

Exposing the Beast: Seven Deadly Wastes in Nonprofits

Don't let these destructive wastes undermine your organization.

By Ryan Johnstone

With limited resources, your organization must operate efficiently to maximize your impact. The last thing you need is to waste anything. And yet, alarmingly, research shows over 95% of activities in the work process of most organizations are wasted time and effort.

Hold on, you say, we've been doing this a long time and we're pretty good at it. No doubt, but challenge yourself to take a deeper look at your processes and think differently about how efficiently you're delivering services.

How do you dig in? Let's start with understanding how to define the value of your services.

How Much Value Do You Provide?

Understanding the concept of value is fundamental. Once you and others in your organization agree on the value your process provides to clients, you can unleash an arsenal of tools to eliminate everything *not* valuable. But how do you differentiate the wheat from the chaff?

Value-added activities are those that transform or shape your organizational knowledge into services that meet your clients' needs. In the private sector, it's what customers are willing to pay for. For nonprofits, it's what your donors expect their funds to be used for. It's not just the end product – the warm blanket, therapy session, or development event – it's also all individual activities in your process that mold your knowledge into its delivered form.

Contrast this with non-value-added activities. In nonprofit processes, non-value-added activities are those that consume time, resources, or space but *don't add to the value of the service itself*. They are, simply put, waste. Sometimes, waste is obvious – quality errors are the most apparent – but the *vast* majority of waste lurks unseen in our processes. It quietly churns underwater, sucking up our resources without us realizing it.

So let's drain the pond and expose that beast. Let's take a deep look at the seven categories of process wastes in nonprofits.

“Over 95% of activities are wasted time and effort.”

What Are the Seven Worst Wastes in Nonprofits?

WASTE 1: DEFECTS & ERRORS

The most recognizable waste takes the form of errors. For example:

- **errors** in reports
- **mistakes** in client files
- **any checking or quality-control** steps
- **rework** of any kind
- **requests** for clarity
- **audit** findings.

Such defects go beyond minor annoyances. They take time to fix, breed frustration, and expose your organization to compliance issues. Worse, a process with high defects invariably results in constant checking to make sure information is correct.

One billing specialist at a nonprofit reported a high frequency of errors in case files received from her colleagues upstream in the process. Errors happened so often, she addressed the problem by checking every case file for compliance before submitting invoices to insurance providers. Not only did she check 100% of case files, but found over 40% them indeed contained errors which could result in denied payment. Consider her frustration and time required to identify and correct these mistakes!

Even “minor” errors, taken collectively, impact overall process efficiency. This concept is called first pass yield, where the success rates of individual work centers are multiplied to determine overall process efficiency.

In the example below, each work center has a 95% error-free rate, or yield. Ninety-five percent sounds like pretty high quality, right? Look what happens when we calculate first pass yield:

Work Center Yield (error-free rate)	
Client Intake	95%
Counseling Session	95%
Billing Preparation	95%
Accounts Receivable	95%
First Pass Yield = 95% x 95% x 95% x 95% = 81%.	

In other words, this organization correctly performs its service all the way to payment receipt only 81% of the time! The rest is wasted effort, resources, and time.

WASTE 2: WAITING

Waste from waiting occurs when people or material sit idle when they could be used productively. In nonprofits, waiting can manifest itself as:

- **waiting for decisions** approvals, or information
- **meetings not started** on time.

Waiting waste is caused by:

Lack of material. People are idle because the material they need hasn't arrived from the upstream work center. This may be because of poor scheduling, irregular funding, or delays from colleagues upstream.

Lack of equipment. Sometimes the necessary equipment isn't unavailable. This could be due to unreliable systems ("e-mail's down again"), insufficient access to systems (shared passwords), or lack of proper tools for the job.

Lack of knowledge. Material and equipment may be idle because a trained employee is unavailable. This could result from skills shortages (lack of cross-trained staff), absenteeism, or heavy fluctuations in organizational activities ("can't do it this week – have to prepare for the board meeting").

Lack of strategies and processes. Meetings may be late or inefficient because things weren't well planned or because there isn't a firm, consistently followed policy of always beginning and ending on the dot.

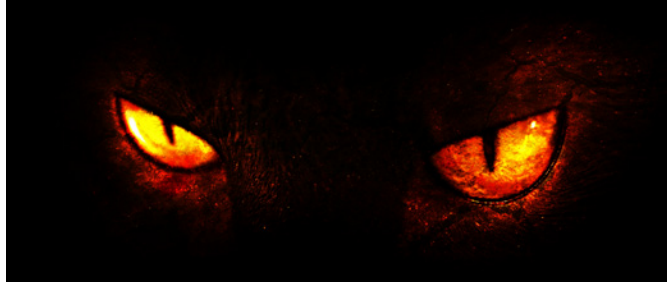
Waiting waste is one of the most common but least recognized inefficiencies in a nonprofit. Put bluntly, waiting for something means you're doing absolutely nothing to provide value for your clients, donors, and other customers.

