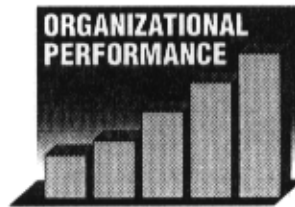


Organizational Effectiveness: *How Is It Achieved?*

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Contemporary concerns about not-for-profit organization (NFPO) accountability, outcomes assessment and performance evaluation attest to the importance of taking stock of what we know about NFPO effectiveness and the evaluation of such effectiveness. Our view is that NFPO effectiveness is more difficult, both to understand and to measure, than effectiveness in business. Unlike businesses, NFPO effectiveness cannot (appropriately) be captured in a single figure, such as share price or return on investment or other "bottom line" indicators. While vision and mission statements provide direction and inspiration, they seldom are specific enough to permit unambiguous conclusions about how effective one NFPO organization is compared to another, especially to others in different fields of service.



② NFPO effectiveness is multidimensional and will never be reduced to a single measure:

The business literature contains a number of efforts to identify the various important (if sometimes conflicting) outcomes that need to be achieved for an organization to reach a high level of over-

all effectiveness. For example, one "balanced scorecard" approach identifies four dimensions of organizational performance: the customer perspective, internal process perspective, the financial perspective, and the innovation and learning perspective. A multiple constituency perspective recognizes that different constituencies or stakeholders (such as

clients, funders, volunteers, and staff) are likely to define the criteria by which they evaluate a NFPO differently or give differing priorities to criteria. At this time there is no clear consensus on what the relevant dimensions of

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NFPO effectiveness are, though our view is that many stakeholders would agree that (1) program delivery, (2) financial management, (3) fund raising, (4) use of volunteers, and (5) board governance are important dimensions. How NFPOs actually assess performance on these dimensions and how performance on each is related to judgments of overall effectiveness by various stakeholders are issues that have not yet been studied.

③ Boards of Directors make a difference in the effectiveness of NFPOs, but how they do this is not clear:

One of the solid achievements of the expanding research on NFPOs over the last ten to fifteen years is the finding, in several studies conducted in different ways, that board effectiveness is clearly related to organizational effectiveness. While the results of these studies do not provide a set of specific actions that will lead to improved board effectiveness, the results do suggest that efforts to improve board performance often result in both more effective boards and, thus, most probably in more effective organizations.

"We believe that an organization is not just the sum of its parts."

In this piece, we summarize our review of the research literature on NFPO effectiveness and offer suggestions about the implications of our summary for improving

the management of effectiveness. We distinguish between overall organizational effectiveness and the effectiveness of sub-units or functions (such as program delivery, financial management, or fund raising). We believe that an organization is not just the sum of its parts. The available evidence suggests that NFPO stakeholders also consider NFPOs as totalities and make judgments about overall effectiveness. We organize our summary of what is known about NFPO effectiveness in the form of "six propositions". Most of the theses are substantially grounded in available research.

OUR PROPOSITIONS

① NFPO effectiveness is always a matter of comparison:

This proposition is logically required. Any statement such as "X is a very effective organization" can only be meaningful if X is being compared (perhaps implicitly) to some other organization, to itself at an earlier time, or to an "ideal" of what an effective NFPO is. We believe it is useful to always ask: "How effective is organization X compared to?" The basis of the comparison should be specified.

④ **More effective NFPOs are more likely to use "good management" practices:**

Several studies have been conducted examining the relation between strategic planning (or various elements of the strategic planning process) and NFPO effectiveness. While, as usual in research, there are differences and inconsistencies in results, on balance the results indicate that strategic planning is related to (various measures of) NFPO performance. Other studies, using sub-samples of both especially effective and less effective NFPOs, have found a relation between other "good management" practices (such as having a mission statement, doing community needs assessment, having an annual independent financial audit, a formal process for CEO performance appraisal, and client satisfaction measures) and stakeholder judgments of effectiveness. Research on "good management" practices and effectiveness in NFPOs is not extensive and much more remains to be learned.

