More Theses on Nonprofit Organizational Effectiveness: Results and Conclusions from a Panel Study

Paper prepared for the International Society for Third Sector Research
Sixth International Conference, July 11-14, 2004,
Toronto, Canada

Robert D. Herman and David O. Renz
Midwest Center for Nonprofit Leadership
L.P. Cookingham Institute of Public Affairs
H.W. Bloch School of Business and Public Administration
University of Missouri - Kansas City

The research described in this report was made possible by grants from the Nonprofit Sector Research Fund. We thank the board and officers of the Fund for their support. We also thank the nonprofit chief executives, managers, board members and funders who participated in this project. We appreciate the contributions of Jill Cook, Tim Higgins, Jan Schrum, Curt Martin and Teri Kriege to the project.

INTRODUCTION

Nonprofit organizational effectiveness continues to be an elusive concept. What is nonprofit organizational effectiveness? Is program effectiveness the same as organizational effectiveness? Is overall nonprofit organizational effectiveness a reality waiting to be discovered by those looking for it? Will all those looking agree on what they have discovered? Do certain management practices generally promote greater organizational effectiveness (are there "best practices" and, if so, what are they)? These are some of the important questions that confront those interested in researching and improving nonprofit organizational effectiveness.

In this report we (mostly) describe the results of recent research that bear on all the above questions. We also consider the implications for practice of the results. Rather than present the results in the usual research paper fashion, this report will present the results in the form of theses – statements we believe justified by research (our own and others'). We begin with theses we first proposed in an ISTR conference paper a few years ago (Herman and Renz, 1999). We then add more theses, mostly based on more recent research. We conclude with implications for practice. Before proceeding with the theses, a brief description of the sample and methods is provided.

Sample and Methods

We have collected data on the same nonprofit organizations at two times, first in 1993-94 and again in 1999-2000. The study population was defined to include only local nonprofit organizations (publicly supported charities) or independently incorporated affiliates or chapters, with a local governing board, of national nonprofit organizations (publicly supported charities). Two "types" of local charitable nonprofits were included in the study – those providing health and welfare services that received allocations from the local United Way and those providing services to people with developmental disabilities. In the first round of data collection we took a random sample of health and welfare charities (n = 46) and nearly the total population of organizations providing services to the developmentally disabled (n = 18). (For more details about the initial sample, including why we used the types of organizations we did see Herman and Renz, 1997.)

To begin the second round of data collection we first determined which of the 64 nonprofit organizations (NPOs) that were part of the study during the first round were still in existence. We found that three had dissolved and six had merged with other organizations. We invited chief executives of the 55 extant organizations to participate in the second round of the study. In spite of repeated attempts to persuade them to participate, eight chief executives declined to be interviewed. Of the 47 who agreed to interviews, three decided not to complete questionnaires and/or supply us with other data (such as a board roster, names of senior staff and funders to whom we would send questionnaires) required for the study. Thus, our sample at time 2 is at most 44 organizations. We do not have complete data on all 44 organizations. Sometimes we did not receive sufficient numbers of returned questionnaires from board members, staff or funders (those questionnaires were used to gather judgments on board and organizational effectiveness). For many analyses, sample sizes are in the mid-30s. Attrition and non-response have obviously limited our study. Nonetheless we have sufficient numbers to carry out what we believe are important and meaningful analyses.

Given our theoretical perspective and substantive interests, we have collected data on several classes of variables: (1) use of practitioner-defined correct management practices, (2) use of widely recommended board practices (3) judgments of the effectiveness of boards, (4) judgments of the effectiveness of organizations, and (5) other organizational characteristics, including age, total revenues, strategies and the like (see the Appendix for information about the measures and how they were developed). We collected the data on the same variables in the same way, at both times 1 (93-94) and 2 (99-00). To avoid common source correlation we collected the judgment data, in each wave, from different individuals in three general types of constituency groups - either the chief executive for board effectiveness or senior managers for organizational effectiveness, board members, and funders (officials from foundations, corporate contributions programs, federated fund-raising organizations and government funding agencies). Some of the same individuals participated in both time 1 and time 2 data collection. Of the 44 chief executives interviewed at time 1, 22 were again interviewed at time 2. We do not know precisely how many board members, senior staff or funders provided data at both times. It is likely that very few board members were re-surveyed. However, given the substantial interval between data collection periods (at least five years), we are confident that those who participated at both times would not inflate relationships across time by remembering their time 1 responses.

