

**Preliminary version, work in progress**

**CHANGES AND CHALLENGES IN UNDERSTANDING NONPROFIT  
ORGANIZATIONAL EFFECTIVENESS,  
A MIXED METHODS RESEARCH**

Lore Wellens and Marc Jegers

*Lore Wellens is a PhD-student at the Department of Micro-economics for the Profit and Non Profit Sectors, Vrije Universiteit Brussel, Pleinlaan 2, 1050 Brussel, Belgium.*

*Marc Jegers is Professor at the same Department*

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*Correspondence: lore.wellens@vub.ac.be*

**Abstract**

To more adequately assess the effectiveness of nonprofit organizations (npos), the necessity to complement traditionally used criteria with perceptions of diverse stakeholders is frequently advocated. Nevertheless, when reviewing the literature, research investigating how npos' stakeholder-focused activities can contribute to (perceived) effectiveness appears to be sparse. This paper addresses this gap by investigating, via a mixed methods design, a) which accountability mechanisms characterize npos nowadays, b) the link between broadened accountability and effectiveness. The results are based on insights gained from 29 semi-structured interviews, 12 focus group interviews, company documents, and 304 questionnaires filled out by board members, management, employees and volunteers. Eight Belgian npos participated. Practical and theoretical implications are discussed.

**Introduction**

Stakeholders increasingly expect nonprofit organizations (npos) to operate as effectively as possible (Smith, 2010). Brown (2005), a.o., indicates that understanding nonprofit governance and the quality of governance practices being developed will increase if the traditional way to assess npo effectiveness 'objectively' is complemented with perceptions of diverse nonprofit stakeholders. Balser and McClusky (2005) and Herman

and Renz (2008) furthermore argue that the likelihood of npos being perceived as effective increases when they try to align the sometimes very diverse expectations of stakeholders on good governance. Finding such a balance does not refer to being accountable only to those stakeholders that have delegated authority to the npo, or to those that are financing the organization ('upward accountability'). Authors like Kearns (1996) and Morrison and Salipante (2007) argue that npos are challenged nowadays to broaden accountability towards multiple stakeholders.

The scarcity of empirical research on broadened accountability (e.g. Crawford *et al.*, 2002), together with the fact that numerous researchers urge for further research to understand how npos' stakeholder-focused activities can contribute to (perceived) effectiveness (Hseih, 2010; Kissane and Gingerich, 2004; Wellens and Jegers, 2011), inspired us to investigate:

- a) which accountability mechanisms characterize npos nowadays,
- b) the link between broadened accountability and organizational effectiveness.

## **Methodology**

### **Research design**

A multiple case design was combined with a mixed methods research design.

### **Case selection**

The cases were selected as follows: two organizations (>20 full-time employees) were selected in each of the health, welfare, education, and arts industries in Flanders (one organization making profits in three consecutive years (2006-2008) and one organization suffering losses in the same period). This procedure finally resulted in a sample of eight Belgian npos, one matched pair of two organizations in each of our four industries, participating in this study. Apart from these eight organizations, one additional npo functioned as a pilot case.

### **Data collection procedure**

Multiple data sources from within the npos will provide a unique insight on accountability and on the link between broadened accountability and organizational effectiveness. Unlike in many other research articles, organizational effectiveness is studied both on the basis of objective criteria (e.g. financial health, staff turnover) and on the basis of multiple stakeholders' perceptions. The data collection period runs from November 2010 until May 2011.

First, within each organization, two members of the board (the chairman and one other board member), and the CEO were interviewed (purposive sampling, n: 24). In addition, focus groups with the beneficiaries or their representatives (convenience sampling, n: 12) and interviews with government representatives (purposive sampling, n:5) were performed. All the interviews are semi-structured. During all the interviews two aims were put forward: gain insight into how organizational effectiveness is perceived by each interviewee, and discover which accountability mechanisms characterize each npo.

Next, a questionnaire was sent to board members, management, employees, and, if present within the organization, volunteers. Participants were selected by using random sampling techniques. The questionnaire was specifically developed to gain insight in multiple stakeholders' evaluation/perception of: a) the organizational transparency; b) the interactions that take place between diverse stakeholders; c) the existing participation mechanisms in policy making; d) the evaluation mechanisms. The organizational responsiveness questionnaire of Herman and Renz (2004), based on Tsui (1984), was included as well to obtain an overall organizational effectiveness score for each organization. An overview of the questionnaires response rate for each organization is presented at the paper's last page (Table 1). At this moment, with the data collection completely finished in half of the participating npos, the overall response rate is 57% (304/536).

Lastly, organizational documents, archival data and the companies' website were studied.

## **Method of analysis**

To make sure that the study's findings are based on the convergence of information from different sources, we follow the data analysis stages as proposed by Onwuegbuzie and Teddlie (2003). These are: a) data reduction, b) data display, c) data correlation, d) data consolidation, e) data comparison, and f) data integration. In preparation to the data reduction phase, all tape recorded interviews were transcribed *verbatim*, and entered into a computer software package (computer-assisted qualitative data analysis software; NVIVO 9).

