



# NONPROFIT ORGANIZATIONAL EFFECTIVENESS:

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*Practical Implications Of Research  
On An Elusive Concept*

*An Occasional Paper by Robert D. Herman and David O. Renz*

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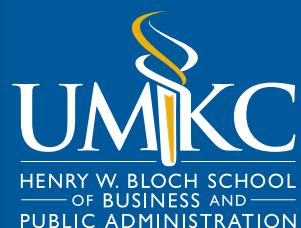
The Midwest Center for Nonprofit Leadership

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*Based on the presentation, "More Theses on Nonprofit Organizational Effectiveness," at the conference, "Nonprofit Organizational Effectiveness and Performance: Challenges and Advances in Theory and Practice," held at the Fairmont Kansas City Hotel, Kansas City, Missouri, on April 18-19, 2002.*

*This report and the research described herein were 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 Krieger to the project.*

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# NONPROFIT ORGANIZATIONAL EFFECTIVENESS:

## *Practical Implications Of Research On An Elusive Concept*

### INTRODUCTION

In an era of heightened concern for nonprofit performance, results, and accountability, we hear more and more about organizational effectiveness and our need to ensure it.

Nonprofit leaders and funders all feel increased pressure to guarantee results, and it seems that the mantra of “effectiveness” has become the standard answer. And who can be against effectiveness? But what are we really talking about? And are we all talking about the same thing? The reality is that most nonprofit leaders and researchers, lacking the simple criterion of bottom-line profit or loss, struggle with the concept of nonprofit organization (NPO) effectiveness and how to make it meaningful in their own organizations. The struggle continues. Confronted with these growing pressures to enhance nonprofit organization impact and accountability, they are exploring questions such as:

- *What is nonprofit organizational effectiveness? And, is program effectiveness the same as organizational effectiveness?*
- *Is there some “real” effectiveness out there just waiting to be discovered?*
- *Can those of us trying to explain effectiveness agree on what it is?*
- *And if we found it, would we be able to agree on what we have identified?*
- *Do certain management practices generally promote greater organizational effectiveness? Are there “best practices” and, if so, what are they?*

To investigate these questions and their implications for nonprofit practice, we conducted a study of a group of local nonprofit charitable organizations over the time period from 1993 to 2000. This report presents the highlights of our findings and discusses their implications for these questions and more. We present the conclusions we draw, in reflecting on our work as well as the findings of other researchers, in the form of a set of propositions or “theses.” The initial five of these were first presented in a 1999 paper and refined in our recent work, and the last four grow directly out of our most recent research.<sup>1</sup> Our report concludes with a discussion of the implications of these theses for nonprofit practice.

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\* Our first five theses were discussed in a 1999 article in the journal, Nonprofit and Voluntary Sector Quarterly.

## A BRIEF OVERVIEW OF OUR RESEARCH PROCESS<sup>ii</sup>

Our research comprises a “panel study,” an approach that involves collecting and comparing data on the same set of nonprofit organizations at two different times in the lives of these organizations. This is in contrast to cross-sectional studies, which take a snapshot of conditions among organizations at only one point in time. We collected our panel study data in 1993-94 (Time 1) and again in 1999-2000 (Time 2). Our study group of publicly-supported charities included two “types” of local charitable nonprofits: health and welfare service agencies that received allocations from the local United Way, and agencies providing services to people with developmental disabilities. All of our sample organizations were either community-based local nonprofit organizations or independently-incorporated local affiliates or chapters (with their own local governing board) of national nonprofit organizations.

The data we collected in our study examined:

- *Use of correct management practices (as defined by practitioners),*
- *Use of widely recommended board practices,*
- *Judgments of the effectiveness of boards,*
- *Judgments of the effectiveness of organizations, and*
- *Organizational characteristics, such as age, revenues, strategies to cope with change, and others.*

To capture this data, we relied upon multiple research methods. Most data were gathered using a combination of paper surveys and interviews. In addition, we gathered certain data from agency documents and other archival resources, and a Delphi process to gather and refine executives’ ideas about the kind of information that we have come to describe as “correct practices” information. A table presenting an overview of the various kinds of data and sources is presented along with other methodological information in the Appendix.

