

# Nonprofit Organizational Effectiveness A Literature Review

The Learning Circles Project

“Leadership and learning are indispensable to each other.”  
-- John F. Kennedy

## InnoNet

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## **Purpose**

This paper will describe the traditional elements identified in the literature which appear to promote success in nonprofit organizations. Then, building on those critical components, emerging trends will be presented which bridge some of the gaps in the literature. These elements will be incorporated into nonprofit organization life cycle definitions to clarify their importance at various stages. In addition, an outline of barriers to success will provide information on what prevents organizations from achieving high performance. Finally, this paper will discuss indicators and tools to measure excellence and promote enduring, high performing, nonprofit organizations.

There has been little information, to date, describing how to measure the internal and external frameworks that promote effective organizations. Thus, this literature review is aimed at extending the breadth of knowledge surrounding current themes of organizational effectiveness. In addition, it provides insight into what the potential barriers are and how and what to measure to determine an organization's success. Becoming a learning organization and building organizational capacity is a challenge but with the right motivation, knowledge, and skills nonprofits dedicated to maximizing their performance and accountability can be assisted in the development of their program delivery, program expansion, and adaptive capacity.

## **Overview**

Nonprofit organizations vary in scope and scale, "ranging from neighborhood and community organizations with no assets and no employees to multibillion dollar foundations, universities, and health care complexes with thousands of employees (Hall 1994, 3)." Regardless of size, all successful nonprofit organizations have critical elements that contribute to their ability to differentiate themselves from mediocre organizations. As the nonprofit sector continues to grow and provide critical social services and advocacy, creating and sustaining excellent organizations has become increasingly important.

Unlike the business world, nonprofits do not have a clear bottom line to determine how well they are achieving their mission. Instead, program evaluations assess whether they are achieving explicit program goals and satisfying their clients. However, there is a gap between a program's success and overall organizational effectiveness and health. Determining how to align and measure these two aspects of a nonprofit organization is critical.

Research has shown that a program's success is significantly affected by how well organizational processes work to carry out the mission. Various organizational elements have been identified as significant contributors to nonprofit organizational effectiveness. They include mission, leadership, board of directors, development, and human resources.

In an effective nonprofit organization, each of the aforementioned components functions in

support of organizational goals aimed at developing programs to carry out a mission, encourage innovation and ensure quality. However, the elements which promote organizational success do not act unilaterally. Rather, they act jointly to ensure high performance. Yet, there is no simple formula for maintaining and measuring organizational health over the long term. Therefore, there is an increased need for an understanding of how the internal processes and outcomes are aligned and measured to promote effective nonprofit organizations.

This cursory review of organizational effectiveness literature is intended to identify and describe some of the key components in creating and maintaining successful nonprofit organizations. Furthermore, it is intended to create a framework for developing creative tools to measure organizational effectiveness.

## **Traditional Definitions of Success in the Nonprofit Sector**

Research indicates the complexity and diversity represented in the wide array of nonprofit organizations that make up the sector. Until the 1970s, literature on change in organizations was a subset of the organizational development literature. In addition, the earliest research focused on change within the organization, rather than on the organization's interface with the environment (Gies, Ott, and Shafritz, 1990). Throughout the early and mid 1960s, government funding of nonprofit organizations grew and there was little incentive for organizational change (Hammack). One of the most important changes to the nonprofit sector came with the passage of the Omnibus Budget and Reconciliation Act in 1981 and the reduction of funding that affected social services and nonprofit agencies (Hall 1994).

This changing federal role in nonprofit funding sparked competition for scarce resources in the nonprofit sector. As a result, nonprofits were forced to better demonstrate their value. A flurry of standard-setting literature on the development and improvement of the nonprofit organization followed in the 1980s and 1990s. Most of the organizational development literature for nonprofit organizations during that time addressed management, boards, leadership, and marketing. In 1987, the Yale program on Nonprofit Organizations published *The Nonprofit Sector: A Research Handbook* (Powell 1987). Emerging themes identified in *Governing, Leading, and Managing Nonprofit Organizations*, a 1993 publication, included management of financial resources, human resources and information among other things. In 1996, *The 21<sup>st</sup> Century Nonprofit* was published and also emphasized management and leadership as keys to organizational performance.

