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Becoming a Highly Effective Organization:

To become more effective, nonprofits need to improve across five organizational dimensions: leadership, decision making and structure, people, performance measures and initiatives, and culture.

How can this be done?

By Kirk Kramer

In the for-profit world, barometers such as profitability and shareholder value help leaders assess corporate performance. It is also possible to make a direct connection between market performance and organizational effectiveness; research shows that high-performing companies excel across five organizational elements that, together, make them particularly effective: leadership, decision making and structure, people, performance measures and initiatives, and culture.

In the nonprofit sector, no such common market measures or corollaries exist. So we can't make a direct link between organizational effectiveness and the ability to be a high performing organization. Nonetheless, we believe that that link holds. And therefore, it's important for nonprofit leaders to assess their organization's effectiveness and become more purposeful about improving it.

To that end, a team of Bridgespan researchers created a diagnostic survey to help nonprofit leaders assess their organizations across the five key elements that are characteristic of high-performing for-profit entities. The survey is based on a similar one that Bain & Company, Inc. has used to study organizational performance and attributes with more than 500 companies. As of this writing, we have administered our diagnostic to more than 35 nonprofits with annual budgets ranging in size from less than \$5 million to about \$200 million. We have analyzed the data, and compared it to the results of Bain's research.

Our findings suggest that improving effectiveness requires a holistic approach to strengthening the five elements. As the accompanying graphic suggests, these elements are interconnected; strength in one area offset by weakness in another does not appear to result in sustainable improvement. All five elements must be strong to create a highly effective organization.

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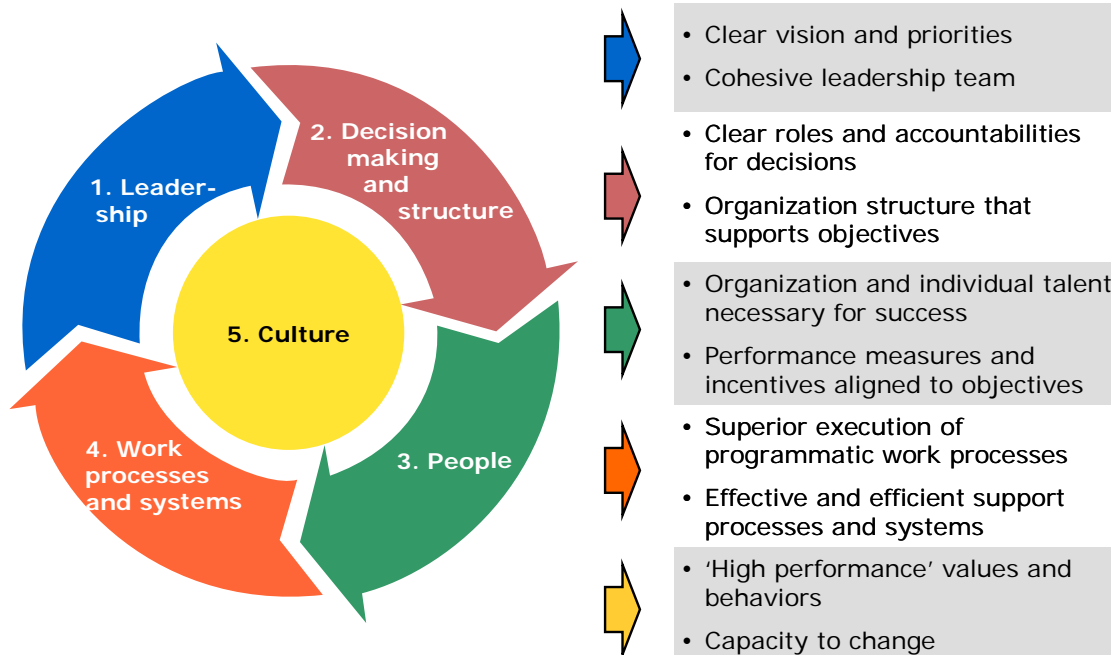
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Strong performers realize that effective organizations are about more than structure