THESES

The first five theses presented here are the same as presented in our 1999 (Herman and Renz) article in Nonprofit and Voluntary Sector Quarterly. Our presentation here is much briefer than in the original. Our panel study provides additional evidence related to the third and fourth theses.

1) Nonprofit organizational effectiveness is always a matter of comparison.

This is logically required. The comparison is sometimes to the same organization at earlier times, to similar organizations or to some ideal (perhaps only implicit).

2) Nonprofit organizational effectiveness is multidimensional.

General organizational theories (e.g., the competing values framework of Quinn and Rohrbaugh [1981]), applied techniques (e.g. the balanced scorecard, Kaplan and Norton, 1992) and much of the empirical work on nonprofit organizations (see reviews by Forbes, 1998 and Stone and Cutcher-Gershenfeld, 2002) conceive of nonprofit organizations as having several criteria of effectiveness and that these criteria are often independent of one another.

That NPO effectiveness is (or is widely considered as) multidimensional, of course, has fundamental implications for theory, research and practice. NPO effectiveness cannot be assessed with a single indicator. Models examining how NPOs might maximize a single criterion (such as surplus, growth, revenues, etc.) are not possible. Program effectiveness is not the same as organizational effectiveness. Though the recent emphasis on (program) outcomes assessment indicates that some stakeholders (primarily funders) may consider program effectiveness either as more important than other elements of effectiveness or they may consider program effectiveness as more difficult to adequately assess than other elements.

3) Boards of directors make a difference in the effectiveness of NPOs, but how they do this is not clear.

Several studies, using different kinds of NPOs and different conceptions and measures of board and organizational effectiveness, have found board effectiveness is correlated to organizational effectiveness. The general assumption is that the causal relation runs from board to organizational effectiveness. Only one study (Jackson and Holland, 1998) provides any evidence in support of the assumption that board effectiveness is a cause of organizational effectiveness.

At time 1 in our panel study, the correlation between stakeholders' judgments of board and organizational effectiveness was r = .64 (n=59). At time 2, the correlation was somewhat smaller at r = .40 (n=31). These results raise two key questions, which we can answer since we now have panel data. First, did those organizations that increased the extent of use of recommended board practices (see Appendix for details about board practices) become more effective boards, as judged by the stakeholder groups? Second, did those organizations that increased the extent of use of recommended and/or correct management practices become more effective organizations, as judged by the stakeholder groups? We address the first question here and the second question in the fourth thesis.

Of the 44 organizations for which we have time 2 data, 24 showed increases in the proportion of recommended board practices used, 6 had no change and 14 reported using fewer recommended board practices. Static-score regression analyses (see Herman and Renz, 2004, for details) show that neither board members' nor funders' base time 2 (controlling for time 1) effectiveness judgments on the extent to which board practices are used. The analyses indicate that board member prestige has some impact on funders' judgments of board effectiveness (something they are much more likely to know than a board's internal practices). The analyses also show that both chief executives and board members regard the financial condition of the organization as a significant measure of the board's effectiveness. Perhaps this financial results orientation accounts for the fact that 14 boards decreased the use of recommended board practices. In those organizations it may be that the board members and chief executives decided that certain board practices were not helpful to achieving the board's responsibility for a sound financial position.

4) More effective NPOs are more likely to use correct management practices.

Some cross-sectional studies support this thesis, including results using our time 1 data (Herman and Renz, 1998). Galaskiewicz and Bielefeld (1998) found in their panel analyses of NPOs in Minneapolis and St. Paul that increased use of managerial (as distinguished from political and retrenchment) tactics led to increased growth (in expenditures and number of employees). Though size and increasing size are not logically or theoretically indicators of nonprofit organizational effectiveness, it is certainly arguable that some stakeholders might regard growth in size as an indicator of effectiveness.

