

What Is Not-For-Profit Organization Effectiveness?



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At a time when not-for-profit organizations (NFPOs) are increasingly being required to become more accountable for demonstrating that they are “making a difference” and delivering results, issues of NFPO effectiveness are becoming a central concern of chief executives and boards. Some see “outcomes measurement” as the answer to the demands to demonstrate results. While outcomes measurement is worth doing, it also comes with certain limits and dangers. One obvious limit is that outcomes measurement is concerned only with *program* effectiveness and does not address the effectiveness of fundraising or volunteer efforts. Another limit is that outcomes measurement is not as relevant to arts and cultural organizations, for example, as it for social services providers.

Dangers of outcomes measurement

The greatest danger of outcomes measurement is that both NFPO staff and funders may inappropriately attribute the measured outcomes (or lack of outcomes) solely

to the efforts of the NFPO. For example, an organization measuring the effectiveness of a tutoring program for youngsters, e.g., the number of

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participants who gained so many points on a standardized reading test, is likely to “take credit” for what might be gains due to maturation or other influences in the youngsters’ lives (*reading programs at after-school centers, church programs, change in family behavior and so on*).

Misplaced attributions about responsibility for outcomes may be even more disastrous in a program which shows no measured change on some outcomes measures. The lack of change may be due, not to the

program per se, but to powerful countervailing influences in the environment. It is conceivable that “no change” in program participants might represent a considerable achievement, if comparable people who were not receiving program services were declining

on relevant indicators. The lack of comparison groups in most outcomes measurement makes such efforts dangerously prone to causal attribution error.

In recent research, we have been concerned to discover how actual stakeholders of NFPOs make judgments of “organizational effectiveness” of their specific NFPOs. We assume that NFPO effectiveness encompasses many dimensions, including: financial management, fundraising, public relations, community collaboration, volunteer program management, government relations, and board governance. We also recognize that NFPOs deal with multiple constituencies (*many different stakeholder groups*) including: funders, clients or customers, volunteers, staff professionals, and board members. Other researchers have demonstrated that different constituencies have differing criteria for evaluating the effectiveness of NFPOs and that they often use different information to reach judgments of effectiveness. We wanted to find out the extent to which different constituencies used different criteria to evaluate the NFPOs in our sample.

If different constituencies do, in fact, use different criteria and different information to reach judgments of NFPO effectiveness, is it meaningful to assume that NFPOs have real, “objective” organizational effectiveness? We have come to believe that this fundamental assumption—that there is real effectiveness for every NFPO—must be questioned. We think NFPO effectiveness are the judgments people make about effectiveness. Thus, effectiveness is *invented*, not discovered. Whether different constituencies reach the same judgments of effectiveness for a specific organization is an open question.

64 Not-For-Profits Studied

Based on these views, we studied 64 NFPOs in one metropolitan area. The organizations we studied provided either traditional health and welfare ser-

ices or provided services to people with developmental disabilities. We collected many types of data from several different types of people, including asking funders (*federated funding agencies, foundations and corporations*), senior management staff and board members to judge the effectiveness of specific organizations with which they interacted. We also asked different people from the same constituencies to judge the effectiveness of the boards of directors of the 64 NFPOs, as one of our principal interests is further clarifying the relation between board and organizational effectiveness.

Our initial findings included the following:

1. Constituencies often differ markedly in their judgments of the effectiveness of specific NFPOs.
2. Judgments of a NFPO's effectiveness are not related to what NFPO chief executives had identified as "objective" indicators of effectiveness (*these "objective" indicators were matters of following correct procedures such as having a mission statement, using a form or instrument to measure client satisfaction, having a plan, having a needs assessment and so on*).
3. Different constituencies tend to emphasize different criteria in making judgments of NFPO effectiveness, with only funders giving much weight to use of correct procedures; however, for all constituencies, board effectiveness judgments were significantly correlated with organizational effectiveness judgments.
4. In examining what other characteristics of organizations were related to judgments of effectiveness, only organization size was related to such judgments for all constituencies.

From the Least to the Most Effective NFPOs

These results show substantial disagreement about NFPO effectiveness. In an effort to further explore and understand the results, we decided to focus solely on the ten *most* and *least* effective NFPOs in the sample. Our assumption was that the contrasts between the most and least effective (*as indicated by overall average effectiveness judgments*) would best clarify what "practices" characterized the most effective. We found several important results.

1. Of the 10 NFPOs judged most effective, 9 were among those organizations most consistently evaluated by different constituencies. In contrast, only 4 of the 10 least effective NFPOs were consistently evaluated (the 6 that were evaluated less

consistently were judged by some constituencies as middling in effectiveness and by other constituencies as low in effectiveness). Differing stakeholders are much more likely to reach similar judgments about especially effective organizations. Effectiveness is more agreed on than lack of effectiveness.

2. While we found no connection, surprisingly, between using "correct procedures" and judgments of effectiveness in the entire sample, when focusing only on the top and bottom 10 we found that the more effective used significantly more of the correct procedures (*85% on average were used by the most effective whereas only 70% on average were used by the least effective*).

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3. As noted above, for the entire sample—for funders only—was there a relation between use of correct procedures and (*funder*) judgments of organizational effectiveness? For the top and bottom 10 only, the relation between funder judgments and use of correct procedures becomes stronger, and the relations for use of correct procedures, and both staff and board judgments of effectiveness, become significant.
4. Finally, there are several characteristics that distinguish the top from the bottom 10. The top 10 are bigger, as measured by total revenues. The top 10 use more correct procedures and there is a strong relation between use of correct procedures and being judged highly effective. The top 10 more often use strategies of pursuing new revenues and strategies to enhance organizational legitimacy. The top 10 have somewhat more prestigious boards and the extent of board prestige is moderately related to effectiveness judgments.

Identifying Practices of Effective Boards

Given the strong relation between (*judgments*) of board effectiveness and (*judgments*) of organizational effectiveness, we have most recently turned to further examination of the differences between the 10 most and 10 least effective NFPOs in the way their boards operate. In our data collection, we determined whether each NFPO used various widely recommended board practices. Among the 25 recom-

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mended board practices we asked about were such practices as: having a nominating or board development committee, using a board profile in recruiting new members, having a board manual, providing orientation to new board members, conducting a collective board self-evaluation, providing written expectations about giving and soliciting contributions, and the extent to which the CEO takes an active role in board member nominations.

We found that the 10 most effective NFPOs used more of the recommended board practices, 68% on average compared to 56% on average by the 10 least effective. The three practices where the difference in use between the two groups were especially different, were in board self-evaluation, use of written expectations about giving and soliciting, and an active role for the CEO in board nominations.

Conclusions and Implications

We draw the following conclusions and implications from our research. There is no substitute for systematic attention to all of a NFPO's constituencies, to understanding what is important to them and to responding to those (*likely differing*) expectations. Effectiveness is fundamentally about meeting the expectations of constituencies. In addition, our research focusing on the contrasts between the most and least effective suggests there is often value to adopting both various recommended board practices and other good management practices (such as needs assessments, strategic planning, and measuring customer satisfaction). Boards that use more of the recommended board practices are often judged, both by board members themselves and funders, as more effective boards. NFPOs that use more correct management procedures, and that more actively pursue various new revenue and legitimacy strategies, are also likely to be more generally judged as effective organizations. *ML*

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