Success Factors for Nonprofit Organizations

A New Approach to the Development of Thriving Mission-Driven Enterprises
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Supplemental Resources

Gauging Nonprofit Success: Past Research, Present Gaps, Future Needs
Exploratory Analysis of Nonprofit Success Factors
Technical Appendix
Program Guide

These documents are available at pimgconsulting.com.

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How do we know what works?

The nonprofit management field has many common conventions. We have little data, however, on which practices contribute to success. As nonprofits’ work continues to grow in scope, the sector needs solid information to inform management practices and organizational development.

Public Interest Management Group developed Success Factor Analysis to help bridge this gap.

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Executive Summary

Nonprofit organizations have huge civic responsibilities and deceptively complex operations. They also face a barrage of information on how to tackle various aspects of their work. The field of nonprofit management has many common conventions, but very little hard data on which practices really work. As a result, nonprofit managers and leaders are often forced to depend on intuition, conjecture, and trial and error in making decisions about how to run their enterprises.

These choices profoundly impact an array of services affecting public life. To meet the challenges we face, nonprofit leaders, managers, funders, and consultants need an objective basis for understanding (1) the practices and attributes associated with organizational success, and (2) the actions individual nonprofits should take to increase their effectiveness and improve their organizational health.

Public Interest Management Group has developed a new approach to fostering healthy and highly effective nonprofit organizations. Success Factor Analysis is a data-based organizational assessment methodology with a dual purpose. It is a system for identifying strengths, weaknesses, and improvement strategies for individual organizations. On a broader level, it is a platform for conducting applied research to identify successful practices based on tangible evidence.

This paper is an introduction to Success Factor Analysis, including a new integral metric, the Organizational Success Index, which is a standardized scale for organizational health. We outline the core components of the methodology and illustrate the assessment process and its expected benefits for individual agencies, nonprofit networks, philanthropic investors and policy-makers. Several companion pieces offer more detail and context on this system, including an exploratory study demonstrating its potential to support applied research.

As a next step in the evolution of Success Factor Analysis, we aim to test and refine the organizational assessment methodology through a pilot project involving a diverse group of organizations. We invite individual nonprofits, organizational networks, and philanthropic investors to partner in the development of this system through its early evolution and to support a continuing trend toward a data-driven decision making culture within the nonprofit sector.
Is Nonprofit Management Art or Science?

A day in the life of nonprofit management is a juggling act. Service delivery, staffing, funding, coordination of a volunteer governance structure, and the full range of administrative tasks all require attention, and all within stiff resource constraints. How should organizations allocate scarce time and money to these many functions? Which practices will lead to desired results? More broadly, what characteristics make a mission-driven organization successful?

These big questions inspired Public Interest Management Group’s Success Factor Analysis, a methodology for charting nonprofits’ performance relative to peers, crafting effective improvement strategies, and understanding the impact of various organizational practices.

There’s a lot at stake in navigating this complexity. Nonprofits’ roles and responsibilities have grown steadily over the past five decades. The sector now generates over $800 billion in annual revenues, a figure that represents 5.5% of the U.S. gross domestic product, yet scarcely captures nonprofits’ societal impact.\(^1\) A galaxy of organizations contribute to this work, which spans community organizing, advocacy, social service delivery, health care, environmental protection, education, housing, the arts, and beyond. But despite this growth and diversity, studies regularly show that nonprofits, as a group, lack consistent underpinnings for their operations.\(^2\)

What’s behind this gap? One reason may be that nonprofit managers and leaders face a bewildering and sometimes contradictory array of theories, conjecture, tools, innovations, and conventional wisdom on how to operate. These approaches could be helpful, neutral, or inadvertently harmful—practitioners have little basis to judge. Research has been limited, and data is scarce.\(^3\) Some organizations shape their own methods from scratch. Some develop and learn by trial and error. Others draw on established norms in their fields. Many employ a hybrid of these paths. But the bottom line is clear: the nonprofit sector lacks standard, evidence-based models for many management practices.

Success Factor Analysis is a response to this need. It is an organizational assessment system that involves in-depth examination of a wide range of organizational attributes and practices, and bases findings on data generated from the nonprofit field. It includes a standardized scale, the Organizational Success Index, which will enable nonprofits and their supporters to gauge their relative health. This system will also help the sector understand which management features contribute to success and, importantly, which do not.