## NINE THESES ON ORGANIZATIONAL EFFECTIVENESS

Much of the research and practice world has used a rational “goal attainment model” as the basis for understanding NPO effectiveness. The goal approach assesses NPO effectiveness by the degree to which the organization accomplishes its goals. This common sense perspective is quite appealing; after all, most people join nonprofit organizations because they want to help them accomplish their missions. Yet, while the goal model makes intuitive sense, it often is inadequate to help us understand the real-life complexities of our organizations.<sup>1</sup> For example, is an organization truly effective if it accomplishes its goals for the year but must close because it has failed to raise adequate funds? Is an NPO effective if it accomplishes its goals by setting those goals so low that they are easily accomplished? And how effective is the organization that sets goals that are irrelevant to the needs of its clients? The reality is that NPO effectiveness is more complicated.

Thus, building on our own research and the work of many colleagues, we offer the following nine fundamental propositions or theses to help understand and explain nonprofit organization effectiveness. The first two propositions are conclusions we reach based on our reading of the literature. The remaining seven propositions are based more on the empirical results we and others have documented.

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<sup>ii</sup> This section presents only a brief overview of our approach to this research. A more complete explanation is presented in the Appendix to this report.

### ***1. Nonprofit organizational effectiveness is always a matter of comparison.***

The question, often left unasked, is against what are we comparing a given organization's effectiveness? This is a matter of basic logic. The comparison may be to the same organization at earlier times, or to similar organizations at the same time, or to some ideal model, but it always will be a matter of some kind of comparison. And the basis for the comparison is a key (though sometimes hidden) element of the definition of effectiveness (and why we often disagree about it).

### ***2. Nonprofit organizational effectiveness is multidimensional.***

Most general theories, as well as many practice techniques and much of the empirical research on nonprofit organizations, hold that nonprofit organizations should have several criteria by which to judge effectiveness, and these criteria often are independent of one another. The perspective that nonprofit organization effectiveness is (or is widely considered as) multidimensional, of course, has fundamental implications for theory, research and practice. One core implication is this: *Nonprofit organization effectiveness cannot be assessed with a single indicator.* Therefore, models focused on how nonprofits might maximize a single criterion (such as surplus, fund balance, growth, revenues, etc.) are not appropriate. Further, we find few who maintain program effectiveness is the same as organizational effectiveness. Even strong advocates of program outcomes assessment recognize its limits.

### ***3. Boards of directors make a difference in the effectiveness of nonprofit organizations, but how they do so is not clear.***

Several studies, each using different kinds of nonprofits and different ways of understanding and measuring board and organizational effectiveness, have documented a relationship between board effectiveness and organizational effectiveness.<sup>2</sup> Many have assumed that the nature of this relationship is that board effectiveness causes organizational effectiveness. However, to date, only one study provides evidence in support of the assertion that board effectiveness is a cause of organizational effectiveness.<sup>3</sup>

Our panel study adds additional information. In our study we collected data from the chief executives of the participating organizations. We also recognized we needed to collect data from crucial stakeholders; we think of stakeholders as those groups who have interests in what a NPO does and in how well an NPO does things. Some obvious stakeholders are board members, staff, volunteers, donors and funders (we think of donors as individuals giving their own money and funders as those granting institutional funds, from foundations, corporations or federated campaigns), clients or customers, suppliers, neighbors and so on. In our research we specifically collected data from senior management staff, from board members, and from funders. During Time 1 of our study, the correlation between stakeholders' judgments of board effectiveness and organizational effectiveness indicated a rather strong relationship.<sup>4</sup> Interestingly, when we reexamined the relationship at Time 2, we again found a relationship but the correlation was not as strong as Time 1.<sup>5</sup> These results raise two key questions, which we will address more fully later in this paper:

- *Did the boards of those organizations that increased the use of recommended board practices become more effective boards, as judged by the stakeholder groups?*

- *Did those organizations that increased the use of recommended or correct management practices become more effective organizations, as judged by the stakeholder groups?*

*Our investigations strongly suggest that, for three of the key stakeholder categories – organizations, funders and chief executives – the extent of use of board practices at Time 2 was NOT related to board effectiveness at Time 2.*

Of the 44 organizations for which we collected Time 2 data, 24 (55 percent) had increased their use of the proportion of recommended board practices, six (fourteen percent) had no change, and 14 (32 percent) reported using fewer recommended board practices. Neither board members nor funders, at Time 2, related the extent of use of specific board practices to board effectiveness. Perhaps not surprising, our results also indicate that board member prestige has some impact on funders' judgments of board effectiveness (interestingly, this was more true at Time 2 than Time 1).