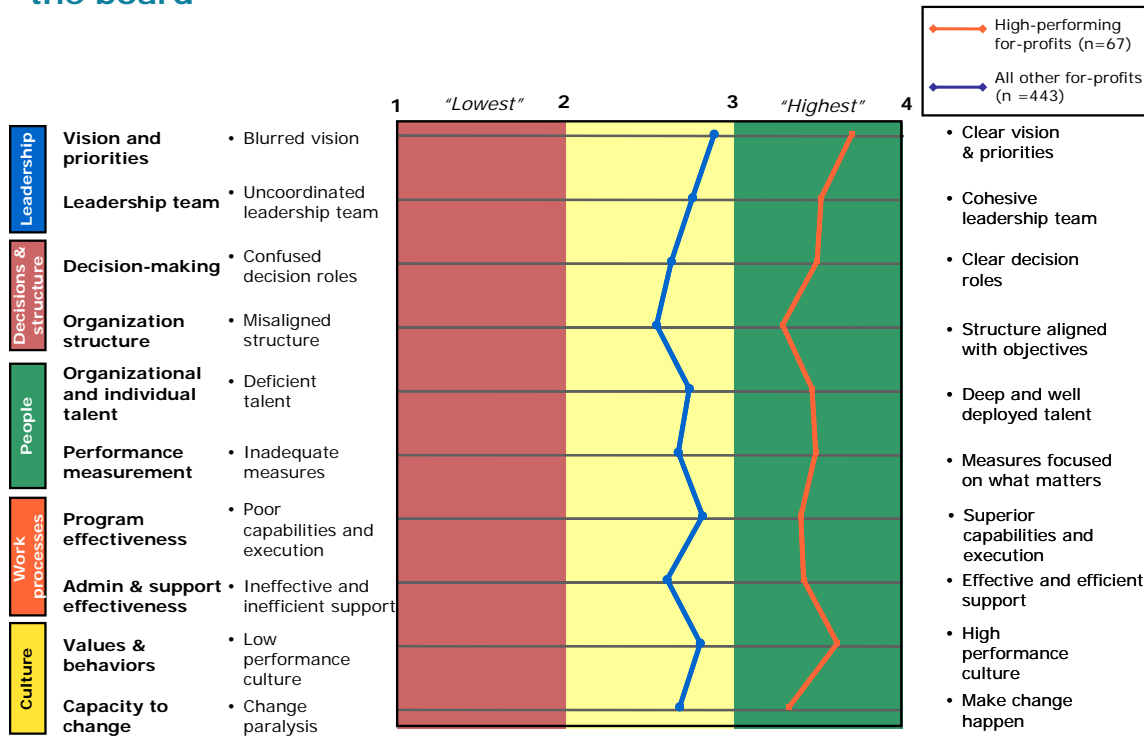
Source : Framework developed by Bain & Company and adapted by Bridgespan

Our research also suggests a framework that nonprofit leaders can use to guide their thinking as they strive to improve their organizations' effectiveness. Before discussing the framework, however, it may be useful to understand the results of both the for-profit study and the nonprofit diagnostic in some detail.

Diagnosing Organizational Effectiveness

Only 14 percent of the people responding to Bain's survey of for-profit businesses felt that their companies merited the distinction "highly effective." Yet in a subset of those respondents representing the strongest financial performers, 80 percent of respondents called their companies "highly effective." And when asked to rate their companies across the five elements, the bulk of respondents from this smaller, high-performing group gave their companies much better marks across the board than did their more average-performing peers, as the following graphic illustrates.

