

# Nonprofit And Public Sector Human Resources Management: A Comparative Analysis

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## ABSTRACT

*Central to this paper is the task of identifying and understanding what differentiates nonprofit human resources management from that practiced in public sector agencies (e.g., federal, state, and local governments). The key differences highlighted here are volunteer employment, the presence and role of a board of directors, and the emphasis nonprofit organizations place on strategic planning. Understanding these unique areas is arguably valuable if it leads to more effective human resource management practices, enhanced techniques, and uniquely tailored approaches to the administration of nonprofit organizations. The analysis includes an overview and discussion of topics (e.g., strategic human resources management, employee motivation, and compensation) essential to enhancing our understanding of human resources management in the nonprofit sector. Finally, existing literature is surveyed to identify current trends and inform our discussion of future considerations for nonprofit human resources management.*

**Keywords:** Human Resources Management; Public Sector Entities; Nonprofit Entities

## INTRODUCTION

*P*eople form the core of both private enterprises and public organizations. They carry out wide-ranging functions, craft strategy, perform duties and tasks, implement policies, and advance organizational objectives. In his influential work on management, Peter F. Drucker acknowledges that:

*People decisions are the ultimate – perhaps the only – control of an organization...No organization can do better than the people it has....The yield from the human resource really determines the organization's performance. And that's decided by the basic people decisions: whom we hire and whom we fire; where we place people, and whom we promote (Drucker, 1990, 145).*

The management of human resources, however, goes beyond selection hiring, firing, placement, evaluation, and promotion. It is a nuanced sub-field of management that has substantial literature devoted to its theoretical underpinnings and practical application.

Given the vast scope of literature on human resources in general, the purpose of this analysis is to focus on human resources management in the nonprofit organization (NPO). Centering on this sector specifically will show what differences, if any, exist in human resources management between NPOs and general public sector agencies (e.g., federal, state, and local governments). Understanding these potential areas of difference is valuable if it leads to more effective human resources management practices, enhanced techniques, and uniquely tailored approaches to NPO management.

To enhance our understanding of NPO human resources management from the onset, a working description of human resources management is provided, coupled with a definition of the public sector and the organizations

that operate within it, before moving on to define NPOs. We begin with some key differences between public organizations and NPOs in order to demonstrate why human resources management in nonprofit entities deserves and warrants individual attention. In brief, the differences that will receive extensive coverage include the use of volunteers in NPOs, the role of nonprofit boards of directors, and the emphasis placed on strategic planning in the nonprofit sector.

Next, in providing a more robust and complete understanding of specific human resource theories and applications, an overview and discussion of selected, but central topics related to NPO human resources, including strategic human resources management (SHRM), employee motivation, and compensation, is presented.

Finally, the literature of the field is examined in order to identify current trends that may impact the future of nonprofit human resources management. Utilizing this three-fold approach should increase our understanding of how the nonprofit sector may be differentiated from other public sector entities and what impact their unique characteristics have on human resources endeavors.

## **DEFINING HUMAN RESOURCES MANAGEMENT**

Although a wide variety of definitions exist to help classify and explain human resources management (HRM), as the term is used here, a combined characterization from the writings of Joan E. Pynes and Donald E. Klingner serves as a starting point. According to Pynes, “HRM is the design of formal systems in an organization to ensure the effective use of employees’ knowledge, skills, abilities, and other characteristics (KSAOCs) to accomplish organizational goals” (Pynes, 2009, 3). This broad definition is supplemented with some specific HRM functions such as “recruitment, selection, training and development, compensation and benefits, retention, evaluation and promotion of employees, and labor-management relations within an organization” (Pynes, 2009, 3). In Pynes’s view, HRM is a dynamic and evolving process that must recognize environmental changes and challenges (e.g., economic, social, cultural, and educational) and adapt HRM tactics to strategically address the environmental factors (Pynes, 2009, 4).

Donald E. Klingner offers valuable context on historical public human resources management by outlining four general perspectives. First, he identifies the functions necessary to manage public sector human resources (Klingner, 2009, 3). The functions typically carried out by human resources departments are “planning, acquisition, development, and discipline” (Klingner, 2009, 3). Next, Klingner states that human resources can be viewed as the practice of allocating jobs, or, hiring and position placement activities (Klingner, 2009, 3). Third, human resources management “is the interaction among fundamental societal values that often conflict ... (e.g., responsiveness, efficiency, employee rights, and social equity)” (Klingner, 2009, 3). Last, Klingner notes that “public HRM is the embodiment of human resource systems: the laws, rules, organizations, and procedures used to fulfill personnel functions in ways that express the abstract values” (Klingner, 2009, 4).

Some overlap and redundancy exist between Pynes’s definition and the content offered by Klingner. For example, both authors mention specific activities that are usually performed under the umbrella of human resources such as hiring, training, and discipline. While these basic duties are very important in their own right, it is clear through combining these definitions that human resources management encompasses much more than these essential attributes and should be viewed through a broader lens.

Mirroring the public HRM perspective of Klingner and Pynes, Sylvia and Meyer provide a historical/functional orientation to public personnel management, beginning with the earliest period (trustees or revolutionary functionaries) to the 1820-1873 (political partisanship and government appointments) era. Next, they deal with the Lincoln and patronage system, followed by the Civil Service Act of 1883 (Pendleton Act), and the development of the federal merit systems (1883-1978). Last, they show the post 1978 period as characterized with conflict in the merit system, the protection of public employees, the Civil Service Reform Act of 1978 (CSRA, 1978), the creation of the Office of Personnel Management (OPM), the Senior Executive Service (SES), the Merit System Protection Board (MSPB), Equal Employment Opportunity Commission (EEOC), and the Federal Labor Relations Authority (FLRA). Although this historical analysis provides insight to how public HRM has evolved over 235 years, it does not provide a useful framework for comparing the public and the nonprofit sectors.

However, like other writers in the field of public HRM, they clearly explicate the basic “nuts and bolts” of the field with an analysis and discussion of recruitment, classification, compensation, performance appraisal, training and development, collective bargaining, employee discipline, and conflict resolution, augmented by the issue of diversity management, ethics, and discrimination (Sylvia & Meyer, 2003).

## **DEFINING THE PUBLIC SECTOR**

In an attempt to take a more holistic approach to understanding public human resources management, it is first important to clearly define the public sector. In essence,

*... the public sector provides basic goods and services that are either not, or cannot be, provided by the private sector. It comprises of national and local governments, public corporations, and quasi-autonomous non-government organizations. [The] Public sector is one of the largest sectors of any economy; in the U.S., for example, it accounts for about 20 percent of the entire economy (Business Dictionary, 2010).*

The American Society for Public Administration, Association for Public Policy Analysis and Management, and the National Association of Schools of Public Affairs and Administration (NASPAA) consider careers in the “new” public sector to fall into the following categories: government, nonprofits, nongovernmental organizations, international, and consulting and education (Public Service Careers, 2008). For the purposes of the following analysis, public organizations will be primarily discussed as government agencies (e.g., federal, state, and local government entities) and will be compared as such to nonprofit organizations.

## **DEFINING PUBLIC ORGANIZATIONS**

H.G. Rainey states that the public sector consists of a wide variety of governmental organizations that strive to uphold laws, justice, and social organization, and, are ultimately controlled by the citizenry (Rainey, 2003). Governments work to protect individual rights and provide security for the masses while offering a national direction. As well, government bodies produce public goods and services, attempt to address problems not being resolved via the private market, and can serve as a regulatory influence on certain industries (Rainey, 2003). Pynes states that, “In a democracy, government is owned by all of its citizens, and most of the revenues that support government agencies typically come from taxes” (Pynes, 2009, 6). Many of the same values that influence private entities are influential in public agencies as well, such as

*... efficiency, effectiveness, timeliness, and reliability. But they are also influenced by values not necessarily found in the private sector and often in conflict with one another, such as accountability to the public at large and elected officials, being responsive to rule of law and governmental authorities, being responsive to public demands, being open to external scrutiny and criticism, adhering to strict ethical standards, and conducting public affairs with the goals of fairness, equal treatment, social equity, and impartiality (Pynes, 2009, 6).*

According to Mancur Olson, governments may lawfully perform transactions and carry out activities without the voluntary agreement of other actors, stakeholders, and/or entities (Olson, 1965, 1993). Due to this characteristic, Dario Barbieri and Domenico Salvatore point out that “public governance structures imply a set of mechanisms, usually absent in private and nonprofit organizations, developed in order to guarantee the accountability to society of political authority use” (Barbieri & Salvatore, 2010, 356). These mechanisms may be in the form of organizational policies or the arrangement of checks and balances, which can contribute to bureaucratic inefficiency and slow action; as a result, non-governmental entities may be more efficient because “they do not have to bear the cost incurred by guarantee mechanisms needed to protect the society from political authority misuse” (Barbieri & Salvatore, 2010, 356).

Employees of the federal government work directly for agencies such as the Social Security Administration, Department of Veterans Affairs, Small Business Administration, and Department of Agriculture, or, perhaps, serve as officials in the judicial, legislative, or executive branch of government. In 2008, 1.9 million civilians (excluding nearly 850,000 United States Postal Service employees) and 1.4 million uniformed military personnel were employed by the United States federal government (U.S. Department of Labor, 2009).

State and local governments vary widely in terms of the functions, activities, and services provided. State workers may be employed by a public university, the Department of Transportation, or a public health agency. There were 5.3 million civilians employed by state-level governments in 2009 (U.S. Census Bureau, 2009). Local governments feature “more than eighty-eight thousand units of local government: counties, cities, villages and townships, and special districts such as school districts, fire districts, park districts, hospital districts, museum and zoo districts, and parks and recreation districts” (Pynes, 2009, 5). Local governmental units generally offer little consistency among municipalities due to the variation in the level and depth of services offered (Pynes, 2009, 5). In the United States during 2009, there were 10.9 million full-time employees of local governments (U.S. Census Bureau, 2009).

