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Organizational Governance Features, Innovation and Performance in NPO’s: Existing Evidence and Future Research Directions

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Note for the reviewers:
This is only a draft-version. We will improve and complete this paper for the conference, provided acceptance, especially concerning: narrowing the scope, review of the literature, and suggestions for future research agenda, and conclusion.
The call for innovation and performance in nonprofit organizations

As a result of increasing pressure on governments to improve the quality of public services, and to make the operations of government more efficient and effective, a wave of public management reforms has swept through many countries over the last two decades (Pollit and Bouckaert 2000). In an increasingly turbulent environment, the public sector is not immune from attempts to construct organizations that are innovative, responsive to client needs, and market focused (Paulsen 2006). According to Paulsen (2006), these changes not only transformed the public domain, they also profoundly transformed nonprofit organizations (NPO’s) and their relationship with the state. NPO’s undergo a trend similar to public sector modernisation. In the field of service delivery, an increasing government ‘privatization’ is apparent, with government outsourcing public service delivery to NPO’s and corporations (Ryan 1999; Greene 2007). As a result, NPO’s, as public service deliverers, also become increasingly accountable to government, who act as regulator, coordinator, supervisor, etc., and demand value for money. This is especially the case when these NPO’s are to a large extent funded and subsidized by government, as is the case in many continental European countries (Belgium, the Netherlands, Germany, etc.) (Anheier 2005). Also public expectations have changed. Citizens demand quality services, and do not longer rely on confidence in institutions, but more often control them (Anheier 2005). This creates an increased pressure for performance in public organizations and NPO’s. More and more, these organizations have to prove they work efficiently, effectively and in line with the overall mission, in order not to loose legitimacy in the eyes of their many stakeholders (Verschuere and Cantens 2009). The challenges these organizations are confronted with, put pressure on their management. The goal of nonprofit organizations remains to operate socially responsible, but more and more by means of efficient and transparent management. In addition, the implementation of
‘innovative management tools’ (like benchmarking, performance measurement, client surveys etc.), initially developed in and for the commercial sector, in the public and nonprofit sector is not an easy undertaking, and the effects of this implementation are sometimes difficult to identify. Increasingly, organizations ask themselves the question whether the use of these management tools leads to improved organizational performance, or simply, how to improve organizational performance. Some argue that innovation would be the road to success.

Similarly, there are increasing pressures on public and nonprofit organizations to improve the quality and effectiveness of their (public) services through innovation and change (Osborne 1998). NPO’s are forced to innovate (Paulsen 2006) and innovations are often seen as means to gain competitive advantage and, by doing so, to improve organizational performance. Osborne (1998) even claims that the innovative capacity of voluntary organizations has become a touchstone for their role in providing public services.

These evolutions in the public and nonprofit sectors, with innovation and performance as key-issues, urge for answering some crucial questions. Ultimately, the question is what the factors are that lead to innovation and/or improved organizational performance in NPO’s, given their important role in public service delivery, often acting as agents of the public sector. In order to answer that general research question, we firstly have to specify what organizational performance of NPO’s is, both conceptually and empirically (descriptive research). Secondly, we have to specify what factors influence this performance, both theoretically (hypotheses) and empirically (explanatory research). This leads to the following (extended) research framework (picture below), that contains several descriptive and explanatory research questions, and that focuses on three clusters of variables: innovation, governance, and performance. Major descriptive research questions concern the level of innovative behaviour of NPO’s (2), their performance (3), and their organizational governance characteristics (1).
In addition, we can consider possible relationships between those clusters (explanatory research). First, there is a possible relationship between organizational governance features and organizational performance (4a). Second, there is the relationship between organizational governance features and innovation (4b). Third, there might be a relationship between innovation and organizational performance (4c).

In the remainder of this paper, we will firstly present an overview of recent academic research concerning these research issues. Secondly, based on the assessment of this literature, directions for a future research agenda will be proposed.

