

Keys to Nonprofit Efficiency

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Why is it important?

The concept behind 501 (c) 3 tax-exempt status is one of public trust - nonprofits achieve a social aim in exchange for exemption from corporate income tax. With public trust comes public funding. But public funding is not just the funds nonprofits receive directly from public sources. All federal taxpayers make up the funds nonprofits would pay if their income were taxed in order to run government services at a certain level. Accordingly, nonprofits have a duty to make efficient use of all their financial resources regardless of their funding base. They must also guarantee that services actually achieve the stated social aim – thus the importance of outcomes measurement. Though organizations can operate inefficiently and still achieve good client outcomes - if they can serve more by increasing efficiency, they should. This newsletter issue sets forth a comprehensive approach to establishing and maintaining nonprofit efficiency over time.

Nonprofit challenge

There are two related but separate factors leading nonprofits to operate inefficiently. One is the fact that nonprofit leaders generally advance through experience with and commitment to the altruistic mission - not necessarily because of business management acumen. The other is that prolonged lack of resources and over-lean staffing breeds lack of forward thinking – focus on today's crises. To create better operations, you really have to stop and think comprehensively about where you are going and how your organization operates.

Expense management

A common understanding of improved efficiency calls for sound expense management leading to improved productivity. This approach is quantitative – can we serve more clients/make more widgets without increasing operating expense?

Strategic efficiency management

In my view, expense management is one small part of improving efficiency. The goal is serving more clients better with the same or fewer funds but the means to achieving full and lasting efficiency are more complex.

The word *strategic* comes from *Strategos*, the name of a military commander from ancient Greece. Apparently this fellow figured ways to control all possible variables through advance planning and was very successful in battle. Thinking about nonprofit business operations with a strategic view leads me to consider all the possible factors that contribute to better operation. Over the last several years and in a variety of settings, I have tested this approach to efficiency improvement with a fair degree of success.

Ten keys to achieving efficient operations

The ten essential components to achieving true efficiency come from a variety of disciplines: human resource management, organizational development, financial management and more. Strategic and lasting efficiency requires a combination of all of the following:

1. Universal understanding of organizational purpose;
2. Efficient use of financial resources;
3. Optimal use of technology;
4. Organization structure and job design that promotes clarity of individual and team responsibility;
5. An organizational culture that encourages professionalism, cooperation, and positive client results;
6. A decision making process where it is clear who can make which decisions and that rewards swift, sound decisions;
7. Clarity of operational goals so that employees understand which are the top working priorities;
8. Qualified staff at all levels;
9. Staff who are held accountable for their performance; including supervisory staff who are accountable for their staff evaluations; and
10. Staff who have the concrete tools needed to do their work.

Confused and poor-performing staff waste significant management time and resources and in the end, can sabotage quality results. Coincidentally, environments that encourage strategic efficiency also promote employee satisfaction (BCS Newsletter -July 2002).