Although this breakdown of governmental service by department or agency is commonly used, it does not fully reveal the scope and magnitude to which “inherently governmental” functions are now routinely contracted out (outsourced) to the private sector (Wedel, 2011, S118). Inherently governmental functions include, among a vast listing, these activities: commanding military forces, conducting foreign relations and making foreign policy, determining the content and application of regulations, management and control of federal workers, selecting individuals for federal government employment, and establishing budget priorities and budget requests (Wedel, 2011, S119). These functions as outlined by the Federal Acquisition Regulations (FAR) are inherently governmental ones; yet, many of these essential activities are now privatized, or contracted out. As noted by Wedel, private security companies are hired by the federal government to track and kill suspected militants in Afghanistan and Pakistan; contracted to operate activities (intelligence) in the secret National Reconnaissance Office (NRO), such as spy satellites; development of the budget and policies for the Department of Homeland Security (DHS); control major databases, and among a plethora of many other vital activities, provide advice to the Department of Defense on which private contractors should be hired and to even supervise other contractors. They also draft official documents on energy (Wedel, 2011, S119). In short, a “shadow government” has been erected at the national level with its contract employees that number nearly six million, or, as Paul Light reported, three out of four federal employees work as government contract employees (Wedel, 2011, S121).

## **DEFINING NONPROFIT ORGANIZATIONS**

Alceste T. Pappas defines a nonprofit organization as “any private organization that provides services of benefit to society without financial incentive” (Pappas, 1996, 1). David C. Hammack and Dennis R. Young point out that NPOs provide public goods and services beyond those “produced by governments, which are limited to the public goods that the ‘median voter’ is willing to support” (Hammack & Young, 1993, 6). This point is noteworthy because it suggests that the nonprofit sector is filling a void left unaddressed by governments. Henry Hansmann points out that “nonprofits of all types typically arise in situations in which owing either to the circumstances under which a service is purchased or consumed or to the nature of the service itself, consumers feel unable to evaluate accurately the quantity or the quality of the services a firm produces for them” (Hansmann, 1987, 29). This implies that citizens do not always trust for-profit or governmental bodies to provide their services, and, when this is the case, NPOs are relied upon to satisfy the public need.

This point is examined by Shlomo Mizrahi, especially when he analyzes what happens when citizens feel that all three sectors (public, private, and nonprofit) have failed in providing public goods and services and are not meeting their expectations, and “when they retreat from any kind of civic engagement” (Mizrahi, 2012, 285). To improve the service delivery, increase their satisfaction level, and meet their interests – when the main, macro sectors fail them – citizens may turn to the self-provision of services. That is, they use none of society’s established institutional settings (i.e., the formal rules and laws) whether these are dominated by the public, the private or the third sector (Mizrahi, 2012, 185). He further explains, “they attempt to improve their outcomes through extralegal or illegal strategies” (Mizrahi, 2012, 285). A few selected examples of self-provision include gray and black markets in health care, pirating of media, non-establishment services in education, transportation, internal security welfare, infrastructure, and use of personal connections and “contacts” to circumvent the traditional bureaucratic and formal systems (Mizrahi, 2012, 285-289). He concludes, “citizen dissatisfaction with the quality and/or quantity of public services is a necessary condition for the development of self-provision of services” (Mizrahi, 2012, 287).

If citizens are led by the ineffectiveness, failure, and lack of trust in the macro sectors to meet their needs and demands, and if they perceive their voices and opinions to be ineffective, combined with a belief that both the market and government has failed them, they may turn to the nonprofit sector for relief and support. However, if the nonprofit sector fails them as well because of philanthropic insufficiency, particularism, paternalism, or amateurism, an anti-politics, nondemocratic, and exit or withdrawal from civic engagement and participation might take place (Mizrahi, 2012, 285-287). Yaacov Lifshitz, provides another, but different insight to self-provision. Noting that it is not evidence of “poor and insufficient public response to the needs and wishes of citizens” (Lifshitz, 2012, 293). He suggests that “supplementing the consumption of publicly provided services by self-provision of services is a reflection of rational behavior, a way to obtain the highest level of welfare possible under the constraints of income and prices” (Lifshitz, 2012, 292). In the final analysis Lifshitz concludes that self-provision is “not the curse of inequality, but rather the outcome of inequality in wealth and income distribution” (Lifshitz, 2012, 292).

From an organizational standpoint, an NPO must qualify as such under the Internal Revenue Service (IRS) code (Pappas, 1996, 1). The IRS classification means that NPOs do not have to pay federal corporate income taxes; as well, state and local governments have the authority to exempt them from paying property and sales tax (Pynes, 2009, 11). The IRS designates nonprofits differently based upon which section of the code they are classified. NPOs that are 501(c)(3) are often referred to as public charities and make up the largest number of NPOs in the United States (Pynes, 2009, 11). Public charities most notably serve “religious, charitable, scientific, testing for public safety, literary or educational purposes as they are described in section 501-C-3 of the code” (Blau & Rabrenovic, 1991, 329). A public charity is an organization that typically receives a large portion of total funding from the government and/or general public (Pynes, 2009, 11). Contrast this with a 501(c)(6) entity, which includes chambers of commerce that normally receive funding from member organizations and primarily work to advance the interests of their members (Pynes, 2009, 11).

Information on all tax-exempt organizations as categorized by section 501(c)(3) of the IRS code is presented in Table 1. Depicted in the table are: the different IRS code designations, a brief description of the organizations that fall under each section of the code, an overview of typical activities performed by such organizations, the annual return documentation required, and if contributions are allowed.

To be considered a nonprofit organization, the entity must be officially designated as a nonprofit when organized; there may be no distribution of profits or assets to staff, directors, or others affiliated with the organization (i.e., no allocation of profit in a way that resembles a corporate dividend); and, only the pursuit of purposes permitted for such an organization are lawful (Pynes, 2009, 11). Pappas outlines the following additional defining characteristics of a nonprofit organization: non-governmental (e.g., federal, state, and local governments have unique IRS categorization and are “considered in the public domain”); self-administered by a board of directors or group of trustee members that “hold the organization’s assets in public trust” and assume fiduciary and legal responsibility while serving as overseers; reliance on volunteerism; and, NPOs are encouraged to promote the public good, which is the counterpart to “businesses and corporations encourage[ing] individual and collective action for the private good and profit motive” (Pappas, 1996, 2).

The number of nonprofit organizations registered with the IRS, as shown in Table 2, grew from 1.1 million in 1995 to 1.4 million just 10 years later, an increase of 27.3 percent. This number includes three types of nonprofits: 501(c)(3) public charities (accounting for about 60 percent of all registered nonprofits), private foundations, and a broad category of “other” nonprofits such as labor unions, trade associations, and social and recreational clubs. During this same time period, revenues of reporting nonprofits grew by more than 54 percent when adjusted for inflation. Total assets jumped more than 77 percent when adjusted for inflation. This dramatic increase in the number of nonprofits has not gone unnoticed by another government entity, the United State Government Accountability Office (GAO). In a 2007 Congressional report, the GAO outlined several reasons for this increase: the growing movement of government to providing fewer direct services; the increase of the number of service-related industries, many of which include nonprofit organizations; the trend away from large public care facilities and toward smaller, more local organizations, often nonprofits; and the federal government shifting greater policy control to state and local governments and nonprofit organizations (US Government Accountability Office, 2007).



**Table 1. IRS Tax Exempt Organizations by Selected Organization Attributes**

<b>Section of 1986 Code</b>	<b>Description of Organization</b>	<b>General Nature of Activities</b>	<b>Annual Return</b>	<b>Contributions Allowable</b>
501(c)(1)	Corporations Organized under Act of Congress (including Federal Credit Unions)	Instrumentalities of the United States	None	Yes, if made for exclusively public purposes
501(c)(2)	Title Holding Corporation For Exempt Organization	Holding title to property of an exempt organization	990 or 990-EZ	No
501(c)(3)	Religious, Educational, Charitable, Scientific, Literary, Testing for Public Safety, to Foster National or International Amateur Sports Competition, or Prevention of Cruelty to Children or Animals Organizations	Activities of nature implied by description of class of organization	990 or 990-EZ, or 990-PF	Yes, generally
501(c)(4)	Civic Leagues, Social Welfare Organizations, and Local Associations of Employees	Promotion of community welfare; charitable, educational, or recreational	990 or 990-EZ	No, generally
501(c)(5)	Labor, Agricultural, and Horticultural Organizations	Educational or instructive, the purpose being to improve conditions of work, and to improve products of efficiency	990 or 990-EZ	No
501(c)(6)	Business Leagues, Chambers of Commerce, Real Estate Boards, etc.	Improvement of business conditions of one or more lines of business	990 or 990-EZ	No
501(c)(7)	Social and Recreational Clubs	Pleasure, recreation, social activities	990 or 990-EZ	No
501(c)(8)	Fraternal Beneficiary Societies and Associations	Lodge providing for payment of life, sickness, accident or other benefits to members	990 or 990-EZ	Yes, if for certain Sec. 501(c)(3) purposes
501(c)(9)	Voluntary Employees Beneficiary Associations	Providing for payment of life, sickness, accident, or other benefits to members	990 or 990-EZ	No
501(c)(10)	Domestic Fraternal Societies and Associations	Lodge devoting its net earnings to charitable, fraternal, and other specified purposes. No life, sickness, or accident benefits to members	990 or 990-EZ	Yes, if for certain Sec. 501(c)(3) purposes
501(c)(11)	Teachers' Retirement Fund Associations	Teachers' association for payment of retirement benefits	990 or 990-EZ	No
501(c)(12)	Benevolent Life Insurance Associations, Mutual Ditch or Irrigation Companies, Mutual or Cooperative Telephone Companies, etc.	Activities of a mutually beneficial nature similar to those implied by the description of class of organization	990 or 990-EZ	No
501(c)(13)	Cemetery Companies	Burials and incidental activities	990 or 990-EZ	Yes, generally
501(c)(14)	State-Chartered Credit Unions, Mutual Reserve Funds	Loans to members	990 or 990-EZ	No
501(c)(15)	Mutual Insurance Companies or Associations	Providing insurance to members substantially at cost	990 or 990-EZ	No
501(c)(16)	Cooperative Organizations to Finance Crop Operations	Financing crop operations in conjunction with activities of a marketing or purchasing association	990 or 990-EZ	No