**Governance, performance and innovation: recent research**

A major aim of this article is to provide an overview of the academic literature that is available concerning the relationship between governance, performance and innovation. Based on this overview of current research, interesting directions for future research are identified in the concluding chapter.
**Performance of NPO’s**

NPO’s are increasingly under pressure to prove their constituencies that they are achieving their missions and goals in an efficient and effective way, in order not to lose their legitimacy (Verschuere 2009). This general tendency to stress organizational effectiveness and efficiency is linked to the so-called accountability movement, which made NPO’s, and the people that run them, accountable to those they are created to serve, and those who provide the money to operate them (Murray 2005). Also academically, the growing interest for organizational performance in NPO’s is apparent, through a large literature dealing with the operationalization or measurement of the concept (Duque-Zuluaga and Schneider 2006; Verschuere 2009) and through the number of publications examining the relationship between specific variables and organizational performance (Macedo; Han, Kim et al. 1996; Wood, Bhuian et al. 2000; Eisinger 2002; Schmid 2002; Callen, Klein et al. 2003; Bezemer, Volberda et al. 2006; Guo 2006; Greene 2007). These publications mainly deal with effectiveness (often interpreted as mission fulfilment), efficiency, quality of service delivery, client satisfaction, etc. In a nonprofit context, the increased attention to performance leads to all sorts of questions like what exactly are the results/performance of NPO’s, how can we measure organizational performance in NPO’s, how can we compare good performing with poor performing NPO’s, do NPO’s have enough internal capacity to deal with this increased demand for performance, does the contemporary focus on performance endanger or strengthen the typical nonprofit features, and how can organizations improve their performance. Duque-Zuluago and Schneider (2006) make an attempt to describe what nonprofit organizational performance is about. Based on a wide literature review, they define it as “a social construction that takes into account stakeholders’ expectations, organizational values and mission to define the base or criteria that will guide organizational assessment”.
Innovation and organizational performance

Next to the descriptive question of what is performance, and how do we measure it, we also need to be considerate of the factors that determine the level of organizational performance. A lot of research has addressed the question whether innovation leads to improved organizational performance. And if that is the case, we can ask the question whether innovation is the only road to success.

The concept of innovation is, like performance itself, complex and multidimensional. One of the difficulties in reaching a consensus upon a definition is the sheer heterogeneity of studies on innovation (Osborne 1998). No single theory of innovation exists. Osborne and Flynn (1997) for example argue that innovation represents newness to the organizations concerned and that innovation is different from invention (invention is the creation of new knowledge while innovation is its application). Further, innovation is both a process and an outcome and finally, innovation involves discontinuous change (as opposed to gradual organizational development). By putting those features together, Osborne (1998) proposes a general definition of innovation: “The introduction of newness into a system usually, but not always, in relative terms and by the application (and occasionally invention) of a new idea. This produces a process of transformation which brings about a discontinuity in terms of the subject itself (such as a product or service) and/or its environment (such as an organization or society.”. As with definitions of innovation, the organization studies literature is not short of typologies for classifying innovation (Osborne 1998). Phills, Deiglmeier, et al. (2008) for example, make the distinction between innovations and social innovations. They claim that many innovations create benefits for society, but that does not make these products social innovations. According to them, a social innovation is a novel solution to a social problem.
that is more effective, efficient, sustainable, or just than existing solutions and for which the value created accrues primarily to society as a whole rather than private individuals. Another way to classify innovation can be a product-process way of classifying innovation. In this kind of typology, innovations can have an impact both upon the production process of an organization and upon the existing markets and users of a product or service (Osborne 1998).

