

## CHALLENGES AND RESPONSES – LEARNING IN NONPROFIT ORGANIZATIONS

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### **Abstract:**

Organizations of the different sectors of economy are characterized by a growing number of similar features. So, nonprofit organizations become in certain respect similar to business sector organizations. This is a phenomenon that brings for them opportunities, but also risks and challenges. In connection with it, a need develops to change, to improve existing structures and processes, to become innovative organizations, to use the tools of managerialism. The paper is based dominantly on international research of the last decade and on the ongoing research of the authors in the field of professionalization of nonprofit organizations. It gives a critical overview of a variety of issues in connection with it. Literature analysis is supported by evidence from the practice to show how nonprofit organizations are learning new managerial and leadership skills and acquiring new knowledge in order to meet challenges of an uncertain environment. Through this, the paper contributes to current research in this field; and gives insight in certain changes connected to the need of nonprofit organizations to become more professional in their operations.

*Keywords: nonprofit organizations, professionalization, learning, managerialism, organizational development.*

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## 1. INTRODUCTION

“Nonprofit organizations are facing a challenge similar to that of many other organizations: the old structures don’t apply any more, and the new ones are yet to be found” (Aitamurto, 2011, pp. 1). Although this quote is referring to the enormous influence of the internet on the everyday operations of the organizations regardless the sector of the national economies, it delivers a much deeper and broader message to us.

Nonprofit organizations play an increasing role in the overall performance of national and global economy (Anheier, 2009). Although this is a generally acknowledged fact, they are relatively neglected in research, compared to other sectors. This is why the paper wants to help get a better and more founded picture about this sector of growing importance.

The paper has a twofold aim: to acknowledge management development of the last decades and to analyze a segment of this development from the perspective of nonprofit organizations. It gives insight of issues in connection with managerialism and in the meantime also highlights elements of learning and growing professionalization of nonprofit organizations. It gives a critical overview of a variety of issues in connection with it. Focus is on what role managerialism is playing in learning and developing skills of organizational members, by using soft tools of change, such as organizational development.

Accordingly, the main question addressed in the paper is how managerial approaches affect the attitudes of nonprofit organizations, what they do to meet the challenges coming from their operational environment.

In order to reach the above formulated objectives, the article provides evidence through literature and practice that nonprofit organizations are learning how to use effectively the tools of business sector managers and leaders. Through a brief analysis of the challenges and the answers that nonprofit organizations give to them, the paper contributes to a better understanding of the continuous adjustment, change and renewal in nonprofit organizations in order to perform better in their everyday operations and in fulfilling their mission. Thus, it helps not only better understand the characteristics of nonprofit organizations and it also expands existing knowledge regarding the professionalization of the third sector organizations, both as an aspect of every day operations and as service providers to other organizations.

According to the above presented objectives, the paper first explains what the authors understand under nonprofit organizations, followed by the challenges which can be considered as relevant drivers of the changes that are in progress in this sector. In section 4, the responses are addressed, with focus on those which are related to learning. Empirical evidence is provided from the Hungarian nonprofit sector. The paper concludes with findings of the research and the limitations of the research in its current stage.

