

# Introduction to Nonprofits

# Types of Nonprofits

(Nolo Press: How to Form a Nonprofit Corporation in CA)

- Public Benefit: 501c(3)
  - Educational
  - Literary
  - Scientific
  - Charitable
- Member Benefit: 501c(nn)
- Religious: 501c(3)

# The Nonprofit Sector

(Aspen Institute Nonprofit Sector Research Fund)

- 7% of the US workforce
  - 71% female
- Volunteers add another 3.5%
  - 49% of adults volunteer
  - 157 hours/year/volunteer
- Revenue growth = 200% of FPs
- Startup rate = 150% of FPs

# Nonprofit Revenues

(John Hopkins Comparative Sector Project)

- 56% Fee for services
  - Hospital and school effect
- 31% Government grants
  - Typically outsourcing contracts
  - Priorities shift with politicians
- 13% Philanthropy

# Philanthropy

(American Association of Fundraising Counsel)

- 84% Individual giving
  - 70% of US households donate
  - 3.7% of income
  - Typically unrestricted & stable
- 11% Foundations
  - Fund new programs for a few years
- 5% Corporations
  - Event sponsors, etc.

# Orange County Nonprofits

(1998 IRS Data Base of Nonprofits)

- 7000 Nonprofits in Orange County
  - 5000 NPs: revenues under \$25M/yr.
  - 1100 NPs: revenues \$25M-\$500M
  - 130 NPs: revenues \$500M-1,000M
  - 160 NPs: revenues \$1,000-\$5,000M
  - 80 NPs: revenues over \$5,000M

# 501c(3) Benefits

- Profits Tax Exempt
- Donations Tax Deductible
- Eligible for Grants
- Limited Personal Liability for:
  - Officers & Directors
  - Employees & Members

# Nonprofit Ownership

- The community owns the nonprofit
  - Its assets and income
  - Not the entrepreneur
  - There are no shareholders
- The Nonprofit Board of Volunteers
  - Decides how to use the assets and income for the benefit the community

# Nonprofit Board Evolution

- Founder's Support Group
- Founder's Advisors
- Policy Board
- Governing Board
- Fundraising Board

# Nonprofit Structure

- Board of Directors (unpaid volunteers)
  - Recruits & elects the board & its officers
- Executive Director or CEO
  - Hired and managed by the Board
  - Attends board meeting, does not vote
- Functional Directors report to ED
  - Development, Volunteers, CFO, COO
- Program Managers and their staff

# For-profit Business Model

- Customer is primary revenue source
  - Deliver more value to customers by improving products and services and lowering costs
  - Leads to superior sales and profit growth
  - Everyone wins: customer, employees, owner
- For-profit culture
  - Competitive: with other for-profits in niche
  - Change Oriented: to stay competitive
  - Quantitative bottom-line oriented people
    - Income, Profits, Costs, Quality, Delivery Speed, etc.

# Nonprofit People

- Want to be of service to others
- Dedicated to their profession's best practices of how to serve others
- Caring, relationship oriented people
- A different orientation than the competitive, bottom line oriented people in for-profit businesses.

# Output Measures

- For-profits transform materials and information:
  - Easy to measure at every step of the process.
  - Focus on supplying affordable products and services that people want (not what they need).
- Nonprofits try to transform humanity
  - May be what clients need, but do not want
  - Can be very difficult to measure at each step of the nonprofit's process.

# Nonprofit Management

- Most nonprofit employees are not managed according to their bottom line performance because there are no bottom line measures.
- They are valued by their adherence to generally accepted “best practices” and the quality of their relationships with their clients and the professionals with whom they work.
- A culture of relationships and best practices!

# Nonprofit Customer

- The people that most nonprofits serve:
  - Are not their major source of revenue, and
  - Are not their key to survival (unlike for-profit businesses)
- Funders are a major source of nonprofit revenue
  - They are the “major customers” of most nonprofits
- Major funders tend to fund on the basis of:
  - Their agenda for changing the community
  - Community needs assessments (not market research)
  - Government strategies and community values
  - A nonprofit’s credibility in being able to impact the human condition that the funder wants to change
- More complex than simply serving customer wants

# NP Community Norms

- Unlike for-profits, nonprofits collaborate rather than compete with each other.
  - It is an expectation of most major funders
  - New nonprofits must compliment the existing services, and fit into the existing system, rather than competing with any part of it.
  - A nonprofit's reputation, credibility and fundability is effected by who it collaborates with and what other nonprofits say about it.

# Nonprofit Culture

- Driven by government strategies, community values, need assessments and major funders, not customer wants.
- Good relationships and collaboration to “fit in” is expected; competitors are not welcomed.
- Follows generally accepted “best practices” that evolve very slowly.
- It is rare to find a credible performance measure that can validate an employee’s performance or their experiments with new approaches.

# Tips for Volunteers

- Show that you are a caring person.
- Build relationships with colleagues.
- Show respect for the “best practices” that your colleagues are following.
- Collaborate with colleagues to develop your best practices for helping the children and the nonprofit.