It is clear that organizations are increasingly confronted with the need to innovate, in order to remain competitive. A number of factors would also compel service organizations to innovate (Paulsen 2006). Ryan (1999) recognizes this by stating that the changing environment will force NPO's to reconfigure their organizations. Across the world, there are increasing pressures on voluntary organizations to improve the quality and effectiveness of public services through innovation and change (Osborne 1998). Generally we see that classical answers and strategies often do not offer a way out. Osborne (1998) even claims that the innovative capacity of voluntary organizations has become a touchstone for their role in providing public services, although he is questioning the assumption of innovative capacity as being a core characteristic of NPO's. This changing environment implies also a transformed relationship with the state. In an environment where there is a change in the kind of state funding (from base funding to contract or program based funding e.g.), also accountability requirements may change in content and scope. For example, when confronted with increased program based funding, the organization must, more and more, prove to be innovative in management (using management techniques to be creative for the supervisory authority) and produce innovative services or products (to deliver quality for the target group), in order to acquire the funding. Apparently, innovation is not the only way. For Osborne and Flynn (1997), innovation seems like a panacea for dealing with increasing environmental pressure, but they shed a different light on it. One of their core points is that innovation has to be seen
as one possible direction. They claim that innovation is not normatively better than any other activity to engage in, it is simply one role. There is the assumption that innovations are good, but they can also generate negative effects. Another interesting finding of their research is that only one-third of the 196 voluntary and nonprofit organizations in their survey had engaged in genuine innovative activity over the previous three years. These findings call many questions. What exactly is innovation, which factors lead to innovation, and is innovation the road to success?

Bezemer, Volberda, et al. (2006) claim a direct positive correlation between strategic renewal of NPO’s and their performance, based on a questionnaire and cases studies of Dutch NPO’s. Also Han, Kim, et al. (1996) proved a positive, direct relationship between innovation and performance. Others minimize this exclusively positive impact of innovation on performance, by stating that innovation is not the only way and may also be counterproductive (Osborne and Flynn 1997). Many authors deal with the question of the impact of innovative managerial techniques in a service environment (Eikenberry and Kluver 2004; Evans, Richmond et al. 2005; Guo 2006; Dolnicar, Irvine et al. 2008). The trend towards marketization can, in addition to benefits, have long-term negative consequences for NPO’s, because it has an impact on the “civil society roles of NPO’s” (Eikenberry and Kluver 2004). Mission accomplishment seems to be another important factor in the innovation issue. Dolnicar, Irvine, et al. (2008) indicate the problem with the (normative) question whether it is ‘mission or money?’ that determines organizational performance. Based on in-depth interviews, focus groups and a questionnaire of Australian bushcare units, they found that the adoption of corporate/entrepreneurial practices can endanger the mission of the NPO. The challenge lies in managing the competition for grants, without sacrificing the mission (to balance mission and money).
Governance and performance

In the literature, the relationships between certain organizational features in NPO’s and (aspects of) organizational performance are also well documented. There is a large literature that addresses the question under which circumstances NPO’s are effective and efficient (Verschuere 2009). Yet, Eisinger (2002) claims that there are a lot of organizational features from which there impact is assumed rather than examined. Of course, these relationships all depend on how performance is defined (mission fulfilment, efficiency, etc.). Organizational features are very diverse, ranging from the size of the organizational budget to working conditions for staff. Each organization has its specific organizational characteristics, some consciously chosen, other historically grown or imposed, but we can assume they all have an impact on the functioning of an organization. In this paper, we limit ourselves to the impact of organizational governance features. In this respect, the organizational governance system may be an important determinant for performance. The term governance comes from the world of business and refers to “the system by which organizations are directed and controlled” (Anheier 2005). Governance involves the responsibility for the organization’s performance and direction and is primarily an organizational steering function, closely related to the notion of stewardship. In NPO’s, it is useful to think of the board as the focal point of governance (the governing body of the non profit) and the chief executive officer (CEO) as the focal point of management (Anheier 2005). In the literature, the concept of governance is ambiguous. Several authors use the term to describe characteristics of the board, characteristics of the management and characteristics of the relationship between them. Governance of NPO’s is one of the most debated issues in the nonprofit literature, which is not surprising, given the fact that the rapidly changing environment creates challenges for the governance of these
organizations. Members of the board and/or managers of nonprofits are increasingly under pressure to innovate, to improve organizational performance, to survive in an environment of increased competition and dependency on state funding, to work together in complex networks and are increasingly made accountable for everything they do. On top, they are still responsible for pursuing the overall mission of the organization. The challenge is in managing these environmental pressures, without sacrificing this mission (Dolnicar, Irvine et al. 2008).