Thus, the second question we raise above becomes especially compelling. Do NPOs that increase their use of correct management practices become judged as more effective by stakeholder groups? Of the 44 NPOs in the time 2 sample, 23 increased their use of the "correct practices" that practitioner-experts defined as indicating nonprofit organizational effectiveness, 6 showed no change, and 15 organizations <u>decreased</u> the extent to which they used correct management practices from time 1 to time 2. We found that board members judged organizational effectiveness in relation to the extent of use of correct management practices, but funders and senior managers did not (see Herman and Renz, 2004 for more statistical detail). Funders' and senior managers' judgments at time

2 were affected by their time 1 judgments, suggesting they see some continuity in the extent of an organization's effectiveness. We also found that differences in use of board practices were unrelated to any stakeholder group's judgments of organizational effectiveness.

Our panel results obviously suggest that a search for best practices, in relation to both board management and organizational management, must confront the assumption that there is "one best way" of doing board work and managing NPOs. We do not argue that certain board and management practices are often favored. As the institutional school of organization theory (Meyer and Rowan, 1977; DiMaggio and Powell, 1983) predicts when there is substantial uncertainty about the methods for achieving outcomes or when outcomes are difficult to measure, organizations are likely to emphasize following approved procedures to achieve or maintain their legitimacy. Our view is that many influential stakeholders (such as foundations, United Ways, accrediting bodies and other regulators) find that as more and more NPOs adopt "best practices" at time X that at time X+ those previous "best practices" no longer seem to discriminate among the NPOs that those stakeholders impressionistically regard as more effective from those regarded as less effective. Thus, "best practices" change. This assertion clearly needs to be investigated.

5) Nonprofit organizational effectiveness is a social construction.

We considered that this thesis would be the least likely to be accepted when we argued for it initially. The social constructionist perspective challenges taken-for-granted understandings of the some parts of the social world. Many parts of the social world are "real" only because people have believed and acted in ways that are consistent with that reality. As many have observed the idea and categories of “race” are social constructions. Of course, as “race” makes all too clear, social constructions perceived as real are real in their consequences.

One analogy we have found useful for clarifying in what ways NPO effectiveness is socially constructed is the baseball umpires story. Three umpires are describing how they call balls and strikes. The first says “I call ‘em as they are.” The second that “I call ‘em as I see ‘em.” The third, the social constructionist of the group, says “They ain’t nuthin til I call ‘em.” In NPOs there are activities, such as annual reports, program outcome reports, site visits by funders, stories told by CEOs to board members, funders and others, and so on. These activities, like pitches, are nothing until someone calls them, that is, until someone forms judgments of effectiveness from them (and often communicates those judgments) and uses the judgments. Unlike in baseball, in NPOs there is no single umpire. All stakeholders are permitted to “call” effectiveness; some stakeholders may be more credible than others and other stakeholders may be more influential than others. As yet, there is no agreed-on procedure for determining NPO effectiveness.

ADDITIONAL THESES

6) Claims about “best practices” for nonprofit boards and for the management of NPOs must be critically evaluated.

The evidence from our panel study does not support the claim that certain board and management practices are best practices (that is, that using them leads to effective boards and organizations) or even good practices. In only one of the six analyses described earlier does the use of best practices at time 2 affect judgments of effectiveness at time 2, controlling for effectiveness judgments at time 1.

When we initially (in early 1990s) searched the prescriptive board literature for recommendations about what processes boards should use to improve their effectiveness, the term “best practices” was not used. Nonetheless the recommended practices (see list in Appendix) would seem to include what many would regard as best practices. When we at the same time assembled groups of practitioners (chief executives, giving officers, and consultants/trainers) to identify what criteria they used in assessing NPO effectiveness we did not ask them to identify management “best practices,” though that is what they did (see list in Appendix).

In the last several years the concept of “best practices” has been very widely invoked and applied. Many sources that claim to offer “best practices” about NPO boards or management provide little or no basis for assertions about best practices. What evidence is required to support a claim of best practice? Keehley et al. (1997) argue that “best practices” should meet seven criteria: be successful over time; show quantifiable gains; be innovative; be recognized for positive results (if quantifiable results are limited); be replicable; have relevance to adopting organization; and not linked to unique organizational characteristics (generalizable). We are aware of no NPO “best practice” which comes close to meeting these criteria. Studies of what have been promoted as “best practices” for business corporation boards have also found no relation between those “best practices” and corporate performance (see Heracleous 2001).

