Growing Professionalism in the Services
of Nonprofit Organizations

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Abstract
The nonprofit sector today has to meet growing demands for better quality services and growing competition from business and public organizations, and also from other nonprofit organizations. Because of these circumstances they have to become more professional in their activities. The paper examines the professionalization and knowledge management in nonprofit organizations.
The theoretical issues of knowledge management of nonprofit organizations are supported by examples from (earlier and recent) research of the authors. The aspects of knowledge management presented in this paper, not only give an insight over the contribution of nonprofit organizations to the success of a larger project, but they ca be an example for other nonprofits dealing with similar problems, facing similar challenges.

Introduction

The nonprofit sector today has to meet growing demands for better quality services, growing competition from business and public organizations, and also from other nonprofit organizations. Because of these circumstances they have to become more professional in their activities. The phenomenon of professionalization in the nonprofit sector (Dobrai and Farkas, 2008; Farkas and Dobrai 2009) is also a consequence of tendencies which can be observed nowadays first of all in business organizations, namely the emergence of knowledge-intensive services (Miles, 2005; Dobrai and Farkas, 2007; Skjolsvik et al., 2007).

This paper gives an insight about the role which nonprofit organizations (NPOs) play in today's economy. The article not only introduces and analyses the relevant literature; but it also supports it by empirical evidence.

Based on earlier research done by the authors of this paper and on other sources, the main differences in the features of knowledge- intensive services and nonprofit organizations are highlighted. Aim of the paper is to examine what is characteristic of the knowledge management in these organizations; which factors prove that they are becoming more and more professional in their services (e.g. the kind of knowledge they provide; target groups of the services; the knowledge transfer channels which they use in their service; networking etc.). The theoretical aspects of knowledge transfer of nonprofit organizations are supported by examples from (earlier and recent) research of the authors. Through this, the paper contributes to a better understanding of knowledge management features of nonprofit organizations, and points out the applicability of the findings for further research.

1. Nonprofit organizations – active participants of the national economies

We accept and use the term nonprofit organization as it is defined by Salamon (1998, p. 1) to describe an entity which is:

- "organizational, i.e., an institution with some meaningful structure and permanence;
- nongovernmental, i.e. not part of the apparatus of government;
- non-profit-distributing, i.e., not permitted to distribute profits to its owners or directors, but rather required to plow them back into the objectives of the organization;
- self-governing, i.e., not controlled by some entity outside of the organization;
- supportive of some public purpose".

If we look at the NACE code-system of industries or in NAICS, we see that these code systems are not well applicable for nonprofit organizations. In these code systems, nonprofit organizations are placed in different sectors. In contrast to these code-systems, it is more appropriate to use the NTEE (National Taxonomy of Exempt Entities) and the ICNPO (International Classification of Nonprofit Organizations), because these are classification systems which have been developed for nonprofit organizations (Salamon and Anheier, 1992), and the ICNPO is recommended in the UN Handbook on Non-Profit Institutions to be used in the System of National Accounts (Statcan). The authors of this paper use this last classification.

The two main categories of nonprofit organizations are:
a) primarily member-serving organizations;
b) and primarily public-serving organizations.

Organizations of the first group basically meet the interests and needs of their own members. The organizations in the second group focus on the benefit of external clients: the public, and are organizations serving a public purpose (O'Neill, 1989; Salamon, 1998).

2. Drivers of the increasing grade of knowledge orientation in the nonprofit sector

The nonprofit sector is growing, a phenomenon, which is connected to the growing doubt in the capability of the state to solve problems. The combination of external environmental, organizational, and other factors cause significant changes in the everyday operation of nonprofit organizations (e.g. contractual funding, or collaboration with governments and business sector) (Chew and Osborne, 2009; Carey et al., 2009).

In the last decades, the nonprofit sector has moved from informal charitable to more formalized activities. At present, research on the organizational impact of professionalization concentrates on special areas such as social services, social movement and advocacy organizations, or health care, not the whole sector. However, efforts "to professionalize might have the effect of making a heterogeneous collection of organizations into a distinct coherent sector with a common set of organizational routines" (Hwang and Powell, 2009). Now we look at some of the elements which lead to growing knowledge demand, and consequently, to growing professionalization, in this sector.