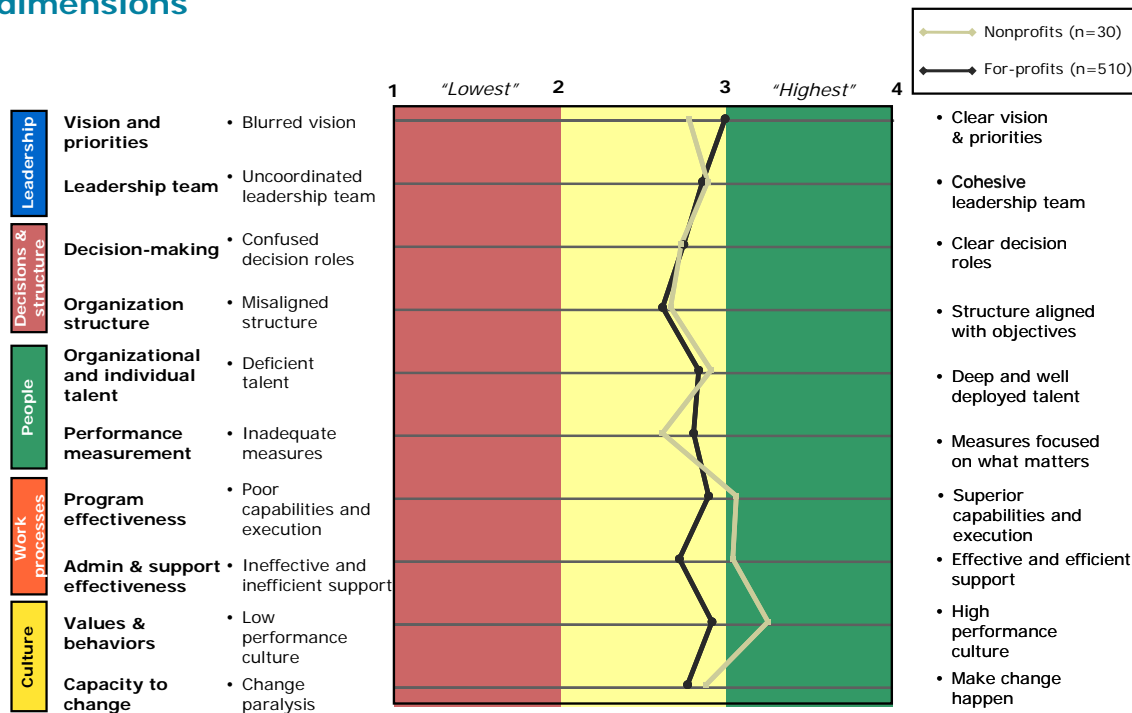
The strongest financial performers report high marks across the board



Scoring: 1=Strongly disagree, 2=Disagree, 3=Agree, 4=Strongly agree
 Note: Scores represent average of responses within each category Source: Bain & Company "high performance" organization database

As noted, the Bridgespan diagnostic survey was developed to assess the same five organizational elements in nonprofits that distinguish those high-performing companies. When we compared nonprofit and for-profit survey responses, however, we found that nonprofit responses closely resemble the responses given by companies that perform in the average range. This finding, illustrated in the following graphic, suggests that there is significant room for nonprofits to improve their organizational effectiveness across all of the elements.

Nonprofit respondents resemble the average for-profit on most dimensions



Scoring: 1=Strongly disagree, 2=Disagree, 3=Agree, 4=Strongly agree
 Note: Scores represent average of responses within each category. Given our small sample size for nonprofits and an inability to objectively measure performance, we have not created a "high-performers" nonprofit list. Source: Bridgespan and Bain org diagnostic databases.

