can articulate key accomplishments, lessons learned, and future directions.
- The organization is recognized as an institution; it is not identified solely with one or two individuals who work there.
- The organization is able to demonstrate measurable outcomes.

NOTE: If you are thinking of supporting a new or younger organization whose work you admire, recognize that it may not yet have in place all the above practices, procedures, and policies.

**Good people.** Above all, nonprofits depend on one key resource to fulfill their missions: qualified, skilled, and talented board members, staff, and volunteers.

Boards should be diverse, talent-rich, informed, responsible about stewardship, dedicated to the nonprofit and not their self-interest, and, above all, engaged. When nonprofits lack the resources and know-how to recruit and train effective board members, their governance, oversight, and leadership suffer accordingly. In addition, the effectiveness of a nonprofit largely depends on employing an appropriate number of staff who are talented, adequately trained, and properly supported and compensated.

Since people are key to performance, look for nonprofits that invest in their human resources. Recognize that recruiting, training, and supporting board, staff, and volunteers requires substantial investment. And realize that measures of nonprofit efficiency—the ratio of program expenses to total expenses, for example—might only tell one small part of a much bigger story.

**Ability to mobilize others.** The ability to mobilize and engage volunteers, other nonprofits, businesses, and government agencies is an essential skill for nonprofits seeking to address the root causes of problems and bring about long-term change. Building awareness and support among key audiences and bringing more people and resources to the table are essential to change. If change is part of your goals, look for nonprofits that have the following characteristics or develop them in your favorite organizations:

- Staff skilled in working with government or advocating for policy change
- A willingness to partner with businesses to stretch their influence
- The capacity to inspire and engage volunteers and constituents/members as passionate partners and spokespersons
- A willingness to partner with other nonprofits working to address the same issues, regarding those groups as allies not competitors
- A commitment to sharing leadership with staff, volunteers, and constituents/members to empower more people to make impact

## Clarifying Your Values and Goals for Philanthropy

Identifying the impact you want to make will help you narrow the field of potential grantees to those that fit your values, goals, and interests. Clarifying your goals also opens up opportunities to build and strengthen those groups aligned with your interests, helping them accomplish the work you care about. What kinds of nonprofits do you most want to support, build, and strengthen? Here are some questions to help you clarify the values and goals for your philanthropy:

- **What are your values?** Being clear about your values can inform the kinds of organizations and approaches to change about which you're most passionate.
- **What do you want to achieve with your giving, volunteering, and even your skills and experience?** Other ways of asking this are: What is your desired impact? What difference do you want to see in your community or society?
- **At what level do you wish to make change?** When considering where to target your dollars and time, do you wish to impact individuals, organizations, networks, policies, or ideas?

## Scanning the Field for Potential Grantees

Once you've identified the impact you want to make and considered the level you wish to make change, spend some time scanning the landscape of your chosen field of interest. Get a sense for the range of organizations in terms of size, approach to the work, and specialties. If the impact you want to make is in your local community, then focus your scan locally.

Good ways to scan your field of interest include talking with local foundations and United Ways, and with any organizations and individuals who are knowledgeable in your areas of interest. These may include university researchers, business leaders, government agencies, associations, journalists, and other donors and foundations. Make a list of potential grantees, and add and update it as you scan.

Through your conversations, you will identify organizations that are particularly effective or have good potential. Keep in mind the level at which you wish to make change, so that you can consider and compare organizations that do similar work. For example, if you wish to support groups that advocate for greater access to quality early education, then you will want to focus on organizations that make advocacy part of their mission.

Your scan may also reveal useful information about which strategies are successful for accomplishing the work you care about. For example, you may hear from several informants that strategies x and y have been effective in helping at-risk teens complete high school, whereas strategies j and k have not been as successful. You can then scan for organizations using more effective strategies.

Once you've catalogued the organizations working in your field of interest (or a sample of the groups, if your community is large), choose 5 or 6 groups to research in more depth. Consider both established groups and younger, smaller ones that could deliver higher impact with support and strengthening.

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## PERFORMING DUE DILIGENCE

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The purpose of due diligence is to confirm the good things you've heard about organizations, find out more about their work and effectiveness, and determine whether you wish to make an investment. Keep in mind the characteristics of effectiveness outlined previously—a clear mission and purpose; ability to perform key functions; strong practices, procedures, and policies; good people; and ability to mobilize others.

Here are some tips for due diligence:

- Begin by reviewing information on mission, programs, and outcomes; then get a sense of staffing and governance; and finally review financials. Also seek out the opinions of other donors and knowledgeable people in the field in which the agency operates.
- Tailor the time and effort you devote to the size of your intended grant. For example, if your grant is a few thousand dollars or less, it may not be worthwhile to spend a lot of time examining financial documents. Focus your due diligence on mission, programs, outcomes, staffing, and governance; and seek out the opinions of other donors and knowledgeable people.
- The first time you perform due diligence, find a friend or colleague who has done it before to guide you—especially on what to look for in financials.