The changing environment requires clarity and expertise of the board (Verschuere and Cantens 2009) and has created new roles and identities for professionals (Paulsen 2006). Demands for better governance and greater accountability, both in the business world, government and the nonprofit sector, have increased significantly in recent years (Anheier 2005). First, diverse initiatives were taken in corporations to make the governance more effective and transparent (corporate governance). Following this debate, the concept of social governance found his way through NPO’s, because of the growing awareness that also NPO’s need a good governance. The key elements of social governance, according to Verschuere and Cantens (2009), exists of ensuring the legitimacy of the organization, to take into account the different stakeholders of the organization, preventing conflicts between those stakeholders, optimizing the processes of decision making and shaping the relationship between the management and the board. One of the paradoxes of modern society, according to Anheier (2005), is that NPO’s, business, and government have not become more prone to accountability and governance failures than in the past, but public expectations have changed to control over institutions rather than relying on confidence in them. Certainly in the service-providing nonprofit sector, stakeholders expect value for money. Next to that, issues of power, authority and leadership, who are already among the most political and complex in any organization, are even more demanding in non profits due to the importance of value commitment in NPO’s.
On the subject of governance features, Callen, Klein, et al. (2003) claim that not much research is done into the relationship between nonprofit governance and nonprofit performance, compared to the great deal of empirical work that has been done trying to link corporate governance with corporate performance. Much prescriptive work is done on how boards of NPO’s should operate, but literature about the actual impact of boards remains limited and exploratory. Greene (2007) suggested five conditions for a more effective service delivery by NPO’s, including two governance features: the capacity to host a quality board of directors, executive director and staff, and a quality training program for members of boards of directors. Eikenberry and Kluver (2004) focus on the impact of management on the maintaining of the civil society roles of NPO’s. Callen, Klein, et al. (2003) performed a study on the relationship between board composition and organizational efficiency, based on financial data from a database of the NY State Department of Law and governance data from a mail survey. From a sample of 473 US NPO’s, they found a significant relationship between the presence of major donors in the board and improved organizational efficiency. The latter was measured as the ratio of total expenses (the sum of administrative and fundraising expenses) to program expenses. They also found a relationship between board size and organizational efficiency, interpreted as resource acquisition. A significant contribution on the relationship between financial features, governance features and organizational performance was delivered by Vlassenroot, Christiaens, et al (2009). They demonstrated an influence of the financing pattern (a high degree of government funding) on the focus and composition of the board and the relationship between board and management. Since managers are more short-term oriented than the board of directors, and given their increased power in decision making, because board members are focussed on fundraising, managers will prefer spending while the board prefer saving, resulting in a deteriorating financial performance with a
decreased degree of cash and cash equivalents. Greene (2007) found a relationship between the financing pattern, the focus of board members and organizational efficiency (the ratio of administrative expenses to total expenses and the ratio of fundraising expenses to total expenses). He argues that the board is more concerned with the internal administration of the organization when dependent on federal funds and more concerned with fundraising when dependent on private donations. The first would lead to more efficiency, the latter to less efficiency.

**Governance and innovation**

Also the link between organizational features of NPO’s and innovation is important and frequently examined, assuming that there is a relation between innovative practice and organisational performance.

Literature shows some relationships between management or board practices and elements of innovation. Bezemer, Volberda, et al. (2006) for example, stated that pressure from management or board had a positive impact on the level of strategic renewal of NPO’s. They drew their conclusions, based on a questionnaire and case studies in Dutch NPO’s. According to them, it is the responsibility of the management or board to create circumstances under which renewal can be initiated. Also Osborne (1998) considered senior management commitment to innovation as a key factor to innovative organizations. Osborne and Flynn (1997) minimized the importance of individual action for innovation. Based on a literature review, a survey and case studies on voluntary and nonprofit organizations in the UK, they discovered important differences between innovative and more traditional organizations. They
stated that it is incorrect to stress the importance of individual action to activate the innovative
capacity of organizations. Their presence would be a necessary, but not a sufficient condition.