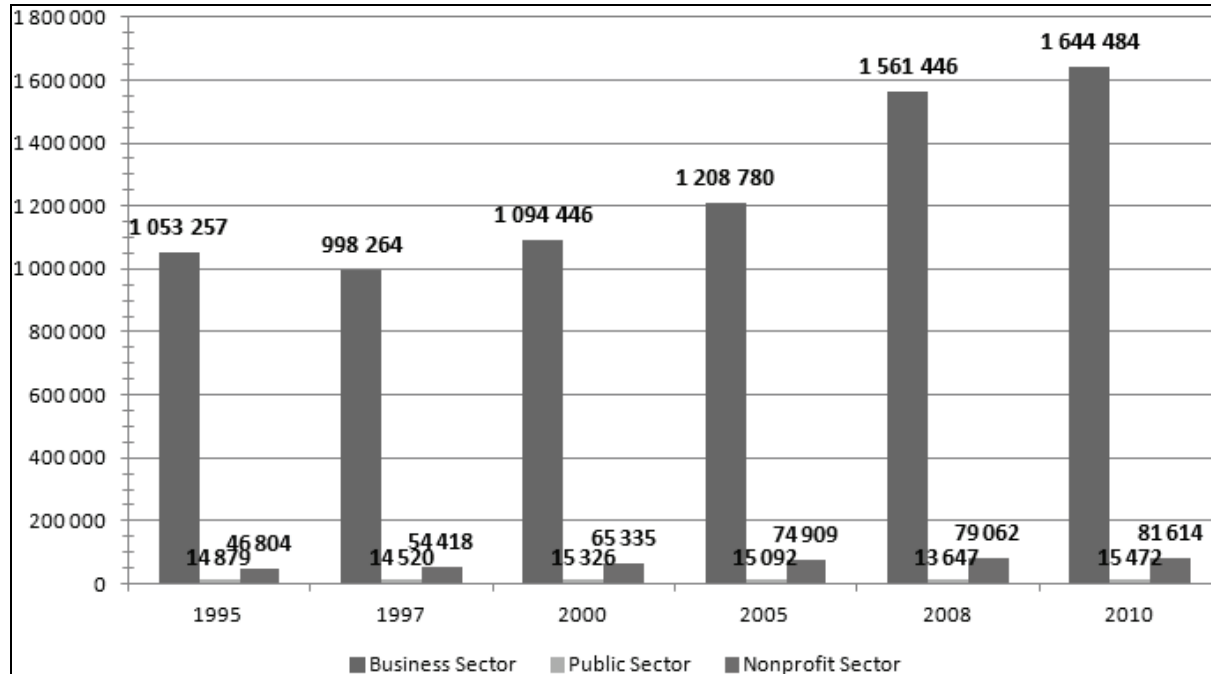
## 2. RESEARCH METHODOLOGY

The thesis tested in the paper with the help of different research methods is, that theory and practice prove that nonprofits learn from business sector managers and leaders to become more professional.

The paper is based dominantly on international research of the last decade and the ongoing research of the authors in the field of learning and professionalization of nonprofit organizations. It combines desk and field research. In relation to the theoretical issues, we used relevant literature. Literature analysis is supported by some evidence from the practice to show how nonprofit organizations are learning new managerial and leadership skills and acquiring new knowledge in order to meet challenges of an uncertain environment. The purpose of the empirical research is to analyze nonprofit organizations responses to the challenges that were highlighted in Section 3 and Section 4.

Empirical data are based on an ongoing research supported by the Hungarian Scientific Research Fund, project No. 101886 with the aim to study the professionalization and knowledge management features of Hungarian nonprofit organizations, the number of which nearly doubled between 1995 and 2010: it grew from 46814 to 81614 (Figure 1). At the moment, the research results include an organizational development project conducted and coordinated by the umbrella organization House of Civic Communities involving the nonprofit sector in two counties of Hungary (for more detail: see Section 5). Documents of and about the programs details and the list of participating organizations were provided by this organization. The findings of this paper are based on document analysis and an online survey among the participating organizations. The survey took place in the period of time when the organizational development program was in progress. The findings are briefly compared with the results of earlier research regarding learning and growing professionalism of nonprofit organization.

**Figure 1:** Number of the registered economic organizations in Hungary (1995–2010)



Source: Hungarian Statistical Office, 2011.

First we provide an analysis of the main factors which cause special challenges for nonprofit organizations.

### 3. CHANGING NONPROFIT ORGANIZATIONS

#### 3.1. The Term Nonprofit Organizations

What do we understand under nonprofit organizations and why we should examine them from the perspective of learning and other issues which are related to learning. According to our view, nonprofit organizations fulfill the criteria as formulated by Salamon (2010). They are:

- organizations: they have some meaningful structure and organizational permanence; and show regularity to their operations;
- nongovernmental: they are private, separate from the government, even if they receive support from the government;
- non-profit-distributing: they are not allowed to distribute profits to their owners or directors, but they are rather required to reinvest these surplus earnings into the objectives of the organizations;
- self-governing: they are not controlled by other entities outside the organization, they have their own internal mechanisms to lead and operate the organization;
- non-compulsory: the membership or participation in the activities of the organizations is voluntary (Salamon, 2010).

If we look at the definition carefully, we can see that the definition of a nonprofit organization does not mean that the organization is prohibited from earning a profit, but it regards what must be done with the profit earned or otherwise received (Heyman, 2011). We also have to pay attention to other specific characteristics of the non-profits, such as to their mission, which clearly differentiates them from business and government sector organizations; or to the challenge in connection with their dependence on volunteers. They use intensively volunteers for the fulfillment of their activities or for their management.

Drucker (1992) draws attention to the specific human and organizational features of nonprofit organizations, such as the very different role that the board plays in the governance of a nonprofit institution, and also what can be done to attract volunteers, to develop them, and to motivate them for good performance; to issues of diversity of fund raising and those of fund development.

#### 3.2. Drivers of the Changes in Nonprofit Organizations

First of all we have to mention that the nonprofit sector today has growing competition from business and public sector organizations, and also from other nonprofit sector organizations. They also have to meet growing demands for better quality services. A trend shows toward growing accounting, auditing, and reporting requirements (Carman, 2009; Carroll & Stater, 2009). To put it in other words, nonprofit organizations need to show accountability and meet performance requirements if they want to receive financial support from public or private donors.