7) A measure of NPO effectiveness emphasizing responsiveness may offer a solution to the problem of differing judgments of effectiveness by different stakeholder groups.

We found at both time 1 and time 2 that stakeholder groups (board members, funders, and senior NPO managers) differed in their ratings of both board and organizational effectiveness. The correlations of one group's score with other those of other groups' were usually pretty low (varying from close to 0 to the .4 range). Such dissimilarity meant that we could not legitimately compute an overall average (for either board or organizational effectiveness), rather we did analyses for each stakeholder group separately. Before our second round of data collection we searched for alternative approaches to measuring judgments of effectiveness. Though we found nothing helpful developed at the organizational level of analysis, we were aware of Tsui's instrument (1984) for measuring co-workers' (peers, superiors and subordinates) judgments of the effectiveness of individual managers. We adapted Tsui's three-item instrument (with her permission) to apply to organizations (see Appendix for the items). What we found desirable about Tsui's scale is that the items did not define how effectiveness was to be understood, as our instrument does. Rather Tsui's items ask respondents to assess how well the organization is doing on whatever is important to them. For this reason, we describe the instrument as a measure of organizational responsiveness. We included the adapted instrument with the questionnaires we sent to stakeholders.

All stakeholder groups see organizational responsiveness as strongly related to organizational effectiveness. The correlations between those two variables for each group are -.73 (n=35) for board members, -.86 (n=26) for funders, and -.72 (n=33) for senior managers (the negative sign is appropriate since responsiveness is scaled with higher numbers indicating more responsiveness while for the effectiveness variable smaller numbers indicate greater effectiveness). After averaging the organizational responsiveness scores across the stakeholder groups, the correlations between averaged responsiveness and each groups' judgment of organizational effectiveness are -.67 (n=30), -.68 (n=22) and -.63 (n=31) respectively. Also, the correlations between each stakeholder groups' judgment of responsiveness and the overall average for responsiveness are quite high, at .77 (n=30), .76 (n=22) and .77 (n=31) respectively. These last sets show that not only is responsiveness related to effectiveness (for all groups) but also that each group's responsiveness is highly related to the average of the groups. This means that we can use the averaged responsiveness score as an indicator of effectiveness or, at least, one kind of effectiveness. We encourage others researching NPO effectiveness to use this instrument.

8) Progress in identifying the practices, tactics, strategies, etc. that may lead to NPO effectiveness probably requires distinguishing among different “types” of nonprofit organizations (within the legal category of 501-c-3 public charities).

As many have observed the (U.S.) legal category that has often been used to define and identify “nonprofit organizations” includes very disparate organizations – in terms of activities, size, scope and other characteristics. What such organizations have in common at a minimum is that they cannot distribute earnings to anyone (what has been called the non-distribution constraint) and that they must receive certain proportions of their revenues from various public sources. How to meaningful distinguish “types” is an important question. One approach, reflected in the U.S. by the development of the National Taxonomy of Exempt Entities (NTEE) , is to distinguish among fields of activities, such as arts, education, health, employment, housing and so on. This approach, of course, is likely to correspond, to some extent, to “naturally occurring” industry groups, such as museum and symphony associations, educational associations, hospital associations and so forth. Of course, most associations are narrower in scope than the entire field of activity. Even so, the number of major categories in the NTEE is quite large, making for many groupings (some likely to include very small numbers) in research.

A different approach is to distinguish among publicly supported charities on a more limited, but conceptually meaningful basis. Recent writing about social entrepreneurship or nonprofit commercial enterprise suggests that the distinction (apparently first proposed by Hansmann, 1980) between “donative” and “commercial” charities is meaningful. Advocates of NPOs becoming more commercial certainly see such organizations as importantly different from donative NPOs. Galaskiewicz and Bielefeld’s panel study (1998) shows that NPOs that relied more on commercial income differed in some ways from those that relied more on donative income.

In our panel study we investigated whether classifying NPOs into donative and commercial would add to our understanding of the results. The first issue researchers must face in such analyses is what criteria to use to distinguish donative from commercial NPOs. Using the most recent IRS form 990 returns we could locate for each of our sample organizations, we computed a “public support index” by first adding the figures on the 990 form for direct public support, indirect public support and government grants. The total we regard as “public support,” which corresponds to Hansmann’s (1987) conceptualization of “donative,” as he notes that governments are important donors. Finally, we compute the percentage of public support (the public support index) by dividing total public support by total revenues. For our sample the percentage of public support ranged from 10 to 99%.