For chief executives, as for board members, NPO financial results affect judgments of board effectiveness. In fact, it appears that both board members and chief executives 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 the 14 organizations *decreased* the extent to which they used recommended board practices. Perhaps in those organizations, the board members and chief executives decided that certain practices were not making a difference in the board's contribution to the organization's financial condition. The results of our time 2 analysis also suggest that funders pay attention to board prestige as they evaluate nonprofit boards. Our analyses are consistent with the view that board prestige affects funders' judgments of effectiveness to a greater degree than do the internal practices of boards.

#### ***4. Nonprofit organizational effectiveness is a social construction.***

Our research results reinforce our view that NPO effectiveness is "socially constructed." That is, effectiveness is whatever significant stakeholders think it is, and there is no single objective reality "out there" waiting to be assessed. This perspective challenges many because they want effectiveness to be an objective condition that can be seen, measured, and understood in the same way by everyone. It is not that simple.

We recognize that the social construction perspective challenges many taken-for-granted understandings about the social world. Nonetheless, many parts of the social world are "real" only because people have believed and acted in ways that are consistent with that reality. This is not to deny that they have significance or consequence. For example, many scientists have observed that the idea and categories of "race" are social constructions. Of course, as our experience with "race" makes all too clear, social constructions perceived as real become real in their consequences.

When we initially presented this thesis in 1999, we recognized that it probably would not be universally accepted. One way we explain this notion is to share the story of the three baseball umpires, and each umpire's explanation of how balls and strikes are called. The first said, "I just call 'em as they are." The second said, "I call 'em as I see 'em." The third, the social constructionist of the group, declared, "They ain't nuthin' 'til I call 'em!"

In the world of NPOs, there are 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 the pitches, are nothing until someone calls or interprets them. That is, they are not significant until someone forms judgments of effectiveness from them and uses or acts on their judgments. Of course, unlike baseball, NPOs have no single umpire. *All stakeholders are permitted to “call” effectiveness, and some will be more credible or influential than others.* There is no widely-agreed basis by which all stakeholders assess NPO effectiveness nor, in the foreseeable future, is there likely to be. Further, we have found that different stakeholders *who are judging the same nonprofit* very often do not agree on that NPO’s effectiveness.

##### **5. The more-effective NPOs are more likely to use correct management practices.**

Several cross-sectional studies, including our earlier analyses using Time 1 data, support this thesis.<sup>6</sup> This does not, however, mean that the reverse is true: that NPOs that use correct practices automatically will be judged to be more effective. A panel study of NPOs in Minneapolis and St. Paul found that increased use of selected managerial tactics led to increased growth (in expenditures and number of employees).<sup>7</sup> Though there is not necessarily a reason to consider size or growth in size to be indicators of NPO effectiveness, some stakeholders might regard such growth as effectiveness. Thus, the second question becomes more compelling: Do NPOs that increase their use of correct management practices become judged as more effective by stakeholder groups?

When we examined the 44 NPOs of our Time 2 sample to assess their use of the “correct practices” that practitioner-experts had identified as associated with nonprofit effectiveness, we found that 23 (52 percent) increased their use of practices and six showed no change. Fifteen organizations (34 percent) actually *decreased* the extent to which they used correct management practices from Time 1 to Time 2. There are some differences by stakeholder. We found that board members judged *organizational* effectiveness in relation to the extent of use of correct management practices; funders and senior staff did not. We also found, for funders and senior staff, that their Time 2 judgments of organizational effectiveness were related to their judgments at Time 1. This would suggest that funders and senior staff see some continuity in the extent of NPO organizational effectiveness. Interestingly, differences in the extent of use of specific board practices had no effect on any stakeholder group’s judgments of *organizational* effectiveness.