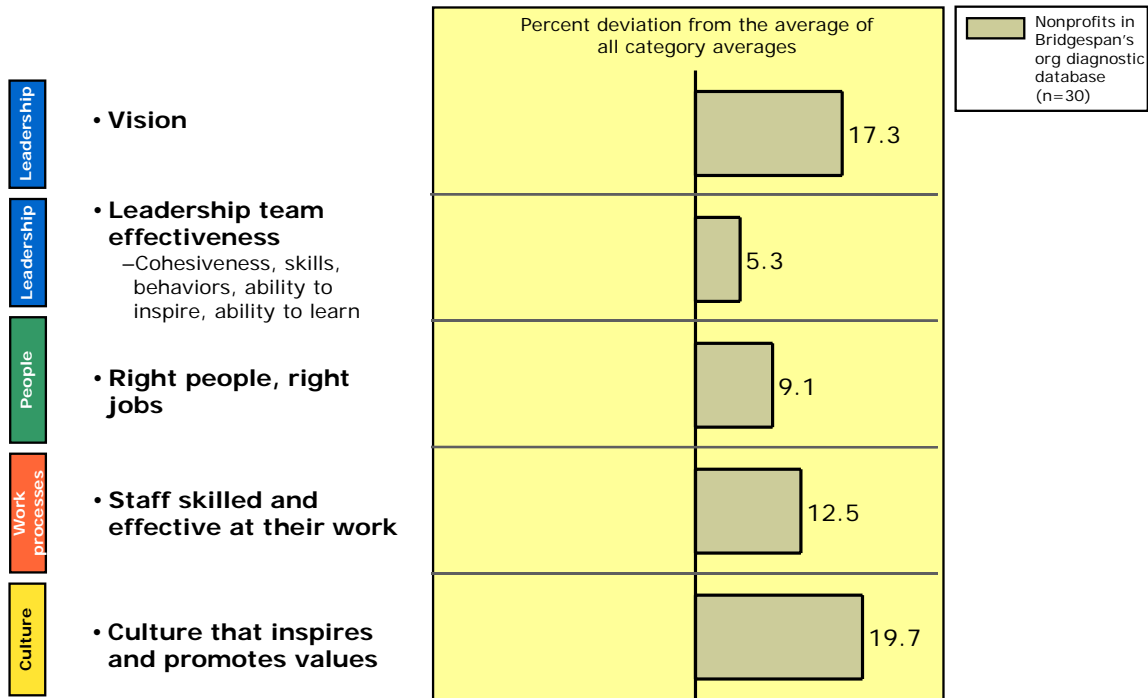
What key factors contribute to the relative weaknesses and strengths reported by the nonprofits we surveyed? Our analysis indicates the following:

- Across the board, the data suggest that nonprofit leaders tend to establish strong visions and build strong teams. These same leaders, however, seem to be less effective at translating a compelling vision into a set of explicit goals and corresponding priorities. They're even less effective at communicating priorities throughout their organizations.

- With regard to structure, the basic roles and responsibilities and reporting relationships mimic the average of the average for-profit. However, the ability of people to coordinate and work well together across organizational boundaries scored very poorly. Decision-making roles and processes also appear to be a significant weakness.
- Nonprofits appear to attract good talent and do well placing the right people in the right jobs. However, these employees do not feel that their work is well aligned to the priorities of the organization. What's more, organizations on average have some difficulty evaluating, developing, and rewarding staff consistent with the organization's priorities. This finding is not surprising, given leadership scores on setting and communicating priorities. Further, nonprofits in general do not appear to prepare adequately for leadership transitions and succession; this area scored worst overall.
- In spite of poor alignment to priorities, nonprofit employees, on both the program and administrative sides, appear to be skilled and motivated. Working conditions, however, hamper their effectiveness. In particular work processes are not well defined, the data indicate; and resources are scarce.
- Culture is a clear strength, even though the scores in this area were not as strong as those of the top-performing for-profits. Interestingly, however, most survey respondents indicated that the ability to execute change is a weakness. This finding may also correlate to the relatively low score in setting priorities. Nonprofit leaders cannot effectively change the direction of their organizations if they do not know what their priorities are, and what they want the change to accomplish.