According to most of the literature published in the 1980s and 90s on nonprofit effectiveness, five characteristics associated with organizational success include:

- A vital mission
- A well-organized board with able, involved members
- Capable, strong leadership

- Motivated volunteers and staff
- Solid finances, including reliable and diverse revenue streams

First, the total organization, its significant subparts, and individuals within successful organizations work towards goals designed to carry out a vital **mission**. A high performing organization's mission is understandable and brief. It is broad enough to endure minor changes, yet specific enough to provide a basis for developing goals and objectives (Knauft, Berger, and Gray 1991, 120). In addition, the mission is realistic and operational (Knauft, Berger, and Gray 1991, 120).

Second, effective nonprofit **boards** determine a clear mission and purpose for the organization and review it regularly and contribute to the organization's effectiveness. An effective board's policy framework is comprehensive. It has written expectations for members that address board meeting attendance and participation and an established process to address noncompliance. All board members are expected to act in the best interest of the organization rather than their own or third party interests (Maryland Association of Nonprofit Organizations). Therefore, successful boards have policies regarding conflicts of interest with respect to the board, staff, volunteers, consultants, and other organizational partners. Moreover, they facilitate the development of clear organizational infrastructure and effectively communicate this through the mission and programs.

Third, a successful organization has a **leader** who believes in and is passionate about the mission and vision and can convey that excitement to others (Knauft, Berger, and Gray 1991, 8; Powell 1987, 168; Picker 1994). A good leader provides ongoing support, motivation, and regular employee performance evaluations to ensure the success of any nonprofit. Overall, a leader's behavior has an important effect on colleagues, the public, and the general effectiveness of the organization.

A fourth characteristic of nonprofit organizational success is that it has **volunteers** and **staff** who are devoted to the mission and work towards explicit goals. An effective organization provides its volunteers and staff with meaningful work and ensures that volunteers feel a sense of ownership and inclusion. Continual feedback, assistance, motivation, and regular evaluation are provided to maintain volunteers' commitment, satisfaction, and high performance.

In addition to volunteers, paid employees carry out many critical duties while working to achieve the organization's mission. Many successful organizations appear to have employees with a variety of diverse perspectives and talents. The effectiveness of an organization depends on its ability to identify and utilize those qualities. Moreover, having established clear expectations, effective organizations assess whether the staff has reached yearly goals and objectives by conducting annual performance evaluations.

Fifth, the success, much less the survival, of a nonprofit organization is largely dependent on

how well it procures and manages its **fundraising**. The extent of board involvement in fundraising varies and is not critical in ensuring high organizational performance (Knauff, Berger, and Gray 1991, 26). Regardless of who does the fundraising, it must be done well.

An effective nonprofit organization's fundraising program is based on "truthfulness and responsible stewardship (Maryland Association of Nonprofit Organizations)." Moreover, it should be concordant with the organizational mission and programs. In addition, successful nonprofit organizations have a long-term fundraising strategy with clear goals. However, depending on the stage of the organization and its goals, financial planning will assume varying degrees of importance (Gies, Ott, and Shafritz 1990, 154).

Nonprofit organizations that have achieved some success and incorporated the above components are often unable to sustain high performance. This maturation process has sparked continued interest and research in assessing and defining effective organizations. Researchers are now focusing on high performing organizations, or organizations that have achieved organizational effectiveness and continued to maintain their success over time. Although the literature describing the characteristics of high performing organizations is in its infancy, there are some general elements that have emerged.

## **Emerging Definitions of Success in the Nonprofit Sector**

Traditional characteristics of organizational effectiveness remain important but researchers have identified gaps in their ability to promote long-term success. Building on those characteristics, organizational capacity building has become the key to understanding excellence in nonprofit organizations. Recent research, focusing on organizational development, has been combined in a 1999 publication, *High Performance Nonprofit Organizations* (Letts, Ryan, and Grossman 1999). According to Letts et al., there are three elements of effective nonprofit organizations which improve their organizational capacity:

- The capacity to deliver a program successfully and have an impact.
- The ability to implement expanded programs.
- The capacity to adapt programs and practices to achieve the mission.

