The Effective Organization: Five Questions to Translate Leadership into Strong Management

By Kirk Kramer and Daniel Stid

Too many people are involved in every decision.
Staff complain about unclear and changing priorities.
No bench strength exists in the leadership ranks to take on new tasks.
Staff are duplicating work and reinventing existing processes.

Organizational inefficiencies like these are all too familiar to nonprofit leaders. And they come with a high cost: lower potential for making progress toward the important societal challenges and opportunities nonprofits seek to address.

Simply put, effective organizations deliver results. This connection has been well-documented in the for-profit sector, with highly effective organizations demonstrating superior market performance to their less effective peers. We have observed the same connection between effectiveness and performance time and time again in our work with over 200 nonprofit organizations. Given the link, it is critically important for nonprofit leaders to assess their organizations' effectiveness and become more purposeful about improving it.

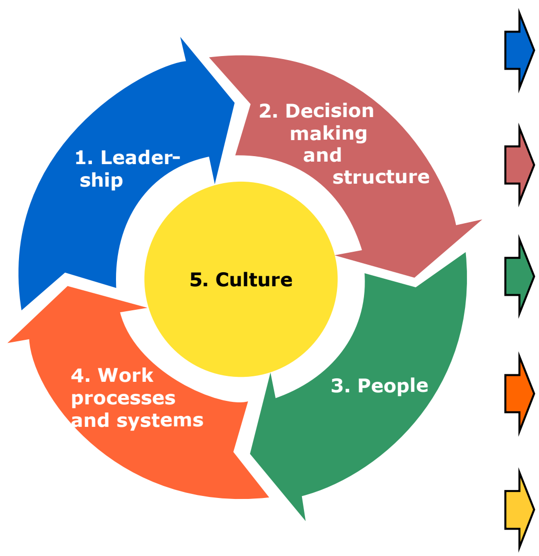
How can nonprofit organizations become more effective? In our experience, and in line with organizational research from Bain & Company, Inc., to be fully effective an organization must demonstrate strength in each of the following areas: leadership, decision making and structure, people, work processes and systems, and culture.[1] As Exhibit 1 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.

---

[1] Bain & Company, Inc. research originally documented these five areas as being the keys to organizational effectiveness. Bain's latest thinking on this topic is captured in the upcoming book by Paul Rogers, Marcia Blenko, and Michael Mankins, due to be published in September 2010 by Harvard Business Press.

Our diagnostic surveys of 42 nonprofits suggest that there is significant room for nonprofits to improve their organizational effectiveness across all five categories.[2] While many nonprofits owe their initial success to visionary leadership, only systematic development of each of these five areas will lead to the managerial strength required to sustain growth and outcomes. Organizations need to establish and communicate clear priorities, make roles and responsibilities explicit, create clear connections across organizational silos, and develop the talented people they attract, or they will fall short of their full potential for impact.

Exhibit 1: Effective organizations demonstrate strength in five key areas



- Clear vision and priorities
- Cohesive leadership team
- Clear roles and accountabilities for decisions
- Organization structure that supports objectives
- Organization and individual talent necessary for success
- Performance measures and incentives aligned to objectives
- Superior execution of programmatic work processes
- Effective and efficient support processes and systems
- 'High performance' values and behaviors
- Capacity to change

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

In this article, we present our survey results in more detail and offer concrete managerial advice for strengthening the five core organizational elements in pursuit of becoming a more effective organization.

The Link between Organizational Effectiveness and Results

The lack of a common measurement of performance in the nonprofit sector makes it difficult to prove the link between organizational effectiveness and results quantitatively. In the for-profit world, however, barometers such as profitability and shareholder value make this assessment possible. Consider the research of Bain & Company, the for-profit strategy consulting firm.

---

[2] Bridgespan's organizational diagnostic survey is an adaptation of the survey Bain developed to assess the organizational effectiveness of for-profit companies.

In 2003, Bain surveyed more than 500 companies about their organizational effectiveness and also measured the market performance of those companies. Eighty percent of the respondents from the "strongest financial performers" rated their companies "highly effective," while only 14 percent of the total pool of respondents did so.[3] Bain also developed an in-depth diagnostic survey to assess the companies' performance in five areas: leadership, decision making and structure, people, work processes and systems, and culture. The bulk of respondents from the smaller, high-performing group gave their companies much better marks *across the board* than did their more average-performing peers.

The lessons emerging from Bain's research are clear: effective organizations deliver results, and strength across all five elements is required. Our experience working with nonprofit organizations has borne this out repeatedly.