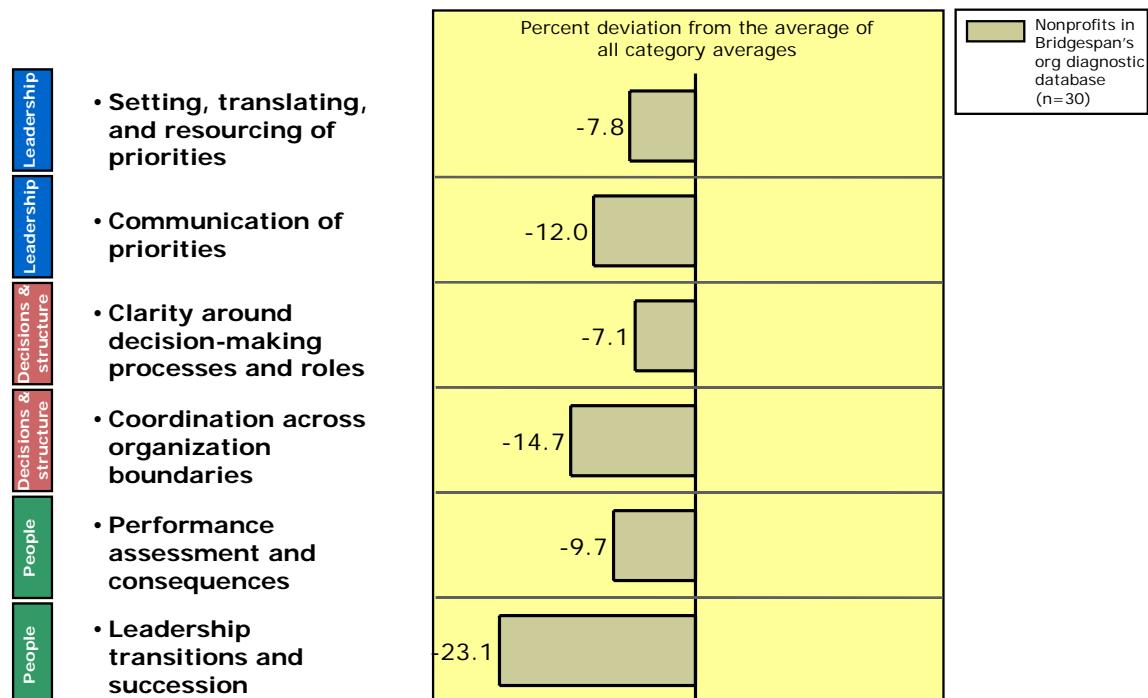
Overall, the data suggest that while nonprofits have some tremendous assets, most do not make the most of those strengths. As the following two charts illustrate, by failing to establish and communicate clear priorities, make roles and responsibilities explicit, create clear connections across organizational silos, and develop the talented people they attract, they fall short of their potential.

Nonprofits start with tremendous assets...



Source: Bridgespan org diagnostic database

...However, they aren't leveraging them to their potential



Source: Bridgespan org diagnostic database

These findings are consistent with our experience working with and observing many nonprofits: namely, that for the most part, they are strongly led but under-managed. Many nonprofits have inspirational and visionary leaders who attract hard-working people with great passion for the cause at hand. However, these same leaders often find it difficult to implement and codify the kinds of mechanisms that would help these highly motivated people be as productive as possible. Good managers know how to bring discipline, structure, and process to bear, and this is where nonprofits seem to be most lacking.

Becoming More Effective

As noted, our research suggests that nonprofits need to take a holistic approach towards improving effectiveness. But nonprofit leaders still need a starting point, and our experience suggests that they should focus first on setting clear priorities. Clear priorities are the “north star” against which an organization can align its people, structure, and processes, and build its culture. When an organization’s leader has established clear priorities, he or she has essentially defined what “success” will look like. Against that goal, it becomes easier to determine which programs or initiatives are essential, and which are not, and to allocate resources accordingly. It also becomes easier to measure gains in effectiveness—positive outcomes for beneficiaries—over time.

Take, for example, an organization that serves students who are at-risk for dropping out of high school. Where does that organization draw the line in terms of serving these young people? What if an opportunity arises to help recent drop-outs get back into school? Or to help younger students move out of the “at risk” category before they enter high school? Or to strengthen the home lives of these students? Faced with such options, it can become increasingly difficult to set and maintain strategic priorities. Unless the leadership team has established and communicated what matters most, and what the organization is going to hold itself accountable for, it can be difficult to set and maintain strategic priorities in the face of such options.