<b>Section of 1986 Code</b>	<b>Description of Organization</b>	<b>General Nature of Activities</b>	<b>Annual Return</b>	<b>Contributions Allowable</b>
501(c)(17)	Supplemental Unemployment Benefit Trusts	Provides for payment of supplemental unemployment compensation benefits	990 or 990-EZ	No
501(c)(18)	Employee Funded Pension Trust (created before June 25, 1959)	Payment of benefits under a pension plan funded by employees	990 or 990-EZ	No
501(c)(19)	Post or Organization of Past or Present Members of the Armed Forces	Activities implied by nature of organization	990 or 990-EZ	No, generally
501(c)(21)	Black Lung Benefit Trusts	Funded by coal mine operators to satisfy their liability for disability or death due to black lung diseases	990-BL	No
501(c)(22)	Withdrawal Liability Payment Fund	To provide funds to meet the liability of employers withdrawing from a multi-employer pension fund	990 or 990-EZ	No
501(c)(23)	Veterans Organizations (created before 1880)	To provide insurance and other benefits to veterans	990 or 990-EZ	No, generally
501(c)(25)	Title Holding Corporations or Trusts with Multiple Parents	Holding title and paying over income from property to 35 or fewer parents or beneficiaries	990 or 990-EZ	No
501(c)(26)	State-Sponsored Organizations Providing Health Coverage for High-Risk Individuals	Provides health care coverage to high-risk individuals	990 or 990-EZ	No
501(c)(27)	State-Sponsored Workers' Compensation Reinsurance Organizations	Reimburses members for losses under workers' compensation acts	990 or 990-EZ	No
501(c)(28)	National Railroad Retirement Investment Trust	Manages and invests the assets of the Railroad Retirement Account	None	No
501(d)	Religious and Apostolic Associations	Regular business activities. Communal religious community	10659	No
501(e)	Cooperative Hospital Service Organizations	Performs cooperative services for hospitals	990 or 990-EZ	Yes
501(f)	Cooperative Service Organizations or Operating Educational Organizations	Performs collective investment services for educational organizations	990 or 990-EZ	Yes
501(k)	Child Care Organizations	Provides care for children	990 or 990-EZ	Yes
501(n)	Charitable Risk Pools	Pools certain insurance risks of 501(c)(3)	990 or 990-EZ	Yes
501(q)	Credit Counseling Organizations	Credit counseling services	1023	No
521(a)	Farmers' Cooperative Associations	Cooperative marketing and purchasing for agricultural procedures	990-C	No
527	Political Organizations	A party, committee, fund, association, etc., that directly or indirectly accepts contributions or makes expenditures for political campaigns	1120-POL 990 or 990-EZ	No

Source: Adapted from Internal Revenue Service. 2010. "Publication 557 Tax-Exempt Status for Your Organization." <http://www.irs.gov/pub/irs-pdf/p557.pdf> (65-66).

**Table 2: Size and Financial Scope of the Nonprofit Sector, 1995-2005**

	1995	2000	2005	% change, 1995-2000	% change, 1995-2000 (inflation adjusted)
<b>All nonprofits</b>	1.1 million	1.3 million	1.4 million	27.3	-
Reporting nonprofits	431,567	428,154	530,376	22.9	-
Revenues (\$)	802 billion	1.1 trillion	1.6 trillion	96.9	54.6
Expenses (\$)	729 billion	984 billion	1.4 trillion	96.4	54.2
Assets (\$)	1.5 trillion	2.4 trillion	3.4 trillion	125.6	77.1
<b>Public charities, 501 (c)(3)</b>	572,660	690,326	876,164	53.0	-
Reporting public charities	187,038	245,749	310,683	66.1	-
Revenues (\$)	573 billion	811 billion	1.1 trillion	99.5	56.6
Expenses (\$)	530 billion	731 billion	1.1 trillion	98.7	56.0
Assets (\$)	843 billion	1.432 trillion	1.98 trillion	134.3	83.9

Source: Urban Institute, National Center for Charitable Statistics, NCCS-Guidestar National Nonprofit Research Database: Special Research Version (2005): Core Files (1995, 2000, 2005): IRS Business Master Files, Exempt Organizations (1996, 2001, 2006). From The nonprofit sector in brief: Facts and figures from the nonprofit almanac 2008: public charities, giving, and volunteering, Amy Blackwood, Kennard T. Wing, and Thomas H. Pollar (2008).

When reporting public charities are broken down by sector as in Table 3, the largest percentages are human service organization with nearly one-third of all reporting public charities in 2005. Despite being nearly the median in number of organizations, health agencies showed the greatest percentage of revenues, expenses, and assets.

**Table 3: Number and Financial Scope of Reporting Public Charities by Subsector, 2005**

	Number	%	\$, Millions			Percent %		
			Revenues	Expenses	Assets	Revenues	Expenses	Assets
<b>All reporting public charities</b>	310,683	100	1,144,022	1,053,487	1,975,792	100	100	100
Arts, culture, humanities	35,840	11.5	27,355	23,927	81,885	2.4	2.3	4.1
Education	57,991	18.7	188,178	158,679	571,643	16.4	15.1	28.9
Higher education	2,112	0.7	130,722	110,004	421,542	11.4	10.4	21.3
Other	55,879	18.0	57,456	48,675	150,101	5.0	4.6	7.6
Environment, animals	13,399	4.3	11,658	9,807	31,607	1.0	0.9	1.6
Health	41,243	13.3	672,131	637,323	826,158	58.8	60.5	41.8
Hospitals and primary care facilities	5,045	1.6	492,498	468,000	608,836	43.0	44.4	30.8
Other	36,198	11.7	179,633	169,323	217,323	15.7	16.1	11.0
Human services	100,436	32.3	148,099	141,215	223,041	12.9	13.4	11.3
International and foreign affairs	5,075	1.6	22,827	20,535	18,341	2.0	1.9	0.9
Public and societal benefit	37,677	12.1	63,362	53,052	200,315	5.5	5.0	10.1
Religion-related	18,600	6.0	10,304	8,867	22,650	0.9	0.8	1.1
Unknown/Unclassified	422	0.1	109	83	152	0.0	0.0	0.0

Source: Urban Institute, National Center for Charitable Statistics, NCCS-Guidestar National Nonprofit Research Database: Special Research Version (2005). From The nonprofit sector in brief: Facts and figures from the nonprofit almanac 2008: public charities, giving, and volunteering, Amy Blackwood, Kennard T. Wing, and Thomas H. Pollar (2008). In The Nature of the Nonprofit Sector, ed

### Key Differences between Public and Nonprofit Organizations

It is generally thought that there are more similarities than differences between public and nonprofit organizations and that NPOs have historically taken their cues on how to operate, manage, transact, and deliver services from governmental bodies and even for-profit companies (Brooks, 2002; Hammack & Young, 1993; Hay, 1990; Pappas, 1996). In fact, much of the literature on the public sector will include examples and case study scenarios from government entities and nonprofit agencies interchangeably. Yet, there are nuances between public organizations (e.g., federal, state, and local governments) and NPOs that could arguably justify scholarship and research specific to the nonprofit sector.



Since this analysis is focused on nonprofit human resources management, the key differences between governmental bodies and nonprofits are examined in the areas of: volunteer employees; the presence and role of a board of directors; and the emphasis NPOs place on strategic planning. These three factors present challenges that must be addressed in order to facilitate effective human resources management in nonprofit organizations. Due to the fact that these traits are largely unique to NPOs and not usually present within governmental organizations, literature that takes a combined approach to addressing human resources in both governments and NPOs typically falls short in addressing these defining characteristics.

### **Investigating Key Attributes of Nonprofit Organizations**

An examination of the role that these key differences play in nonprofit human resources volunteer employment is initially assessed with emphasis on the typical volunteer, how volunteers are utilized, the common reasons and motivations for volunteering, and strategies for volunteer management.

### **VOLUNTEER EMPLOYMENT**

Indeed, the literature supports the view that volunteerism is a unique trait of nonprofit organizations (Kushner & Poole, 1996). The importance of volunteers to NPOs should not be trivialized or discounted due to the wide range of duties they perform, the value they help create, their inclusion in key organizational decisions, and their impact on organizational structure. According to a report from the Corporation for National and Community Service, 63.4 million Americans volunteered in 2009. These efforts provided a combined 8.1 billion hours of service, which has an approximate dollar value of \$169 billion (Cramer et al., 2010, 1).

But the definition of volunteering is elusive as Pearce suggests:

*...organizational volunteering is inherently contradictory in nature. It is “work”—working within a formal structure to provide a service to others—and it is a “leisure activity”—something done whenever convenient because it is personally rewarding (Pearce, 1993).*

In their 2008 article “What is Volunteering?” Marc A. Musick and John Wilson agree that defining volunteerism is not always easy. They acknowledge that volunteer work is not undertaken for financial gain, yet remind us that volunteers can be reimbursed for expenses or rewarded for their service such as college tuition for AmeriCorps workers. Volunteering is undertaken of the volunteer’s own free will, yet people often volunteer because of peer pressure or social obligation. It often benefits the volunteer as well as a wide range of third parties, some with strong personal ties such as friends or neighbors, or other more abstract causes such as “arts and culture” (Pearce, 1993).

Similarly, Chris Tilly and Charles Tilly define volunteer work as “unpaid work provided to parties to whom the worker owes no contractual, familial or friendship obligations” (Tilly & Tilly, 1994, 291). It is freely undertaken by the individual volunteering and is uncommodified, which is unique from the labor market and informal sector (Wilson & Musick, 1997, 694). Scholars identify volunteering as a type of work and a “productive activity” (Tilly & Tilly, 1994; Herzog et al., 1989) that has “a market value greater than any remuneration received” (Smith 1981, 23).

In brief, as noted by the Tillys' nearly twenty years ago, the notion of volunteerism as a distinguishing feature of nonprofit organizations is changing, and the difference between the work performed by paid professionals in relation to their unpaid volunteer counterparts, has become increasingly blurred. Thus, we can conclude that volunteers give their “time, talent, and treasure” freely, but they also receive something of value in return. As volunteer managers often state: “No one volunteers for nothing!”

