STRATEGIC HUMAN RESOURCE MANAGEMENT IN NORTH CAROLINA NONPROFIT ORGANIZATIONS

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Executive Summary

Strategic human resource management (SHRM) emphasizes that employees are strategic assets to an organization’s success. Research in the government and for-profit sector indicates the use of SHRM practices increases organizational performance. This study investigates the use of SHRM practices in the nonprofit sector. A survey of nonprofit organizations in Durham, Wake, and Orange Counties, North Carolina, finds older and larger organizations are significantly more likely to employ SHRM practices. There is also a strong correlation between SHRM practices and organizations where little of the work is done by volunteers. Further investigation of organizational determinates of SHRM are addressed. This study adds to the empirical research on SHRM and nonprofit organizations and offers suggestions for future research.
Introduction

Nonprofit organizations confront the same difficulties as the for-profit and government sectors in attracting, hiring, and retaining highly skilled employees, yet, they usually do so with fewer resources. These organizations rely on the dedicated work of their employees to achieve their organizational missions. “We have a saying; kids come for the program, but stay for the staff. If we don’t hire the right people, we might as well not run [after school] programs.” (Ben Paul, President and CEO of After-School All Stars in Los Angeles, CA). While the need for strong employees is apparent, nonprofits are often unable to pay competitive salaries. This makes it challenging for nonprofit organizations to be competitive with the for-profit and government sector in hiring and retaining employees with experience and expertise. Furthermore, organizations that invest in human resource (HR) practices such training and development are able to build a pipeline of leaders within an organization. Yet, nonprofit organizations tend to have less time and resources to invest in these types of HR practices.

Meanwhile, the nonprofit sector is important to the public; often providing services that the government and for-profit sector do not. In his book, Managing the Non-Profit Organization (2006), Peter Drucker writes, "An effective non-profit manager must try to get more out of the people he or she has. The yield from the human resource management really determines the organization's performance."

Regardless of the size or type of nonprofit organization, effectively managing employees can lead to increased performance ultimately improving organizational outcomes. Knowing all this leads one to wonder: Are nonprofits being strategic with their HR practices? What should nonprofit administrators know if they wanted to hire and retain skilled employees?

Background

Strategic human resource management (SHRM) emphasizes that employees are strategic assets to an organization’s success. SHRM explores the skills and potential of employees and seeks to align human capital to organizational goals. The use of SHRM ensures that adequate human resources are available in order to meet the strategic goals and operational plans of an organization. This management strategy requires a new way of thinking about the human resource function within an organization. SHRM practices include recruitment and retention techniques, professional development opportunities, internal leadership opportunities, performance management systems, feedback opportunities, human capital planning, and an organizational culture that values employees. Literature and research about the impacts of SHRM focus heavily on the for-profit and government sector. While SHRM is not used consistently across these two sectors, research has found organizations using SHRM are more likely to achieve their organizational goals and objectives.

There is little empirical evidence specifically about SHRM in the nonprofit sector. But, research has found that nonprofit leaders who successfully maintain strong employees tend to use strategies that draw on intrinsic motivations rather than on the extrinsic motivation. Furthermore, employees in nonprofit organizations indicate higher satisfaction and preferences for intrinsic rewards than those employed in the private or government sector. Studies about successful nonprofit management strategies find that continuously focusing on the organizational mission is a strong management tool used both to motivate employees as well as keep the focus on the organization’s purpose. The unique characteristics of nonprofit organizations may mean that the implementation and evaluation of SHRM practices are different than in the for-profit and government sectors. With knowledge of the distinctive nature of nonprofit work, and the successful use of SHRM in the for-profit and government sectors, an enhanced focus on SHRM practice in nonprofit organizations is needed.
Research Question

This study investigates the question: To what extent are nonprofit organizations using SHRM practices? Understanding the different characteristics of nonprofit organizations that use SHRM will help researchers find empirical methods for measuring the impact of SHRM on organizational outcomes. It will also help practitioners better understand how the nonprofit sector can benefit from these practices, and how SHRM practices can be adopted in their organization.

Methodology

A survey methodology was employed in this research allowing for the collection of data in a range of practices from a large sample of organizations to be obtained. An electronic survey link was emailed to the individual identified as having primary responsibility for the HR function within the organization. A follow-up email was sent two weeks after the survey link was sent, reminding participants to fill out and return the survey. The survey explored the seven key categories of SHRM practices: attracting and retaining strong employees through recruitment and retention techniques, professional development opportunities, internal leadership opportunities, performance management systems, feedback opportunities, workforce planning, and building an organizational culture that values employees. The survey was based largely on a previous study done by Guo, et. al (2011), which investigated the use of SHRM in nonprofit organizations in Arizona in 2004. Pearson’s correlation analysis of the survey data explored the relationships between organizational characteristics and use of SHRM practices.