Our ultimate goal is to use firm evidence to shed light on tangible actions to build sustainable, high-impact organizations. Management is widely viewed as a fusion of art and science. Many nonprofit practitioners are skilled artists. We aim to support their work by giving science a sturdier seat at the nonprofit management table.

The design of Success Factor Analysis, detailed in the next section, is informed by decades of field experience and perspectives that include organizational development, finance, program evaluation, academic research, and social entrepreneurship. We anticipate that the system will evolve as it is tested and refined, through a process of ongoing learning and improvement.
Success Factor Analysis: A New Approach to Organizational Assessment

Success Factor Analysis is two things: First, it is a framework for evaluating a nonprofit organization’s practices, attributes, and overall health relative to peers. Second, it’s a platform for conducting applied research on the sources of organizational success.

We developed this approach to deliver several key benefits:

For nonprofit organizations, the assessment process critically examines inner-workings, and establishes a standardized scale for comparison to peer agencies. Results will help leaders determine organizational improvement strategies, including specific changes and upgrades likely to reap the greatest benefits. This, in turn, can support the case for funding. The process also offers a clear, objective basis to monitor progress over time.

For nonprofit networks, this method can foster understanding of the practices associated with member success. It can inform network-wide performance improvement strategies, as well as address particular member organization challenges and opportunities.

For philanthropic investors and policy-makers, Success Factor Analysis can build a dynamic data set that will inform both optimal investment in individual nonprofits, and paths toward collective impact. This system also offers a set of useful metrics, including a scale for measuring organizational health and development.

The Success Factor Analysis system is made up of four components:

- Defined organizational success factors
- An organizational success indicator
- An evaluation scoring process
- Statistical analysis.

Success Factors

The first core component of Success Factor Analysis is a set of organizational attributes and practices, or factors. Together, these factors paint a comprehensive portrait of a nonprofit, and the full set serves as the structure of each organizational assessment:

- **Strategy**: Any systematic approach to charting an organization’s future business activity
- **Culture**: The shared assumptions, beliefs, values, expectations, rules, and predominant practices collectively held by members of an organization
- **Operations**: Organizational apparatus engaged in administration and service delivery
- **People**: Policies and practices around the engagement of staff and volunteers
- **Business Model**: The economic logic of an organization.

We have defined 32 factors across the five categories, as follows:
# TABLE 1
## ORGANIZATION SUCCESS FACTORS BY CATEGORY

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategy</strong></td>
<td></td>
</tr>
<tr>
<td>Clarity of theory of change/proof of concept</td>
<td>Articulation of theory, depth of evidence for efficacy, and integration with programmatic strategy</td>
</tr>
<tr>
<td>Definition of impact/results goals</td>
<td>Specification of mission-related results targets relative to norms in agency’s field of service</td>
</tr>
<tr>
<td>Engagement of external stakeholders</td>
<td>Degree and range of stakeholder engagement included as core components of organizational strategy</td>
</tr>
<tr>
<td>Investment in revenue-generation</td>
<td>Planned investment in revenue-generation infrastructure and/or personnel as a percentage of operating budget</td>
</tr>
<tr>
<td>Formal strategic plan</td>
<td>Agency has (or has not) adopted a board-approved multi-year strategic plan</td>
</tr>
<tr>
<td>Emphasis on new revenue sources</td>
<td>Degree of planned reliance on one or more new revenue sources within five years</td>
</tr>
<tr>
<td><strong>Culture</strong></td>
<td></td>
</tr>
<tr>
<td>Cohesiveness of overarching philosophy</td>
<td>Clarity of philosophy to managers, staff and volunteers, and its role as a source of group focus and motivation</td>
</tr>
<tr>
<td>Business focus overlaying program development, management and operations</td>
<td>Cultural integration of established business sector practices (financial checks and balances, budgeting, HR standards, etc.)</td>
</tr>
<tr>
<td>Predominance of mission-rooted values in management</td>
<td>Degree to which core values are incorporated into criteria for business decisions and internal processes</td>
</tr>
<tr>
<td>Inclusiveness of decision-making</td>
<td>Extent of inclusion of groups (staffing levels, board, stakeholders) in strategic decision-making processes</td>
</tr>
<tr>
<td>Change tolerance</td>
<td>Demonstrated response of leaders and staff to significant internal and external change events</td>
</tr>
<tr>
<td><strong>Operations</strong></td>
<td></td>
</tr>
<tr>
<td>Data orientation in operations and decision-making</td>
<td>Degree to which data is used in program and relationship management, administration and decision-making</td>
</tr>
<tr>
<td>Efficiency of operations</td>
<td>Process- and cost-efficiency of service delivery relative to norms in agency’s field of work</td>
</tr>
<tr>
<td>Quality control systems</td>
<td>Service quality performance and, where applicable, system evaluation relative to standards in agency’s field</td>
</tr>
<tr>
<td>Client-centricity of service delivery</td>
<td>Degree of client focus and input into service design</td>
</tr>
<tr>
<td>Training investment level</td>
<td>Percentage of annual operating budget dedicated to staff training</td>
</tr>
<tr>
<td>Involvement in advocacy/systemic change activities</td>
<td>Engagement in advocacy activities, demonstrated through strategic goals and annual budget commitment</td>
</tr>
</tbody>
</table>
### TABLE 1 (Continued)