Although the capacity to create, develop and expand programs is important, adaptive capacity will dictate an organization's continued success. Adaptive capacity involves environmental alignment, organizational learning, responsiveness to clients, innovativeness to create new programs, and motivation of staff and volunteers (Letts, Ryan, and Grossman 1999, 21). Problems achieving and maintaining high performing organizations often occur because nonprofits do not have sufficient adaptive capacity to ensure that they are delivering on their mission and remaining competitive. In addition to the previously mentioned areas of governance, human resources, and fundraising, recent literature has identified organizational learning, responsiveness and quality, and product development.

### ***Organizational Learning***

Organizational learning is an ongoing process in effective nonprofits which involves strategic data collection to engage in participatory evaluation. It emphasizes measuring results and improving program design to provide a competitive advantage and ensure good outcomes. Successful organizations bridge the gap between great ideas and performance by measuring the results of their efforts (Letts, Ryan, and Grossman 1999). This process involves the development of a theory of change to guide the organization as it matures.

A learning organization is one in which people at all levels, individually and collectively, are continually increasing their capacity to produce results which allow them to gauge and improve their performance. Learning organizations are complex adaptive systems that are influenced by both structural and cultural aspects of the organization. Developing an effective learning organization necessitates a thorough understanding of an organization's internal processes, external impacts, and a willingness to change.

### ***Quality and Responsiveness***

Successful organizations stress quality processes (Letts, Ryan, and Grossman 1999). By creating an infrastructure where employees at all levels contribute to quality improvement, successful organizations have improved overall effectiveness. Quality processes necessitate performance assessment and the identification of weaknesses. This is done in such a way that staff feel empowered and motivated because they affect change. Staff self-assessment, client assessment through surveys and interviews, and development of an action plan based on the research findings, are methods through which successful organizations have influenced change (Letts, Ryan, and Grossman 1999). In so doing, they indicate their responsiveness to the needs of the public and to their internal constituents.

Responsiveness to staff and volunteers is important in successful organizations. One way in which organizations effectively respond to the needs of their employees is by encouraging collaboration and communication. Power has traditionally been unilateral with management having power over the staff. Successful organizations have redefined power and are moving from perceptions of position determining power, to enabling power. By building on capacities of employees and working cooperatively to ensure staff and clients' needs are addressed, effective organizations have expanded their organizational capacity.

### ***Innovativeness***

Innovation is different from innovativeness. Innovation is a one-time activity which culminates in the design of a new program. Successful organizations cultivate innovativeness. Only the most successful nonprofits have been able to initiate an effective program development process for continual development of innovative programs. To do so, they engage people throughout the organization in the search for ideas and utilize them to create programs (Letts, Ryan, and

Grossman 1999, 60).

Innovativeness requires new approaches to program development. Traditional organizations use the top-down method. Ideas are generated at senior management level positions and staff are directed to complete various activities to achieve set goals. Successful nonprofits understand and utilize client and staff ideas to generate programs. Contact with clients is critical to achieving a client focus. Moreover, collaboration and team building play an important part in program development and organizational innovativeness.

## **Nonprofit Life-Cycles**

Most successful organizations include the five traditional and three emerging elements which have been described. However, important differences exist depending on the level of organizational maturity. As the nonprofit sector continues to mature, stakeholders are taking a heightened interest in identifying and measuring the aforementioned characteristics. However, many organizations attempt to expand programs before they build their organizational capacity. Therefore, it is important to understand the evolution of nonprofit organizations to achieve high performing organizations.

The life stage of an organization is important in understanding and gauging its effectiveness. Nonprofit research provides a clear description of four major stages of nonprofit organizational growth. The stages are characterized by varying levels of organizational capacity and program effectiveness.

### ***Stage 1 - Start-up***

The start-up phase of nonprofit organizations normally does not include any organizational development activities. Instead, it consists of implementing programs and/or advocacy to respond to public demand. As nonprofit groups begin to formalize their activities and achieve some short-term goals, they recognize the need to establish themselves as an agency.

### ***Stage 2 - Emerging***

An emerging organization is in the process of designing carefully laid foundation for success and is incorporating many of the necessary elements for effectiveness into the organization. A mission exists and is supported by growing, relevant programs. The staff and leadership of the organization are capable and motivated. In addition, emerging organizations are working towards a well-organized board and solid finances. Successful organizations at this stage have a high demand for program services and are improving their expertise and available resources (Otero). Emerging nonprofits are ready to become learning organizations, build their capacity, and evolve to the next stages.