**Discussion: possible directions for a future research agenda**

As shown above, there exists a large amount of literature concerning organizational
governance features, innovative managerial behaviour, performance and possible interactions
between those variables. Because of their increased importance in public service delivery,
NPO’s are now more frequently also becoming target of research for public management
scholars that focus on performance of public service delivering private organizations like
NPO’s. Innovation and organizational performance seem to be two subjects that have
acquired a greater deal of attention. Still, there appears to be, in both cases, little agreement
about the exact meaning and measurement of the concepts. Also the relationship between the
concepts is still open to debate, and increasingly, the question is also asked which
organizational features lead to innovation and/or improved performance. Therefore, research
should continuously adapt and evolve, in the light of the knowledge that already exists. We
see some room for extending the research agenda, by proposing our own research agenda,
considerate of some apparent research challenges.

**Empirical-methodological issues**

In most literature, there seems to be a large dominance of Anglo-Saxon empirical evidence. It
is therefore a challenge to also collect more data on European (continental) NPO’s. Only few
attempts have been made to examine these variables, and possible relationships between
them, in other contexts. It is important however to investigate practices in different contexts. First, because there are a number of crucial distinctions and patterns of institutional differentiation (e.g. legal systems of a country, historical roots, etc.) that have a distinctive influence on the design of this third sector in different societies (Salamon and Anheier 1992). The social origins theory tries to explain these variations in size and composition of the nonprofit sector cross-nationally, by identifying those social factors that will lead to the development of a sizable, economically important nonprofit sector as opposed to a smaller, less important sector (Anheier 2005). Second, countries all over the world formulated different answers to challenges in their environment. Our units of analysis will be nonprofit organizations (NPO’s) in a small European-continental country. The question is which organizations we exactly consider as nonprofit organizations. We will rely on the structural/operational definition of the sector, comprising organizations that share five basic characteristics. First, NPO’s are formal organizations, which means they are institutionalized to some extent (by having regular meetings, rules of procedures, some degree of organisational permanence, etc.). Second, these organizations are private and hence institutionally separate from government. Third, they are non-profit-distributing. NPO’s may accumulate profits in a given year, but those generated profits may not be returned to their owners and directors. Fourth, nonprofit organizations are self-governing, i.e. equipped to control their own activities and not controlled by outside entities (own internal procedures for governance, etc.). Finally, they are voluntary organizations. NPO’s involve some meaningful degree of voluntary participation (Salamon and Anheier 1992).

Secondly, empirical research, also large-N, could be comparative in terms of types of NPO’s (given the large diversity between NPO’s concerning tasks, target groups and fields of activity). There is indeed still a great diversity of entities that tend to get lumped together in
this third sector (Salamon and Anheier 1992). Anheier (2005) even calls the sheer diversity of organizational forms, associations, and activities the sector encompasses as perplexing as fascinating. To be clear about the types of organizations this definition encompasses, Salamon and Anheier (1992) developed an International Classification of Nonprofit Organizations (ICNPO). This classification scheme identifies twelve broad groups of organizations that comprise the nonprofit sector. Our research will be conducted within the main subsectors of the Flemish nonprofit context (the welfare -, health -, educational - and socio-cultural sector). Within each sector, we conduct research on one exemplary type of organization where, despite their exemplary character, little research has been done in terms of these research topics. In addition, we limit ourselves to service organizations, because our research framework encompasses a cluster of variables ‘innovation in management and service delivery’. Also, we limit ourselves to organizations with a certain degree of professionalization, so that the survey can be filled in, in a meaningful way. We consider organizations of the same type, because it is more likely that they operate within a similar regulatory framework. This allows us to compare between entities, without having to take account of differences in legislation. Based on these arguments, we choose to examine resthouses for elderly care in the sector of welfare, general hospitals in the health sector, secondary schools in the educational sector and museums in the socio-cultural sector. A web-based survey will be sent to the managers of all these entities in Flanders.