**ORGANIZATION SUCCESS FACTORS BY CATEGORY**

<table>
<thead>
<tr>
<th>People</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Attribute-skill recruitment balance</strong></td>
<td>Recruitment effectiveness, demonstrated by aggregate performance assessment results across job classes</td>
</tr>
<tr>
<td><strong>Job definition clarity across positions</strong></td>
<td>Consistency of perceived roles and expectations throughout the staff</td>
</tr>
<tr>
<td><strong>Staff support systems</strong></td>
<td>Consistency of perceived support, demonstrated by a range of supervisory actions, across positions</td>
</tr>
<tr>
<td><strong>Performance accountability clarity</strong></td>
<td>Consistency of understood accountability standards and application of standards across positions</td>
</tr>
<tr>
<td><strong>Staff retention</strong></td>
<td>Aggregate of retention rates for key positions, adoption of succession planning, and management of turnover</td>
</tr>
<tr>
<td><strong>CEO as distinguished external brand</strong></td>
<td>Degree of external focus and recognition of CEO’s distinct identity in association with the agency</td>
</tr>
<tr>
<td><strong>Board contribution to leadership</strong></td>
<td>Degree of board involvement in strategic and management decision-making, relative to staff roles</td>
</tr>
<tr>
<td><strong>Volunteer engagement (non-board)</strong></td>
<td>Degree of non-board volunteer involvement in integral roles, demonstrated by in-kind value</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Business Model</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Diversity of revenue sources</strong></td>
<td>Number and spread of major revenue sources as proportions of the operating budget</td>
</tr>
<tr>
<td><strong>Intentionality of subsidies and profit centers</strong></td>
<td>Level of financial analysis and proactive use of data in service mix decisions</td>
</tr>
<tr>
<td><strong>Issue urgency/priority</strong></td>
<td>Relative prominence of agency’s key issue in national and local media</td>
</tr>
<tr>
<td><strong>Earned income contribution to revenue mix</strong></td>
<td>Percentage of annual operating revenues from recipient or third-party fees for service delivery</td>
</tr>
<tr>
<td><strong>Major individual donor contribution to revenue mix</strong></td>
<td>Percentage of annual operating revenues from individual charitable contributions of $1,000 or greater</td>
</tr>
<tr>
<td><strong>Event-based fund raising contribution to revenue mix</strong></td>
<td>Percentage of annual operating revenues from gross special event receipts</td>
</tr>
<tr>
<td><strong>Board engagement in revenue development</strong></td>
<td>Degree of direct board involvement in revenue generation, demonstrated by percentage of total revenue</td>
</tr>
</tbody>
</table>

This set of factors reflects the complexity of mission-driven organizations. These elements may contribute to organizational success in varying degrees, and the assessment process will reveal patterns and distinctions. Additional specialized factors may be defined for particular subsectors (i.e., specialized nonprofit fields of service) and incorporated in the assessment process. We anticipate that the set of core factors will evolve over time as we refine the system and receive input from users and partners.
Organizational Success Index

In order to determine associations between individual factors and organizational success, we need a clear definition of “success.”

A successful nonprofit performs its mission-related work effectively; this is to say, it is achieving positive outcomes through its efforts. It is also operationally stable and well positioned for longevity. Stability and longevity serve the organization’s goals, but also help ensure that a community institution will be available to meet future needs. Similarly, given the scale and gravity of the issues nonprofits address, an organization’s ability to grow its services (and thereby its impact) is another element of success. These characteristics reflect the dual purpose of mission-driven enterprises: they are individual entities with their own business goals and interests, as well as public assets with broader social value.