Sample

The National Center for Charitable Statistics (NCCS) website was used to obtain the Annual Federal Reporting (Form 990) data for nonprofit organizations located within Durham, Wake, or Orange County, North Carolina. A sample of 200 human service organizations with at least one paid employee was developed. Hospitals, foundations, and institutions of higher education were not included in the sample; these types of nonprofit organizations have very different organizational practices and HR structures than human service nonprofits.

A total of 34 eligible organizations completed the survey, which is a 15.5% response rate. As this low response can raise concerns about sample bias, investigation was done to find out whether this sample differs significantly from the organizations that did not respond to the survey. Follow up phone calls were made to organizations that received an email but did not respond to the survey. When asked why they had not filled out the survey, responses ranged from not getting the email, not having time to fill out the survey, to not having an HR person. This information suggests that there is limited concern of sample bias as there was not a systematic reason why more organizations did not participate in the survey.

The sample had a range of small to large organizations with the total number of employees ranging from 1 to 150 people, and the average number of employees being 26. The organizations ranged from 3 to 99 years old, with the average organization age being 26 years old. The dependence on independent contractors by the organizations ranged from 0 to 115 contractors annually, with average being 10 independent contractors a year. The organizations use varying amounts of volunteers ranging from 1 to 99 volunteers annually. Further information about the sample is in the following tables (See Tables 1 and 2).
Characteristics of Respondents:

Table 1. Volunteers, Contractors, and Umbrella Organizations (n=34)

<table>
<thead>
<tr>
<th>Organization uses volunteers</th>
<th>Organization employs independent contractors</th>
<th>Organization is an affiliate of an umbrella organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>16%</td>
<td>19%</td>
</tr>
<tr>
<td>Yes</td>
<td>84%</td>
<td>81%</td>
</tr>
</tbody>
</table>

Table 2. Size, Age, and Volunteer Workforce (n=34)

<table>
<thead>
<tr>
<th>Size of organization</th>
<th>Age of organization</th>
<th>Percentage of work done by volunteers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large (26-50 FTE)</td>
<td>Old (26-100yrs)</td>
<td>High (75-100% of work) 33%</td>
</tr>
<tr>
<td>Medium (11-25 FTE)</td>
<td>Medium (11-25yrs)</td>
<td>Medium (25-75% of work) 24%</td>
</tr>
<tr>
<td>Small (1-10 FTE)</td>
<td>Young (0-10yrs)</td>
<td>Low (0-25% of work) 43%</td>
</tr>
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</table>

Of the 34 organizations: 26% (8) were human service organizations, 19% (6) were health/mental health organizations, 13% (5) were public benefit organizations, 10% (4) were education organizations, 10% (4) were youth development organizations, 6% (2) were housing organizations, 6% (2) categorized themselves as “other,” 3% (1) were science, technology, research organizations, 3% (1) were environment or arts organizations, 3% (1) were food/nutrition organizations. This sample represents a similar breakdown of the national nonprofit sector; overall the most commonly reporting public charities are human services (35%), followed by education (16%), health (15%), and arts (11%) organizations. 5

Findings and Discussion

The survey participants were asked to indicate the extent to which their organizations used different SHRM practices on a scale of 1 to 7; 1 being never being used to 7 being used all the time. The survey asked three questions about building an organizational culture that values employees and workforce planning. There were two questions about performance management strategies, and recruitment and retention techniques. There was one question about professional development opportunities, internal leadership opportunities, and feedback opportunities (Appendix 1). The following table outlines the average scores for each of the SHRM categories (See Table 3).