### ***Stage 3 - Consolidation-with-Growth***

The third stage of organizational evolution is called consolidation-with-growth and focuses on strengthening organizational capacity to expand programs and program delivery (which occurs in stage four). Thus, in this stage the organization focuses on improving the organizational processes and programmatic factors, established in stage two, that will enable it to stabilize its work and to continue growing (Otero 1989, 20; Letts, Ryan, and Grossman 1999). In addition, at this stage, an organization's finances should be relatively stable and the organization should be identifying resources to assure growth.

### ***Stage 4 - Expansion***

In the fourth stage of organizational development an organization's programs grow and impact a larger constituency or their focus is redirected. However, if they fail at their attempt to expand or reenergize, they face dissolution. Three primary strategies are utilized at this stage. First, going-to-scale is aimed at expanding services to reach a larger constituency. Most nonprofit organizations try to expand programs to improve effectiveness (Letts, Ryan, and Grossman 1999, 16). Second, nonprofits often attempt to share best practices with others to increase their programmatic effects on the public (Letts, Ryan, and Grossman 1999, 16). Third, some nonprofits use policy reform strategies aimed at influencing change. Thus, organizations may attempt to either increase the demand for particular programs or they may have been so successful at achieving their goals that their programs are no longer necessary. Furthermore, if an organization is successful at achieving their ultimate goal and their programs are no longer necessary, they may redirect their focus to other issues to sustain their livelihood.

## **Barriers to Success**

Many nonprofit organizations encounter barriers that prevent them from becoming successful. Barriers include:

### ***1. Disinterest in funding program development***

Program development attracts very little funding (Letts, Ryan, and Grossman 1999). Funders are often more interested in identifying effective programs and less likely to focus on the organization's need for funding to initiate an innovative process for developing good program ideas.

### ***2. Separation of Ideas and Implementation***

Often ideas for break-through programs or program improvements are generated in one organization and best practices are publicized for other organizations to implement the program. This "decoupling" of idea generation and implementation limits program development success

because it separates the people who deliver the service from the people who generate the ideas. As a result, program implementation does not occur as successfully as it otherwise might (Letts, Ryan, and Grossman 1999, 78).

### ***3. Reluctance of Board to Deal with Difficulties***

Board members are often unwilling to deal with the difficult issues necessary to spur organizational capacity building. A board's culture may be relaxed whereas "an active, engaged, collegial tension between the board and operating management" is optimal (Letts, Ryan, and Grossman 1999, 138). In addition, board members may have little experience in improving an organization's adaptive capacity. Therefore, there may be some resistance to building organizational performance.

### ***4. Time Limitations***

Board members, staff and clients often do not have the time necessary to dedicate to building organizational capacity. Defining and measuring performance, improving resources, are additional tasks that boards of successful nonprofits accept along with their traditional responsibilities (Letts, Ryan, and Grossman 1999, 132).

### ***5. Technological Advances***

There have been significant changes in technology in the past few decades and many nonprofits have not adjusted. The importance of technology in nonprofit organizations is two-fold. First, it is necessary to support the development of the infrastructure and increase knowledge and communication. Second, technology can assist nonprofit organizations implement programs and achieve their mission.

### ***6. Unilateral Strategies***

Organizational communication strategies have traditionally flowed one way: downward, upward, or laterally. Successful organizations share information by communicating in all directions to keep everyone informed of organizational values and beliefs and build trust.

### ***7. Organizational Culture***

Organizational culture often precludes the development of organizational capacity. Employees may have become resigned to their imposed or perceived status. As a result they may have different assumptions about the organization and its objectives. This resignation limits their willingness to express creative ideas and innovations. Skill in identifying implicit assumptions is critical in improving communication and creating an organizational culture that values varying perspectives and ideas.

## **Measuring Excellence**

The mission, governance, leadership, human resources, financial stability, quality and responsiveness, innovativeness, and active organizational learning appear to be critical elements in ensuring organizational excellence. Measuring overall organizational effectiveness is an important issue which has been insufficiently researched. Determining whether an organization has been able to align their organizational processes with the programmatic impacts is necessary to assess their degree of success. Moreover, evaluating impacts and identifying indicators of organizational success are necessary to report to the public, funders, and to improve the organization's level of effectiveness. There are currently three distinct schools of thought which have offered insights into evaluations grounded in assessing the effectiveness of nonprofits.