2.1 New challenges coming from knowledge-based business services

One of the most influential factors which affect the changes towards a growing professionalism of NPOs are the so-called knowledge-intensive business organizations (KIBS). For more than a decade, they contribute increasingly to the value production of national economies, so, by now, they have become a critical success factor of the modern economy.

KIBS are business organizations which provide service to other organizations in cases when those are not able to solve problems, for the solution of which a special kind of knowledge is needed. This sector, the performance of which to a large degree depends on professional knowledge, includes a variety of services such as auditing, engineering, or IT services, HR-management, accounting, legal, R&D services, and consulting. The main activities of these organizations are the creation, sharing and utilization, and also selling of knowledge Toivonen, 2004; Miles, 2005).

Characteristic of the organizations in the KIBS-sector are: the intensive use of knowledge, special growth rates, special market relations, high level of expertise and professionalism, self-regulation, special ways of value-creation, engagement in innovation, and intensive co-operation with clients (Skjolsvik et al., 2007; Toivonen, 2004; Miles, 2005). Professional service can't be provided without a good cooperation between service provider and client organization (Skjolsvik et al., 2007). Thus, the performance of knowledge-intensive services influences future performance of the clients and also of the service providers.

These services are often custom-made to satisfy the client's needs; and service delivery occurs in interaction with the client. Service delivery is influenced

by professional standards, by social factors and by legal regulations. Knowledge-intensive services also require expertise and professionalism, both of which are critical factors of the competitive advantages of the organization (Farkas, 2003).

The KIBS sector organizations experience a high rate of development because of the growth of other sectors which use their services, and also the increasing demand for certain forms of knowledge, supporting technologies, regulations in the business environment, social change, globalization, certain trends in the labor market, expansion and competition etc. (Miles, 2005; Toivonen, 2004).

2.2 Working together and/or competing within and between sectors

Nonprofits nowadays increasingly contribute to the performance of the economies worldwide, by providing a growing number of services (Anheier, 2009). They contribute to the knowledge-based output of business and government sector through education, research, and development.

They work together with government (Alexander and Nank, 2009), and also are active in different kinds of inter-organizational partnerships, for example in international co-operations (e.g. taking part in development aid programs) (Heres, 2004). They often participate in governmental welfare projects; and they are service providers in the framework of public-private partnerships. Their traditional role as providers of services has changed: they don't function supplements to the state's performance; they are rather becoming an equal partner with government (Anheier, 2009). They are contracted more often than earlier by governments; and this gives many nonprofits the opportunity to expand their services (Balassiano and Chandler, 2009).

Nonprofits also work together with for-profit organizations. Relationships between the nonprofit and the business sector organizations are characterized by donations and the purchasing services, and by business people serving on nonprofit boards or doing volunteer work for nonprofits. Nonprofit organizations step in where government or business organizations don't satisfy the demands of the people (McHargue, 2003). Nonprofit organizations also serve local communities, and help improve civic engagement in community activities (volunteering, charity etc.).

We have to mention though, that sometimes business, state and nonprofit sector also compete with each other in the same field of activities (Ryan 1999). This also is a driving force for them to improve their service and to become more professional (they try to use expert knowledge in their operations, to improve efficiency and effectiveness, to focus on how to manage their knowledge) (Dobrai and Farkas, 2008).

In connection with cooperation, the development in the information and communication technology is an important factor, since it makes networking among nonprofit organizations possible and also facilitates a better cooperation between them.

2.3 Developing skills and knowledge needed for fund raising activities

It is well-known that nonprofits represent a substantial sector which delivers public services. However, they are dependent on grants from the private and the government sector. On one hand, government grants and contracts (program revenues) received by nonprofits are strong determinants of the number of nonprofits in a country. On the other hand, nonprofit fundraising activities have an effect on the availability of the grants and contracts (LeRoux, 2009; Luksetich, 2008). Nonprofit management is especially important at a time of the global economic crisis. When the financial stability of voluntary organizations is in danger, it becomes critical for them how successful their fund raising activities are (Kuti, 2010). Hence, fund raising is a field of activities where nonprofits need skills and good knowledge of fund raising.

