Basic Steps in Establishing Non-Profit Organization (NPO)

1. Steps and special considerations in starting and managing NPO

Steps to Starting and Running a Non-Profit Organization

1. Understand the unique aspects and skills to start and manage NPO
2. Find the right partners for your NPO
3. Select Board of Directors
4. Establish and stick to your mission-vision-purpose
5. Be familiar and comply with non-profit law- state regulatory issues -organizational documents and tax registrations - for non-profits
6. Establish your NPO starting with developing critical organizational structure and functions
7. Plan for your non-profit Activities
8. Consider Effective multi-faceted Fundraising mechanisms
9. Staff your non-profit organization
10. Tap additional information resources

2. Clear mission and purpose:

The most fundamental quality of an effective non-profit is clarity about its mission—both what it seeks to accomplish and why this purpose is important.

The non-profit should communicate its mission clear to all its stakeholders—board, staff, donors, volunteers, partners, and the general public—so that everyone understands its goals and works toward a common purpose. All the non-profit's programs and operations should be aligned to advance its mission. In addition, effective organizations document the need for their services and explain the value they add. For example, human service organizations should be able to explain how their services meet real demands and fill gaps. For example Arts and culture groups should be able to describe how their work enriches the community and specific audiences.

3. Ability to perform key functions:

Effective non-profits must be able to perform essential functions necessary to fulfil their missions. The authors of -How Effective Non-profits Work - cite six essential functions:

1. Communicate vision and mission
2. Engage and seek stakeholders' input in designing programs, including people who use its services, and serve its target community appropriately
3. Achieve results and track impact against a few key measures, at least through basic means
4. Manage an active and informed governance structure
5. Secure resources appropriate to its needs
6. Plan for the future
7. Be a learning organization - is key to effectiveness: making it part of the organization's culture to evolve its programs and operations as it learns from stakeholders, from its assessment of impact, and from new knowledge in its field. In short, the non-profit should be a learning organization. Strong practices, procedures, and policies. Effective non-profits also

follow good practices in three functional areas: finance, governance, and organizational and program development.

4. Characteristics of Efficiency and Effectiveness - **Important issues**

The following important Governance issues have to be of focus

1. **Financial**
2. **Governance**
3. **Organizational and program development**
4. **Good people**
5. **Ability to mobilize others** factors

4.1. Financial

1. Yearly audits are conducted and made available to you upon request.
2. Financial statements are prepared quarterly, following a consistent format.
3. Solid fiscal management processes are in place. Good practices include a board of finance committee, careful cash monitoring, and regular budgets monitored with monthly cash flow statements.
4. There is a diverse range of supports, such as individual donors at varying levels, foundations, and government or other institutional contributors.
5. Efforts are in place to establish and maintain a reserve fund, ideally equal to 3 to 6 months of operating expenses.

4.2. Governance

1. Make sure that a strong leadership runs the organization.
2. An active process exists to properly handle governance issues.
3. A board nominations process and board term limits are in place.
4. Regular and ongoing evaluation of programs and fundraising plans takes place.
5. Board meetings are scheduled for the year.
6. Written policies set expectations, increase efficiency, and promote transparency and accountability in operations.
7. The organization demonstrates flexibility to adjust to environmental shifts.

4.3. Organizational and program development

1. Ensure that a strategic plan is in place and used. It is reviewed annually and adjusted as necessary. Key staff refers to it when working.
2. Regular client input is welcomed and used for continual program improvement.
3. Organization demonstrates involvement of staffs in planning and evaluation.
4. Other organizations doing similar work speak highly of the organization.
5. Staff can articulate key accomplishments, lessons learned, and future directions.
6. The organization is recognized as an institution; it is not identified solely with one or two individuals who work there.
7. The organization is able to demonstrate measurable outcomes.

4.4. Good people

Above all, non-profits depend on one key resource to fulfil their missions: qualified, skilled, and talented board members, staff, and volunteers. Boards should be diverse, talent-rich, informed, and responsible about stewardship, dedicated to the non-profit and not their self-interest, and, above all, engaged. When non-profits lack the resources and know-how to recruit and train effective board members, their governance, oversight, and leadership suffer accordingly. In addition, the effectiveness of a non-profit largely depends on employing an appropriate number of staff who is talented, adequately trained, and properly supported and compensated.

Since people are key to performance, look for non-profits that invest in their human resources. Recognize that recruiting, training, and supporting board, staff, and volunteers requires substantial investment. And realize that measures of non-profit efficiency—the ratio of program expenses to total expenses, for example—might only tell one small part of a much bigger story.

4.5. Ability to mobilize others

The ability to mobilize and engage volunteers, other non-profits, businesses, and government agencies is an essential skill for non-profits seeking to address the root causes of problems and bring about long-term change. Building awareness and support among key audiences and bringing more people and resources to the table are essential to change. If change is part of your goals, look for non-profits that have the following characteristics or develop them in your favourite organizations:

1. Staff skilled in working with government or advocating for policy change
2. A willingness to partner with businesses to stretch their influence
3. The capacity to inspire and engage volunteers and constituents/members as passionate partners and spokespersons
4. A willingness to partner with other non-profits working to address the same issues, regarding those groups as allies not competitors
5. A commitment to sharing leadership with staff, volunteers, and constituents/members to empower more people to make impact

5. Clarifying Your Values and Goals for Philanthropy (those who financially help others)

Identifying the impact you want to make will help you narrow the field of potential grantees to those that fit your values, goals, and interests. Clarifying your goals also opens up opportunities to build and strengthen those groups aligned with your interests, helping them accomplish the work you care about. What kinds of non-profits do you most want to support, build, and strengthen? Here are some questions to help you clarify the values and goals for your philanthropy:

1. What are your values? Being clear about your values can inform the kinds of organizations and approaches to change about which you’re most passionate.
2. What do you want to achieve with your giving, volunteering, and even your skills and experience? Other ways of asking this are: What is your desired impact? What difference do you want to see in your community or society?
3. At what level do you wish to make change? When considering where to target your dollars and time, do you wish to impact individuals, organizations, networks, policies, or ideas?