- Define and measure outcomes. Many organizational theorists and evaluators are looking at defining and measuring appropriate outcomes as a key element for understanding nonprofit effectiveness. Under this approach, the activities of nonprofits are scrutinized in terms of how well they achieve their objectives as measured by a well-defined set of outcome indicators and the degree to which their activities are aligned with achieving these objectives. Some outcomes are measured through surveys of clients, staff and board members to determine how well an organization is functioning internally and what the impacts have been. Although many surveys are focused on outcomes which is important in understanding the organization's degree of success, improvements are needed to determine the effectiveness of the process. Often the outcomes that are revealed are the result of multiple factors, many of which are outside the control of the nonprofit itself. In addition, some outcomes-focused approaches emphasize the outcome over a careful analysis of the process used to achieve the result. Finally, some laudable and appropriate outcomes will occur so far in the future that they are not useful for monitoring and refining current practice.
- Existence of specific success indicators. Sets of criteria, or checklists, are often used to determine whether organizations include particular elements associated with effectiveness. Then, based on whether the indicators are characterized as essential, recommended, or additional resources to strengthen activities, organization's initiate change. Checklists ask things like, "Does each program have performance indicators?" Thus, although it is important to determine whether certain elements exist in an organization, the criterion used offer no qualitative information. There is very little flexibility in the use of such a measurement tool and it ignores the importance of the intraorganizational collaboration of key functions within an organization. Moreover, criterion measures are insensitive to the effect of life cycle on various characteristics.
- Use of internally- and externally-directed functions. Another approach to understanding organizational effectiveness in the nonprofit sector begins to examine how well the organization balances and integrates a finite set of critical internally- and externally-directed functions. This approach often utilizes a tool called the Balanced Scorecard. The Balanced

Scorecard is used to clarify mission and strategy, align organizational behavior and decision making, and support external communication of performance, outcomes, and impact (Social Enterprise). It assesses organizational performance in a much broader, multi-dimensional context than traditional measurement tools and identifies areas that need improvement.

No one element has been identified as providing the best indication of organizational success. Therefore, combinations of various measurement tools may provide valuable insight into the effectiveness of an organization. In addition, they may provide the basis for innovations in a new generation of measurement devices to measure organizational performance.

## **Conclusion**

Organizations can atrophy. Some organizations suffer from a decline in demand for long-standing programs or the lack of new program initiatives. Other nonprofit organizations focus solely on operations or outcomes and their objectives go unmet (Klein and Connolly). Management and staff may contribute to the organization's problems through lack of communication and power struggles amongst themselves. Lack of motivation and lack of adaptation to changing client's needs increase some organization's struggles in achieving their mission. However, there are ways that they can build their internal capabilities and maintain success.

Traditional elements of successful nonprofit organizations include:

- A well defined mission
- An active board of directors
- Capable leadership
- Involved staff and volunteers
- Stable finances

Emerging trends in organizational effectiveness literature have identified organizational capacity as one of the most important elements in successful nonprofits today. Building organizational capacity necessitates the development of:

- Organizational learning
- Quality and responsiveness
- Innovativeness

Ensuring effectiveness means understanding the internal structures that facilitate program implementation. Thus organizational capacity is critical to the success of programs aimed at achieving an organization's mission. Furthermore, having identified the critical elements that appear to promote nonprofit organizational effectiveness, it is important to understand that there

are barriers which organizations must overcome to achieve high performance. In addition, measuring excellence is a key element in the process of developing successful nonprofit organizations. Measurement will help determine whether the internal processes are aligned with the external program functions. However, there are limited measurement tools and further research and testing is necessary to improve their effectiveness at gauging nonprofit organizational success.

As nonprofit organizations develop and mature, they face a number of challenges. This literature review has identified some of those challenges as well as the important organizational ingredients necessary to promote the creation of stable, effective, high performing nonprofit organizations. However, this process takes time and patience. In summary, no single prescription will work for every organization and change is not easy. However, by understanding the research we can create and refine techniques and resources which contribute to the creation and development of excellence in nonprofit organization.

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