Moreover, there seems to be very little large-N data concerning the interrelationship between performance, innovation and organizational governance in the European context. Most research is often case-study based. The data can be gathered through a single mail survey, a research method in which mainly descriptive information is obtained in a direct way from
Individuals. The survey-method is primarily chosen because we aim at creating a database which contains information about the characteristics of the nonprofit organizations, their managerial innovations, and eventually their performance. We believe that the use of a mailed survey to a large sample of those organizations will make it possible to construct such a large scale database, and that analysis on a large-N population may allow us to make more general statements on the whole Flemish nonprofit population. Data analysis will be quantitative in the first place. The data received via the survey will be analyzed in a quantitative way, in order to be able to answer the research questions. For answering the descriptive research questions, descriptive statistics will be performed. For answering the exploratory research questions, relationships between variables will be explored, such as correlation analysis, crosstabulations, and tests for significant differences between and in groups, such as X², Mann-Whitney and Kruskal-Wallis.

**Conceptual issues**

Another key issue for designing the research is operationalizing the key-concepts for large-N survey research in the context of continental European NPO’s.

**Organizational governance features**

Broadly taken, the governance features of an organization can be divided into three groups: 1) characteristics of the board, 2) characteristics of the management, 3) characteristics of the relationship between board and management. A number of studies analyze characteristics of the board (and committees in case they are present) as key determinants for other variables. These characteristics of the board can be concentrated around five themes: composition (Callen, Klein et al. 2003; Verschuere and Cantens 2009; Vlassenroot, Christiaens et al.)
2009), size (Callen, Klein et al. 2003; Verschuere and Cantens 2009), focus (Callen, Klein et al. 2003; Vlassenroot, Christiaens et al. 2009), expertise (Greene 2007), and functioning of the board (Callen, Klein et al. 2003; Verschuere and Cantens 2009). Characteristics of the management are analyzed also in literature. Wood, Bhuian, et al., (2000) for example, examined four organizational factors related to the management of NPO’s, namely the professional commitment, professional education, professional ethics of the senior management team and organizational entrepreneurship. Furthermore, we noticed how the degree of decision making power of the management (or managerial autonomy) can steer an organization in a certain direction (Vlassenroot, Christiaens et al. 2009). While examining the innovative capacity of an NPO’s, Osborne (1998) stresses the importance of senior management commitment to innovation. Furthermore, he distinguishes three roles for the management in innovation: how managers direct their organization, make things happen (the kind of leadership style), the creation and the management of an organizational culture prepared to innovate and the presence of a product champion or hero innovator, who supports an innovation at its early stage of development, even when it does not seem to accord with the strategic direction of the organization. The relationship between governance actors (the management and the board) is also described in nonprofit literature. Verschuere and Cantens (2009), for example, consider the shaping of the relationship between the management and the board as one of the key elements of social governance and point at different theoretical models concerning possible relationships between the management and the board of NPO’s. One of these models, the agency perspective, is also the framework around which the study of Vlassenroot, Christiaens, et al. (2009) is constructed. They discovered agency problems in Belgian NPO’s, arising from a growing distance between management and board.

Innovation
We can argue that innovations may emerge on two levels in NPO’s: innovations in management and innovations in service delivery and so we will use this format to conceptualize the concept of innovation.