Table 3. SHRM Category Means (n=34)

<table>
<thead>
<tr>
<th></th>
<th>Average use of SHRM practices (Range 1-7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruitment and Retention Index</td>
<td>6.42</td>
</tr>
<tr>
<td>Professional Development</td>
<td>4.96</td>
</tr>
<tr>
<td>Internal Leadership Index</td>
<td>5.16</td>
</tr>
<tr>
<td>Performance Management Index</td>
<td>4.96</td>
</tr>
<tr>
<td>Feedback Opportunities Index</td>
<td>3.77</td>
</tr>
<tr>
<td>Workforce Planning Index</td>
<td>3.43</td>
</tr>
<tr>
<td>Organizational Culture Index</td>
<td>6.68</td>
</tr>
</tbody>
</table>

Overall, the survey data shows that the nonprofit sector seems to be using SHRM practices while some categories are being more widely used than others. Through use of Pearson’s Correlation analyses of this data tell us nonprofit organizations most likely to use SHRM have the following characteristics:
- Large; 26 or more employees
- Old; 26 years or older
- Use independent contractors
- Are not affiliated with a national umbrella organization
- Volunteers complete less than 25% of the total organizational workload

**Organizational Size and SHRM:** Research in the public and for-profit sectors has consistently found a relationship between size and the use of SHRM practices. Results from a Pearson’s correlation analysis between organizational size and the overall SHRM index were not significant, but the expected positive direction of the relationship was found. This result supports previous findings of a positive correlation between organizational size and the use of SHRM practices (Appendix 3). These findings likely result from larger organizations having the resources and capacity to invest in sophisticated HR systems. Furthermore, larger organizations are more often publicly visible and may feel pressure to gain public legitimacy leading to the use of SHRM practices.

When organizational size was compared to the set of SHRM Category Indexes created, results indicate a positive and significant correlation between size and three of the SHRM practices: performance management, feedback opportunities, and workforce planning (Appendix 3). These results seem natural given that these three HR practices require specific expertise and resources which larger nonprofit organizations would have the capacity to implement and maintain.

**Affiliation with an Umbrella Organization and SHRM:** Nationally, there are an estimated 20% of nonprofit organizations that are local affiliates of a national umbrella organization. Research has found that affiliation with an umbrella organization often leads to less use of SHRM practices. Consistent with previous research, this study found a negative correlation between being an affiliate of an umbrella organization and the overall index score measuring the use of SHRM practices. Results from analysis of this data were not significant, but the expected direction of the relationship was found (Appendix 3). This finding can possibly be explained because large national organizations are more likely to implement cost-effective standardized human resources practices to reduce administrative burden and costs. While the organization’s intention is to create effective and easily implemented practices, these systems actually limit the ability for local affiliates to tailor their human resource practices strategically for the unique needs of their communities and organizations.

**Independent Contractors and SHRM:** Nonprofit organizations often use independent contractors as a means of accessing a specialized set of skills. Consistent with previous research, this study found a positive correlation between the organization’s use of independent contractors and the use of SHRM practices. Results from analysis of this data were not significant, but the expected direction of the relationship was found (Appendix 3). The literature believes that independent contracting allows leaders to outsource peripheral functions of the organization which creates time and resources to invest in their permanent employees.

**Volunteers and SHRM:** There were significant negative correlations between the percent of the total organizational workload done by volunteers and the SHRM Category Index for recruitment and retention techniques, professional development opportunities, performance management, workforce planning, and building an organizational culture that values employees (Appendix 3). These results indicate nonprofits that use their employees to do the majority of the work for the organization are
more likely to use SHRM practices. This finding could be explained because it is difficult to manage large numbers of volunteers, and implementation of SHRM practices seems unfeasible.

In future research, it would be useful to understand the use of SHRM in nonprofit organizations from a larger sample of organizations located in a larger geographical area. Researchers could also approach this topic by empirically testing the link between SHRM practices and both objective and subjective measures of organizational performance. Furthermore, it is worth investigating whether the use of some SHRM terminology may have been misunderstood by respondents. Perhaps practitioners in the nonprofit sector are using unique strategic practices that are not captured by previous research on other sectors. Finally, qualitative research, perhaps detailing case studies of nonprofits that are using SHRM practices could paint a clear picture about how nonprofit leaders can adopt SHRM practices.

Recommendations

Overall, this study helps us understand that nonprofit organizations have the capacity and potential to implement SHRM. I challenge nonprofit administrators who do not use SHRM practices to change the way they fundamentally think about human resource management and perhaps develop new skills and knowledge in this area. Even an administrator who has limited time and resources can adopt the ideas and goals of SHRM without significant investment.

- Begin by being thoughtful and strategic about where, when, how, and who to recruit.
- Make sure to monitor employee satisfaction, reward exceptional work, and provide leadership opportunities.
- Try to be proactive about employee turnover and have a process for managing employee departures.
- Finally, have realistic information about the capabilities and talents of your current staff, and use that information to adapt quickly to changes.

