

# Most Nonprofits Aren't Ready for the Coming Impact Era

By William F. Meehan III and Kim Starkey Jonker

For nonprofit organizations, the current moment should be the best of times—a time when they can tap into new sources of funding and when conditions are ripe to leverage that funding to maximum effect.

In our book, *Engine of Impact: Essentials of Strategic Leadership in the Nonprofit Sector*, we posit that the nonprofit sector is now entering a new stage in its august history—a stage that we call the Impact Era. “Never before has the potential of civil society organizations to create impact been greater,” we write.

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*ENGINE OF IMPACT*

For one thing, the largest intergenerational transfer of wealth in American history is now under way: between 2007 and 2061, according to one scenario in a recent study, \$59 trillion will flow from US households to other entities. We have every reason to believe that much of that sum will be available for philanthropic investment.

For another thing, organizations stand ready to benefit from an impressive body of thought and practice that has accumulated in the nonprofit sector over the past few decades. From the 1990s through the 2010s—a period that we call the Information Era—the sector witnessed notable advances in the use of new technologies, in the practice of measuring results, and in the pursuit of fact-based decision making.

But how well prepared are nonprofit organizations to realize the promise of the Impact Era? We conducted a study—the [Stanford Survey on Leadership and Management in the Nonprofit Sector](#)—that yielded an unsettling answer to that question: only about 1 in 10 nonprofits have all of the foundational elements in place that they will need to maximize their impact in the coming years.

In the survey, more than 3,000 stakeholders from the nonprofit sector—including nonprofit executives and staff members, board members, and donors—responded to a series of questions that involve seven essential elements of strategic leadership: mission, strategy, impact evaluation, insight and courage, organization and talent, funding, and board governance. To perform at a truly high level, we argue in *Engine of Impact*, a nonprofit needs to be strong in all seven of these elements.

Yet, according to our analysis of responses from executives, staff members, and board members at nonprofit organizations, only 11 percent of those organizations are strong in all seven elements of strategic leadership. Indeed, this analysis revealed that more than 80 percent of nonprofit organizations struggle with at least one of the elements.

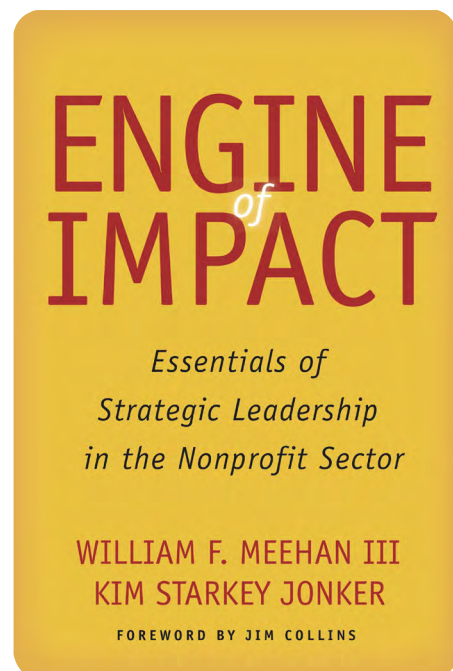
Survey results illuminate specific areas of performance that many organizations—and, in some areas, most organizations—have failed to master. Areas most in need of improvement include board governance, funding, impact evaluation, and strategy.

**Board Governance.** A nonprofit cannot thrive for long without strong board governance. Yet governance is one of the most challenging areas for nonprofits to get right. Analysis of survey responses from nonprofit executives, staff members, and board members revealed that 56 percent of organizations struggle in this area.

Our survey also found that nonprofit board members often falter when it comes to fulfilling particular aspects of their role. Take succession planning. One of the most important roles of any nonprofit board is to ensure that an organization conducts succession planning for its executive director. In the survey, 53 percent of nonprofit executives and staff members disagreed (in varying degrees) with the statement “My organization conducts thorough and proactive succession planning for the executive director and top executives.” Thirty-one percent of that group disagreed (to varying degrees) with the statement “The founder/executive director of my organization has a realistic sense of when and how succession should occur.”

**Funding.** The lifeblood of any nonprofit is its funding. Yet analysis of survey responses found that 52 percent of organizations struggle in this area. In particular, many nonprofits exhibit a limited ability to generate major gifts from individuals or to leverage the fundraising potential of their boards.

Only half (50 percent) of all respondents in our survey said that their “organization’s current efforts to obtain donations from individuals are very effective.” And only 40 percent of nonprofit executives and staff members agreed (to varying degrees) with the statement “My organization’s current efforts to raise major gifts from individuals (according to my organization’s definition of ‘major gifts’) are very effective.”



A cardinal principle of fundraising is to start with your board. Yet many nonprofit organizations do not take full advantage of their board's fundraising capacity. In our survey, only 49 percent of nonprofit executives and staff members indicated that giving by board members to their organization is "very strong," and only 42 percent indicated that that their board "plays a very strong role in fundraising activities."

**Impact Evaluation.** According to our analysis of survey responses, 50 percent of nonprofit organizations struggle with impact evaluation. Many nonprofits, moreover, do not consistently follow best practices in this area. While more than three-quarters (80 percent) of survey respondents said that their organization measures "its impact and performance," only half (52 percent) of this group said that their organization does so "using external evaluations (e.g., by a third-party evaluator)." And an even smaller number (40 percent) said that their organization conducts external evaluations "regularly."

Before rigorous and reliable impact evaluation can become the norm in the nonprofit sector, funders must encourage and pay for that work. But many funders lack the willingness to provide that kind of guidance and support. Only 42 percent of nonprofit executives and staff members said that more than half of their donors require impact evaluations, and only 11 percent of this group said that more than half of their donors are willing to pay for such efforts.

### **Take the *Engine of Impact Diagnostic***

To help nonprofit leaders and other stakeholders identify areas of performance in which their organizations are falling short, we created the *Engine of Impact Diagnostic*. It's an online assessment tool that aligns with the question set and methodology of our survey. We encourage you to take the diagnostic to identify your organization's strengths and weaknesses, and to see how your organization stacks up against others. Your organization's diagnostic results can provide the basis for rich conversations—especially about areas of disagreement among stakeholders—and for actionable plans to improve future performance.

[Take the diagnostic >>](#)

**Strategy.** We define strategy as a planned set of actions that enables an organization to achieve its mission. Our analysis of survey responses revealed that 38 percent of organizations struggle with strategy. Nonprofits, in our view, have much to gain from applying the principles of business strategy to their work.

In *Engine of Impact*, for example, we note that countless studies of private sector firms show that "a strategy of focus beats diversification." High-performing companies, in other words, focus on a single business or a set of closely related businesses. We argue that focus is equally crucial in the nonprofit sector. Yet many nonprofit organizations follow a strategy of diversification. In our survey, we asked nonprofit executives and staff members, "Would you characterize your organization's program activities as focused or diversified?"

More than one-third (37 percent) of these respondents indicated that their organization is diversified to some degree. Notably, a large share of respondents in this group indicated that they do not view diversification as a problem. When asked, “How focused or diversified do you think your organization’s program activities should be?” 24 percent of this group said that those activities should be diversified to some degree.

Though nonprofits today face many challenges, we believe that the outlook for the nonprofit sector is promising. Our optimism stems from a simple insight: by working intentionally and proactively to master the essentials of strategic leadership, organizations can seize the tremendous opportunity presented by the Impact Era.



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