**Sources of written information.** A significant amount of information about nonprofits is available in writing and easily accessible online or upon request.

- **Annual reports**—Many nonprofits voluntarily publish annual reports featuring financial information and a report on the year's activities. Annual reports can orient you to what a nonprofit does and why. What are its goals? Why does it choose to spend its resources in particular ways? What are its results and programmatic outcomes? Annual reports also tend to supplement financial statements with charts, graphs, or other visuals to convey important points or trends.
- **IRS Form 990**—Perhaps the most accessible source of information on virtually any nonprofit with annual gross receipts of \$25,000 or more, the Form 990 is filed annually and provides a host of information about a nonprofit's governance, oversight, policy, and financials. The form, a required annual filing for most public charities, is publicly available for review, free of charge, at [www.guidestar.org](http://www.guidestar.org). GuideStar® is a comprehensive database of information on more than 1.5 million U.S. charities.

- **Financial statements (audited or unaudited)**—Many nonprofits subject their financial statements (statement of financial position, statement of activities, statement of cash flows) to an auditor’s outside review and testing, but other nonprofits are likely to have unaudited financial statements available for review. NOTE: The fact that an organization does not have audited statements does not in itself raise red flags and should not disqualify the organization from your consideration.
- **Budgets**—By comparing budgets to financial statements, you will see how nonprofits are progressing and may notice trends from one year to the next.

For larger organizations, most of the above will be available online. For smaller organizations, your best bet may be to contact them directly for internal documents. Not only will you be more likely to receive the information you’re requesting, but you’ll also get firsthand experience in how the organization responds to a donor’s requests and questions.

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## VISITING THE ORGANIZATIONS

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Visiting your top prospects will reveal so much. Observe how staff members interact with constituents. Talk with the organization’s staff, board members, and volunteers. Do you see and feel commitment and passion for the work? Is there a clear sense of mission and purpose?

Members of Exponent Philanthropy were asked what they looked for on site visits, and here is what they said:

*“I look for clients! Believe it or not, I did a site visit to an emergency shelter, and no one was there.”*

*“I look to see if there is structure to the programs, and if staff are engaging clients. We watch interactions between staff and staff, staff and clients, and clients and clients.”*

*“The executive director is the driver, leader, and visionary, and I learn a lot by talking to this person. If the director is not involved in a site visit, I question his or her commitment to establishing new partnerships within the community.”*

*“We look for competence and professionalism among staff. I always ask about strategic planning efforts, and expect both staff and directors to be able to articulate what the organization does, why and how it meets community needs, and what the basic roadmap is for the future.”*

*“I ask the staff how long they’ve worked there, their biggest challenge in running the program, and the backgrounds of their clients. The site visit is more about the staff and clients—getting a feel for who they are, who they are serving, how they are fixing a problem, and how they see us in the solution.”*

*“Knowledge versus ‘fluff.’ I am not impressed by fund developers who appear to be telling me what they think I want to hear. I expect honesty about funding and about their strengths and weaknesses (no organization or person is perfect).”*

*“Look for adequate resources being applied to a program but not excessive administration and overhead.”*

*“We look for recruitment and coordination of volunteers where possible and happy faces on children, parents, clients, and staff!”*

## Recognizing Your Opportunities as a Donor

As a donor, you have not only the power to identify effective nonprofits but also to build and strengthen the ones most aligned with your goals. In other words, excellent nonprofits are often made, not found.

Through conversations with your favorite grantee organizations, whether about financials, training for board and staff, systems and policies, fundraising capacity, equipment, or other issues, you’ll discover what they need to move forward. Can you make the types of grants they need most? Would you consider general operating support, which can free many organizations to focus on their services? Would you consider grants to help train board, staff, and volunteers or to build systems or technology capacity? Can you offer support beyond grants, such as advice on fundraising, communications expertise, or connections to other funders?

Above all, your commitment to finding effective nonprofits and lending the support they need will pay off in greater results and greater satisfaction as a donor.

## Additional Resources

***How Effective Nonprofits Work: A Guide for Donors, Board Members, and Foundation Officers.*** Marcia Festen and Marianne Philbin. GivingGreaterChicago & New Ventures in Philanthropy, 2002.

***Forces for Good: The Six Practices of High-Impact Nonprofits.*** Leslie Crutchfield and Heather McLeod Grant. Jossey-Bass, 2008.

***Due Diligence Tool.*** Grantmakers for Effective Organizations, 2004. [www.geofunders.org](http://www.geofunders.org)

***Nonprofit Lifecycles: Stage-Based Wisdom for Nonprofit Capacity.*** Susan Kenny Stevens. Stagewise Enterprises, Inc., 2001.

## About Exponent Philanthropy

**Exponent Philanthropy** is a vibrant membership organization that provides resources and valuable connections to help thousands of small-staffed philanthropists make the most of the minutes they have and the dollars they give.

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