We thus developed a new metric, the Organizational Success Index (OSI), based on these underlying principles and consideration of academic studies on organizational effectiveness. The OSI serves as a standardized score indicating relative level of achievement of objectives central to a nonprofit’s purpose and wellbeing.

The OSI is a weighted indicator that incorporates three constituent parts:

- **Results and Impact**: Fifty percent of the OSI’s weight is based on an organization’s mission-related results relative to other nonprofits within its subsector, and its relative influence on its subsector’s development and effectiveness.
- **Growth**: Twenty percent of the OSI’s weight is based on the organization’s programmatic growth over a five-year period.
- **Financial Health**: The remaining thirty percent of the OSI’s weight is its financial health, a combination of operating performance and cash position strength over a four-year period.

The OSI measures the success of nonprofits as organizations, and is distinct from other metrics that may gauge outcomes such as efficiency, program effectiveness or “social impact.” The OSI’s makeup reflects an underlying premise: an ecosystem of strong organizations is a necessary precondition for collective action to meet social needs.

Evaluation Scoring System

The third core component of the Success Factor Analysis system is a process of rating an organization’s current status on each success factor. It is a reality check based on hard data.

Many organizational assessment methods fall into one of two categories: self-assessments, which may be automated; and consultant-driven evaluations, which tend to be more individualized. Each has potential strengths and drawbacks. Self-assessments are often streamlined and low-cost, but their results are (by definition) not standardized relative to other organizations, and the process does not offer external insights. Consultant-driven evaluations offer third-party analysis, but are generally not standardized and can be costly. Success Factor Analysis, by contrast, is a consultant-driven evaluation process that delivers standardized results and in-depth third party evaluation, through a streamlined, low-cost
Standardization ensures that nonprofits will understand where they stand relative to peer organizations, as well as their own status at different points in time.

After collecting relevant data, a trained evaluator rates the client organization on each factor using a five-point Likert-type scale. Each factor has its own set of defined gradations, which are based on commonly observed variations among nonprofits and are tied to specifically defined benchmarks. This allows quantification, meaningful interpretation and comparison by users, and a consistent basis for analyzing a wide range of characteristics. Determination of an organization’s factor ratings is based on several data sources:

- Organizational documents
- Surveys completed by leadership, staff, and stakeholders
- Interviews with key personnel.

Each assessment includes a 32-point data array specific to the organization.

Statistical Analysis

To state what is perhaps obvious, the real point of organizational assessment is to identify where nonprofits need to invest time and money to improve—that is, to become more successful. Here, statistical analysis delivers credible insight.

After completing the rating process, the next step is to understand the organization’s strengths and weaknesses in context. By pooling factor rating data from multiple organizational assessments and calculating mean values, the Success Factor Analysis system builds sample populations that serve as comparison profiles. Evaluators compare an agency’s ratings to this profile, and observe alignment and differences. Comparison profiles enable reviewers to establish patterns and trends in groups of nonprofits, and then see where the assessed agency is consistent (and inconsistent). Subject to sample sizes and composition, the system can slice the data in multiple ways and generate multiple comparison profiles—for example, we may want to view our ratings alongside profiles for nonprofits in the same subsector, budget range, and/or lifecycle stage, as well as the general nonprofit population.

These comparisons to real world data reveal important information about the organization’s relative strengths and weaknesses. But we also want to know more—specifically, what the organization’s leaders should do to enhance performance moving forward. Given that staff time and monetary resources are scarce, these choices are critical. It may be inefficient and unproductive, for example, to take action on every area of perceived weakness; some actions may yield minimal results or may produce improvements in areas that do not impact overall success. Instead, resource investments should be guided by solid information and chosen judiciously. By focusing on those factors that are statistically shown to have tangible associations with success in comparison groups, leadership will gain clearer direction on where to most productively direct resources to improve the organization.

It is therefore essential to understand how closely various factors are associated with success in larger populations. To identify levels of association between the 32 factors and
organizational success, we compute correlations between factor ratings and the OSI in pooled data sets. A large positive correlation indicates that a factor’s rating tends to be high for organizations with relatively high OSI values, and low for organizations with relatively low OSI values. This factor is strongly associated with success. Correlation values may also be moderate, insignificant, or negative; the latter indicates an inverse relationship with success, in which higher factor ratings are associated with lower OSI values. Correlation is one valuable statistical tool for identifying key associations, and can help support or refute inferences, better understand connections, and point us in useful directions for further analysis.  