### **Who Volunteers?**

In 2009, 26.8 percent of Americans volunteered their time and energy to organizations throughout the country (Cramer et al., 2010, 3). The increase in volunteers from 2008 to 2009 was the largest since 2003 and is

attributed to more volunteerism among the following groups: women between the ages of 45-54; married people (especially married women); and, people who are employed (particularly those employed on a full-time basis) (Cramer et al., 2010, 3). The groups with the highest volunteering rates were those with a child under 18 years of age still living in the home and individuals that graduated high school or have a college degree (Cramer et al., 2010, 3). Volunteerism by African Americans is becoming more prevalent and especially African American women, whose volunteer rate increased by 1.6 percent between 2008 and 2009 (Cramer et al., 2010, 3). Data suggests that homeowners are more likely to volunteer than are people who rent, and people with longer commutes are less likely to volunteer than those with shorter work commutes (Cramer et al., 2010, 5-6).

The current economic recession has had an impact on volunteerism as well. Cramer et al. found that higher unemployment levels related to fewer volunteers in a state-by-state analysis and cities that have higher home foreclosure rates have a lower number of volunteers (Cramer et al., 2010, 8). The study also showed those living in high poverty areas are less likely to volunteer, suggesting that volunteers are not always available, or, are simply unwilling to donate their time, in areas that dramatically need their services (Cramer et al., 2010, 9). Finally, it has been reported that many volunteers are intensely lonely individuals (Drucker, 1990, 183). In many instances these individuals can be used effectively and provide mutual benefit for the organization and themselves, but that is not always the case as Drucker points out:

*...sometimes these people for psychological or emotional reasons simply cannot work with other people; they are noisy, intrusive, abrasive, rude. Non-profit executives have to face up to that reality. Perhaps there is a job, in some corner, which they can do. But if there isn't, they must be asked to leave. The alternative is that the executive, and all those who have to work with the person, lose capacity to contribute (Drucker, 1990, 183).*

Drucker overstates the range of psychological or emotional troubles that are brought to the volunteer environment. Nevertheless, his concern shows the importance of management's role in selecting, orienting, training, evaluating, and at times, terminating volunteers – a role that is similarly executed in relation to how full-time employees are supervised, motivated, rewarded, and assessed.

### **Use of Volunteers in Nonprofit Organizations**

Utilizing the comparative, aggregated data on volunteering nationally and by state, the Corporation for National and Community Service reported the following data on the volunteer rates, hour's volunteered, and net dollar worth of volunteer activity. For the 2003-2010 period, the volunteer rate declined from a high rate of 28.8 percent in 2003 to 26.3 percent in 2010. This rate translates into 63.8 million volunteers in 2003 and 62.8 million in 2010. The total dollar value of volunteerism was set at a valuation of \$21.36 per hour, and with 8.1 billion hours of reported service, this amounts to roughly \$173 billion dollars. On a per resident basis, the average number of hours volunteered per year also declined during the 2003-2010 period, from a high of 37.6 in 2003 to 33.9 in 2010, with average national hours per resident at 34.1 hours.

The number of hours volunteered per resident for 2010 ranged from a high of 89.2 for Utah to a low of 23.3 hours in Arkansas. The top eight states, ranked by average volunteer hours, were Utah, Alaska, Idaho, Maine, Nebraska, Maryland, Montana, and Minnesota. Correspondingly, the lowest rates were found in Rhode Island (29.8), Ohio (29.7), Alabama (29.5), Massachusetts (29.2), Louisiana (29.1), North Carolina (28.5), Kentucky (28.1), New York (26.8), New Jersey (25.5), and Arkansas (23.3) (U.S. Corporation for National and Public Service, 2012).

The overall volunteer retention rate for 2010 was 64.5 percent, and ranged from a high retention rate of 73.9 percent in Milwaukee, WI to a low of 45.7 percent in Miami, FL. Other high retention cities were: Minneapolis-St. Paul, MN (73.7 percent), Nashville, TN (73.3 percent), Seattle, WA (73.2 percent), and Columbus, OH (72.5 percent.) Lower retention rates were found in Las Vegas, NV (57.6 percent), Los Angeles, CA (56.1 percent), Riverside, CA (55.8 percent), New York, NY (55.2 percent), Orlando, FL (54.7 percent) and, as indicated earlier, Miami, FL (45.7 percent) (U.S. Corporation for National and Community Service, 2012).

By service area for the 2008-2010 period, the organizations were ranked by participation levels as follows: Religious (35.0 percent), Educational (26.7 percent), Social Service (14.0 percent), Hospitals (8.4 percent), Others

(7.0 percent), Civic (5.5 percent), and Sports/Arts (3.4 percent) (U.S. Corporation for National and Community Service, 2012).

Organizations use volunteers in many ways and the work they perform can be quite demanding. With regard to actual activities performed by volunteers, the most common task is fundraising and selling items to raise money with 26.2 percent of all volunteers filling this role (Cramer et al., 2010, 3). Other notable activities include: “collecting, preparing, distributing, or serving food (23.5% of volunteers do this activity); engaging in general labor or providing transportation (20.5%); and tutoring or teaching (19.0%)” (Cramer et al., 2010, 3). Some nonprofit organizations, however, are entirely volunteer-based from the chief executive down to the front line staff. Nonprofit boards of directors are usually voluntary with only two percent of all NPOs in the United States offering financial compensation to board members (Board Source, 2010). Kushner and Poole point out another use for volunteers that is more indirect and “below the organizational surface” than those previously mentioned: volunteers as vessels of influence (Kushner & Poole, 1996). To clarify, due to the small size of many NPOs it is difficult to divide into smaller units (i.e., decentralize the organization). As a result, NPOs can disseminate influence among volunteers through the use of committees (Kushner & Poole, 1996). Fewer committees result in less influence among volunteers and a more centralized organization, while more committees can mean volunteers have a higher level of influence and the NPO is attempting to decentralize power (Kushner & Poole, 1996).

Moreover, some scholars maintain that the distinction between volunteers and paid employees is diminishing. For example, Drucker considers volunteer workers different from NPO employees only because they are not paid for their work (Drucker, 1990, 181). He goes on to note, “There is less and less difference between the work they [volunteers] do and that done by the paid workers – in many cases it is now identical – and the volunteers are becoming increasingly important to nonprofit organizations” (Drucker, 1990, 181). The output expected, productivity level, and responsibilities, in his estimation, are equivalent between paid and voluntary workers. This suggests that from a human resources perspective the organization must provide volunteers with supervision and management, clear assignments, communicated goals, and the tools required to succeed, just as they would with paid staff. Some important differences still remain, however. Because most volunteer work is done part-time, volunteer work tends to be structured differently, broken into pieces or shorter tasks (Pearce, 1993). Spending fewer hours in the company of employees or other volunteers also leads to different interaction patterns. Pearce describes this pattern as a social network “with a central person or people (core membership) who interact with all other individuals (the “periphery”) who only interact with the core members” (Pearce, 1993).

### **Reasons and Motivation for Volunteering**

Individual reasons for volunteering vary widely and these reasons can provide clues as to what motivates volunteers. With no direct monetary reason for working at an organization, volunteer motivation becomes more open to interpretation. Understanding the reasons to volunteer and the motivation behind them can help nonprofit human resources managers with recruitment, selection, and training of volunteers as well as structuring the volunteer activities in such a way that it is appealing to individuals who might donate their time. One key incentive to volunteer might be the importance the volunteer places on social contacts within the organization. A greater number of volunteers report that they are much more likely to stay with an organization with friendly co-workers than are paid employees (Pearce, 1993).

Robert D. Hay offers several reasons why people volunteer for nonprofit organizations: “recognition, socialization, personal growth, opportunity for leadership, outlet for creativity and use of talents, work experience, classroom credit, and possible career exploration” (Hay, 1990, 330). Hay suggests that when the need for any of these reasons is present, “the NPO has to adapt strategies to help volunteers meet these needs. If not, turnover will exist because volunteers can easily stop working and seek commitments elsewhere” (Hay, 1990, 330). This suggests that not only is recruitment a challenge facing NPO human resources managers, retention of volunteer workers is also an obstacle that deserves consideration. Helen Bussell and Deborah Forbes acknowledge this as well and state that “the key to retaining volunteers is to meet their personal mixture of motivational needs. Voluntary organizations should understand the heterogeneity of their volunteer base and ensure that volunteer needs are met” (Bussell & Forbes, 2006, 154). Because people change over time (e.g., attitudes, preferences, viewpoints, needs, motivations, and finances) the strategies that NPOs have used in the past to successfully serve volunteer needs may

no longer be effective (Bussell & Forbes, 2006, 154). One human resources strategy employed by NPOs is to create strategies to nurture an “enduring bond between the organization and the volunteer, moving the potential volunteer up the ladder of loyalty” over time (Bussell & Forbes, 2006, 153). This strategy assists in volunteer retention because it emphasizes mutual benefit between the organization and volunteers rather than a lone interaction or solitary experience (Bussell & Forbes, 2006, 153).

**Managing Volunteers**

Drucker notes that many NPOs place volunteers under “the direction of a separate organizational administrator who is set apart from the permanently employed people” (Drucker, 1990, 330). When this is the case, it is paramount for the volunteer administrator and the permanent executive director to work jointly as opposed to having a “superior-subordinate relationship” so that the needs of volunteers are communicated and shared with the top executive (Drucker, 1990, 330). Further, Drucker lists some quick tips in working with volunteers: organizational planning should accommodate volunteers; strategic volunteer placement is critical; pre-service and ongoing training should be provided; volunteer supervision is required; effective maintenance of volunteer employment records is required; recognition of the work performed by volunteers is needed; and, regular evaluation of the performance of voluntary workers is essential (Drucker, 1990, 331). Special emphasis is placed on recognition. A modest reward can help maintain the motivation level of voluntary employees and the reward system can be structured so that it “satisfies one of the basic needs of a volunteer – that is, recognition for work performed” (Drucker, 1990, 331). Acknowledgment of work performed and regular appreciation for voluntary efforts can help organizations recruit and retain volunteers and also satisfy fundamental intrinsic needs.