One way to determine if your organization has clear priorities is to ask each member of the senior management team to make a list of its top five priorities for the next one to three years. Once you’ve compared the lists, you’ll be able to see whether the team members are on the same page. If they are, you’ll next want to determine whether the priorities are well communicated throughout the organization. To begin to find out, ask a representative sample of managers at the next level down to engage in the same exercise. These simple exercises will help you determine if your challenge is clarifying priorities, or if you need to work to on communicating the priorities to enable alignment to them.

When an organization's strategic goals and priorities are clear and well-communicated, the four sets of questions that follow can help its leadership team assess effectiveness in other areas, and set a purposeful course towards improvement:

1. *Given the organization's priorities, what decisions are truly critical? Is it clear who is responsible (and who has the authority) to make those decisions?*

When priorities are clearly communicated throughout the organization (and beyond, to funders and other stakeholders) decision-making processes involving program or service choices and resource allocation should also become more transparent. That said, establishing and implementing strong decision-making processes is a complex endeavor in and of itself, and hard to do well. So it may be helpful to use a management tool specifically designed to help an organization's leaders unravel the decision-making process, clarify roles and responsibilities, and set clear expectations for decision making going forward. The process of using such a tool can help leaders get past pre-conceived notions of structure, and more fully engage in a holistic approach to their organization.

The national leadership team at Omaha, Nebraska-based Boys Town, for example, used a tool called RAPIDSM to clarify decision making between the national headquarters and youth care leaders throughout the organization. Historically, decision making had been highly centralized, with a small group of people at the national headquarters making many decisions about local operations—from hiring, to merit-pay increases, to purchasing furniture. As Boys Town continued to expand its youth care services, though, that approach no longer worked well.

With input from managers throughout the organization, a team led by project manager Barb Vollmer worked with the management team to draft a matrix that classified the types of decisions Boys Town youth care leaders faced, and set boundaries of authority and responsibility for decision making going forward. This process helped the organization push decision making down to the right level and clarify when and how the national office should be involved.

RAPIDSM is a service mark of Bain & Company, Inc. The article entitled, "RAPID Decision Making: What it is, why we like it, and how to get the most out of it," available at www.bridgespangroup.org, provides more detail about this tool.

2. Who in our organization must work closely together to achieve these priorities, and does our structure enable them to do so?

What critical work must get done to achieve the organization's priorities? Who does this work? How does it deliver the desired outcomes? Mapping answers to these questions helps reveal which people need to work together, and whether the current structure facilitates their work.

Organizational design experts in the for-profit and nonprofit sectors alike talk about the "grouping and linking" of work. They find that most leadership teams pay a lot of attention to how work is grouped: around geographies, for example, or product lines or functional areas such as finance or human resources. Most, however, pay less attention to how people need to work together across these groups, and thus fail to put in place the kinds of structural mechanisms that can make such coordination easier. Without these mechanisms, people end up working in their own "silos." The fallout ranges from wasted time (as people try to find information that isn't readily available to them), to poor quality work (when the right input isn't incorporated), to poor execution (because stakeholders critical to implementation fail to buy in).

One way to help people work together more effectively across departments or groups is to identify critical areas where such work takes place. The most important areas should link back to the organization's top priorities. Armed with this information, it is easier to create explicit linking mechanisms. Some organizations use cross-functional working teams. Others tap staff members to serve as liaisons between departments, for example, asking a finance manager to work with a specific program.

3. Do we have the right people and capabilities to achieve our priorities, and do our people feel that their goals and measures align with these priorities?

One way to assess and improve the effectiveness of your people is to determine how they are aligned against the organization's priorities. For each priority, identify who is working on it and compare it to items that are of lower priority. Ask yourself, do I have enough people against things that matter? Are my best people allocated against the things that matter the most? Have I taken lower priority work away from these people so that I am sure they will succeed? Doing this can be especially critical in times of growth, when it is natural for members of the management team to extend themselves as much as possible and to take on new priorities, sometimes overextending themselves and under-resourcing critically important areas.