## **Monitoring quality**

To increase the study's quality, several principles recommended by Yin (2009) and/or Polit and Beck (2004) and/or Onwuegbuzie and Teddlie (2003) are applied, including multiple sources of evidence, developing a case study protocol and a case study database, sending transcripts of the interviews to interviewees for validation of data accuracy, performing peer debriefings, and finally creating a chain of evidence.

## **Some very preliminary findings**

### **Broadened accountability and organizational effectiveness**

The answer to the open survey question in which respondents were asked to write down the criteria they use to assess the npo, reveals a link with financial health, but rather as a means to fulfill the mission of the organization.

The answer furthermore reveals a link with accountability practices, at all organizational levels, and across all industries. The results obtained through the questionnaire of Herman and Renz (2004) will shed more light on this finding (this analysis is planned in the near future). Nevertheless, it is already clear that by the frequent changes that some organizations seem to make in terms of accountability, the possibility exists that no clear link will be found between the results of the questionnaire of Herman and Renz (2004) and the presence of (just) implemented accountability mechanisms. Through our questionnaires and interviews it

became clear that numerous persons associate their degree of dissatisfaction with the organization with the number of organizational changes that take place within the npo over time.

X1: *“My work motivation declines by the continuous drive of management to make policy changes”.*

X2: *“Instead of always wanting to renew organizational policies, it would be much more valuable for everyone if time could be invested in the optimization of existing projects.”*

It is argued that the urge to become/remain unique and innovative in implemented accountability practices has partly its origin from the increasing pressure npos experience from their competitors, and more specifically competitors from the profit sector. This tendency to distinguish themselves from others was more clearly observed in the financial healthy organizations. Consequently, competition on the one hand seems to stimulate the implementation of broadened accountability practices, but on the other hand seems to threaten the overall satisfaction of internal stakeholders if no balance is found between innovation speed and time given to become familiar with introduced changes. In addition, in organizations that are not leading in their industry, the increasing competition seems to threaten the implementation of broadened accountability practices. These organizations are much weaker in competing successfully with others, which consequently could affect their financial results and additionally their capacities to invest in broadened accountability practices.

We finally want to emphasize that our results do not reflect that every organization that suffered losses in the past, was or is characterized by a complete absence of broadened accountability practices, sometimes the opposite even seems true.

### **Upward accountability**

#### **Transparency**

Organizations from all industries are increasingly obliged by the government to be transparent. Overall, the government seems to be reasonably satisfied with today's practices. On the contrary, a clear

distinction can be made between industries with regard to their satisfaction with government's transparency. Experiencing a lack of transparency leads to confusion, dissatisfaction and frustration. Organizations partly explain this lack of clearness by reference to the fact that government's responsibilities are spread across multiple government agencies with own rules and practices, and to the lack of communication between some of these agencies. Less dissatisfaction is heard if the persons who are responsible for the management of government agencies are familiar with the industry, or at least try to become familiar with it, and communicate on a regular basis with the field.

X3: *"His familiarity with the industry ... and more specifically his own work experience in the field increases ... at least in my opinion... the quality of his policy decisions."*

#### Interaction and participation in policy development

Overall, the government seems to be reasonably satisfied with the ways in which it interacts with the field. These interactions take place both in formal and informal ways. Not all organizations are equally satisfied with the degree of interaction with government. Again, a clear distinction can be seen between industries. The dissatisfaction within some organizations about the degree of participation in policy development stems either from the feeling of not being allowed to participate in policy making, or from the feeling of being left alone as organization without constructive government feedback on implemented and planned decisions (mainly in the arts and education industries). A greater dissatisfaction with the interaction mechanisms and the degree of participation in policymaking was heard in organizations that suffered financial losses between 2006-2008. Both at board and management levels, there seems to exist a resistance towards the inclusion of politicians in the board. However, most interviewees indicated that people with close contacts with the government are wanted as board members.

#### Evaluation

Government is increasingly aware of the fact that the criteria by which it evaluates organizations are best developed in consultation with representatives of the industries involved. Despite the acknowledged value

of these consultations, this awareness has not been translated (yet) into concrete procedures in every industry studied. Organizations seem to be more satisfied with government when they belong to an industry characterized by a significant degree of formal and informal interactions, which also include discussions on appropriate assessment criteria. All organizations argue that government should focus more on achieving consistency in its decisions and on the development of a long-term vision.

### **Internal accountability**

At all levels of each organization, one expects that attention is paid to internal transparency, not only about the state of the organization, but also about the division of roles and responsibilities. The way organizations strive to be considered as transparent varies considerably between industries (using Intranet / through meetings / newsletters / ...). This growing awareness of the importance of internal accountability leads to the development of new structures and practices (for example, the development of an artistic commission that consists of elected employees and members of the management team).

There is unanimous agreement across all organizations at the levels of board and management that employees do not belong in a board.

One cannot claim, as mentioned earlier, that organizations experiencing financial constraints are not aware of the importance of internal accountability. Financial constraints/the threat of financial constraints nevertheless seem to stimulate some organizations to deviate from their mission, resulting in dissatisfaction by numerous persons.