The IRS tests for public support depend upon more detailed information than we had available, but we decided to use 33% (since that % is used in both tests) as the dividing point between donative and commercial NPOs. Of the 44 study organizations 30 were classed as donative and 14 as commercial.

If we regard the prescriptive board practices and correct management practices mostly as indicators of legitimacy (as demonstrating to funders and other interested stakeholders that NPOs do the right things) rather than as rational means to achieve substantive goals, then we could expect the publicly supported NPOs to use a greater proportion of both correct board and management practices. What we found is that the two types were relatively close, on average, in use of correct practices at time 1, but that the publicly supported NPOs increased their average proportion to a much greater extent by time 2. At time 1 the commercial NPOs used, on average, about 57% of the board practices and 73% of the management practices. At time 2 the percentages were 57% and 76% respectively. At time 1 the donative NPOs used, on average, about 62% of the board practices and 77% of the management practices. At time 2 the percentages were 67% and 87% respectively.

Examination of the extent and direction of changes in practices in each organization shows that nearly the same proportion of donative NPOs decreased their extent of use of both board and management practices as did commercial NPOs. In the former 43% (6 of 14) decreased use of recommended board practices between time 1 and time 2, whereas in donative NPOs 27% (8 of 30) decreased use of board practices. For management practices 29% (4 of 14) commercial NPOs decreased their use while 33% (10 of 30) donative NPOs did so. Slightly higher proportions of donative NPOs increased use of correct practices. In donative NPOs 57% (17 of 30) increased use of board practices compared to 50% (7 of 14) of commercial NPOs, while the percentages for management practices are 43% (6 of 14) and 57% (17 of 30) respectively. Clearly the greater average increased use of correct practices by donative NPOs is not a matter of all such organizations increasing their use, but of slightly greater proportion doing so and some doing so to a greater extent than the increases among commercial NPOs.

We also examined whether stakeholders regarded commercial or donative NPOs as more effective and found no substantive differences for any stakeholder group. The same was true for extent of use of legitimacy, new revenue, and retrenchment tactics. In our sample while there are clearly differences in the extent to which organizations rely on commercial as opposed to donative or public sources of income, the distinction is not one that is consistently related to board or management practices or to various managerial tactics nor to stakeholder judgments of effectiveness. Galaskiewicz and Bielefeld (1998), with a much larger and more varied sample over more time periods, found differences in several ways between NPOs between commercial and donative NPOs. There are important differences in the types and sizes of NPOs they studied (their sample comes from many more fields of activity and the organizations are much larger on average than ours) and in the types of analyses (mostly their analyses used measures of changes in sources of income across the entire sample, rather than dividing the sample into two classes) . Their study did not include judgments of effectiveness, focusing instead on growth (measured by revenues and numbers of employees and volunteers). Clearly more research on the commercial-donative distinction and its consequences is needed. Other attempts to conceptualize important differences among public charities are also necessary, if we are to develop a few useful distinctions within that very heterogeneous category.

9) Nonprofit organizations are often part of a network of service delivery. Network effectiveness is probably as important to study as organizational effectiveness.

An emphasis on the effectiveness of NPOs as separate and distinct entities can easily lead to the conclusion that an organization creates its effectiveness. Obviously, in many ways how effective an organizations is (judged) depends, in large part, on the effectiveness of other organizations and people with which it is interconnected. In an important study of organizations involved in community mental services networks Provan and Milward (1995) investigated how network characteristics were related to assessments of client outcomes. They found that client and family assessments of client outcomes were closely correlated, though staff assessments were not (illustrating again that stakeholders sometimes evaluate program outcomes differently). They found network centralization most clearly related to positive client and family assessments. More recently (Provan and Milward, 2001) they have described many of the challenges in assessing network effectiveness. Nonetheless, studies of NPO effectiveness will benefit if network effectiveness begins to be more thoroughly researched.