Portland, Oregon-based Self-Enhancement, Inc., (SEI), provides a good example of the value of stepping back and asking such questions. SEI serves at-risk youth, offering in-school, after-school, and summer programs with an

10

emphasis on long-term mentoring. In 2006, the organization's leaders developed a three-year strategic growth plan. When they began to implement the plan, however, they found that they had been overly optimistic about the amount of work the existing team could take on. They needed additional capacity and also some specialized expertise. Despite concerns that it would be hard to integrate new hires at relatively senior levels, they augmented the team. One year later, implementation has made substantive progress.

It's also important to maintain the connection to the organization's high-level priorities when setting individual performance goals and assessing staff performance. Too often, performance reviews are "check-the-box" activities. It's easier for participants to take reviews seriously—and feel that the process is valuable—when individual goals are clearly linked to the organization's overall goals. Performance reviews should also lead to action, shaping the things the organization commits to doing to help an employee develop. Similarly, performance reviews should influence future job assignments, promotions, recognition, and rewards.

Consider an example from another nonprofit that offers mentoring services. Leaders had told staff members that the organization's priorities included the number of mentoring matches each staff member set up, the quality of the matches, and the balance of matches across easy and hard-to-serve communities. During performance reviews, however, staff were assessed and rewarded only on the number of matches—the easily quantifiable metric. As one middle manager put it, "Staff members are routinely put in a position where they have to make a choice between actually doing their jobs well and appearing to do their jobs well." When this feedback was shared with senior leaders, they undertook a redesign of the process to include data and qualitative feedback on these other dimensions. They also began to reward employees who had performed well against all of the organization's priorities. This change has contributed to improved employee morale; and it is expected to drive more balanced performance across the organization's priorities.

4. Have we defined the work processes and tools to enable our people to be effective as they address our top priorities?

Time spent clarifying and honing work processes and making them explicit and accessible to employees can reduce rework and reinvention. The effort can also contribute to consistency and improving levels of quality. This is gold to any nonprofit, but it's particularly valuable in times of growth, or when an organization is struggling to increase impact on a tight budget.

Consider the experience of KIPP, a charter management organization currently operating schools in 19 states and the District of Columbia. In 2000, when KIPP had only two schools, the organization received a large grant to replicate its efforts in high-need communities across the country. The organization's small leadership team

recognized that in order to grow successfully, they would need to articulate the work processes that had made the model so effective in the first place. Some of these were program processes, such as the steps required to open a school (like securing a charter and facilities, and building a strong local board). Others were administrative and support processes, such as how to budget for a new school and how to hire and train the right teachers. To codify these processes, the organization's leaders spent time walking through the steps they had taken to set up their first two schools. By doing this, they ensured that the principals in each new KIPP school did not have to spend time reinventing the fundamentals of the model and could, therefore, spend more time focusing on what truly matters: the students and what happens in the classroom.

In addition to getting the processes right, there is also huge potential in deploying tools and technology that can increase organizational effectiveness. With limited funds available, many nonprofits are hesitant to make these kinds of investments, but they can have a huge payoff. Consider one large youth-serving organization whose leaders discovered that a major source of stress for staff members was the time spent completing essential documentation after each case interaction. The process was labor-intensive, and there was great pressure to turn the material around quickly. As a first step towards addressing the problem, the organization tested voice-recognition software that allowed staff to dictate their notes, which were then automatically transcribed. Not only did this cut documentation time in half, but staff members also began to find the task much less onerous. In fact, the organization's leaders believe that adopting this technology has been a major contributor to improved staff retention, increasing quality while reducing hiring and training costs.

Progress towards becoming a more effective organization means progress towards increasing your impact. Whatever your organization's strengths and weaknesses, a purposeful and holistic effort to improve effectiveness will be worthwhile—not only for your employees and volunteers but also for your ultimate beneficiaries.