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BRIEF INSIGHTS FOR LONG-TERM IMPACT

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# NONPROFITS' CAPACITY CHALLENGES IN “NEW NORMAL” ECONOMY

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G R O U P i & i

In the current difficult  
economic environment,  
nonprofits have to do  
more with less...

Given the lack of funds and growing demand, it is understandable that socially-driven organizations have funneled their resources to focus on program design and delivery. However, nonprofits must also place emphasis on planning and evaluation for two major reasons:

- 1) in order to meet the growing demand, they must improve operational efficiency and outreach; and
- 2) funders are requiring strategic planning and proof of impact.

Our survey indicates that nonprofits understand the importance of strategic planning, quantitative evaluation, and deliberate marketing, in addition to the obvious need for fundraising, but do not have adequate internal resources to perform these duties. And the difficulty finding and funding permanent staff-members has led most respondents to reach out to consultants. However, despite the gaps in their capacity to perform evaluations, respondents do not seem to prioritize this important activity.

These results highlight needs and opportunities within the industry. Nonprofits themselves must continue to pursue the means to perform strategic planning and program evaluation. Foundations and funders must recognize the staffing limitations within nonprofits and commit to funding capacity grants or including evaluation costs in grant programs. And there is an expressed need for consultants with expertise in strategic planning, evaluation, and marketing (in addition to the ever-important fundraising consultants).

The landscape for nonprofits has become increasingly challenging over the past decade...

# Background

Since the start of the 2007 recession, state and federal agencies have been forced to cut back on funding. Private foundations and individual donors were hammered by the stock market crash the following year, and many have yet to fully recover.

Unfortunately, the same economic pressures that have constrained funding of nonprofits have increased the need for their services. Unemployment, foreclosures, reduced value of existing investments, and general financial insecurity have made nonprofit work even more vital. Hence, nonprofits worldwide face a growing gap between what they need to provide, and what they can afford to provide. In fact, according to the Nonprofit Finance Fund's 2014 State of the Nonprofit Sector Survey, 56% of nonprofits were unable to meet demand last year, and 86% expect demand to continue to rise.

Given the limited resources, competition for grants and other funding is fierce. Many funders consider evidence of strategic planning as a prerequisite to funding (Georgia Center for Nonprofits, 2013), but fewer than 50% of nonprofits plan to conduct long-term strategic or financial planning in the next 12 months (Nonprofit Finance Fund, 2014). And while funders are requiring metrics proving the impact of programs, many do not cover evaluation costs in their grants (Nonprofit Finance Fund, 2014), with the result that only 53% of nonprofits regularly perform such measurements, due to lack of time, staff expertise, or resources to obtain outside help (Nonprofit Finance Fund, 2013).

Even though nonprofits understand their staffing gaps, they are often unable to fill the needs with permanent hires. According to Blackbaud's 2012 State of the Nonprofit Industry Survey Summary Report, 45% of US nonprofits had difficulty filling staffing needs, and for small (less than \$1M in revenues) and medium (\$1M-\$9.99M) nonprofits, the biggest roadblock lack of funding for the positions. The survey results indicated that the largest staffing gaps were in finance, marketing, and program delivery.

Unfortunately, many organizations do not have the funds to hire consultants. However, according to the Nonprofit Finance Fund, almost half do have the resources (2013) and 25% planned to hire outside help to improve financial knowledge or capacity in the next 12 months (2014).

# Survey Rationale

Given the unmet staffing needs of many small and medium nonprofits, Group i&i sought to better understand the decision-making process regarding hiring consultants to fill gaps. Understanding that the survey would be a first step in gaining true insight, the researchers designed an online survey with the following expectations:

- Confirm or dispel the results from previous reports regarding use of consultants
- Understand the importance of various activities within nonprofit organizations
- Understand whether organizations have adequate staffing for those activities
- Compare/contrast needs of various sized organizations
- Compare/contrast the perspectives of Board Members with those of Management
- For those organizations that do hire consultants, understand how they select partners
- For those that do not hire consultants, understand why not.

# Survey Results

Although 58 respondents started the survey, only 36 answered enough questions to provide insight. Of those, however, many provided information on two different nonprofits, in the roles of Board Member and Management, giving us valuable information on 51 organizations of differing sizes: 24 small (under \$1M in revenues), 24 medium (between \$1M and \$9.9M), and 3 large (over \$10M).

There seemed to be fairly consistent perspectives across all organizations when it came to rating the most important activities. When all 51 responses were tallied, the most important activities (those that were rated either Important or Extremely Important) were: Strategic Planning (86%), Program Design (84%), and Fundraising (80%). (see figure 1).