In contrast to Drucker’s traditional model of volunteer management, Jeffrey L. Brudney and Lucas C. P. M. Meijs offer a model based on the concept of natural resources. They propose that volunteer labor is a “renewable resource whose continuation and volume of flow can be affected positively and negatively by human intervention” and that “this new regenerative approach can help manage the volunteer resource in a more sustainable way” (Brudney and Meijs, 2012). Similar to natural resources such as solar energy, wildlife, and forests, Brudney and Meijs view volunteers as a continuous resource, with future generations likely to continue volunteering at some level. They caution, however, that an organization that sees volunteers as inexhaustible and inexpensive often finds itself in a never-ending cycle of recruitment, use, and withdrawal, while battling other organizations for a limited supply of volunteers. An organization that adopts a natural resources management perspective will put more emphasis on the ongoing management of volunteers, thereby decreasing turnover and lessening the need for constant recruitment. Table 4 applies characteristics of natural resources to volunteers as Brudney and Meijs see them.

**Table 4. Volunteer Energy as a Natural Resource**

<b>Natural Resource Characteristic</b>	<b>Applications to Volunteer Energy</b>
Human-made flow	The amount of volunteer energy (multiplication of people times hours) can be influenced positively or negatively by human intervention
Renewable/recyclable	If managed in a way to sustain and grow the resource, volunteers tend to volunteer again
Current reserve	The amount of volunteer energy (multiplication of people times hours) donated at present levels of promotion, recruitment, and incentives (lower extraction costs)
Potential reserve	The amount of volunteer energy (multiplication of people times hours) that could be donated given greater promotion, recruitment, and incentives (greater extraction costs)
Resource endowment	The theoretical maximum amount of volunteer energy (multiplication of people times hours) that can be donated
Growable	Human and program interventions can extend the current reserve of volunteer energy (the number of volunteers and the amount of hours donated) and/or increase the potential reserve
Storage potential	Limited possibility to store some results of volunteering for later use (for example, when volunteers prepare mailings or food for events)
Alternatives	Alternatives can extend the lifecycle of the volunteer resource, for example, use of technology and transfer of less popular volunteer assignments to paid staff
Common pool	Open access to potential volunteers for all organizations results in overemphasis on recruiting without commensurate attention to retaining volunteers

*Source:* It Ain’t Natural: Toward a New (Natural) Resource Conceptualization for Volunteer Management, Jeffrey L. Brudney and Luca C. P. M. Meijs in *Understanding Nonprofit Organizations Governance, Leadership, and Management*. (2012).

## **BOARD OF DIRECTORS**

As previously stated, the vast majority of nonprofit organizations feature a board of directors consisting of volunteers, and some consider membership on a governing board to be “the pinnacle of volunteer involvement” because of the “financial, human resource, and physical assets” for which trustees are responsible (Pappas, 1996, 103). Volunteer boards of directors fulfill both legal and practical needs. The Internal Revenue Service requires tax-exempt organizations to be governed by a board of directors. Practically speaking, a board of directors can provide a wealth of expertise to a nonprofit organization with few resources (Block, 1998). The following discussion examines the literature on the role of nonprofit boards, and potential problems they can encounter, and how agency theory relates to NPO board governance.

### **The Role of a Nonprofit Board of Directors**

Boards of directors in NPOs may be viewed as the “long-range strategy makers” of the organization, meaning that they decide the mission and objectives to be pursued (Hay, 1990, 154). Members should act as the “protectors of the various resource contributors to the organization” (Hay, 1990, 154) and are ultimately liable “for all authorized activities generating financial support on the organization’s behalf” (Pappas, 1996, 105). Board members must serve as “watchdogs that seek to minimize conflicts of interest between managers and shareholders” (Fama & Jensen, 1983, 315). One way to accomplish this is to “ensure sound policy guidance of the highest moral character” so that organizational employees, volunteers, and other stakeholders operate from solid and equal ground (Pappas, 1996, 105). Primary human resources roles that boards must play include, “hiring and evaluation of the executive director” and “ensuring that an ongoing strategic planning and resource allocation process is in place” (Pappas, 1996, 105). Additional human resources duties boards take on include developing incentive plans for managers and maintaining in-house command so that the organization’s human capital is not diminished through “breakdown of internal control” (Fama & Jensen, 1983, 315). Administratively, board members must ensure sound governance, monitor use of funds, encourage development of an annual report, and see to it that the organization has a detailed annual budget that is board approved (Pappas, 1996, 106). Also, they “develop organizational visibility through networking and linkage to the community,” and “recruit and select new board members and provide them with an orientation to the board’s business” (Block, 1998). Performance of these many, multifaceted, and sensitive leadership roles often determines the overall successfulness of a NPO in reaching its stated mission and moving toward fulfilling its vision.

While the enumeration of the many roles played by the board is extensive, it is not exhaustive since nonprofit board members have additional and demanding tasks to accomplish as organizational trustees. These roles can each demand a different type of expertise and level of attention depending on the organization, its maturity, the staff, and other internal and external factors. At times, the tasks at hand could be contradictory, and potential for “role-strain” may emerge if the board member is pulled in multiple directions due to competing duties (Golden-Biddle & Rao, 1997, 595). This is but one of the potential problems and challenges that are encountered by NPO board members.

### **Potential Problems and Challenges Encountered by Nonprofit Boards of Directors**

Considering the multitude of board roles, the numerous and different types of nonprofit entities, and the countless external factors that can arise, there is ample opportunity for potential problems or challenges to develop in the governance of NPOs. One common problem occurs when organizations and boards get “out of sync” from a developmental standpoint (Pappas, 1996, 111). This can easily occur when a board of directors that was in place when the organization was founded is still governing matters once the entity has reached maturity. Many nonprofit organizations have humble beginnings as grassroots agencies with shoestring budgets and few resources. These same NPOs can grow over time into powerful, influential, and well-funded organizations that become household names (e.g., American Red Cross and United Way). When this happens, the board of directors may be ill equipped to govern the current activities and sundry functions associated with the large-scale, complex, and dynamic organization in contrast to its earlier status as a grassroots agency with humble beginnings.



Another problem is board member selection (Hay, 1990, 155). Board members that can advance the organizational mission and have the NPO's best interests in mind are preferred over members that simply agree with the executive director and other members of the board at all times (Hay, 1990, 155). As Hay notes, "Compatibility makes meetings very pleasant, but it does not guarantee usefulness. Board members should be selected who can add knowledge in a culture of productive controversy" (Hay, 1990, 155). Of course, a certain amount of agreement is required between the executive director or leadership and the board, but merely serving as a "rubber-stamp" for executive initiatives does not add credible value to the role of a board member.

Next, there is a common saying about NPO boards related to fundraising, which is "give, get, or get off" (Pappas, 1996, 111). This essentially means that board members are expected to make donations themselves, seek out and obtain external funding streams, or, if not effectively doing either of these activities, the member should leave the board. In fact, the resource dependency view suggests that "boards are crucial to resource streams" (Hillman & Dalziel, 2003). With organizational maturity, the expectation grows stronger that members make an annual contribution and participate in raising external funds (Pappas, 1996, 111). This can alienate some members and cause friction between the organization and board members.

A final common problem that can develop in nonprofit boards is a conflict of interest with the organization, employees, or other stakeholders (Hay, 1990, 155; Pappas, 1996, 111). This is particularly common when a board member is also a lawyer, accountant, banker, or consultant and "represent their companies in dealing with the organization" on whose board they serve (Hay, 1990, 155). As a result, the conflict of interest may infringe upon the objectivity of the board (Hay, 1990, 155).

Stephen R. Block suggests that by following six responsible board practices, board members can consistently act prudently, lawfully, and in the best interests of the organization:

1. Becoming an active board member. Board members who are familiar with the organization's mission and purpose are generally able to make better decisions for the organization.
2. Attending all meetings. Being absent from meetings will not necessarily excuse a board member from responsibilities for decisions reached by those in attendance.
3. Insisting on having sound financial management tools and control systems. Board members need to learn how to read and use financial statements and audit reports to understand and monitor the organization's fiscal health.
4. Speaking up. Members should not remain silent when they disagree with a decision or an opinion expressed by others. Additionally, board members should ask questions when the organization's goals and objectives are not being met.
5. Identifying conflicts of interest. Board members need to avoid participating in discussions or decision-making when they have a conflict of interest.
6. Staffing. In addition to its having personnel policy guidelines for the executive director, the board must be certain that these personnel policies are adequate and updated to reflect all applicable mandates of law. (Block, 1998)

### **Principal-Agent Problem and Nonprofit Boards of Directors**

The principal-agent problem describes when higher-level controllers of an organization (principals) set the mission and objectives for the lower-level employees (agents) to carry out, but agents view the organization as a tool to advance self interest (i.e., pay increases and other personal gain) and manipulate the agency to take advantage and promote their selfish whims. When this occurs, principals exert their control via rules, policies, and discipline to establish safeguards against future abuses of privilege on the part of agents. This problem falls under Agency Theory, which is based in economics, but is applicable in public and nonprofit organizations as well (Brooks, 2002, 260).

In the nonprofit sector, the board of directors can be viewed as principals and employees and volunteers may be viewed as agents. To control agents, principals might turn to micromanagement (Behn, 1995). This can be detrimental to morale among employees and has potential to negatively impact other human resources

considerations such as employee retention. Yet, perhaps more interesting is that even though NPO boards must conduct high-level organizational governance, they are routinely relied upon to carry out functions usually reserved for lower-level workers (e.g., fundraising, coordinating with managers, and volunteering) (Oster, 1995). In essence, the principals of a nonprofit organization can also become agents of that same entity (Brooks, 2002, 260).

The confusion resulting from the principal-agent situation in nonprofit boards has resulted in a substantial body of literature on the topic. Notably, scholars have found that NPO boards that focus on higher-level policy matters and have a clear comprehension of the organization's mission are more effective than boards that get involved in lower-level work (Bradshaw, Murray, & Wolpin, 1992; Green & Griesinger, 1996; Stone, 1991). It appears the literature encourages NPO boards to “focus on policy goals, leaving considerable latitude to the agents in their attainment” (Brooks, 2002, 260). This suggestion reiterates the higher-level focus outlined by Hay and Pappas that were discussed previously in *The Role of a Nonprofit Board of Directors* section. Their identification of boards as long-range strategy makers and creators of sound policy grounded in moral character is in-line with what the literature advocates regarding the principal-agent problem. Through those activities, the principals set the course for the organization, and, at the same time, allow agents freedom and autonomy in pursuit of the desired objectives. In his work of identifying the characteristics of high-impact governing boards, Doug Eadie outlines three fundamental questions that boards focus on with senior staff:

1. The Strategic Question. Where should the organization be headed and what should it become over the long run—its values, vision, targets, and strategies for diversification and growth?
2. The Operational Question. What should the organization be now and in the coming year or two—its mission, current programs, facilities, organizational structure, annual operational plan and budget, operational policies, and who the CEO is and what his or her leadership priorities and targets are?
3. The Accountability Question. How well is the organization doing programmatically and operationally, financially, administratively, and in terms of public perceptions and relationships with the wider world? (Eadie, 2009).