We will first discuss innovations in management. Paulsen (2006) states that, in the domain of public services, many countries responded to global challenges by instituting major public sector reforms. He looks at the impact of paradigms like New Public Management (NPM) in a service environment. We situate NPM at the level of management, but without denying the impact of management on the service delivery. NPM has been associated with the introduction of market mechanisms in the public sector, including concepts such as entrepreneurialism, innovation and customer responsiveness in the delivery of public services (Paulsen 2006). Many authors (Eikenberry and Kluver 2004; Toepler 2004; Evans, Richmond et al. 2005; Dolnicar, Irvine et al. 2008) argue the fact that NPO’s are forced to operate more market-oriented and thus adopted methods, techniques, approaches, tools and values of the market (also appointed as marketization, corporatization or social entrepreneurship). In those innovative instruments, we can distinguish several groups: profiling tools (e.g mission statements), performance measurement tools (e.g. the balanced scorecard, quality standards, etc.), feedback instruments (e.g. customer satisfaction measurements, evaluation systems, etc.), network tools (e.g. private-public cooperation, benchmarking, etc.), innovative structures and processes (e.g. business process reengineering), and market-based financing mechanisms (e.g. users fees). The application of methods, techniques, approaches, tools and values of the market has of course its impact on the various management disciplines. At the level of strategic management, for example, NPM plays an important role. Chew (2006) stresses the importance of strategic positioning in increasingly competitive and challenging environments, based on his experience in British charitable organizations. Bezemer, Volberda
et al. (2006) advocate the need for strategic innovation in NPO’s. The increasing turbulence that characterizes their environments would be the reason for this. NPM also had an impact on the management of human resources (we notice an evolution towards performance contracting, ongoing evaluation, empowerment, etc.) and brought significant changes in the area of financial management (e.g. an evolution towards a contract or program-based financing).

New developments in management, and NPM itself, have of course their impact on service delivery (one now speaks of service management). Numerous innovations in service delivery occurred, ranging from demand driven care to care expansion (one-stop-shopping) to purchasing of care, etc. Involving users gains importance, as empowerment of users. Organizations are also increasingly diversifying (new products/services, target groups, donors, etc.). Concerning the latter, we refer again to a work of Osborne (1998), who mentions a typology of Abernathy et al., which allows different modes of innovation to be clarified. The x-axis is concerned with the impact of an organizational change upon the actual services that an agency produces (that is, whether it involves the existing services of an agency, or the creation of new ones). The y-axis is concerned with the relationship of an organizational change to the clients of a social services agency (that is, whether it meets the needs of an existing client group of the organization, or a new one). An interesting contribution to the subject of innovation in service delivery can be found in a project of the Flemish Welfare Alliance, called ‘care innovation’. Care innovation is defined as “an initiative to provide different and innovative care as an answer to current and future challenges in care and society”. According to this initiative, the innovative capacity of organization must primarily benefit the users of services. More concrete, they present a tool to
map the innovative capacity of organizations and support organizations with the initiation of innovation and change (Vranken and Hermans 2009).

**Performance**

There seems to be a lack of objective performance standards, but different attempts have been made by academics and practitioners to describe what nonprofit organizational performance is about. They all acknowledge that the concept is far from clear and consists of many components. In the profit sector, organizational efficiency is a frequently used indicator of organizational performance. The nonprofit sector needs other indicators, in addition, to assess the overall organizational performance. Duque-Zuluago and Schneider (2006) state that there is no agreement on the specific performance dimensions that can be used to assess nonprofit organizational performance, and argue that nonprofit performance indicators should be wider than profit indicators, covering the very different goals NPO’s are supposed to achieve. They advocate a multidimensional way of measuring performance, in order to cover the multiple goals of NPO’s. It is clear that there exist several criteria for mapping the performances of NPO’s (responsiveness, cost-effectiveness, economy, procedural correctness, efficiency, effectiveness, overall impact, etc.) and, following the multiple constituency model (D’Aunno 1992, in: Schmid 2002) we acknowledge that different stakeholders will appreciate and use different criteria to assess the performances of an organization. The result is that no single organizational effectiveness exists, but that in reality, stakeholders of the NPO (board, management, employees, volunteers, clients, funders, etc.) may all have different opinions on what effectiveness means, and on how effective an organization is (Verschuere 2009).