*These results challenge the merits of the increasingly common trend to identify “best practices,” both board practices and organizational management practices, and suggest we must question the assumption that there is “one best way” of doing board work or managing an NPO.* However, the current attraction to adoption of best practices is consistent with the institutional school of organization theory, which predicts that organizations are likely to imitate or adopt “approved” procedures as a way to achieve or maintain their legitimacy when there is substantial uncertainty about the methods for achieving preferred outcomes, or when those outcomes are difficult to measure.<sup>8</sup>

Further, those practices that are considered to be “best” are likely to change. For example, a nonprofit operating under uncertain conditions may adopt certain “best practices” at a certain time, only to find later that influential stakeholders (such as foundations, United Ways, accrediting bodies and other regulators) no longer believe those previous “best practices” discriminate among the NPOs they impressionistically regard as more effective.

In other words, best practices do not necessarily remain best practices. There is much yet to be studied and understood regarding the assertion that more effective NPOs are more likely to use correct management practices.

#### ***6. Claims about “best practices” for nonprofit boards and for the management of NPOs warrant critical evaluation.***

In recent years, the concept of “best practices” has become something of a holy grail for nonprofits seeking to enhance effectiveness. It has been very widely invoked and applied. However, as we have suggested, the promise of best practices should be viewed with skepticism.

When our research team searched the prescriptive board literature in the early 1990’s for recommendations about what processes boards should use to improve their effectiveness, the term “best practices” was not in use, even though generally recommended practices included what many would regard as best practices. Therefore, in 1992, when we assembled groups of practitioners (chief executives, giving officers, and consultants/trainers) to ask them to identify the criteria they used to assess NPO effectiveness, we did not ask them to identify “best practices” -- but that in effect is what they did.

Many sources that claim to offer “best practices” for NPO boards or management provide little or no basis for their assertions. *The evidence from our panel study does not support the claim that particular board and management practices are automatically best or even good (that is, that using them leads to effective boards and organizations).* We prefer to talk in terms of “promising practices” to describe those approaches that warrant consideration because, at best, it may be said only that they are worth consideration and must be judged in the context of the specific organization. A key question to ask is this: what evidence should an NPO leader require in support of someone’s claim that a practice is a “best practice?”

#### ***7. A measure of NPO effectiveness that emphasizes responsiveness may offer a solution to the problem of differing judgments of effectiveness by different stakeholder groups.***

In our panel study, at both Times 1 and 2, three different stakeholder groups differed (sometimes significantly) in their ratings of both board and organizational effectiveness. Such dissimilarity meant that we could not legitimately utilize an overall average as a generalized rating for either board or organizational effectiveness. Therefore, at each time, we analyzed each stakeholder group separately.

However, in collecting data at Time 2, we added a simple instrument that did not define how effectiveness was to be judged or understood. Rather, this instrument asked a respondent to assess an organization’s responsiveness, or how well the organization has been doing on whatever is important to them (this instrument also is included in Appendix). Using this instrument, we found that *all stakeholder groups’ ratings of organizational responsiveness were strongly related to judgments of organizational effectiveness.* Since the instrument gauges respondents’ perceptions of how well the organization has been doing whatever is important to the respondent, we conclude that responsiveness scores may effectively be used as an indicator of effectiveness or, at least, one kind of effectiveness. It is our hope that others engaged in NPO effectiveness research will conduct further study using this concept and instrument. This simple tool also may be used by NPO leaders as one way to assess various stakeholders’ judgments of their own organization’s effectiveness.

**8. It can be important to distinguish among different “types” of nonprofit organizations in order to make progress in understanding the practices, tactics, and strategies that may lead to NPO effectiveness.**

The legal category most often used in the U.S. 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 (the so-called “non-distribution constraint”) and that they must receive certain proportions of their revenues from various public sources (public support).

The meaningful distinction among “types” is an important challenge. One approach in the U.S. – the National Taxonomy of Exempt Entities (NTEE) – distinguishes among fields of activities, such as arts, education, health, employment, housing. This approach, of course, does correspond to some extent with “naturally occurring” industry groups (e.g., museum and symphony, educational or hospital associations). Even so, the NTEE is comprised of many major categories, making for many research groupings (and the potential for some very small samples – which can be a problem for many types of quantitative research).