## **LONG-TERM STRATEGIC PLANNING**

Strategic planning is required for long-term organizational sustainability. In presenting this crucial planning function several definitions and theories related to strategic planning are presented, followed by the customary and key elements of a strategic plan. The rationale for taking the strategic planning activities seriously is presented, coupled with the wide array of potential problems and challenges that often arise during the strategic planning process.

### **Strategic Planning Definitions and Theories**

Scholars have offered a variety of different definitions to describe strategic planning and its purpose. A number of strategic planning definitions are presented below:

1. A systematic process by which an organization anticipates and plans for its future (Gordon, 1993, 1);
2. A disciplined effort to produce fundamental decisions and actions that shape and guide what an organization is, what it does, and why it does it (Bryson, 1995, 5);
3. Vitality concerned with the intersection of an organization with its environment and with the creation and maintenance of a dynamic balance between the two, ensuring that the fullest feasible use is made of actual and potential organizational resources in taking advantages of environmental opportunities and repulsing threats (Dodge & Eadie, 1982, 2); and
4. A systematic process through which an organization agrees on—and builds commitment among key stakeholders to—priorities that are essential to its mission and are responsive to the environment. (Allison & Kaye, 2006).

From a human resources management viewpoint specifically, strategic planning attempts to “envision a long-term plan of reaching where the personnel system desires to be in 10, 15, or 20 years, while outlining clear goals, objectives, and programs by which to accomplish its mission” (Farazmand, 2007, 6). Thus, strategic planning is a

key element in a systematic approach to public personnel administration (Farazmand, 2007, 5). It defines the priorities of an organization and builds the commitment of the people working toward achieving those priorities (Allison & Kaye, 2006).

Early strategic planning theory accentuated the importance of a “top-down scientific management approach” (Courtney, 2002, 89). The top-down method has been challenged for its efficacy and the detachment that executive planners may have from the actual operations of the organization (Mintzberg, 1994). Henry Mintzberg observed that the feedback and information deriving from intimate and hands-on engagement with the daily operations of a company are imperative to making informed and strategic choices (Mintzberg, 1994). Mintzberg also argued that “strategic planning does not lead to and often prevents businesses from thinking strategically” (Hendrick, 2010, S222). As Hendrick muses, if that is true for business, might it also be true for government (Hendrick, 2010, S222)? Kurt Lewin, Ronald Lippit, and Ralph White studied leadership styles in a classic experiment to find that a democratic leadership approach was preferred to an autocratic and laissez-faire approach (1939). This research helped inform other strategic planning literature (Courtney, 2002, for example) and suggests that a more productive and positive planning experience results when utilizing a democratic approach. Bernard M. Bass found that individuals are more productive and satisfied when they are able to execute their own plans compared to when they must enforce the plans of others (Bass, 1970). This suggests that those involved in the strategic planning process are more likely to “buy-in” and those excluded from the process may resist the plan or show signs of dissatisfaction when it is implemented. Other scholars have encouraged a proactive approach to planning (Grewe et al., 1989) and one that promotes participation and communication among members of the planning team as paramount to success (Hudson, 1995).

The essence of strategic planning remains consistent whether the organization is for-profit, governmental body, or nonprofit. What differs, however, are internal and external forces that influence inputs and outcomes. An organization’s governance affects strategic planning significantly. While government organizations are governed by elected and appointed officials, nonprofits and for-profits are governed by a board of directors. Nonprofit boards represent the interests of the public. A company’s board includes or represents the owners. Through market research, customers of for-profit businesses can have a much greater influence on strategic planning than most consumers of nonprofit and government services. Donors and taxpayers, both of whom may or may not utilize the services of a nonprofit or government organization, can significantly influence a strategic plan. The mission and values are key elements of a nonprofit’s strategic plan, while usually less important for business and government planning, although this is changing (Allison & Kaye, 2006).

### **Elements of a Strategic Plan**

While organizations may approach the process of strategic planning in unique ways, the actual components of a strategic plan are typically consistent. Peggy Jackson (2007) and Blue Woolridge (2004) indicate that strategic plans should include: an organizational profile to present relevant information about operations, history, success enjoyed, challenges faced, and applicable statistical data; environmental scan and analysis to identify external factors that must be considered and project what the future holds for these peripheral elements; SWOT analysis (considering strengths, weaknesses, opportunities, and threats of the market served and the organization); evaluation of current organizational resources; identification of market needs and organizational needs; description of the operational vision and development or maintenance of an updated strategic mission statement that indicates the primary purpose for the agency’s existence; establishment and prioritization of strategic goals and objectives; identification of ways to achieve goals and objectives along with alternative methods for achieving them; and, selection of the best methods for achieving the organization’s mission (Jackson, 2007, 96-102; Woolridge, 2004, 389-391). These components combine to provide a detailed account of where the organization has been, the current context it operates within, and the organizational purpose while outlining what goals and objectives should be pursued for mission fulfillment as well as how they should be achieved. This summation of the essential components that should be included in a strategic plan by Jackson (2007) and Woolridge (2004) provides a succinct, but clear path that can be used to guide the planning process.

### **Why Take Part in Strategic Planning?**

Strategic planning consumes resources such as time and money, which are often in short supply at most nonprofit organizations (Allison & Kaye, 2006). Siri N. Espy explains that organizations have a variety of compelling reasons to undertake strategic planning activities, such as to formally prepare for the future, provide clarity for upcoming fundraising efforts, better understand existing and prospective competition, plan for the allocation of resources, and to coordinate efforts of various departments by looking at the “big picture” (Espy, 1986, 6). Nonprofit leaders, however, had some different and somewhat more tangible reasons for strategic planning when surveyed in the mid-1990s. The following reasons for engaging in the strategic planning process, ranked by order of importance are:

1. Review of the organization’s mission and values
2. Notification of all managers of broad long-term objectives
3. Review and approval of the strategic planning document by the board
4. Notification to all managers of specific short-term objectives
5. Use of the plan as the basis for ongoing monitoring of organizational performance by senior management and the board (Katsioloudes & Butler, 1996).

These reasons seem to center on internal communication about the direction of the organization and approval of plan contents. As well, the survey respondents clearly indicate the value they place on periodic assessment of the organization’s mission and values.

### **Potential Problems and Challenges in Strategic Planning and Implementation**

As Mintzberg observed, planning is an important organizational activity, but when too much emphasis is placed on formalized strategic planning it can crowd out other important functions; for example, when an overarching and remarkable vision statement is coalesced into a stiff and inflexible position that does not have the ability to change and adapt for the betterment of the organization (Mintzberg, 1994). Furthermore, when strategic planning is conducted from the top-down, the benefits of ongoing learning, feedback from all levels of the organization, and intra-level communication are lost (Mintzberg, 1994).

Due to these reasons, and others, there is a chance for strategic planning failure. George A. Steiner offers some common potential reasons for planning failure, namely: delegation of planning duties to outside planners or top management failing to spend the time necessary to take part in planning activities; overly formal processes that crowd out creativity; lack of monitoring and review in the process of long range planning; management and staff ignoring the plan once it is developed; and, an overall poor quality plan that fails to address key areas (Steiner, 1979). Jackson states that nonprofit organizations have a tendency to keep the contents of their strategic plan secret, or, only known amongst a small group of employees, and the author goes on to identify this as a reason that strategic plans fail during implementation (Jackson, 2007, 6). As well, if employees do not understand the reasons why the strategic plan was created or if there is no true link between “the plan and the organization’s daily operations, the plan will soon be history” (Jackson, 2007, 7). Lastly, strategic plans can fail to be implemented if they neglect to acknowledge long-standing organizational problems. Jackson states, “No organization is perfect, but sometimes the level of dysfunction within a nonprofit can reach a level that actively interferes with operations and planning” (Jackson, 2007, 7).

Sandford Borins reminds us that strategic planning is not a panacea for everything that ails the organization. He informs us in a not too subtle way, about the failures associated with strategic planning during the tenure of Robert McNamara’s leadership in the Department of Defense – a time-frame during which strategic planning in systems analysis and financial management, and Program, Planning, and Budgeting Systems (PPBS)—was utilized; then later its use in Zero Based Budgeting System (ZBBS) and now its most recent use in “Gov.2.0” and the Citizens Briefing Book by the Obama Administration. The intent of Gov.2.0 is to draw a more diverse and broad-based input to the strategic planning process (Borins, 2010, 220). He concludes, “Even the best plan, in the sense of the most rational, the most securely rooted in data and calculation, may prove worse than futile in the face of the inevitable irrationality of human behavior” (Borins, 2010, S220). Robert D. Behn further admonishes us that,

“Governments love requirements and templates. That’s how governments make things happen. Once a government decides that something should be done, it (1) mandates that every subunit should do it, (2) decides the one best way to do it, and (3) creates a template for every subunit to fill in to ensure that it is implementing this mandate in this obviously best way” (Behn, 2010, S218).

Unfortunately, as Borins and Behn have suggested, strategic planning forms and templates have reared their ugly heads in organizational analysis and have not produced the level of desired performance. Clearly, nonprofits and public entities face many different problems and contexts – organizational, cultural, social, political, and economic. They too have not only different values, beliefs, and orientation, but different stakeholders and legislators whose diverse interests must also be met (Behn, 2010, S218).