The assessment report gives a nonprofit’s leaders a clear picture of where to focus attention. It presents an agency’s factor ratings alongside two types of data: (1) comparison profiles of relevant groups of nonprofits, and (2) the set of correlation values showing associations between each success factor and the OSI for pooled data sets. This process conveys both how the organization compares, and also which of the factors are apparently most critical to emphasize for improvement.

Walking through an example organizational assessment illustrates how this process works.

Case Example: Assessment of a Community Health Center

Neighborhood Health Clinic (the Clinic) is a fictitious agency derived from a composite of known organizations. We have compiled assessment data for the purpose of demonstrating how the process will work. For simplicity, we’ve excerpted a full assessment summary chart in Table 2, which covers a subset of rated factors. An assessment report would also include a narrative summary of key findings, including an overview of internal and external relationships, and any special circumstances not captured by rated factors. Imagine that we have completed the evaluation process and are now interpreting this data summary.

The Clinic serves a low-income urban neighborhood, where it has been located for 30 years. Its facility is adequate, though crowded and operating close to capacity. The organization has 35 employees, a $3.0 million annual budget, and has operated consistently near a break-even level over the past five years. The Clinic has a reputation for close ties with its community and friendly, if somewhat chaotic, service.

Reviewing Table 2, the first row of data should get our attention; this is the Clinic’s OSI value of 72. Note the next two columns, which indicate comparison means for two pooled data sets—health subsector nonprofits and all nonprofits in the database. Here we see that the Clinic is above average. The over/under differences between the Clinic’s OSI and the two comparison sample means are in the “Variation from the Mean” columns.
Below the OSI value are individual factor ratings. The factors excerpted in this chart have ratings that vary between 1 and 5, the full range of possible values. Under “Comparison Mean Values” are two sets of averages, one for the subsector and a second for all nonprofits. To the right of these columns are the numerical variations of the Clinic’s ratings from the comparison group averages. At a glance, this shows us how far above and/or below average the Clinic rates on each factor.

The two right-hand columns convey information about how closely each of the factors are associated with organizational success. Correlation values are between negative 1.0 and positive 1.0. Generally speaking, the confluence of (a) high positive factor correlations with OSI and (b) high Clinic ratings relative to comparison means identifies the factor as a “key strength” for the organization. Conversely, a combination of (a) high positive factor correlations with OSI and (b) low Clinic ratings relative to comparison means identifies the practice as a “priority need” for the Clinic, and so on. These distinctions will serve as a basis for defining an organizational improvement strategy.8

The Clinic’s rating values, alongside comparison profiles and factor-success correlations, reveal several key strengths, several priority needs, and a number of factors that fall in neither of those groups.