In our research, which examined only publicly-supported charitable NPOs, we distinguished among organizations on a more limited yet conceptually-meaningful basis. Recent writings about social entrepreneurship and nonprofit commercial enterprise suggest there may be significant distinctions between “donative” and “commercial” charities. Donative NPOs are those that rely “substantially” on donations for revenue, while “commercial” NPOs rely more on “earned income,” though such income may be from mission-related activities. Details about how we defined the two types can be found in the Appendix. For our panel study, we chose to distinguish between donative and commercial NPOs in order to investigate the implications of this distinction for organizational effectiveness. Of the 44 study organizations in our study at Time 2, 30 (68 percent) were categorized as donative and 14 (32 percent) as commercial (methodology for this approach also explained in Appendix).

We wanted to consider whether the use of prescribed or “correct” board and management practices would be considered indicators of legitimacy (i.e., demonstrating to funders and other interested stakeholders that an NPO does the right things) or if these practices would be characterized as rational means to achieve substantive goals. If the use of these practices was about seeking legitimacy, we then would expect to find that publicly-supported NPOs exhibited a greater proportion of both correct board and management practices. In practice, we found that donative and commercial NPOs were relatively close, on average, in their uses of correct management practices at Time 1. However, we also found that the donative NPOs increased their average proportion of correct practices 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.

We also examined whether stakeholders regarded commercial or donative NPOs as more effective, and we found no substantive differences for any stakeholder group. The same was

true for extent of use of legitimacy, new revenue and retrenchment tactics. *There were clear differences in the extent to which organizations rely on commercial as opposed to donative or public sources of income, yet this distinction was not consistently related to the use of board or management practices, managerial tactics, or stakeholder judgments of effectiveness.*

More research is needed for two key reasons: (1) to understand the commercial-donative distinction and its consequences, and (2) to conceptualize important differences among public charities and develop useful distinctions within that very heterogeneous category.

***9. Nonprofit organizations increasingly operate as part of networks of service delivery. Therefore, network effectiveness is becoming as important to study as organizational effectiveness.***

Emphasis on the effectiveness of NPOs as separate and distinct entities can easily lead to the conclusion that an organization creates its effectiveness. *However, in many ways, the perceived effectiveness of an organization depends on the effectiveness of the other organizations and people with which it is interconnected.* An important 1995 study of organizations involved in community mental services networks investigated how network characteristics were related to assessments of client outcomes. This study found that client and family assessments of client outcomes were closely correlated, although staff assessments were not (and this illustrates in another way that different stakeholders sometimes evaluate program outcomes differently). In fact, it was the characteristic of network centralization that the study found was most clearly related to positive client and family assessments. That is, cities where mental health services were more centrally coordinated and funded had higher client and family satisfaction, though only four cities were studied. There is much research yet to be conducted in this new domain of inquiry.

## A FEW IMPLICATIONS FOR PRACTICE

We offer these nine theses as well-justified yet preliminary conclusions about NPO effectiveness based on very current (but still rather sparse) evidence. Our study has some limitations (due, for example, to our small sample sizes for many analyses, narrow range of publicly-supported NPOs we were able to include, or the fact that our data come from organizations from only one metropolitan area), yet it is essentially the only one of its kind that explicitly attempts to understand NPO effectiveness in this manner. Therefore, the study's practical implications offer a useful starting point in providing guidance to NPO managers, board members, funders, and regulators who want to know, "How can a NPO be effective?" We suggest that the following are some of the key implications of our work.

### Organizational Practice

Important stakeholders frequently are not clear about what constitutes effectiveness for your organization. Like art, they may know it when they see it. But do you know what they look for? Further, effectiveness is not a stable construct. Over time, stakeholders can change these implicit criteria for assessing effectiveness. Help your key stakeholders clarify and communicate their effectiveness criteria. Interact with them regularly to ensure that you understand how their criteria may be changing. And, if their criteria are off base, help them refine them.