2.4 Meeting the requirements of accountability

It also has been a noticeable phenomenon in recent years that nonprofit accountability has become more important than ever. Similarly to other sectors of the economy, nonprofits are accountable for social, political and environmental impacts of what they do. This issue is becoming very important, for several reasons (such as mismanagement of funds, questionable fundraising practices, fraud, embezzlement, conflicts of interests, corruption etc.) (Carman 2009) and also because of quality insurance (Molnar, 2010; Farkas and Molnar, 2006). As Zimmermann and others (Zimmermann and Stevens, 2006; Sawhill and Williamson, 2001) stress, performance measurement is a new method of ensuring accountability.

Towards a growing knowledge orientation points the tendency of more frequent use of strategic plans, independent financial audits, and quantitative program evaluations which help measure and formalize the activities of nonprofit organizations. Consultants are often used to develop and improve areas of operation that are deficient. Nonprofits also use strategic planning as opportunities to redefine missions and to examine their strategies for revenue generation, fundraising, or public relations (Hwang and Powell, 2009). They are influenced not only by national but also more and more by international environment, and have to deal with concerns about efficiency versus effectiveness, and also with revived focus on accountability and performance measurements (Anheier, 2009).

During the last decade nonprofit organizations have become more complex, they have moved towards implementing business models and practices (Hwang and Powell, 2009). Changes in their external environments (e.g. limited sources, growing competition) force these organizations to more effective performance. Also because of the pressure coming from the donors of the NPOs, from the media, and also from the public, nonprofits are increasingly interested in having feed back about their own performance. Nonprofit organizations are learning how to ensure performance assessments of their programs and services.

3. Knowledge orientation of nonprofit organisations

3.1 Comparing knowledge management aspects of KIBS and nonprofit organizations

Based on earlier research done by the authors of this paper and other authors, several differences in the features of knowledge-intensive services and nonprofit organizations have been identified as shown in Table 1.

Major differences of the features of KIBs and NPOs

Table 1

KIBS	NPOs
Invest more money into acquiring and developing knowledge	Depend more upon commitment of the owners of the knowledge
Sell their knowledge	Offer their knowledge basically for free
Clients are other organizations or people who are able to buy KIS	Those groups of society which otherwise would not be able to afford professional service
Relationship between organization and employee is more permanent	Use also people who offer their help occasionally
Have a better overview about knowledge available within the organization	NPOs may not be aware of what kind of knowledge they own
Commitment and motivation: profit-orientation	Philanthropy
Performance measurement, quality insurance is important	Performance measurement, quality insurance is becoming important

Source: Farkas and Dobrai, 2009, p. 286

Also important features of knowledge management in the case of nonprofit organizations have been described:

- In knowledge processes dominate informal knowledge processes.
- Knowledge transfer is less formalized and systematic than in KIBS.
- Learning by experience is a general way of gaining new knowledge.
- Cooperation with other sectors is becoming more important.
- Members are motivated not primarily by payment but rather by acknowledgement, and philanthropic enthusiasm.
- They highly value knowledge and skills acquired during work, and also longtime personal and work experience.
- The have a lower level of ICT support and communication systems than businesses do (Farkas and Dobrai, 2009).

In the following section of the paper we briefly compare to these earlier findings the results of a recent study made about nonprofit organizations in connection with a very current event in Hungary, namely Pécs being European Capital of Culture.

3.2 New skills and knowledge required in the field of writing applications

The local government decided to provide a broad range of citizens the opportunity to contribute to the success of the ECoC year. For this reason, civil and nonprofit organizations was given the opportunity to apply for grants to offer programs in the framework of the project. By giving them this chance the government challenged them to rethink the way they have been operating, and to focus on issues which had to be taken into consideration if they wanted to be awarded grants.

The grant applications and proposals of nonprofit organizations had to satisfy very rigorous requirements. This was proved by the decision of the review committee. On one hand, the applications which were rejected by the government can serve as a lesson not only for the organization itself but also for other organizations, since the results are accessible to everyone. On the other hand, however, accepted proposals, in several cases, represent professional work, and in general an improving level of grant applications.

The findings also imply that writing grant applications is still an important field where nonprofit organizations can and have much work to do in order to acquire the necessary skills (Farkas and Dobrai, 2010). In this respect the findings correspond to what is said in the literature, and what we experienced in our earlier research on nonprofits (they declared the need to learn how to write good applications, and to improve these skills).

3.3 Growing client focus

The projects which were and will be carried out by nonprofit organizations are a good example of how important they are for their neighborhoods, in what ways and forms they are able to contribute to the quality of life of a community.