### **Nonprofit Organizations in a Human Resources Management Context**

The use of volunteers, boards of directors, and the emphasis on strategic planning set nonprofit organizations apart from their public sector counterparts. This is arguably important because it justifies specific scholarship and research focused on nonprofit organizations and their effective management with these considerations in mind. Because most of this analysis has focused on differences that exist between NPOs and other public agencies, not much attention has been given to other key areas of human resources management that are equally relevant to nonprofits and public organizations. Thus, it is necessary to further explain and analyze strategic human resources management strategies, compensation, and motivation from the nonprofit perspective.

### **STRATEGIC HUMAN RESOURCES MANAGEMENT**

In essence, strategic human resources management advocates that human resources “policies and practices should be tailored to agency mission and strategy and that line managers should be allowed substantial discretion in making decisions regarding matters of hiring, pay, and promotion” (Thompson & Seidner, 2009, 37). Pynes emphasizes that SHRM is “based on the belief that to be effective and able to adapt to changes quickly, agencies need realistic information on the capabilities and talents of their current staff” (Pynes, 2009, 31). Through SHRM, organizations can better “match their human resources requirements with the demands of the external environment and the needs of the organization;” the external environment and organizational needs are two key areas covered during strategic planning (Pynes, 2009, 32). Strategic human resource planning is regularly suggested for governmental agencies, but the approach has potential in NPOs as well, particularly due to their emphasis on strategic planning and mission-focused service delivery. Yet, implementing SHRM in NPOs can be challenging if leadership does not fully understand what SHRM means; if the organization lacks flexibility to begin new programs; if there is a lack of ongoing support from organizational leaders; or if financial costs associated with the planning process are too substantial (Pynes, 2009, 47-48).

### **COMPENSATION**

The public sector, on average, earns lower salaries than private employees and public compensation levels have declined compared to the private sector (Rozsa, 2010, 4). When looking at nonprofit employees specifically, the data show lower average earnings than both private sector and public sector counterparts (Butler, 2009). According to some scholars, the limited financial and human resources of NPOs inhibit their ability to compete against private sector businesses and public agencies (Frumkin & Andre-Clark, 2000).

While nonprofit funding must be acknowledged as a factor in their inability to compete against better-funded organizations in private and governmental settings, the lower wages typically offered by NPOs appears to have little impact on the recruitment of employees. This is mainly due to the fact that nonprofit workers have a stronger nonmonetary orientation, according to several studies (Benz, 2005; Borzaga & Depedri, 2005; Light, 2002). This alludes to the fact that NPO employees have different characteristics, motives, and occupational values than workers in other sectors (Rawls, Ullrich, & Nelson, 1975). Another study, however, found that while nonprofit mission statements attract employees initially, they are not enough to overcome inadequate compensation in the retention of employees, especially full-time staff (Brown, Yoshioka, & Munoz, 2004). They suggest that organizations use mission attachment in addition to other intrinsic factors such as skillful management practices to retain employees.



Human resources tactics related to compensation must be adjusted due to these complex differences in motivation and values. For example, merit pay can be an effective motivator in some instances, but studies have shown this not to be the case in NPOs. To clarify, nonprofit employees are typically motivated by intrinsic rewards (i.e., driven to complete the task because of the task itself or from internal satisfaction with self). As such, merit pay has been viewed as a “double-edged sword in that it may both decrease intrinsic motivation and be unable to sustain increases in extrinsic motivation, culminating in less motivation than before the program was initiated” (Deckop & Cirka, 2000, 415). Recognizing that nonprofit employee retention becomes more difficult as the economy improves and better-paying opportunities surface, some nonprofits are assisting their employees in improving their own situations. They also are helping staff access government benefits such as children’s health insurance and supplemental nutrition programs (food stamps), improve their quality of life with wellness programs and financial counseling, and prepare to move up professionally with talent development managers and tuition benefits (Chronicle of Philanthropy, 2012). With these factors in mind, it is also important that human resources professionals in NPOs design a compensation system that is viewed as reasonable and defensible to external stakeholders (e.g., funders, volunteers, political officials, and members of the media). This is important so the organization is viewed as a legitimate entity (Brandl & Guttel, 2007, 178). In his 2002 study comparing executive compensation at for-profit and nonprofit hospitals, Charles A. Barragato advocates that nonprofits adopt some of the well-accepted compensation systems practiced by their counterparts such as Total Quality Management or the Balanced Scorecard methods. Both of these techniques measure diverse outcomes such as financial performance, client relations and internal business processes.

## **MOTIVATION**

As previously mentioned, NPO employees are typically motivated by intrinsic factors rather than extrinsic ones. Armed with this basic fact, human resources professionals need to grapple with the question of what best motivates their people. Essentially, as suggested by Bob Lavigna, the question of what “motivates our employees to serve – and succeed – in government” and by implication public service, “should be placed on the decision table and answered” (Lavigna, 2012, 216). This means that public sector leaders must understand those factors which motivate employees, such as a transformational leadership that inspires to promoting employee engagement (employees see how their work connects with the mission of the organization). It also means that leaders ensure that employees are satisfied with the organizational leadership and the recognition they receive; can input to decision making, take pride in their work and their organization, and have the chance for personal and professional growth and development (Lavigna, 2012, 216-217).

Many other practitioners are in agreement with the observation of Bob Lavigna. For example, Paul H. O’Neill, former U.S. Secretary of the Department of the Treasury finds real leaders in short supply. He states that real leadership is shown when one hungers for “the responsibility of making a difference by creating the condition that people in your organization can contribute in a way that gives meaning to their lives” (O’Neill, 2012, 11). Then, he poses three questions that if answered affirmatively (always) will take an organization and the people in it on a path of greatness: 1) “Am I treated with dignity and respect everyday and by everyone I encounter?” 2) “Am I given the things I need –education, training, encouragement, tools, financial resources – so that I can make a contribution to the organization that gives meaning to my life?” and 3) “Am I recognized for what I do?” (O’Neill, 2012, 11). And joined by Thad W. Allan, former Commandant of the U.S. Coast Guard, he agrees with the National Preparedness Leadership Initiative, Harvard University, who are promoting a new form of effective leadership: Metaleadership (Allen, 2012, 321). Briefly, metaleadership entails: “understanding oneself and one’s emotions, understanding the event or challenge correctly, leading upward in space between political leaders and career or subject-matter experts, leading downward to support one’s people, and leading across organization boundaries” (Allen, 2012, 321). And, moving the concept further down the court, Walter D. Broadmax adds to the conversation by stating that, “The public’s business is always important” (Broadmax, 2012, 13). He offers the following truism: “No one ... prays for mediocrity.” He concludes by stating we want to recruit and retain, educate and train the best people for conducting the public’s service (Broadmax, 2012, 13). As shown here, employee motivation is never separated from trust in leadership and the role that values, engagement, mentoring, coaching, recognition, listening, interpersonal interaction, cooperation, and collaboration play in the workplace, especially when joined by the twin attributes of leadership integrity and congruity (Van Wart, 2012, 454-458).

A fundamental question that may interest human resources professionals is why people decide to pursue public sector, or, more specifically, nonprofit careers. James Perry and Louis Wise developed a compelling answer to that question via their theory called Public Service Motivation (PSM). It is defined as “an individual’s predisposition to respond to motives grounded primarily or uniquely in public institutions or organizations” (Perry and Wise, 1990, 368). At a basic level, this theory scrutinizes what prompts people to pursue work in the public sector. Gerald T. Gabris and Trenton J. Davis examine the three reasons that were originally included in PSM theory to explain an individual’s decision to work in public service: rational, normative, and affective (Gabris & Davis, 2009, 147). The authors note that a rational motivation is if an individual thinks employment within a public agency may result in implementation of policies that would be personally beneficial. A normative motive would be if the individual thinks working in public service is simply “the right thing to do” or morally advantageous. Finally, an affective motive may be present if the individual has a powerful emotional connection toward certain public sector programs or agencies (Gabris & Davis, 2009, 147).

Public service motivation, as empirical research has demonstrated, is positively related to membership in professional organizations and level of education (Moynihan & Pandey, 2007, 40), yet it is difficult to identify differences in what motivates employees in nonprofits versus motivational forces in other public sector agencies. For example, a study assessing if differences exist between public and private sector employees in terms of motivation found no significant differences in terms of motivational needs, and nonprofit employees had similar responses to both groups with the exception of lower need to compete and for autonomy and higher need for community service (Gabris & Simo, 1995). Due to the difficulty in identifying and assessing differences specific to nonprofit employee motivation, the motivational literature that is targeted toward the public sector in general may be applicable for nonprofit organizations as well. Despite a lack of truly unique motivational needs in the nonprofit sector, it remains advantageous for human resources professionals to acknowledge the existing theories and literature related to motivation and need fulfillment, and this literature is brought together most comprehensively in their far reaching, multidisciplinary examination of public service motivation (Perry & Hondegham, 2008). In their work they present an analysis of volunteerism (prosocial behavior), the role of altruism and empathy, etc., and how public sector and public services motivation differ. In the final analysis, managers should connect the theory of public service motivation to the practice of how we recruit, select, orient, develop, motivate, design jobs, and retain employees (Naff, 2011, 492-493).

## **Discussion**

Much of the existing literature on public sector human resources management implies that nonprofit organizations can conduct HRM activities in essentially the same way as governmental agencies. That is to say, little differentiation exists in the widely-cited scholarly efforts between how NPOs and other public sector organizations carry out – or should carry out – HRM duties. While it is true that nonprofit organizations can benefit from general literature aimed at the public sector and will find applicability in the practices, techniques, and protocols being used broadly, there are subtle differences between NPOs and governments that can influence HRM and those areas deserve recognition. This analysis has presented three unique traits of NPOs that distinguish them from their public sector counterparts: the use of volunteers in NPOs, the role of nonprofit boards of directors, and the emphasis placed on strategic planning in the nonprofit sector. This is important because these factors point to the need for specific scholarship and research focused on nonprofit organizations and their effective management.

## **VOLUNTEER EMPLOYMENT**

The presence of volunteers is one factor that is unique of nonprofit entities. With regard to human resources, NPOs must know what motivates volunteers to donate their time and what historical and emerging demographic groups are likely to volunteer for recruitment purposes. Furthermore, NPOs must provide volunteers with a mutually beneficial experience so that a long-lasting relationship can be cultivated, which is important for volunteer retention. While it appears the line between paid and voluntary staff is growing increasingly thin, nonprofit managers must also acknowledge how best to manage volunteers. For example, Drucker notes the value of recognition in his discussion on management and how important that can be to the volunteer experience (1990).