Nonprofit organizations are also facing another challenge and pressure at the same time to ensure the efficient use of their resources, and to meet the demands of providing more, high quality services, to better performance (McHargue, 2003). Hence, greater emphasis is on demonstrating effectiveness and efficiency in the nonprofit sector. And all this at a time when it is well-known that their funding is being diminished and market-related competition is increasing.

These circumstances are important driving forces which improve the interest of nonprofit organizations for increasing efficiency and effectiveness of operations, more conscious operations, improving service quality, focus on marketing and public relation, having valuable information about their own performance, more professional operations.

We also have to mention a phenomenon that can be observed worldwide: namely, that organizations of the different sectors are characterized by a growing number of similar features (Epstein & McFarlen, 2011; Dobrai & Farkas, 2010; Anheier, 2009). If we look at the nonprofit organizations from this perspective we can state that as a consequence of the changes in their external environments they have to learn constantly.

## **4. RESPONSES TO THE CHALLENGES**

To start the analysis of answers that nonprofit organizations give to the above described challenges, we want to draw attention to the phenomenon of nonprofit organizations becoming business-like.

### **4.1. Nonprofit Organizations Adopting Tools of the Business Sector Organizations**

The numerous similarities between nonprofit and business sector organizations make experts coming from the business sector very useful for nonprofit sector organizations (Epstein & McFarlen, 2011; Beck et al., 2008). On the other hand, business sector organizations also learn from nonprofits (Austin, 1998; Drucker 1992), that is, the organizations in the different sectors benefit from this mutual influence.

For most people the word management even nowadays means ‘business management’. However, the nonprofit organizations also know that they need management; they know that they need to learn how to use management as their tool for successful operation. Certainly, organizational contingencies influence the decisions what kind of solutions (Brown & Guo, 2010; Epstein & McFarlen, 2011), managerial or governance tools are adopted by the nonprofit organizations (Bradshaw, 2009; Ridder et al., 2012; Kreutzer, 2009). They also need to challenge and to improve existing organizational structures and processes, and to become innovative organizations (Ridder et al., 2012).

As a consequence of the changes, nonprofit organizations are forced to face on one hand risks, on the other hand use their opportunities and also challenges for the nonprofit sector (Ridder, 2012). Because of these circumstances they seem to realize that they have to become more professional in their activities (Dobrai & Farkas, 2010; Farkas & Dobrai, 2010).

### **4.2. Nonprofit Organizations Becoming Business-like**

As a consequence of the changes, nonprofit organizations become in certain respect increasingly business-like. With growing professionalism a relatively new approach can be observed in the nonprofit theory and practice, the so called nonprofit managerialism (Agard, 2010; Cutler & Waine, 2000; Salipante & Aram, 2003; Maier & Meyer, 2011). It is characteristic of the nonprofit sector that it has been adopting management knowledge and practices, and at the same time it is developing specific nonprofit managerial knowledge. Managerialism is a mindset and behavior and has its origins in the business sector but as time

passed it has found its way into the nonprofit sector. It is a controversial issue (Roberts et al., 2005) and topic of numerous discussions (earning profits vs. mission of the organization etc.).

There also have been a lot changes in the leadership models of nonprofit organizations lately (Hesselbein, 2004). These are great challenges, which are addressed frequently in research, so among others, in the nonprofit sector. Regarding the nonprofit sector it means the following: how the nonprofit organizations react to these challenges, will define if the nonprofit organizations will be successful, and if yes, then how long. One of the challenges, which make learning for the nonprofits necessary, is the commitment, and the need to develop leaders of change for the organization, change for future existence and success. Another challenge is to become increasingly diversified organizations. The third is the challenge of collaboration, alliance, and partnership (Hesselbein, 2004; Chen & Graddy, 2010).

We agree with Austin (1998) that effective management of nonprofit organizations requires special competencies which are ensured by business people. The main benefit to nonprofits from the board participation of business people comes from their expertise and their managerial and business mindset. But business people also have personal benefits from board membership. This benefit is the sense of satisfaction which is caused by doing something for a good cause.

## **5. LEARNING THROUGH ORGANIZATIONAL DEVELOPMENT – EVIDENCE FROM THE PRACTICE**

In this part of the paper, the above highlighted responses to the challenges for nonprofit organizations are underpinned by the preliminary findings of an ongoing research project which is studying the professionalization process of nonprofit organizations.

### **5.1. Learning and Development Needs of Nonprofit Organizations**

It is a well known fact that organizational development is an important tool of leading change in organizations. This has been acknowledged by the complex organization development program which was offered to the nonprofit organizations in the two counties of the Southern Transdanubian region of Hungary (Table 1), in the counties Baranya and Somogy, and the aim of which was to enable nonprofit organizations to recognize and consciously influence the factors which determine their situation, to consciously meet the challenges, and to help these organization by choosing the right management tools that are necessary and appropriate to progress.