There are several recommendations for practitioners that can be made from the results of this study. Leaders of large nonprofit organizations should continue to use, or expand on their current SHRM practices. Nonprofits that are already practicing SHRM can consider implementing more of the sophisticated practices such as performance management and workforce planning. Small or medium nonprofit organizations that are in the process of growing, should integrate SHRM into part of their long-term strategic plan. Doing so can help the organization meet their HR needs as they grow and develop. Organizations that use a significant amount of volunteer work should consider if and how they use SHRM practices. All nonprofit leaders should thinking about managing both volunteers and paid employees using SHRM practices. Any nonprofit organization not using SHRM practices can begin by challenging themselves to change their mindset about HR practices, and focus on practices that best meet the unique needs of their organization.

Because government and nonprofit organizations work closely together to solve problems that impact the public, the information presented in this study is important to all employees in the public sector. Being aware of the unique nature of the nonprofit sector will help public administrators find ways to continue providing public service, while also building a strong organization through SHRM practices. All public organizations should think strategically about their HR practices and be proactive in guiding the organization to meet the ever-changing demands of the financial and institutional environment.


Appendix 1

SHRM Survey Questions and Categories

Indicate the extent to which your organization meets this statement on a scale of 1 to 7; 1 being *never being used* to 7 being *used all the time*.

<table>
<thead>
<tr>
<th>SHRM Categories</th>
<th>Survey questions</th>
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</table>
| Recruitment and Retention | • My nonprofit organization uses the mission and values of the organization to attract employees.  
                               • My nonprofit organization uses strategic recruiting practices when hiring new employees (such as targeting experienced individuals). |
| Professional Development | • My nonprofit organization pays for professional development opportunities for employees.                                                                 |
| Internal Leadership     | • My nonprofit organization provides leadership opportunities for top performing employees.                                                                 |
| Performance Management  | • My nonprofit organization evaluates employees through multiple performance assessment strategies such as supervisor assessment, peer evaluations, and customer feedback.  
                               • My nonprofit organization has internal communication practices that consistently reach all employees with valuable information. |
| Feedback Opportunities  | • My nonprofit organization provides opportunities for systemic employee feedback through surveys, exit interviews, etc.                           |
| Workforce Planning      | • My nonprofit organization analyzes workforce needs when working on human resources planning.  
                               • My nonprofit organization practices workforce diversity initiatives.  
                               • My nonprofit organization links indicators of effective employee performance to organizational objectives. |
| Organizational Culture  | • My nonprofit organization engages in practices to retain employees in either monetary or non-monetary compensation.  
                               • My nonprofit organization communicates its organizational values to employees.  
                               • My nonprofit organization allows employee flexibility in work schedule and working arrangements. |
Appendix 2

Measurement Definitions

**Organizational Size:** Total number of full-time employees on the organizational payroll.

**Dependence on Independent Contractors:** Percentage of independent contractors on an organization’s payroll.

**Organizational Age:** The difference between the year of 2013 and the year when a given nonprofit organization was founded.

**Dependence on Volunteer Labor:** The percentage of total work in the organization that was done by volunteers.

**Overall SHRM Index:** A composite score of all the SHRM questions.

**SHRM Category Index:** A score of the SHRM questions affiliate with each of the seven SHRM categories.

Appendix 3

Correlations

**Organizational Characteristics and OVERALL SHRM Index**
- Organizational size and Overall SRHM Index ($r = .379$, $p < .05$)
- Affiliation with an umbrella organization and Overall SHRM Index ($r = -.022$, $p < .05$)
- Dependence on independent contractors and Overall SHRM Index ($r = .279$, $p < .05$)

Notes: While this study did not find significant correlations, these results are moving in the direction of being consistent with literature and previous research investigating these questions.

**Organizational Size and SHRM Category Index**
- Performance management systems ($r = .401$, $p < .05$)
- Feedback opportunities ($r = .434$, $p < .05$)
- Workforce planning ($r = .484$, $p < .05$)

**SHRM Category Index and Percent of Work done by Volunteers**
- Negatively correlated to recruitment and retention techniques ($r = -.693$, $p < .01$)
- Professional development opportunities ($r = -.514$, $p < .01$)
- Workforce planning ($r = -.598$, $p < .01$)
- Performance management systems ($r = -.576$, $p < .01$)
- Organizational culture ($r = -.483$, $p < .01$)

**Organizational Characteristics and Volunteer Use**
- Organizations age and the use of volunteers ($r = -.466$, $p < .05$)
- Independent Contractors and use of volunteers ($r = .601$, $p < .01$)
- Workforce planning ($r = .484$, $p < .05$)