Room for Improvement

The link between organizational effectiveness and results puts a premium on understanding how nonprofits function organizationally. To inform this perspective, we adapted Bain's organizational diagnostic survey, asking similar questions designed to assess nonprofit organizations' strength in each of the five categories that distinguish high-performing companies. As of this writing, we have administered our diagnostic to more than 40 nonprofits with annual budgets ranging in size from less than $5 million to about $200 million.

Our analysis indicates that while nonprofits have some tremendous organizational assets, weaknesses in other areas hold them back from achieving their full potential for impact. (See Exhibit 2, which shows how survey respondents' scores on various dimensions compare to the overall average across all dimensions.) In short, significant room exists for improvement. Responses to the diagnostic survey painted the following picture:

> **Leadership**: 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.

---

[3] Bain classified companies by their effectiveness level based on self-reported answers to the question: "All things considered, we have a highly effective organization." "Highly effective" companies were those with a score of 3.25 or greater on a 1-4 scale. Bain categorized the companies by their financial success based on total shareholder return relative to a peer index.

Decision making and structure: The ability of people to coordinate and work well together across organizational boundaries is an area where nonprofits tend to run into difficulties. Decision-making roles and processes also appear to be a significant weakness.

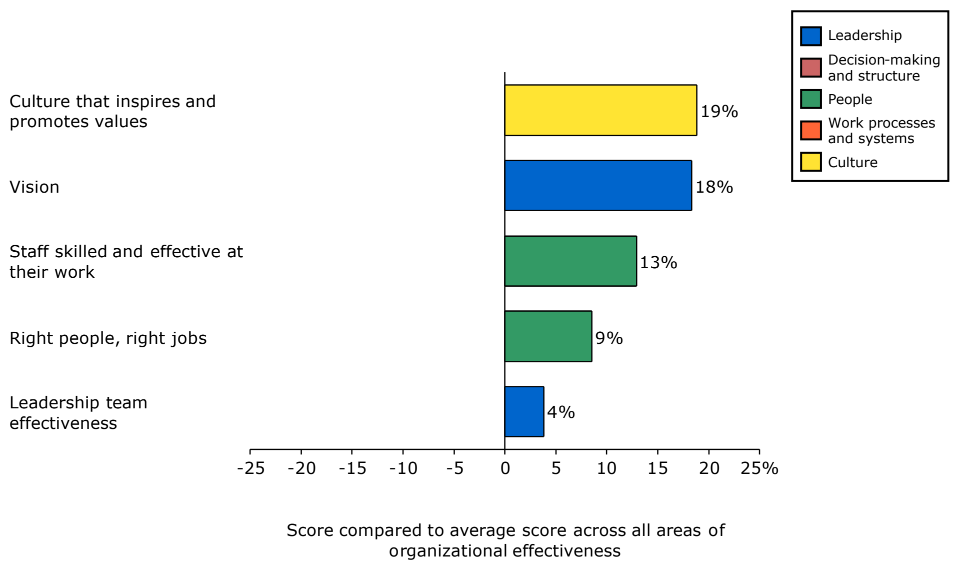
People: Nonprofits appear to attract good talent and do well placing the right people in the right jobs. However, these employees do not feel that their work is well aligned to the priorities of the organization. What's more, organizations on average have some difficulty evaluating, developing, and rewarding staff consistent with the organizations' 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 emerged as the biggest weakness overall.

Work processes and systems: 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 and resources are scarce. While this last point did not emerge strongly in the survey data, in our work with nonprofit organizations working conditions crop up repeatedly as a major impediment.

Culture: Culture is a clear strength. Interestingly, however, ability to execute change is a weakness. This finding may also correlate to the relatively low leadership 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.

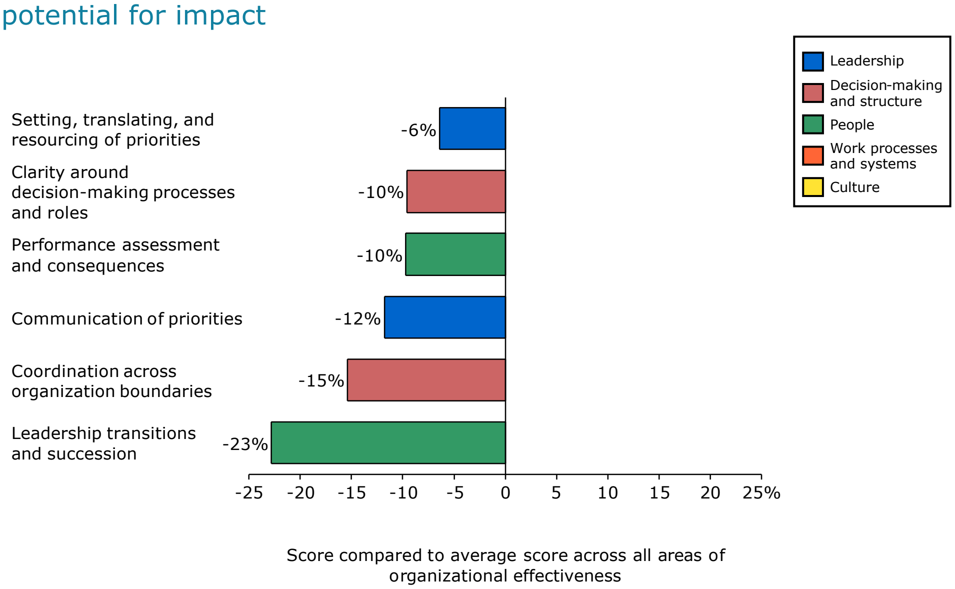
These findings are consistent with our experience working with and observing many nonprofits: namely, for the most part, they are strongly led but under-managed. Many nonprofits have inspirational and visionary leaders who attract hard-working people with great passion for the cause at hand. However, 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.