WASTE 3: OVERPRODUCTION

Overproduction waste occurs when you produce something earlier than needed or produce more than needed. For example:

- generating reports prematurely
- printing unrealistic quantities of campaign appeals, brochures, and the like
- sending large batches of files downstream to the next work center.

Overproduction is caused by poor process design, unreliable schedules, or lack of capacity in downstream work centers. The largest single cause of overproduction waste is disconnected organizational functions ("island thinking"). Island thinking means that your functions are like independent islands in your workflow. As work arrives from upstream, employees jump on it as quickly as possible to clear their desks, regardless of when the output is due in the next work center.



While employees certainly want to deliver their work product on time, the goal should be to produce to the pace of the downstream customer's demand, nothing more and nothing less. If you make too much, or too soon, you have waste.

WASTE 4: INVENTORY

In nonprofits, inventory is best thought of as on-hand resources waiting to be used or in the process of being transformed into services. Inventory makes us feel good, since it means we'll be able to meet our downstream customers' demand without breaking a sweat. But inventory has a dark side; it represents unexpended capital (both cash and human). Examples include:

- **uncompleted** reports
- **clients** waiting for services
- **unexpended** donations
- **grants** waiting to be submitted
- **files** awaiting approval or quality checks
- **unsubmitted** billing.

Donors aren't paying for inventory; they're paying for delivered services. Clients need services; they aren't concerned with in-process inventory. And an organization with bloated in-process inventory is almost always plagued with long cycle times – the time needed to complete the process from start to finish. It's a self-perpetuating problem: Large inventory begets long cycle times, which in turn lead to increased inventory.

Remember, while inventory helps you meet customer demand on time, it also ties up money, resources, and effort that could be better used elsewhere. Your goal should be to eliminate as much inventory as you can, thus becoming "lean," agile, and more readily adaptable to changes in client demand. (For more on "lean thinking," see "Reach for the Highest Quality" on page 21.)

WASTE 5: OVERPROCESSING

Overprocessing is the unneeded expenditure of human, machine, or material resources in an organization's process. Some causes of overprocessing waste include:

- **unnecessary** communications
- **non-meaningful** metrics
- **difficult-to-generate** metrics
- **unneeded** approvals or controls
- **unrealistic** funding targets
- **extra steps** not needed downstream.

Of course you want to deliver what your clients need. But shepherd your assets. Use them solely on value-adding tasks to meet that need.

WASTE 6: MOTION & TRANSPORT

Motion waste is the unneeded movement of people and equipment. In nonprofits, this waste typically manifests itself as:

- **the need to search** for anything (data, materials, and the like)
- **inefficient** work center layout
- **the need to walk** to copiers, faxes, phones, and so on.

Movement might seem minor, but taken in aggregate it consumes people’s time and effort. When they’re walking from place to place, they’re not doing anything to add value. Unneeded movement leads to low productivity, poor space utilization, more opportunities for things to get lost, more distractions, and inefficient process flow. Eliminating these wastes directly increases your organization’s capacity.

WASTE 7: UNDERUTILIZATION

Underutilization occurs when you aren’t using your organization’s assets to their full potential. For example:

- **failure to develop** employee skill sets
- **unpursued** grants
- **idle** space
- **excessive** layers of approval
- **insufficient** delegation of authority
- **creating reports** outside of systems
- **not providing** new challenges to employees
- **using a fraction** of the development system’s capabilities to pursue funding
- **letting board members’** talents, networks, and fundraising potential go unused.

Summary of the Seven Deadly Wastes

WASTE	EXAMPLES
Defects	Mistakes in reports. Errors in files. Any checking or quality control steps. Rework of any kind. Requests for clarity. Audit findings.
Waiting	Meetings not started on time. Waiting for approvals. Waiting for information.
Overproduction	Producing services unrelated to client demand. Prematurely generating reports. Generating unrealistic quantities of printed material. Sending large batches of files downstream in a process.
Inventory	Files awaiting approval. Uncompleted reports. Unsubmitted grants. Clients awaiting services. Unused equipment and donations. Unsolicited donors.
Overprocessing	Unnecessary communications. Non-meaningful process metrics. Difficult-to-generate metrics. Unnecessary controls. Pursuing unrealistic funding. Extra steps not needed downstream.
Motion / Transport	Moving and searching for anything (data, materials, etc.). Inefficient work center layout. Walking to copiers, faxes, phones.
Underutilization	Excessive layers of approval. Failure to develop skill sets of employees. Unpursued grants. Insufficient delegation. Not providing new challenges to staff. Not using board members’ talents, networks, and fundraising potential.

So You’ve Got Waste! Now What?

Here are four practices that will help you eliminate wastes, become more efficient, and heighten quality:

SOLUTION 1: STANDARDIZE WORK

Ask yourself, “What are our core processes? For each one, have we documented a standard set of steps to arrive at the output in the most efficient way?” Codifying such processes is essential for two reasons:

Employee turnover in the nonprofit sector is high: over 25% in organizations with revenues less than \$2 million (over 70% of all 501(c)(3)s). Failure to document best practices can find you hemorrhaging knowledge capital, perennially climbing the learning curve, and bleeding efficiency.