Some are uncomfortable with the notion that NPO effectiveness is a social construction, because they believe this means that NPO effectiveness is arbitrary. It is not. And even though effectiveness is socially constructed, there are useful dimensions of effectiveness (e.g., financial condition, fund-raising performance, or program outcomes) that will be grounded in “hard” data. Experimental and quasi-experimental designs could be and have been used to assess program effectiveness. However, few if any program evaluations 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 support and encourage the use of “hard” evidence to the extent legitimately possible, but we also know that nonprofit leaders should not expect that all of their stakeholders will interpret and use that evidence the same way, or to combine it with other kinds of evidence in the same ways.

*In short, the observation that NPO effectiveness is socially constructed does not mean it is not real. It is very real, but it is different for different people, and it is changeable. Further, since the basis for assessing effectiveness is unstable, the search for “the answer” regarding how to be effective seems to be a search that must be repeated again and again on a regular basis. 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. Yet, in only one of six instances (for board members) did our panel analyses show that a stakeholder group used “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. This may be true for certain rather standard administrative functions -- for example, the adoption of certain procedures to improve billing. However, in many instances, a practice that enhances effectiveness in one organization may be a poor choice for another. A 1994 study of 18 highly successful for-profit businesses (and 18 not quite as successful firms that served as a comparison group) showed that many of the successful firms did not conform to what likely would have been regarded as best practices at various crucial stages in their lives. Rather, the study explained that the key to long-term success was consistency and alignment among core values, structure, strategy, rewards and other practices.<sup>11</sup>

Nevertheless, 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. But these practices must fit together and move the organization toward more fully meeting (and, perhaps, changing) its stakeholders' expectations.* Effectiveness is a result of interaction among the organization's leaders, clients and 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.

## Boards and Governance

Board members need to understand that NPO effectiveness is socially constructed, it is not a stable construct, and that different stakeholders will judge it differently. Board effectiveness is similarly unstable and socially constructed. And it is likely that NPO chief executives will need to play a significant role in facilitating such understanding.

Again, as with organizational management practices, we do *not* believe that our results suggest that board process management is unimportant. But not only is there no "silver bullet" (i.e., one practice that ensures board effectiveness) -- there is no "silver arsenal." *In the context of other research, we support the assertion that boards (perhaps with facilitative leadership by their chief executives) need to identify those processes that are most useful to them.* Boards should not use a practice just because other boards, experts, or consultants say it is useful. They should ask some key questions: Does the practice fit this board's circumstances? Does the practice actually help the board reach good decisions? Does the practice contribute to the organization's success?

*Our panel study also confirms that board effectiveness and organizational effectiveness are related. Thus, what boards do and how they do it is important.* In particular, one way boards can contribute to enhanced organizational effectiveness is by helping their executives understand how various stakeholders (whom board members are likely to encounter in different contexts and with whom they may have different kinds of relationships) judge effectiveness.

### Program Evaluation and Outcomes Assessment

Nonprofit leaders and executives need to be very careful in their use of program outcomes assessments to judge NPO effectiveness. There are very few (rather unlikely) circumstances under which program outcomes could legitimately be considered to equal organizational effectiveness. Such a conclusion would be valid, for example, in situations where the NPO conducts only one program, where there are no possible other explanations for outcomes (such as the effect of other programs or events), and when all core stakeholders are rational, objective, reasonably intelligent, and have all the relevant data. These circumstances are so rare that, for the typical NPO, program outcomes assessments must be regarded as potentially useful but limited indicators of organizational effectiveness.

Other forms of program evaluation have more utility. There is a place for experimental and quasi-experimental program evaluations, but they usually are difficult, expensive and time consuming, and other forms of program evaluation are likely to have more relevance. *More qualitative forms of program evaluation (such as those that emphasize the engagement of key stakeholders) more closely match the realities of organizational effectiveness and are more likely to help the organization and its stakeholders to achieve mutually-valued results.*

### Implications for Capacity Building and Capacity Builders

This work also has implications for capacity builders. The focus of capacity building should go beyond the internal organization to help NPO leaders create processes by which to identify and understand the interests and expectations of key stakeholders, and to create constructive strategies by which to engage them. Further, given the absence of evidence about singularly "best practices," those who fund or provide capacity building services should offer NPOs a menu of promising practices and help them develop the capacity to match appropriate practices to their emerging needs. They will help with the process skills and knowledge that will enable NPOs to better match the most appropriate mix of practices to their environment, circumstances, and stakeholders. Promising practices likely will differ depending on the domain or field of service of the organization. Therefore, capacity builders should help organizations assess both practices that are "absolutely required" and promising practices that are emerging for the particular domain of a specific NPO with which they work.