Exhibit 2: While nonprofits start out with some tremendous assets...



Source: Bridgespan organizational diagnostic database, N=42

...weaknesses in other areas hold them back from achieving their full potential for impact



Source: Bridgespan organizational diagnostic database, N=42

Becoming More Effective

The key to becoming more effective, then, is to invest in management capabilities—in short, to move to a place where the nonprofit is not only strongly led, but also strongly managed. As noted, our research suggests that nonprofits need to take a holistic approach towards improving effectiveness, shoring up management capabilities across the board. A good place to start is with the areas our research has shown to be most prone to weakness. The following five sets of questions can help an organization's leadership team assess those areas and set a purposeful course towards improvement. Given that many of the issues illuminated by our survey data link to unclear or poorly communicated strategic priorities, we recommend beginning with that challenge.

> 1. *Are we clear on the **strategic priorities** that will enable our organization to achieve our desired impact over the next several years? Have we communicated our strategy clearly enough that everyone within the organization understands where we are going, why, and how we will get there?*

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.

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 dropouts 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? Unless the leadership team has established and communicated what matters most it can be difficult to chart a course 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.

2. *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?*

With clearly communicated priorities come more consistent decisions, given that decision makers throughout the organization are guiding their choices with the same compass. That said, ample room often remains for refinement of the decision-making process itself. A well-defined decision-making process leads to more efficient, responsive, and transparent decisions, with less role confusion and therefore less conflict.

Establishing and implementing a strong decision-making process is a complex endeavor—one that is hard to do well. So it may be valuable 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 preconceived 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 RAPID® to clarify decision making between the national headquarters and site-based program leaders.[4] 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 services, though, that approach no longer worked well.

With input from managers throughout the organization, an internal project team worked with national office management to draft a matrix that classified the types of decisions Boys Town site-based 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.

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

[4] RAPID® is a registered trademark of Bain & Company, Inc. The article titled "RAPID Decision-making: What it is, why we like it, and how to get the most out of it," available at www.bridgespan.org, provides more detail about this tool.

Identifying the work that's critical to achieving the organization's priorities, who does that work, and how it delivers the desired outcomes helps reveal which people need to work together and, ultimately, 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).

To help people work together more effectively across departments or groups, start by identifying critical areas where such work takes place. Then narrow that list to the areas that link back to the organization's top priorities. Armed with this information, creating explicit linking mechanisms becomes a more manageable endeavor. 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.

> 4. *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 change, be it regrouping after layoffs or embarking on a growth trajectory. These are the times when management team members tend to take on new responsibilities, sometimes overextending themselves and under-resourcing critically important areas.

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 also should lead to action, influencing skill development plans, future job assignments, promotions, and rewards.

Consider an example from another nonprofit that offers mentoring services. Leaders had told staff members that the organization's priorities included increasing the number of mentoring matches each staff member set up, maintaining the quality of the matches, and balancing 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 redesigned 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.

5. *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 when an organization is struggling to increase impact on a tight budget or embarking on an expansion plan.

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 (both high performing), the organization received a large grant to replicate its efforts across the country. KIPP's small leadership team recognized that in order to grow successfully, they would need to articulate the work processes—both programmatic and administrative—that had made the model so effective in the first place. These processes included, for example, how to build a strong local board, budget for a new school, and hire the right teachers. To codify these processes, the organization's leaders documented 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 educating the students.

In addition to getting the processes right, deploying tools and technology can also 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 completing essential documentation after each case interaction was a major source of stress for staff members. The process was labor intensive and time sensitive. 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 the software 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, above all, for those your organization seeks to serve.

(Kirk Kramer is a partner at the Bridgespan Group and leads the firm's work on organizational effectiveness. Bridgespan partner Daniel Stid has written on the topic of leadership and management in nonprofit organizations.)