Standardized work breeds process stability, which translates to repeatability and higher quality.

Invest in the time required to document the ideal, waste-minimal process. This documentation forms the foundation for enhancing employee training, problem solving, and continued improvement.

SOLUTION 2: MAP YOUR CORE PROCESSES

Visually drawing your processes serves two purposes in eliminating waste:

Participants in a mapping session agree on how the process currently flows. This itself is an illuminating step, as everyone contributes a unique perspective toward capturing the hard truth (remember the blind men and the elephant fable?).

Some visual techniques, like value stream mapping, can capture more complex data such as individual work center cycle times or defect rates. Start simple, though, with “swim lane” diagrams that indicate responsibilities, handoffs, waiting, checking, and approvals. After identifying inefficiencies, re-draw the process to cut these wastes, reduce large batches of work, consolidate steps, simplify the process, and focus on value-adding activities.

SOLUTION 3: CONDUCT ROOT CAUSE ANALYSIS

Root Cause Analysis (RCA) helps you identify root (actual) and contributing (exacerbating) reasons for waste. The RCA toolbox spans a range from highly involved statistical analyses to practical techniques such as fishbone diagrams. You can use fishbone diagrams to visibly show the factors that contribute to waste or quality failure in your organization. Lacking complexity, fishbones nevertheless force you to examine a failure with rigor and dig deep into its causes.

Initiate a fishbone diagram by starting with the failure and working backward, visually populating the diagram with causes that contributed to the problem. Divide the fish's backbone into five supporting areas, or "bones":

People: Who does the work? What is their training level? Motivation level?

Process: How is the work performed? What activities occurred (or did not occur) that contributed to the failure?

Management & measurements: How are you measuring the process? How do you ensure process output is consistent and creating client value? How do you make certain that employees are properly trained?

External factors: What outside influences on the process affect its activities? Compliance requirements? Legal influences? Community needs?

Policies & procedures: What standards exist (or do not exist) to guide the process? Are they clear? Repeatable? Communicated? Followed?

As you and your team ask these questions for each category, you populate each bone with potential reasons for failure. The result is a visual depiction of all possible origins of a specific quality problem, to arrive at its root and contributing causes so that you can correct or eliminate the problem.

SOLUTION 4: LEVERAGE WILLING HELP

An outside resource can be invaluable in helping you address wasteful activities. Examples:


Many private sector companies offer assistance as part of community outreach efforts. For instance, O. C. Tanner, a global employee rewards company, deployed a team to help the Road Home, a Salt Lake City nonprofit, maximize efficiencies in the layout and operation of its community donation warehouse.

Nonprofit board members are often active in the corporate sector, the genesis of "lean thinking," and can connect you with experienced help.

Uncover the Value

If your organization is like most, the overwhelming majority of the activities that occur in your processes are non-value-

added. They contribute zero value to the services you provide. And, remember, it's *all* about value.

You need to pinpoint wasteful activities, consider the aggregate impact of all those wastes, ask hard questions, and think differently about the way people are working. Take stock of the assets you have, both financial and human, and identify where these resources could be better deployed, adding value to your services. Take an analytical approach to identifying the beast beneath your organization's surface. 

Ryan Johnstone, CMQ (ryan@summitassociatesconsulting.org) is a six sigma black belt and president of Summit Associates (summitassociatesconsulting.org), a consulting firm that provides nonprofits with business skills and services to increase efficiency and multiply resources. He holds certifications from the American Society for Quality, Project Management Institute, APICS, and Institute for Supply Management.

Cut Down Waste with the Five S's:

- 1. Straighten.** Have a designated place for items.
- 2. Sort.** Put away everything that's not being used.
- 3. Shine.** Keep work areas clean and neat.
- 4. Standardize.** Post signs explaining the best way to do things, such as how to use the copier.
- 5. Sustain.** Have a system to maintain improvements.

Reach for the Highest Quality

BOOKS ON QUALITY MANAGEMENT:

Lean Six Sigma for Service (McGraw-Hill, mcgraw-hill.com)

Lean Enterprises (American Productivity and Quality Center, apqc.org)

The Six Sigma Handbook (McGraw-Hill, mcgrawhill.com)

ARTICLES (available at NonprofitWorld.org)

Implementing Lean for Nonprofits (Vol. 32, No. 1)

Six Steps to Outstanding Results (Vol. 22, No. 6)

How to Get It Done (Vol. 25, No. 6)

What's the True Value of Your Services? (Vol. 35, No. 3)

Never Enough Time (Vol. 26, No. 5)

The High Cost of Employee Turnover – and How to Avoid It (Vol. 31, No. 3)

Measuring Outcomes in the Real World (Vol. 30, No. 6)

Accomplish More by Climbing the Productivity Pyramid (Vol. 36, No. 3)