X4: *“In the past, this organization was not professionally managed... at present we are no longer investing in loss-making activities ... even though these fit within our mission.”*

X5: *“In recent years we had to deviate partly from our mission to become financial healthy again... this touches us, it cuts into our flesh .. it touches the existence of the organization.”*

While board members in general express a clear resistance against being evaluated by other stakeholders, they do consider assessments at other organizational levels (management and paid employees) as

necessary. In none of the participating npos, a formal assessment of board members was yet performed. Interviews furthermore reveal that board members are more positive towards an informal self/group-assessment. They refer to the fact that they work on a voluntary base in the organization, what in their views makes a formal (self-) assessment rather inappropriate. Additionally, they refer to the administrative burden that may be imposed by implementing such a practice.

More than half of all the interviewed CEOs indicate to welcome the development of an evaluation procedure for board members. Interviews nevertheless reveal that there is a disagreement about the concrete organization of such assessments.

X6: *“I think that board performance could be improved by introducing board members’ evaluations .... I think it’s valuable if board members would perform formal self-assessments... proposing the practice of board members being evaluated by the management could be delicate .... it might take some time to gain their support for this idea....”* CEOs in general consider assessments at all levels as appropriate, including their own level (on the one hand as a form of assessment and on the other hand as a form of recognition). Today, not all CEOs of npos are being evaluated on their functioning.

### **Downward accountability**

Nowadays, one realizes that beneficiaries should be more strongly involved in the policymaking of an organization. These days, at the government level one tries to involve them in policy making by means of representative bodies. The specific ways in which formal downwards accountability mechanisms are implemented in npos seem to vary significantly between industries.

Both organizations in the welfare industry have an elected beneficiaries’ representative in their board, but these persons have no voting rights. The organizations are in addition characterized by the presence of a “user board” (board members are family or representatives of the beneficiaries), a “beneficiaries board”, and an official procedure for handling complaints. The government agency responsible for the welfare industry requires the implementation of these mechanisms. The interviewed board members of



organizations active in the health, education and arts industries express a resistance towards having beneficiaries or their representatives in their boards. As a clarification for this resistance, one refers to problems in terms of expertise and representativeness.

In the arts industry, organizations work with questionnaires and “new media”. Npos from the health industry are characterized by the presence of beneficiaries’ boards and official complaint procedures. The government agency responsible for the health industry requires the implementation of these mechanisms.

The focus group interviews reveal that beneficiaries’ expectations regarding accountability vary and depend on the type of service received. In general, everyone requires a certain degree of transparency about the organizational policy, the communication flows, etc. However, as the dependence on a service increases, and the duration of the service augments, one expects more transparency and involvement in policy making. Furthermore, one sees that as the dependence on an institution and its services grows, some persons become afraid to complain not anonymously, let alone to participate in a council. They explain that they are afraid to receive services of lower quality for themselves or their family members.

X7: *“When I have a complaint, I keep it to myself... I don’t dare to talk about it ... the staff will remember ... I don’t even discuss it with my children as they might want to talk about it with staff ...”*

Some individuals indicate that this fear fades once they become more familiar with the organization, others argue that their fear remains or even increases over time due to negative experiences. Several individuals who participate in a board for user or beneficiaries argue to be disappointed by the fact that they experience that their function is merely considered as something symbolic by the management team.

X8: *“We are being heard, but ... they are not truly listening to us.”*

A rather exceptional example of a user board that is experienced to function very well is the one in the loss-making welfare organization. The focus group interview reveals that the attitude of the CEO and broader management team plays a major role in the success. Despite this specific example, focus group interviews in general reveal that beneficiaries and their representatives nowadays are rather unsatisfied with the received information and their degree of participation in organizational policy making.

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**Questionnaires response rate (%) (Preliminary results)**

	Education <i>CP</i>	Education <i>CL</i>	Health <i>CP</i>	Health <i>CL</i>	Welfare <i>CP</i>	Welfare <i>CL</i>	Arts <i>CP</i>	Arts <i>CL</i>
<b>Board members</b>	44,5% <i>Sample</i>	40% <i>Sample</i>	87,5%	...%	45,5%	64%	33,5%	56% <i>Sample</i>
<b>Management</b>	100%	67%	100%	100%	86%	100%	25%	60%
<b>Middle management</b>	/	/	/	...%	89,5%	...%	/	75%
<b>Employees</b>	54,5% <i>Sample</i>	62,2% <i>Sample</i>	71%	...%	...% <i>Sample</i>	...% <i>Sample</i>	50% <i>Sample</i>	35%
<b>Volunteers</b>	/	/	/	/	...%	...%	/	/
<b>Total response</b>	55,1% (174/316)	60% (32/53)	73% (65/89)	...% (.../80)	...% (.../187)	...% (.../244)	37% (11/30)	46% (22/48)

Table 1: Response rate: education, health, welfare and arts industries

(CP= npo making profits for three consecutive years, CL= npo making losses for three consecutive years)