IMPLICATIONS

The theses we have presented are what we believe are the most justified conclusions about NPO effectiveness on the basis of the evidence currently available. Clearly the currently available evidence is limited. Our longitudinal study is the only one available that explicitly attempts to measure NPO effectiveness and the limitations of our research (small sample sizes for many analyses, narrow range of publicly supported NPOs included and based in only one metropolitan area) of course require that we treat it only as a starting point. However, the continuing interest of NPO managers and board members, of funders and regulators of NPOs in finding clear answers to the question "how can a NPO be effective" compels us to describe what we see as the practical implications of our results as summarized in the above theses.

1) Implications for organizational practice.

Effectiveness is not a stable construct. As far as we can tell important NPO stakeholders frequently are not clear about what NPO effectiveness means to them (seemingly like art, they know when they see?) and stakeholders change their implicit criteria for assessing effectiveness. Some are uncomfortable with the notion that NPO effectiveness is a social construction. Such an idea seems to some to suggest that effectiveness is just arbitrary, that there is no solid evidence that can be used to resolve differences in judgments. Some dimensions of effectiveness (dimensions which we believe many stakeholders would agree are part of overall organizational effectiveness) are more based on "hard" evidence than others. For example, well-known experimental and quasi-experimental designs exist for assessing <u>program effectiveness</u> (though outcome assessments lacking any comparison group provide much more equivocal evidence). However, we are aware of few program evaluations that attempt to relate management (or board) practices to program outcomes. Similarly, use of generally accepted accounting principles provides solid evidence about revenues, costs and surplus.

Other dimensions of effectiveness, such as community collaboration or working with volunteers, are likely to be less amenable to “hard” evidence.

We certainly support and encourage using “hard” evidence to the extent possible, but we do not expect all stakeholders to use that evidence the same way or to combine it with other kinds of evidence in the same ways. In short, because overall effectiveness is socially constructed does not mean it is not real. It is very real, but it is changeable. Because how effectiveness is judged is unstable the search for “the answer” to how to be effective seems to us to be search that will have to be repeated over and over. There are many answers and they keep changing.

The popularity of “best practices” attests to the hope of finding a pot of gold at the end of the search. As our panel analyses show, in only one (of six) instances did a stakeholder group use “best practices” to judge effectiveness. One key assumption of the best practices approach is that a particular technique or process that works well in one setting can and should be incorporated into rather different settings. No doubt this is true in some instances such as, for example, changing procedures to improve billing cycles. However, in many instances a practice that enhances effectiveness in one organization may in another organization not be consistent with other practices or norms. Collins and Porras (1994), in their study of 18 highly successful businesses (and 18 not quite as successful firms that served as a comparison group), show that many of these successful firms did not conform to what might have been regarded as best practices at various crucial stages in their lives. Rather, they emphasize that what accounts for long-term success is consistency and alignment among core values, structure, strategy, rewards, and other practices.

We do not conclude that practices and procedures are unimportant. Undoubtedly, every organization must discover and continually seek to improve its practices, consistent with its values, mission, and stakeholders' expectations. However, its practices must fit together and must move the organization toward more fully meeting (and, perhaps, changing) its stakeholders' expectations. Effectiveness is a result of interaction among the organization's leaders, its clients and its myriad other stakeholders. It is crucial for the organization's managers to understand what stakeholders expect (and appropriate for managers to honestly debate those expectations) and to respond to those expectations.

2) Implications for boards and governance.

Board members need to understand that NPO effectiveness is not a stable construct and that different stakeholders judge it differently. They will also need to understand that board effectiveness is similarly unstable and socially constructed by stakeholders. No doubt NPO chief executives typically will have a crucial role in facilitating such board understanding.

Similarly to our conclusion about organizational management practices, we do not see these results as suggesting that board process management is unimportant. Rather these results suggest that not only is there no "silver bullet" (i.e., one practice that ensures board effectiveness) but that there is no "silver arsenal." Finally, we read these results in the context of other research as indicating that boards (perhaps with facilitative leadership by their chief executives) need to find what processes are useful to them. Boards should not use a practice just because other boards, experts or consultants say it is useful. Does the practice fit this board's circumstances? Does the practice actually help the board reach good decisions and make contributions to the organization's success?