Despite the observed value of these activities, there was often inadequate staffing. When respondents were asked to rate the internal capacity for various activities, only Program Delivery and Program Design were described as adequate (rating of Adequate Internal Resources or We are Completely Self-sufficient in this Area) more than 50% of the time (59% and 55% respectively). The largest gaps between importance and adequate staffing were in Strategic Planning, Fundraising, Program Evaluation, and Marketing/Communications Implementation (Figure 1).

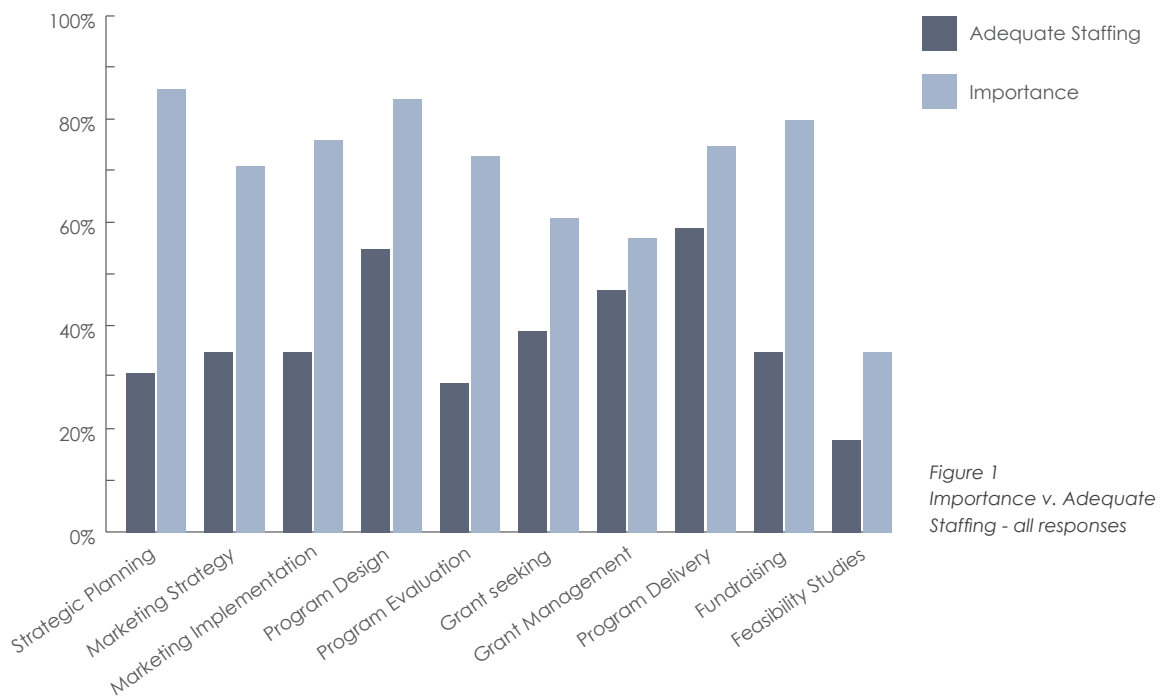


Figure 1  
Importance v. Adequate Staffing - all responses

# Results by Size

When analyzing the responses by size of organization, we were able to compare Small and Medium organizations (there were too few large organizations to gain insight).

## Importance versus Capacity: Understanding and Addressing Gaps

Directionally, the responses were consistent, although respondents from Medium organizations tended to place greater importance on all activities. Amongst both Small (n=24) and Medium (n=24) organizations, Strategic Planning, Program Design, and Fundraising were extremely important. The most notable differences between the groups were that the Medium organizations placed greater importance on Program Delivery (83% importance v. 63% for small organizations), Marketing Implementation (83% v. 71%), Marketing Strategy (79% v. 58%) and Program Evaluation (79% v. 63%).

Significantly, both groups seemed to have a disconnect regarding their capacity to perform Program Evaluation - while both had large gaps between the importance and staffing, very few named it as a top pressing need. When asked to rank their three most pressing needs, small organizations named Fundraising, Marketing Implementation, Strategic Planning, and Grant-seeking, but they mostly ignored Evaluation, despite the fact that it had a larger gap than Grant-seeking. (Figure 2).