Their programs were and are increasingly tailored to fit the client's needs, which is basically a characteristic feature of knowledge-based business services. Service delivery – in this case diverse cultural programs, with the aim to satisfy cultural needs of the target audience – takes place in interaction with the client. Focusing on the public is supported by the following facts:

- A broad variety of activities cover the most different fields of interest, such as: equality of opportunity, search for talents, integration of people in the society, all kinds of education, skill development etc.
- Although most of the European Capital of Culture Project programs offer entertainment for adults, it is characteristic of nonprofit organizations that they offer mainly programs for every age group of the society.
- The programs try to include special layers of the society such as nationalities or disadvantaged groups of the society (poor people, handicapped people etc.) through:
  o programs about diverse groups of disadvantaged people;

    o programs offered for diverse groups of disadvantaged people;
    o programs with participation/ involvement of disadvantaged people;
    o participation of disabled people as volunteers in ECoC programs.

    The type of knowledge transferred during the project accomplishment depends first of all on the aim of the project and the field of activity. Knowledge and skills are developed and improved during the time when a project is executed. These activities require an increasing level of expertise from the nonprofit organizations, special knowledge and also special skills; and they prove the importance of the special way how nonprofits can connect philanthropy and altruism with an improving service quality, with more professional service, as addressed in our earlier research but even stronger supported by the findings of our recent research in connection with their ECoC projects.

3.4 The aspects of knowledge transfer

    Research showed nonprofit organizations use a broad variety of solutions during the project execution. Internet, printed newspapers, radio and TV are apparently the powerful ways for them, to satisfy the two most important functions of the programs:
- to bring information to the target group about the program and to attract people to it;
- to transfer culture related skills and knowledge to the target group(s) through programs in a broad variety of fields.

    When analyzing the projects we can say that most programs no matter in what field of activities they are offered give a good chance for learning for both the audience and the nonprofit organizations delivering these programs. These are mostly opportunities to informal learning such as learning by doing, learning by experience, by participating in the various programs (learning about the national culture, history and heritage of home city while playing).

    While electronic media are used mainly to bring information to target groups about the programs schedule, place and to report about it; face-to-face communication is intensively used also in the learning process. In the programs, both the audience and the service (program) provider (NPO) learn. The latter can develop new skills, improve existing knowledge and skills by learning from the audience of their programs, especially if those participate in the programs themselves.

    The growing frequency of the usage of mass media shows that nonprofits want to present themselves to the public better than earlier. However, they also are forced to do so if they want their programs to reach and attract their target groups.

3.5 More intensive cooperation between nonprofit organizations and other organizations

The projects prove that nonprofit organizations not only support formal and informal learning, but they also develop team work and networking; they develop skills and competencies, transfer knowledge, help community development and personality development, strengthen the civil society, and local thinking. NPOs collaborate with other organizations for the success of the ECoC year. No matter to which category a nonprofit project belongs, if it is a small project and is meant for small communities; or if it is mid-size project, they are often carried out similarly to large projects: in the framework of co-operations, partnerships.

Through these projects, new cooperation practice develops between government, nonprofit organizations and civil society. Project participants acquire new learning experiences within the framework of networks, as a result of the cooperation of a variety of actors (the local government, the University of Pécs, of the Regional Research Center of the Hungarian Academy of Sciences, of the civic organizations, and the businesses); which a proves that different social players can work together and become partners.

Conclusions

Examining the different aspects of knowledge related features of nonprofit organizations we can conclude that professionalization of the nonprofit organizations is growing: While meeting the requirements for grant applications and delivering the programs they gain experience in the field of managing projects. At the same time, they can improve their project management skills and knowledge.

Nonprofit organizations support formal and informal learning, develop team work and networking; they develop skills and competencies, transfer knowledge, help community development and personality development.

The projects can have a variety of benefits for the nonprofits: The learning process helps nonprofits develop new ideas how they should bring their good programs to a larger audience (community) and how they could better serve a good aim, to accomplish their "public serving mission".
Through presenting or organizing their programs they are able to improve respect of the nonprofit organizations among the people living in the city; and they also will benefit from growing trust towards these organizations.

We can also conclude, that the aspects of knowledge management presented in this paper, not only give an insight over the contribution of nonprofit organizations to the success of a larger project, but it is also allows to be an example for other nonprofits dealing with similar problems, facing similar challenges.

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