Though our panel study does not provide much help in specifying in what ways boards contribute to overall organizational effectiveness, the results again confirm that all stakeholders consider that board effectiveness and organizational effectiveness are related. Our own experience and that of many others also reinforce this conclusion. Thus, what boards do and how they do it is important. In particular, we believe that boards' will contribute to enhancing organizational effectiveness by helping its executives understand how stakeholders, whom board members are likely to encounter in different contexts and with whom they may have different relationships than executives, judge effectiveness.

3) Implications for program evaluation and outcomes assessment.

We have observed elsewhere (Herman and Renz, 1999) that (program) outcomes assessment is limited and may be misleading. We see only a very unlikely set of circumstances where outcomes could legitimately be considered as equally organizational effectiveness: that the NPO conduct only one program, that alternative explanations for outcomes (such as the effect of other programs or events) be impossible, and that core stakeholders are rational, objective, reasonably intelligent and have all the relevant data. Outcomes assessments, thus, must be regarded as potentially useful but always limited.

Other forms of program evaluation have more relevance, we believe. Certainly there is a place for experimental and quasi-experimental program evaluations, though we recognize that these are difficult, expensive and time consuming. More qualitative forms of program evaluation, such as that advocated by Patton (1997) which emphasizes the engagement of key stakeholders in the process more closely match the realities of organizational effectiveness and are more likely to help all stakeholders achieve what they want in the relationship.

4) Implications for capacity building and capacity builders.

If we lack evidence for "best practices," rather than promote one best way or one best set of ways, those who fund capacity building and those who provide capacity building should recognize and offer an array of promising practices, providing process skills and knowledge to enable NPOs to assess the match of the practices to their environment and stakeholders. As noted earlier, promising practices will likely differ depending on the domain or field of service of the organization and capacity builders should research both the practices that are considered "absolutely required" as well as the emerging promising practices for the domain of any specific NPO with which they work.

Capacity building support should include consideration of the "set" of actors who will be judging effectiveness of a specific organization and how to engage them; such support should not focus simply on the internal organization (see Wing, 2004, for more on the dilemmas facing those funding and doing organizational capacity-building).

Some of the implications we suggest others will, no doubt, find more compelling than others. We offer these implications in the hopes of furthering serious inquiry about how to research and serious debate about how to improve NPO effectiveness, rather than as "the answers" about NPO effectiveness.

REFERNCES

Collins, J.C., & Porras, J.L. (1994). <u>Built to last: Successful habits of visionary companies.</u> New York: HarperCollins.

DiMaggio, P.J., & Powell, W.W. “The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields." American Sociological Review, 48, 147-160.

Forbes, D.P. (1998). “Measuring the unmeasurable: Empirical studies of nonprofit organization effectiveness from 1977 to 1997.” Nonprofit and Voluntary Sector Quarterly, 27, 183-202.

Galaskiewicz, J., & Bielefeld, W. (1998). Nonprofit organizations in an age of uncertainty. New York: Aldine de Gruyter.

Jackson, D.K., & Holland, T.P. (1998). “Measuring the effectiveness of nonprofit boards.” Nonprofit and Voluntary Sector Quarterly, 27, 159-182.

Hansmann, H. (1980). “The role of nonprofit enterprise.” Yale Law Journal, 89, 835-901.

Hansmann, H. (1987). “Economic theories of nonprofit organizations.” In W. W. Powell (Ed.), The nonprofit sector: A research handbook. New Haven, CT: Yale University Press.

Heracleous, L. (2001). “What is the impact of corporate governance on organisational performance?” Corporate Governance, 9(3), 165-173.

Herman R.D., & Renz, D.O. (1998). “Nonprofit organizational effectiveness: Contrasts between especially effective and less effective organizations.” Nonprofit Management & Leadership, 9, 23-38.

Herman, R.D., & Renz, D.O. (1999). “Theses on nonprofit organizational effectiveness.” Nonprofit and Voluntary Sector Quarterly, 28, 107-126.

Herman, R.D., & Renz, D.O. (2004, forthcoming). “Doing things right and effectiveness in local nonprofit organizations: A panel study.” Public Administration Review.

Kaplan, R.S., & Norton, D.P. (1992). "The balanced scorecard – measures that drive performance." Harvard Business Review, 70(1), 71-79.