6. Scanning the Field for Potential Supporters and Grantees

Once you've identified the impact you want to make and considered the level you wish to make change, spend some time scanning the landscape of your chosen field of interest. Get a sense for the range of organizations in terms of size, approach to the work, and specialties. If the impact you want to make is in your local community, then focus your scan locally.

Good ways to scan your field of interest include talking with local foundations and United Ways, and with any organizations and individuals who are knowledgeable in your areas of interest.

These may include university researchers, business leaders, government agencies, associations, journalists, and other donors and foundations. Make a list of potential grantees, and add and update it as you scan.

Through your conversations, you will identify organizations that are particularly effective or have good potential. Keep in mind the level at which you wish to make change, so that you can consider and compare organizations that do similar work. For example, if you wish to support groups that advocate for greater access to quality early education, then you will want to focus on organizations that make advocacy part of their mission.

Your scan may also reveal useful information about which strategies are successful for accomplishing the work you care about. For example, you may hear from several informants that strategies x and y have been effective in helping at-risk teens complete high school, whereas strategies j and k have not been as successful. You can then scan for organizations using more effective strategies.

Once you've catalogued the organizations working in your field of interest (or a sample of the groups, if your community is large), choose 5 or 6 groups to research in more depth. Consider both established groups and younger, smaller ones that could deliver higher impact with support and strengthening.

7. Performing Due Diligence (Manage with Accountability and Transparency)

The purpose of due diligence is to confirm the good things you have heard about organizations, find out more about their work and effectiveness, and determine whether you wish to make an investment. Keep in mind the **characteristics of effectiveness** outlined previously—**a clear mission and purpose; ability to perform key functions; strong practices, procedures, and policies; good people; and ability to mobilize others**.

Some tips for due diligence:

Focus your due diligence on mission, programs, outcomes, staffing, and governance; and seek out the opinions of other donors and knowledgeable people. **Begin** by **reviewing** information on **mission, programs, and outcomes; then get a sense of staffing and governance; and finally review financials**. Also seek out the opinions of other donors and knowledgeable people in the field in which the agency operates.

Tailor the time and effort you devote to the size of your intended grant. For example, if your grant is a few thousand dollars or less, it may not be worthwhile to spend a lot of time examining financial documents.

The first time you perform due diligence, find a friend or colleague who has done it before to guide you—especially on what to look for in financials.

Sources of written information

A significant amount of information about non-profits can be available in writing and easily accessible online or upon request.

Annual reports—

Many non-profits voluntarily publish annual reports featuring financial information and a report on the year's activities. Annual reports can orient you to what a non-profit does and why. What are its goals? Why does it choose to spend its resources in particular ways? What are its results and programmatic outcomes? Annual reports also tend to supplement financial statements with charts, graphs, or other visuals to convey important points or trends.

Financial statements (audited or unaudited)—

Many non-profits subject their financial statements (statement of financial position, statement of activities, statement of cash flows) to an auditor's outside review and testing, but other non-profits are likely to have unaudited financial statements available for review. NOTE: The fact that an organization does not have audited statements does not in itself raise red flags and should not disqualify the organization from your consideration.

Budgets—

By comparing budgets to financial statements, you will see how non-profits are progressing and may notice trends from one year to the next.

For larger organizations, most of the above will be available online. For smaller organizations, your best bet may be to contact them directly for internal documents. Not only will you be more likely to receive the information you're requesting, but you'll also get first-hand experience in how the organization responds to a donor's requests and questions.

VISITING THE ORGANIZATIONS

Visiting your top prospects will reveal so much. Observe how staff members interact with constituents. Talk with the organization's staff, board members, and volunteers. Do you see and feel commitment and passion for the work? Is there a clear sense of mission and purpose?

Members of Exponent Philanthropy were asked what they looked for on-site visits, and here is what they said:

1. "I look for clients! Believe it or not, I did a site visit to an emergency shelter, and no one was there."
2. "I look to see if there is structure to the programs, and if staff is engaging clients.
3. We watch interactions between staff and staff, staff and clients, and clients and clients."
4. "The executive director is the driver, leader, and visionary, and I learn a lot by talking to this person. If the director is not involved in a site visit, I question his or her commitment to establishing new partnerships within the community."

5. “We look for competence and professionalism among staff. I always ask about strategic planning efforts, and expect both staff and directors to be able to articulate what the organization does, why and how it meets community needs, and what the basic roadmap is for the future.”
6. “I ask the staff how long they’ve worked there, their biggest challenge in running the program, and the backgrounds of their clients. The site visit is more about the staff and clients—getting a feel for who they are, who they are serving, how they are fixing a problem, and how they see us in the solution.”
7. “Knowledge versus ‘fluff.’ I am not impressed by fund developers who appear to be telling me what they think I want to hear. I expect honesty about funding and about their strengths and weaknesses (no organization or person is perfect).”
8. “Look for adequate resources being applied to a program but not excessive administration and overhead.”
9. “We look for recruitment and coordination of volunteers where possible and happy faces on children, parents, clients, and staff!”