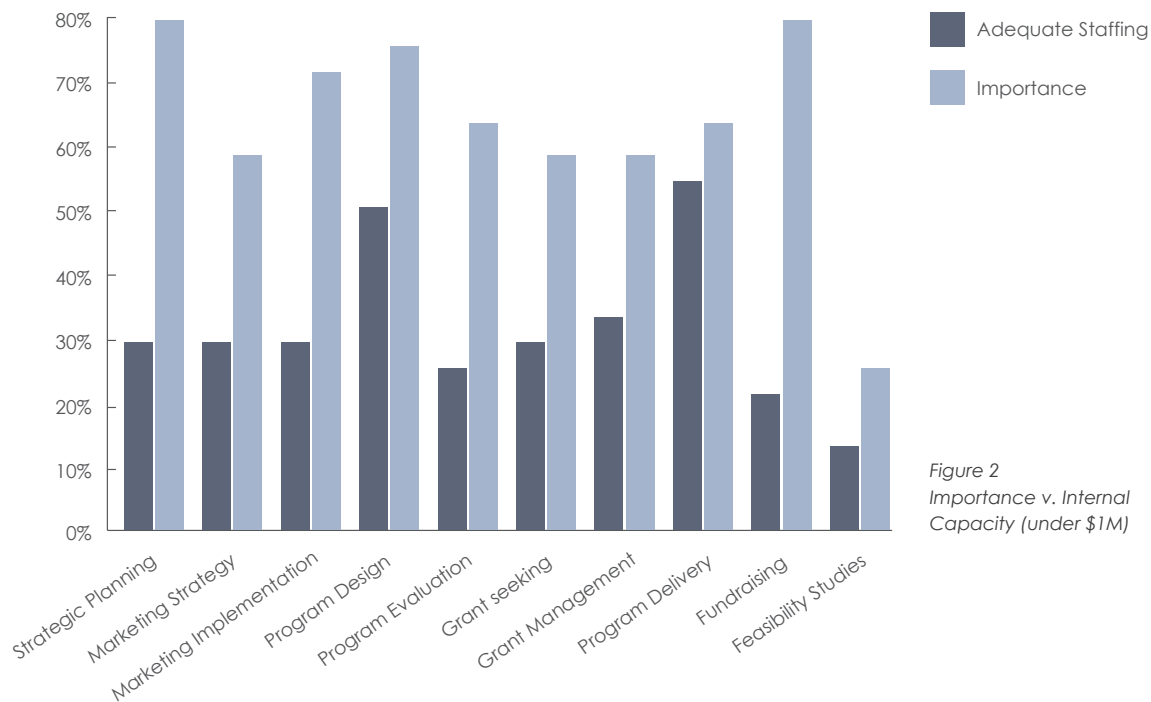


Figure 2  
Importance v. Internal Capacity (under \$1M)



Medium organizations had additional mismatches between gaps and priorities. These larger organizations named Fundraising, Strategic Planning, and Marketing Strategy as their most pressing needs, but the largest gaps between importance and capacity were in Strategic Planning, Program Evaluation, and Marketing/ Communications Implementation, with Marketing Strategy and Fundraising close behind (Figure 3). Again, Program Evaluation seemed to be undervalued given the size of the gap.