## **BOARD OF DIRECTORS**

Boards of directors serve as another differentiating characteristic of the nonprofit sector. Board members serve as trustees of nonprofit organizations and strive to set the higher-level objectives and overall trajectory with mission and vision in mind. They also bear fiduciary responsibilities and fulfill human resources roles in many organizations. For example, board members work to minimize conflicts of interest by drafting sound policies, hire and evaluate the executive director, help ensure strategic planning and resource allocation processes are in place, develop incentive plans, and maintain internal command so there is no threat of breakdown in organizational control (Fama & Jensen, 1983, 315; Pappas, 1996, 105). And similar to the uses of succession planning for other positions in the organization, it should also be use for the board of directors.

## **STRATEGIC PLANNING**

Last, in this discussion, NPOs were distinguished from other public organizations by the emphasis nonprofits place on strategic planning. Farazmand reveals that strategic planning and human resources management are closely linked as the act of strategic planning attempts to outline the means (i.e., goals, objectives, and programs) through which the organization can accomplish its mission and development of a long range personnel plan is a significant part of that process (Farazmand, 2007, 6). Strategic planning encourages NPOs to step back and look at the big picture including where the organization is currently and where it is going. In order to realize the big picture goals, staffing and personnel considerations must be acknowledged. The last part of the discussion related to strategic planning focused on problems and challenges that can arise in the process and during implementation of the plan. These can have human resources management implications because, for instance, some employees may not “buy-in” to the plan if they were not included in the planning process or employees may not understand the reasons why the strategic plan was developed, which can lead to implementation resistance. NPO managers must acknowledge these possible threats if they want employees to appreciate and accept the plan.

## **Nonprofit Organizations in a Human Resources Management Context Summary**

Human resources management theories and practices that are associated with nonprofits are generally relevant to public organizations as well. The topics used to contextualize NPO HRM include strategic human resources management, compensation, and motivation. Strategic human resources management ties HRM to the organizational mission and strategy so that it can ultimately function more effectively. Select information generated through strategic planning can be used to link HRM with strategy. In terms of compensation, it is important for managers to realize that NPO workers have a stronger non-monetary orientation (Benz, 2005; Borzaga & Depedri, 2005; Light, 2002) and are more intrinsically motivated than employees in other sectors of the workforce. It is important that human resources professionals design reasonable and defensible compensation systems with these considerations in mind (Brandl & Guttel, 2007, 178). Finally, with regard to motivation, Public Service Motivation suggests why individuals might seek out public service, and, by extension, nonprofit work. Understanding the basic reasons why someone may seek a public sector career can help human resources professionals in marketing available positions, recruitment, selection, hiring, and retention and, of course, motivation.

## **Future Considerations for Nonprofit Human Resources Management**

What does the future hold for human resources management in the nonprofit sector? The United States Government Accountability office (GAO) recognizes the importance of the nonprofit sector as a whole in modern society, saying, “Given the way the [nonprofit] sector is woven into the basic fabric of our society, it is essential we maintain and cultivate its inherent strength and vitality.” (GAO, 2007).

Several issues relating to nonprofit human resources management emerged as the GAO examined how the sector might be strengthened and improved. As governments and nonprofits increasingly work together to provide services, the need for collaboration and coordination becomes apparent. Programs and services are more likely to be successful after both parties agree to mutual outcomes, joint strategies, compatible procedures, fair monitoring and evaluation efforts, and mutual accountability to internal and external stakeholders. Finding, hiring, training, and retaining staff skilled in forging and maintaining collaborative partnerships will be critical to the success of these ventures.

Internal governance of nonprofits was another issue identified by the GAO. Largely a sector that relies on self-regulation, the concern of human resources management will be to train staff and volunteers in the critical importance of transparency and accountability.

In a broader sense, smaller nonprofit organizations with limited resources often struggle to develop their human capital – staff, board of directors, and other volunteers. They may be unskilled in complex legal and financial issues, leadership skills, and program evaluation. One development that may be addressing this challenge is the increase in the number of graduate and non-credit nonprofit management programs available to staff and volunteers.

Additional literature supports some of those same observations on emerging issues. Trenton J. Davis, Gerald T. Gabris, and James B. Kaatz note that:

*The professional administrator job of the future will involve very lean staff, flat hierarchies, with strong emphases placed on performance measurement, high product quality, customer service, and high accountability. Such public organizations will be nimble and agile, and able to adapt to new environmental situations and demands quickly* (Davis, Gabris, & Kaatz 2010, 11).

While this serves as an excellent forecast of things to come in the public sector generally, the following additional factors help inform NPO-specific human resources considerations for the future: accountability; work arrangements; compensation; and human resources outsourcing.

### **Accountability**

Accountability has become the mantra in public service organizations. The public at-large is demanding more accountability from elected officials, governmental agencies, and nonprofit institutions alike. Essentially, if public funds are utilized by the entity, they are open to potential scrutiny and criticism from citizens about how that money was used. To justifiably defend their use of public monies, NPOs will likely need to become increasingly more cognizant of their efforts to remain accountable to a demanding public. One way organizations depict effectiveness (i.e., how well services are provided or how successful an organization is at meeting its purpose) is through the collection of outcomes data. Outcomes can be defined as “a specific desirable result or quality of an organization’s services” (Morley et al., 2001, 5). Collecting outcomes data not only can improve organizational effectiveness but can also help prove a NPOs worth to stakeholders. Yet, while a number of NPO managers view it as worthwhile, others consider it merely a marketing tool and some call it a “resource drain and distraction” (Carman and Fredericks, 2008, 51). Indeed, a 2007 survey of nonprofit organizations showed that only approximately 60 percent were collecting outcomes data (Carman, 2007). As the public sector becomes increasingly competitive and is viewed in a more critical light, the future may require a higher percentage of NPOs to overcome their negative opinions about outcomes data and work to become more accountable to the citizenry.

### **Work Arrangements**

The public sector has faced pressure to become leaner and less hierarchical (flatter) in terms of staffing and organizational structure in order to facilitate performance. This trend is largely credited to David Osborne and Ted Gaebler who advocated for a more entrepreneurial public sector in their landmark 1992 work on reinventing government. As a result, more work is being contracted out, temporary workers are being used, and flexible work arrangements such as telework (i.e., working from home or other locations outside of the office and relying on telecommunications as the link to the employer) are being utilized. Telework, also known as nomad work and telecommuting, has been used effectively to “meet organizational goals as well as contribute to bottom-line results” while benefiting employees due to reduced commute time, flexible hours, and lower expenses (Collins & Moschler, 2009, 55). The sectors of public administration, health, and education have the highest percentage of temporary workers, indicating it is already a serious factor to consider (Conley, 2003, 456-457). Furthermore, temporary, flexible, and part-time work is imperative to the participation of women in the workforce and there is a higher incidence of young workers, individuals with disabilities, and ethnic minorities pursuing temporary contracts as well (Conley, 2003, 457-458). It is likely that these trends will continue their spread through the public sector and become increasingly prevalent within nonprofit organizations as they seek out ways to keep costs down, and, at the same time, remain competitive in attracting capable and diverse employees.

## **Compensation**

Nonprofit employees tend to earn less on average than both private sector and other public sector workers (Butler, 2009). The prevailing thought has been that the lower wages typically offered by NPOs has had little impact on the recruitment of employees because nonprofit workers have a stronger nonmonetary orientation (Benz, 2005; Borzaga & Depedri, 2005; Light, 2002). Yet, others believe the limited financial and human resources of NPOs inhibit their ability to compete against private sector businesses and public agencies (Frumkin & Andre-Clark, 2000). Jeffrey Klineman interviewed a human resources consultant in 2004 about her work with nonprofit organizations across the country and she had this to say on the topic:

*Nonprofits paid lower [in the past] and made it up in benefits and time off. What's happened now is that many nonprofits have found they can't continue to pay below market and still attract the staff they need, so they need an HR person to really help them determine what the market is, and what kinds of benefit packages they can put together to compensate them.* (Klineman, 2004, 25).

This alludes to a shift occurring within the nonprofit sector and the future may require NPOs to reallocate their resources so that employees can be offered more attractive compensation packages. More research is required on the topic to determine the impact of both monetary and nonmonetary matters, as well as intrinsic and extrinsic motivation if the nonprofit sector is to attract and retain high-quality employees in an increasingly competitive marketplace. Although transformation leadership (inspirational leadership) is a powerful employee motivator that trumps compensation, pay remains an important matter – especially during an economic period in which public service remuneration lags behind or has declined relative to the private sector.

## **Human Resources Outsourcing**

Many small nonprofit organizations do not have a formal human resources department or even a designated employee that is wholly devoted to human resources duties (Klineman, 2004). Determining when to create a human resources department is a challenge that many growing nonprofits face and human resources specialization is typically “something that evolves slowly, until the duties take up most of an employee’s time” (Klineman, 2004, 26). The struggle to formalize HRM practices might be addressed through human resources outsourcing (HRO). HRO refers to the practice of contracting an outside service provider to deliver some or all of the organizations HR services (Cogburn, 2009, 308; Pynes, 2009, 36). This tactic has been used in private and public organizations for awhile (Lawler et al., 2004; Siegel, 2000) and even though some NPOs are outsourcing human resources activities, it could be more prevalent in the future. Though costly, there could be financial benefit for NPOs to outsourcing some or all HR duties to a third-party provider (Lawther, 2003); and, at the same time, it may help them move toward a more progressive and sustainable model for HR service provision. Additional research is needed on HRO in the public sector, and, specifically, in nonprofit organizations, to better understand its efficacy, potential value, and risks.

## **CONCLUSION**

This analysis has shown that there are many similarities that exemplify nonprofit organizations and other public sector agencies. This analysis further demonstrated that there are many important differences that remain. While scholarship on human resources management focused generally on the public sector can be quite applicable to nonprofits, there is ample opportunity for scholars to expand the HRM literature that is explicitly centered on nonprofit organizations. Through additional research a more robust understanding of human resources management in nonprofit organizations can emerge with attention paid to the traits that make these entities truly unique and different from their public sector counterparts.

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