### TABLE 2
ORGANIZATIONAL ASSESSMENT SUMMARY DATA (Excerpted)
NEIGHBORHOOD HEALTH CLINIC

<table>
<thead>
<tr>
<th>Success Index/Factor</th>
<th>Value</th>
<th>Comparison Mean Values</th>
<th>Variation from Mean</th>
<th>Factor Correlation with OSI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Health Subsector</td>
<td>All Nonprofits</td>
<td>Health Subsector</td>
</tr>
<tr>
<td>OSI</td>
<td>72</td>
<td>69</td>
<td>65</td>
<td>3</td>
</tr>
<tr>
<td>Strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engagement of ext. stakeholders</td>
<td>4</td>
<td>3.1</td>
<td>3.4</td>
<td>0.9</td>
</tr>
<tr>
<td>Investment in revenue generation</td>
<td>3</td>
<td>3.2</td>
<td>3.0</td>
<td>-0.2</td>
</tr>
<tr>
<td>Culture</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business focus overlay</td>
<td>3</td>
<td>2.9</td>
<td>2.9</td>
<td>0.1</td>
</tr>
<tr>
<td>Inclusiveness of decision-making</td>
<td>3</td>
<td>2.6</td>
<td>2.8</td>
<td>0.4</td>
</tr>
<tr>
<td>Operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data orientation</td>
<td>5</td>
<td>2.8</td>
<td></td>
<td>5.0</td>
</tr>
<tr>
<td>Efficiency</td>
<td>2</td>
<td>3.1</td>
<td>2.2</td>
<td>-1.1</td>
</tr>
<tr>
<td>Training investment</td>
<td>3</td>
<td>2.9</td>
<td>3.1</td>
<td>0.1</td>
</tr>
<tr>
<td>People</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff retention</td>
<td>2</td>
<td>3.3</td>
<td>3.3</td>
<td>-1.3</td>
</tr>
<tr>
<td>Volunteer engagement</td>
<td>1</td>
<td>2.0</td>
<td>2.1</td>
<td>-1.0</td>
</tr>
<tr>
<td>Business Model</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue diversity</td>
<td>5</td>
<td>3.5</td>
<td>2.9</td>
<td>1.5</td>
</tr>
<tr>
<td>Intentionality of subsidies</td>
<td>3</td>
<td>2.9</td>
<td>2.7</td>
<td>0.1</td>
</tr>
<tr>
<td>Earned income contribution</td>
<td>4</td>
<td>4.4</td>
<td>3.5</td>
<td>-0.4</td>
</tr>
</tbody>
</table>
An example of a key strength is *Data orientation*, under Operations. The Clinic is rated at 5, the maximum value. This is substantially higher than the mean ratings in the Clinic’s subsector and the general nonprofit group. Further, *Data orientation* shows a large 0.7 correlation to OSI in both sample groups. Not only does the Clinic score well here, but this attribute is highly associated with success among similar organizations. The same is true of *Engagement of external stakeholders* in the Clinic’s strategy development process (under Strategy), *Revenue diversity* (under Business Model).

An example of a priority need is *Investment in revenue generation*, under Strategy. Here the Clinic rates near average in comparisons, but the large correlations we see between this factor and success for both the health subsector and nonprofits as a whole suggest potential gains from action here. *Business focus overlay* (under Culture) and *Intentionality of subsidies* (under Business Model) show similar patterns.

The numbers tell a different story for two other factors: *Efficiency* (under Operations), and *Staff retention* (under People). For *Efficiency*, the Clinic rates well below the health subsector mean. For *Staff retention*, the Clinic rates well below both the subsector and the broader nonprofit group. Since both factors show significant correlations with success, both constitute priority needs. Again, the data suggest that effort in this area is likely to make a difference for the Clinic.

Several factors are not considered either key strengths or priority needs in the "Strategic Focus" column on the far right—the cells there are blank. This is because the Clinic’s ratings for these factors are close to the mean comparison values and/or because these factors do not show significant correlations with success. Where the rating is close to average in comparisons, we may assume the Clinic’s typical performance is adequate, and not on the short list of priorities. Where the factor correlation is insignificant, we may assume that this is not a prime area for short-term action, even if the Clinic’s rating is well below average, as is the case for *Volunteer engagement* (under People).

This assessment shows that the Clinic is, overall, a healthy organization relative to its peers, with tangible opportunities to improve. In using this information to formulate a response, the Clinic may choose to undertake a rigorous business planning process that will frame (1) investment in revenue development, (2) improvements in operating efficiency, and (3) optimization of cross-subsidies between program activities. A follow-up assessment in one to two years can chart progress on the implementation of this plan.

This case illustrates how *Success Factor Analysis* can use hard data to increase our understanding of an organization and also focus attention on areas that deserve it.
Using the Organizational Assessment

Organizational assessment can be indispensable to nonprofit leaders and managers seeking to improve organizational performance. As a specific assessment methodology, Success Factor Analysis is designed to link findings directly to a strategy development process, and serves as a built-in periodic evaluation mechanism for improvement strategies.

A data-based organizational assessment presents an opportunity to evaluate an agency with objective comparison points. As the case example illustrates, individual organization assessment reports will highlight an agency’s consistencies and inconsistencies with trends in larger groups of nonprofits, as well as priority needs for development. Nonprofits will thereby understand where they are consistent with best practices—not based on theory or conjecture, but rather statistically valid associations with success among larger groups of organizations.

Improvement strategies for assessed organizations should reinforce assets while mapping upgrades in priority need areas, as reflected in the case example. Re-assessment can track tangible future progress, not just in implementation of an improvement plan, but also the more important outcome—how this implementation has affected organizational performance and health.