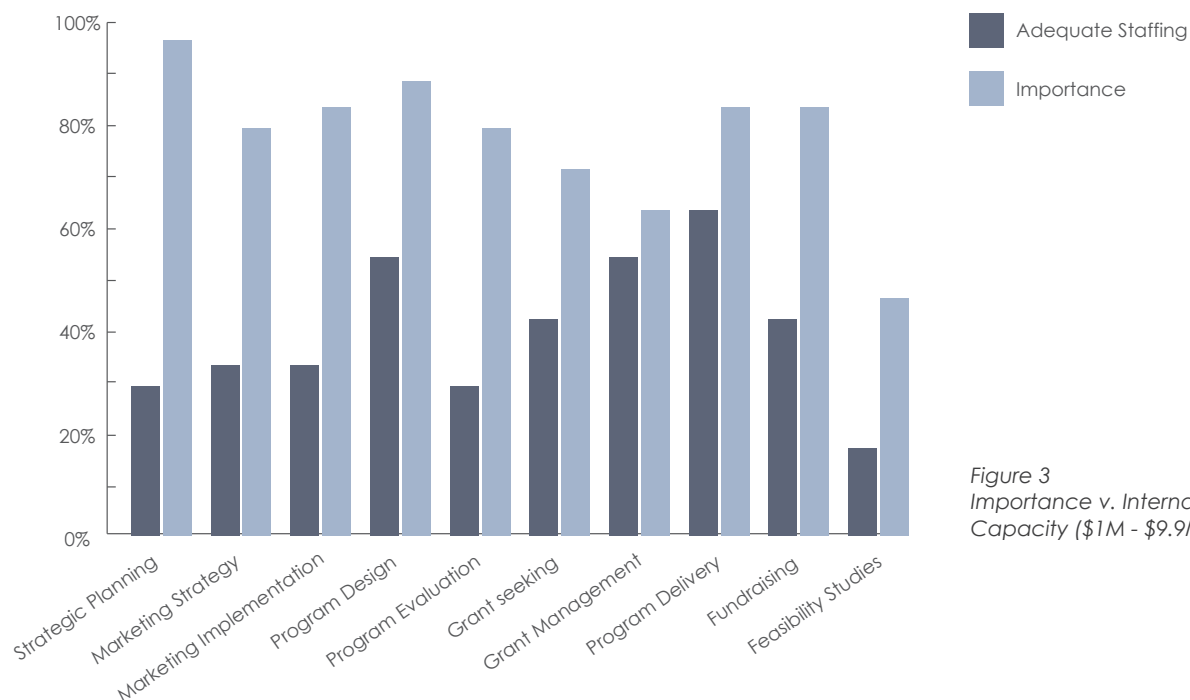


Figure 3  
Importance v. Internal Capacity (\$1M - \$9.9M)

### Use of Consultants to Bridge the Gap

Regarding the use of consultants, the majority of both groups stated that they use consultants. Only 33% of small and 17% of medium organizations surveyed do not use consultants, and of those the vast majority name lack of funds as the reason.

Of those that do use consultants, there is a difference in how they select their partners. Although most respondents find potential consultants through past work relationships or recommendations from colleagues, the small organizations make the final decision based on cost and sector-specific experience, while the medium organizations find reputation and former successes to be more important. There was consensus, however, regarding the value of certifications. This criterion was consistently named one of the least important in the selection process.

To managers,  
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# Results by Role

There were 32 responses from Board Members and 19 from Managers regarding their opinions in their respective roles. In general, the results were fairly consistent with each other: Fundraising was named by most respondents in each group as one of the top three most pressing needs, with the other activities each receiving some votes.

As we delve into the data, a few trends do emerge. Board members found Marketing Strategy and Fundraising to be more important than Managers did; the latter stated that Program Delivery (transitioning from receiving the grant to implementing the program) was much more important. This is not unexpected, since the managers are responsible for day-to-day operations. Further, when we study the gaps between importance and adequacy of resources, the Board Members noted the largest gaps in Strategic Planning, Fundraising, Marketing/ Communications Implementation, and Evaluation. (Figure 4)