For our research, collection of data took place in June and July 2011. List of participants was provided by the House of Civic Communities Pécs, the umbrella organization which on a regular basis helps other nonprofits with professional services. As mentioned above, the chance to participate in this program was offered in two counties of the Southern Transdanubian region. Altogether 58 organizations completed the complex organizational development program. These participating organizations were target of our online survey and are target of our face-to-face interviews.

We wanted to know why the participating organizations wanted to do this project. According to the application documents, and of the survey results, there was a large scale of drivers for participating in the project. However it was clear that they all recognized the importance of

the need of learning and development in order to ensure the sustainable existence of their own organization. The contingencies location, activity field, lack of operation funding/resources, lack of info-communications technology, lack of application experiences, dependence of income/revenues on governmental (central) sources and other characteristics of the different organizations resulted certainly in a variety of priorities.

They agreed on that they needed to acquire and develop managerial skills and knowledge, that they wanted and had to develop their performance, increase the quality of their service, that they were lacking the financial knowledge they would need for their everyday operations, they needed to develop their cooperation and partnership with other organizations, they needed to improve their skills in the field of team work and nonprofit specific activities like fund raising. These findings correspond completely with the results of our earlier research (Farkas & Dobrai, 2010; Dobrai & Farkas, 2010, Dobrai & Farkas, 2008) and also with international trends (Billis, 2010; Henriksen et al., 2012).

**Table 1:** Number of nonprofit organizations in the surveyed counties

	Region/ County	Legal form (number)								
		Private founda- tion	Public funda- tion	Assoc i- ation	Cham- ber	Labor union	Profes- sional org.	Public benefit org.	Nonp rofit instut ion	Other
<b>2005</b>	Baranya	742	82	1 238	20	29	74	80	–	8
	Somogy	568	98	1 285	27	38	104	34	–	7
	Tolna	416	56	834	30	14	60	32	–	2
	<b>Southern Trans- danubia</b>	<b>1 726</b>	<b>236</b>	<b>3 357</b>	<b>77</b>	<b>81</b>	<b>238</b>	<b>146</b>	–	<b>17</b>
<b>2009</b>	Baranya	837	80	1 572	16	47	89	115	–	4
	Somogy	575	90	1 548	19	26	92	47	–	4
	Tolna	451	56	1016	14	17	73	44	–	2
	<b>Southern Trans- danubia</b>	<b>1 863</b>	<b>226</b>	<b>4 136</b>	<b>49</b>	<b>90</b>	<b>254</b>	<b>206</b>	–	<b>10</b>

Source: Hungarian Statistical Office, 2010.

## 5.2. Custom-Designed Development Program as Framework for Learning

In order to meet the above articulated needs of nonprofit sector organizations, a complex organizational development program had be offered that would be able to have long term impacts on the involved organizations: to provide a higher level of equality between town and country, to make the operations more stabile, and sustainable, which helps the strengthening and long lasting organizational cooperation, intersectoral cooperation, adequate info-communication infrastructure, improving experience in the field of writing applications, successful projects accomplishment.

As survey results prove, the complex program (which offered in the form of training and development, facilitated teamwork and organization-specific programs): (a) general programs that fit each of the participating organizations (such as: foundation nonprofit knowledge,

financial issues in nonprofit organizations, human resource management in nonprofit organizations, developing partnerships between organizations and sectors, development of organizational activities of the services, operational issues of nonprofit organizations); (b) and programs fitted to the special needs of the different organizations; was very useful for the participating organizations. They helped them learn and improve their skills and knowledge, and to become more professional in their service.

## 6. CONCLUSION

As a conclusion of the organization development program for nonprofit organizations can be stated that such a program offers great opportunities for nonprofit organizations to acquire new knowledge, to learn new methods, to develop capabilities; and by using those, to improve their organization and to ensure its long term existence.

If we compare the findings of the present paper, which were gained as a result both of desk research and field study, with the results of earlier research about knowledge related issues in nonprofit organizations, we can announce that they support and strengthen our previous research results, and along with it, they help see the trends in the development towards knowledge-based performance of nonprofit organizations. A deeper comparison and analysis is subject to further research, partly because of the limitations of the research results in this phase of the ongoing project.

Although the sample of the studied organizations cannot be viewed as representative (limited number of the surveyed organizations, and limited geographic area); the comparison of the different projects allows us to make statements which can be generalized. These findings also suggest us to expand our future research to other regions of the country and to work with an appropriate data base which makes international comparison possible.

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