⑤ **NFPO effectiveness is a social construction:**

Unlike the four previous propositions, this is not one that most researchers would agree with. Our view is that NFPO effectiveness is ultimately what stakeholders think it is. No doubt stakeholders base their judgments of how effective a NFPO is on various impressions they have about that organization, perhaps often including information about program delivery effectiveness, fund-raising results, financial soundness and so forth. However, research evidence suggests that stakeholders frequently give different priorities to different criteria and interpret evidence relevant to the criteria differently. A good analogy is that of umpiring balls and strikes in a baseball game. There are pitches, but a pitch is neither a ball nor a strike until the umpire calls it. In NFPOs, there are activities, but there is no effectiveness until someone calls it (which, of course, doesn't take long). In NFPOs there is no single umpire (all stakeholders are permitted to call effectiveness, though some may be considered more credible than others) and no regular procedure for determining effectiveness (all stakeholders are free to send effectiveness messages). NFPO effectiveness is stakeholder judgment, formed and changed in an ongoing process of sense making and (often implicit) negotiation.

The alternative view of NFPO effectiveness is that there is a real overall effectiveness and that it exists independently of anyone's judgment of it. If this view is correct, then the challenge is to find ways of more skillfully measuring that reality.

"... chief executives and boards should continually sound out stakeholder groups about ... how well a NFPO is doing."

We think this is a challenge that is unlikely to be met for two connected reasons. First, NFPO effectiveness is not reducible to a single indicator. Second, performance on various dimensions of (sub-unit or functional) effectiveness cannot be somehow summed to a single indicator and, even if they could, we believe stakeholders will continue to treat NFPO effectiveness as something more than the sum of the parts. That NFPO effectiveness is ultimately the judgments of stakeholders, implies that chief executives and boards should continually sound out stakeholder groups about their judgments of how well a NFPO is doing.

⑥ **Program outcomes assessment has limits as an indicator of effectiveness:**

We recognize the potential value of conducting program outcomes assessment. We worry that outcomes assessment is being promoted with promises of more than it can deliver. We see three major limits to outcomes assessment. First, outcomes assessment considers only one program. NFPOs often deliver more than one program and tracking the outcomes of only one does not indicate anything about outcomes in other programs. Even if a NFPO delivers only one program, knowing something about that program's outcomes does not tell us anything about how well the organization performs various other functions.

A second limitation of outcomes assessment is the fallacy of affirming the consequent. The flawed logic is as follows: If A happens and then B happens, we can conclude that A must have caused B. Of course, many things may have caused B other than A; only the time ordering is "correct." For example, this logic suggests that if (A), an after-school tutoring program for children, happens, and then (B), those children who participated in the program for 15 weeks increase their average score by a certain percentage on some standardized test of reading, (A) was the cause of the increased scores. However, many other causes are possible, including maturation, a change in reading instruction in school, the children's participation in other educational programs and changes in family behavior. There is danger in both unwarranted causal inferences in both positive and negative outcome situations.

The third limit to outcomes assessment is that NFPOs may use data they already regularly collect to measure some intended outcome when such data are not the best measure. Indeed, certain funders now encourage their grantees to do just this—to not create additional work or the need for additional funding to collect more appropriate data. Such practice obviously increases the possibility of erroneous conclusions.

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Implications

From the above propositions, we draw the following implications for NFPO CEOs:

- When presenting information about the performance of your organization, or of some function of your organization, (such as fund raising, program delivery, or volunteer service and so on), it is probably helpful to specify how well you are doing compared to last year, or to other organizations in the same field, or to national standards, or to the expectation of some stakeholders.
- You and your board should be clear about what indicators you will use to assess performance of various functions and sub-units. These indicators obviously must be known to others in the organization.
- Improving the performance of your board is important. Investing your time and convincing key board members to commit to improving board performance (in various areas, including planning, public relations and fund raising) seems likely to result in improved organizational performance. Adopting and fully using "good management" practices are likely to be helpful, both for what they directly contribute and for signaling to key stakeholders that your organization is well managed.
- Most importantly, be aware that stakeholders are likely to use different criteria in judging how your organization is performing and to interpret reports and statements by you and others associated with your NFPO in different ways, depending on their priorities. Frequent probing of stakeholder judgments of your organization's performance is crucial. Surveys can be helpful, but conversations with key stakeholder representatives are likely to be the most important source of such judgments. ➤

Editor's Note: If you found this article of interest, the full research report is presented in the Nonprofit and Voluntary Sector Quarterly, Vol. 28, No. 2, June 1999, "Theses on Nonprofit Organizational Effectiveness." (NVSQ is available through Sage Publications, (805-499-9774, e-mail: order@sagepub.com)

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