Note that while interpretation of Success Factor Analysis data generally assumes that positive associations between organizational factors and success indicate “directional correctness,” the diversity of nonprofits means that one size may never fit all. Successful organizations may vary from one or more prevailing trends. Interpretation of data entails understanding the context of particular countercurrent practices. For example, the Clinic may score relatively low on staff retention because it has a short-duration internship program for neighborhood residents. Awareness of both the trend and the reason for variation are valuable to monitoring future results.

The OSI value is a key part of assessment reports and, in itself, a simple summary of a complex story. This simplicity is an asset, but also justifies a word of caution. As noted above, the OSI is most useful for comparing a nonprofit to benchmarks determined for larger populations of similar organizations. It is also valuable for charting a given organization’s progress and improvement strategies over time. However, a nonprofit’s OSI value is not an evaluation of management or leadership and may not be a valid basis for comparison of individual organizations; note that the OSI incorporates conditions outside an individual nonprofit’s control, for example, a funding environment that may vary over time, by geography, or by particular social issue.

In this paper, we focus on organizational assessment, and do not go into detail on the system’s second core purpose—its applied research potential. We direct interested readers to Public Interest Management Group’s Exploratory Analysis of Nonprofit Success Factors, an initial “test drive” of related research methods, with findings that raise important questions for systematic study as the Success Factor Analysis data base develops.11
Next Steps in Developing the System: Pilot Project and Beyond

The next stage in development of the Success Factor Analysis system will be initiation of a pilot project. This stage is essential to testing and refining the methodology and ensuring that it will meet client needs.

Goals of the pilot project are to:

- Refine the set of success factor metrics
- Test the evaluation scoring system
- Refine administration procedures, informing the design of protocols
- Evaluate client experience and value
- Test data collection systems
- Establish an initial data set to serve as a baseline comparison profile in the assessment process and early applied research on management practices.

Philanthropic investors and nonprofit networks can contribute to this process by partnering in the pilot. This project will engage 50 to 75 nonprofits through partner organizations connected to groups of agencies through affiliation, membership or funding relationships. Participating nonprofits will receive full assessment reports, and partners will further benefit from development of a peer/subsector data sets that can inform overall themes and trends within their group.12

The pilot project will influence the system’s processes and content, as well as plans for wider dissemination and sustainability. After the pilot is completed and evaluated, a revised version of Success Factor Analysis will be presented to a wider audience.

Over time, with the input of users, partners, and other contributors, Success Factor Analysis will help nonprofit professionals understand the dynamics of organizational success and advance a nonprofit management culture based on data and research rather than theory and conventional wisdom.
Supplemental Resources and Notes

The following companion documents, published by Public Interest Management Group provide additional related information and are available at pimgconsulting.com/publications.

- *Gauging Nonprofit Success: Past Research, Present Gaps, Future Needs*
- *Exploratory Analysis of Nonprofit Success Factors*
- *Technical Appendix*
- *Program Guide*

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2 One example study is *Financial Literacy and Knowledge in the Nonprofit Sector*, Center on Philanthropy at Indiana University, 2012.


4 Ibid.

5 The Organizational Success Index and the mechanics of its computation are discussed in the *Technical Appendix for Success Factor Analysis*, Public Interest Management Group, 2015.

6 Correlations do not, in themselves, establish causality—they tell us the strength of association, which may be causal in nature. In some cases, correlations alone may not tell us all we need to know about relationships, and deeper examination may reveal additional insights or suggest caution in making assumptions. For more detail on the use of correlations and other analytic methods in *Success Factor Analysis*, see the *Technical Appendix*.

7 The full example chart is in the *Technical Appendix*.

8 Exceptions to these general observations and further detail on the interpretation of correlation data are detailed in the *Technical Appendix*.

9 There can be exceptions to this generalization; if a mean factor rating in a sample of organizations is particularly low or high, this could suggest either that the comparison sample group as a whole is under- or over-performing on this factor, and the comparison may be obscuring something important. In these cases, further analysis can help ensure this potential effect is explored.

10 Again, there can be exceptions to this generalization, and appropriate caution is called for. For example, a low correlation with OSI for a given factor may suggest that the factor is important, but not highly variable in the comparison sample group. Deeper analysis can help reveal potential exceptional cases of this nature.


12 For further information on the assessment process, see the *Success Factor Analysis Program Guide*, Public Interest Management Group, 2015.