Duque-Zuluago and Schneider (2006) distinguish seven dimensions of nonprofit organizational performance: beneficiary or recipient response, financial stability and resource
acquisition, job satisfaction of volunteers and employees, responsiveness, long-term outcomes, program outputs and intermediate outcomes and organizational efficiency. The welfare framework by Kendall and Knapp (2000) and the input/output model by Pollitt and Bouckaert (2000) put many of these terms in relation with one another to create a straightforward definition of organizational performance (Verschuere 2009). When we talk about performances, we must not forget the typical identity or functions of NPO’s. These organizations exist for several reasons, but they all share ‘civil society roles’. They have a role as value guardians, a role in service delivery, in advocacy and they are supposed to be the builders of social capital (Eikenberry and Kluver 2004). One can consider the fulfilment of these typical nonprofit roles as decisive performance indicators. In addition, the legitimacy of a NPO is also crucial to their further existence. NPO’s must constantly prove their constituencies they deserve to exist. We therefore consider ‘legitimacy’ also as an aspect of organizational performance in NPO’s.

Problems in measuring performance

There are three broad and generic reasons why measuring or evaluating organizational results can be problematic (Murray 2005). Firstly, there are technical problems in evaluating organizational performance. Some goals or objectives of an NPO are hard to measure because of there vagueness and ambiguity. How does one measure the goal of the community organization that is “making our neighborhood a better place to live”? It is very challenging, from a technical point of view, to develop valid and quantifiable measures to assess the extent to which such vaguely described goals are met by the organization. Next to that, one can measure organizational performance but also the performance of organizational sub-units. This raises the question about how results obtained for the effectiveness of part of the organization can be aggregated to the organization as a whole. A similar problem arises when
NPO’s manage different programs. One program can be more effective than another, but how do we relate that observation to the organizational overall effectiveness? Finally, even when every stakeholder agrees on the desirable output and outcome of the organization, there still are technical problems on how to measure these outputs and outcomes. This is the question to what extent the measures used really capture the goals they are intended to measure? For example: does an employment agency that is able to direct 90% of its unemployed clients to the labor-market, but is very selective in the type of client they help (e.g. only highly educated unemployed), really meets its goal of “reducing unemployment in the region”?

A second problem in assessing performance of NPO’s is related to the nature of human beings (the people that assess and interpret organizational results). If the assessment shows good organizational effectiveness, people tend to take full credit for the good results, thereby neglecting the fact that good performance is the result of a combination of factors, and that personal contribution to the good result is only one factor. Ceteris paribus, in the case of poor results, people tend to avoid blame, and will want to explain poor performance as being beyond their own personal control. Murray (2005) has labeled this mind-set as “look good and avoid blame”. Next to that, the results of the evaluation of performance may also be interpreted subjectively (“subjective interpretation of reality”). This is often the case when evaluation results need to be explained and interpreted, and occurs because there are many variables that cannot be controlled but still influence or moderate the presumed link between organizational (or personal) behavior and eventual organizational performance.

A third problem in measuring organizational performance has to do with the specific context of the nonprofit organization. The observation that organizational performance is a multi-faceted and heterogeneous concept also invokes some (potential) problems when one wants to
measure NPO’s effectiveness and efficiency. Studying and measuring organizational effectiveness and efficiency in the context of NPO’s is problematic for several reasons (Forbes 1998). The distinctive nature of NPO’s, characterized by the absence of a profit-motive and the aim of creating social added value, prevents the use of measures of effectiveness that are commonly deployed for business (for-profit) organizations such as profit-ability or stock-market performance. Next to that, the fact that NPO’s often have amorphous and heterogeneous goals, and often offer intangible services, makes quantitative measures of performance difficult. One can measure the number of clients that have consulted the social worker in the organization during one week, but it is much harder to measure the quality of the conversation between social worker and client, and the effect of that consultation (did they eventually come up with a solution for the client’s problem?). Thirdly, the work of NPO’s is often based on societal values about which consensus is often hard to find, implying that also consensus about the criteria to evaluate the organization and its performance is often difficult to reach.

Conclusion

(Still to be completed towards the conference)

References