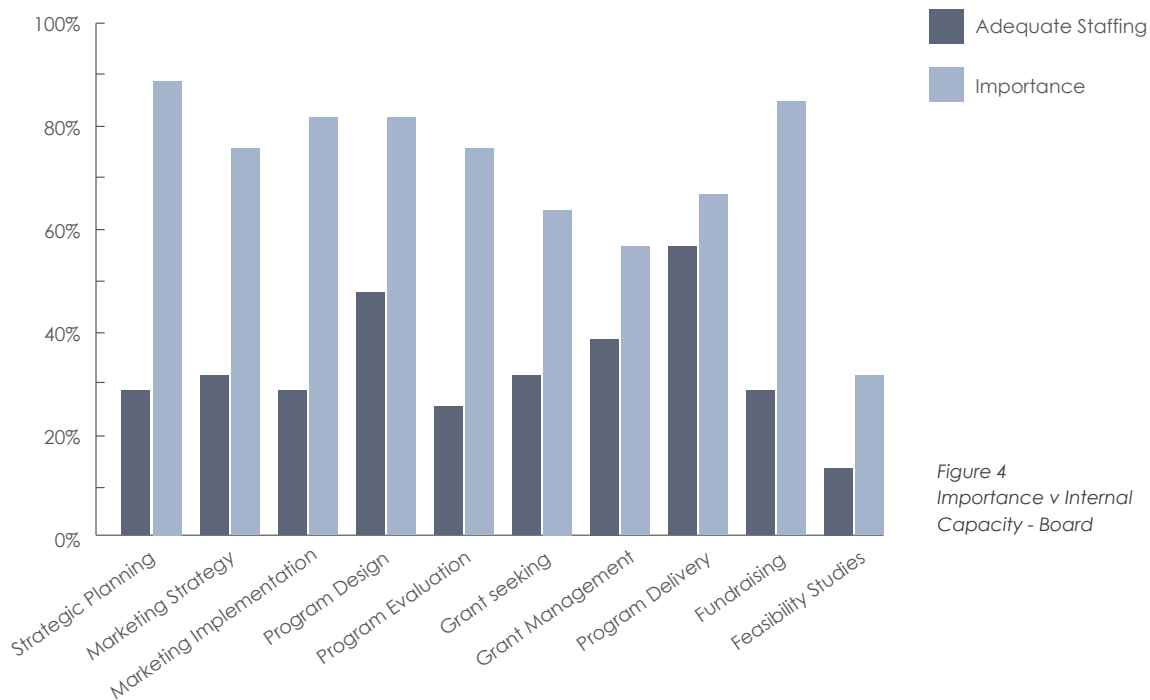


Figure 4  
Importance v Internal Capacity - Board

The Managers reported smaller gaps, but Strategic Planning and Evaluation had the greatest difference between importance and capacity (Figure 5).

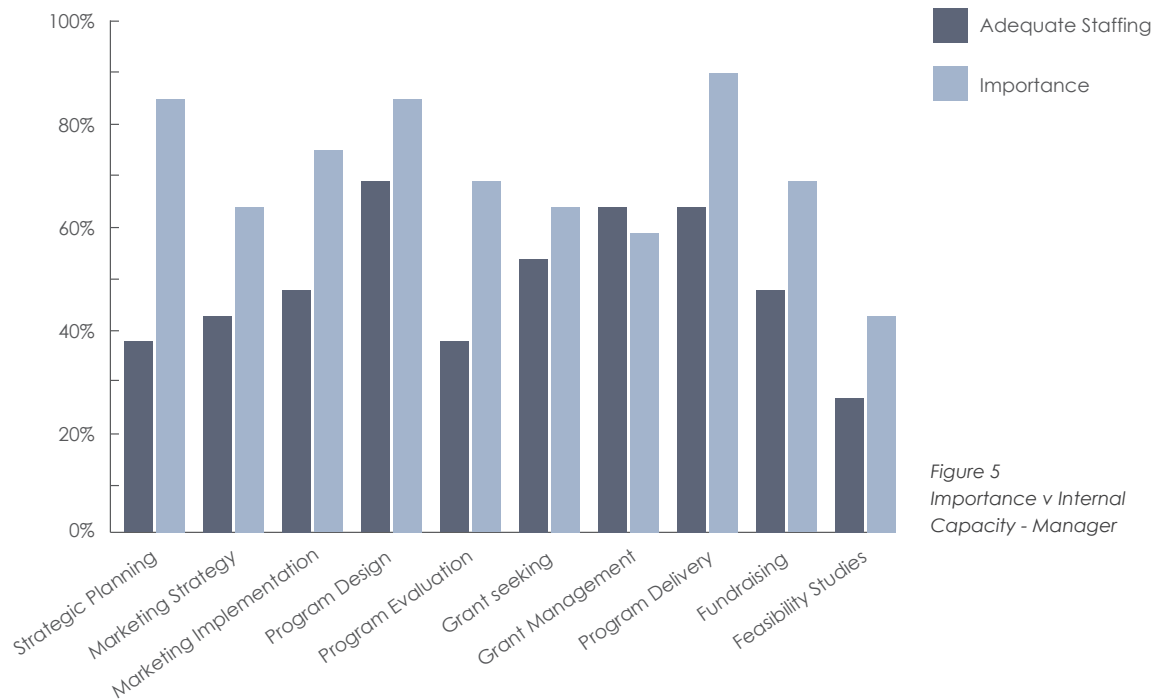


Figure 5  
Importance v Internal Capacity - Manager

When asked to rank the most pressing needs, the board members overwhelmingly selected Fundraising (78%), followed by Strategic Planning (44%) and Marketing/Communications Implementation (38%). Managers seemed to recognize that they had many needs across the board: 53% named fundraising, 42% Marketing/Communications Implementation, 37% Grant-seeking, and five other activities named by at least 26% of respondents.

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# Conclusions

As past literature has shown, nonprofits report the lack of necessary funds and staffing to perform at the highest levels and create the greatest impact for society. Our survey corroborates this, and indicates that the largest gaps are in Strategic Planning, Evaluation, Fundraising and Marketing Strategy/Implementation. This is problematic because these activities help ensure that the organization is providing the correct services, not duplicating efforts, reaching the correct users and donors, and using their funds wisely to make impact.

While it would be difficult in this economic climate for many nonprofits to hire experts in planning, strategy, and evaluation, it would behoove them to consider outsourcing these necessary activities. In the short run, it would improve their standing with foundations and donors. But more importantly, it will allow them to improve their services and outreach so they can make the most impact. In addition, funders must recognize that in order for nonprofits to measure and prove the impact of programs, grants must provide funding for these activities.

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