Keehley, P., Medlin, S., Longmire, L., & MacBride, S.A. (1997). Benchmarking for best practices in the public sector: Achieving performance breakthrough in federal, state, and local agencies. San Francisco, CA: Jossey-Bass.

Meyer, J.W., & Rowan, B. (1977). "Institutionalized organizations: Formal structure as myth and ceremony." American Journal of Sociology, 83, 340-363.

Provan, K.G., & Milward, H.B. (1995). "A preliminary theory of interorganizational network effectiveness: A comparative study of four community mental health systems." Administrative Science Quarterly, 40, 1-33.

Provan, K.G. & Milward, H.B. (2001). "Do networks really work? A framework for evaluating public-sector organizational networks." Public Administration Review, 61, 414-423.

Patton, M.Q. (1997). Utilization-focused evaluation: The new century text (3rd edition). Thousand Oaks, CA: Sage.

Quinn, R.F., & Rohrbaugh, J. (1981). "A competing values approach to organizational effectiveness." Public Productivity Review, 2, 141-159.

Stone, M.M., & Cutcher-Gershenfeld, S. (2002). "Challenges of measuring performance in nonprofit organizations." In P. Flynn & V.A. Hodgkinson (Eds.), Measuring the impact of the nonprofit sector. New York: Kluwer Academic/Plenum.

Tsui, A.S. (1984). "A role set analysis of managerial reputation." Organizational Behavior and Human Performance, 34, 64-96.

Wing, K.T. (2004). “Assessing the effectiveness of capacity-building initiatives: Seven issues for the field.” Nonprofit and Voluntary Sector Quarterly, 33, 153-160.

APPENDIX

CORRECT MANAGEMENT PRACTICES

For all organizations

- Mission statement
- Use of form or instrument to measure client satisfaction
- Planning report
- List or calendar of board development activities
- Description of or form used in CEO performance appraisal
- Description of or form used in employee performance appraisal
- Report on most recent needs assessment
- By-laws containing a statement of purpose
- Independent financial audit
- Statement of organizational effectiveness criteria, goals or objectives
- Board manual

Additional indicators for organizations serving people with developmental disabilities

- Description or form for measuring satisfaction of families of customers
- Description or form for measuring satisfaction of funders
- Report or form for report of incidence of illnesses or accidents of customers
- Report or form for report of incidence of customer abuse or neglect
- Reports or evaluations from inspection and regulatory bodies

LIST OF BOARD PRACTICES

Nominating or board development committee
Board profile
Nominees interviewed
Written selection criteria for board members
Board manual
Orientation for new members
Written policy about attendance at board and committee meetings
Written policy on dismissal for absenteeism
Absenteeism policy enforced
All board members have office or committee responsibility
Agenda distributed prior to meetings
Annual board retreat
Executive committee of board
Written policy specifying roles and powers of executive committee
Collective board self-evaluation

Board self-evaluation results distributed and used
Evaluation of individual members
Members receive feedback from individual evaluations
Written expectations about giving and soliciting
Board meets expectations about giving and soliciting
Board process for CEO appraisal
Limit on number of consecutive terms for board members
Recognition of retiring board members

ELEMENTS IN ORGANIZATIONAL EFFECTIVENESS QUESTIONNAIRE

Financial management
Fund-raising
Program delivery
Public relations
Community collaboration
Working with volunteers
Human resource management
Governance relations
Board governance

ELEMENTS IN BOARD EFFECTIVENESS QUESTIONNAIRE

Mission definition and review
CEO selection and review and working relationship between board and CEO
Program selection consistent with mission and program monitoring
Giving and soliciting contributions
Financial management
Strategic planning
New board member selection and training
Working relationship between board and staff
Marketing and public relations
Conduct of board and committee meetings
Role in risk management

ELEMENTS IN ORGANIZATIONAL RESPONSIVENESS QUESTIONNAIRE*

This brief questionnaire was included with the questionnaire about organizational effectiveness and uses a seven-alternative scale, from “a” not at all to “g” entirely.

Organization performing the way you would like it to perform
Organization met your expectations
Change the manner in which this organization is run (reverse scored)
*Based on an instrument developed by Anne Tsui (1984) and used with her kind permission.