## CONCLUSIONS

Organizational effectiveness is real. However, it is judged differently by different stakeholders and different times, and it is changeable. Thus, it is a search we must repeat over and over. Successful organizations discover and continually seek to improve practices consistent with their values, mission and stakeholders' changing expectations. And, as with organizational effectiveness, boards need to determine which processes will be useful to them (ideally, with the support of their chief executives). Qualitative forms of program evaluation that engage key stakeholders and more closely match the realities of organizational effectiveness are more likely than limited outcomes assessments to help stakeholders achieve desired ends. "Best practices" will likely differ depending on the domain or field of service of the organization. Capacity builders should therefore support the development of an array of promising practices and assist NPOs in efforts to match appropriate practices to their environment and stakeholders.

There is little doubt that readers will find some of our proposed implications more compelling than others. We offer these observations and suggest these implications not because we have "the answers," but because we want to encourage growth of the research on effectiveness and advance the debate about NPO effectiveness. We invite scholars and practitioners alike to test our findings and consider the implications of our research for their work. This is the way we will be able to develop a useful understanding of nonprofit organization effectiveness and build our sector's capacity to achieve meaningful results in our communities.

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### Endnotes:

<sup>1</sup>For a general review of these shortcomings, see the work of Mohr (1982).

<sup>2</sup>See, for example, the research of Quinn and Rohrbaugh (1981).

<sup>3</sup>From the work of Jackson and Holland (1998).

<sup>4</sup>Time 1 correlation  $r = .64$  ( $n=59$ ).

<sup>5</sup>Time 2 correlation  $r = .40$  ( $n=31$ ).

<sup>6</sup>For more information, see Herman and Renz (1998).

<sup>7</sup>Galaskiewicz and Bielefeld (1998)

<sup>8</sup>See Meyer and Rowan (1977) and DiMaggio and Powell (1983).

<sup>9</sup>Distinction first suggested by Hansmann (1980).

<sup>10</sup>Study by Provan and Milward (1995).

<sup>11</sup>Book by Porras and Collins (1994).

# APPENDICES

## 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.

The method we used to distinguish donative from commercial NPOs relied on the use of IRS 990 forms. Using the most recent IRS form 990 returns we could locate for each sample organization, we computed a "public support index" by adding the figures on the 990 form for direct public support, indirect public support and government grants, regarding the total as "public support." Then, we computed the percentage of public support (the public support index) by dividing total public support by total revenues. For the sample, the percentage of public support ranged from 10 to 99%. We chose 33% as the dividing point between donative and commercial NPOs. Of the 44 study organizations at Time 2, 30 were identified as donative and 14 as commercial.

**TABLE 1****Summary of Data Collection Procedures**

| <u>Classes of variables</u>  | <u>How derived</u>  | <u>How collected</u>  |
|--|---|---|
| Board practices<br>(Time 1 and 2)  | Prescriptive literature                                     | CEO interviews  |
| Correct management practices index (Time 1 and 2)  | Focus group/ Delphi process with practitioners              | Document reviews  |
| Board effectiveness judgments (Time 1 and 2)   | Used instrument <u>Self-Assessment for Nonprofit Boards</u> | Questionnaires sent to CEO, 2 board officers and 2 funders for each NPO |
| Organizational effectiveness judgments (Time 1 and 2)  | Created instrument  | Qs sent to board president, board member, 2 managers and 2 funders      |
| Other org. characteristics<br>(1) age, strategies, etc.<br>(2) financial data (3) board prestige<br>(Time 1 and 2) | Literature review   | (1) CEO interviews<br>(2) Form 990 (3) Ratings from 3 experts           |
| Organizational responsiveness instrument (Time 2)  | Tsui's (1984) items   | Qs sent to board officers, senior managers and funders (above)          |

**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.

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