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Doing Things Right: Effectiveness in Local Nonprofit Organizations, A Panel Study

This study investigates whether nonprofit organizational effectiveness is judged consistently by differing constituencies and whether changes in board effectiveness and overall organizational effectiveness (judged by differing constituencies) are the result of changes in the use of practices regarded as the “right way” to manage. The results show that different constituencies judged the effectiveness of nonprofit organizations differently, at both periods; that a change in the use of correct board practices over time, controlling for board effectiveness at time 1, was not related to board effectiveness at time 2; and that a change in the use of correct management practices, controlling for organizational effectiveness at time 1, was not related to organizational effectiveness at time 2, except for board members. Implications of the results are considered. Claims about best practices for nonprofit boards and organizations must be evaluated more critically. Finding the right fit among practices is more important than doing things the “right way.”

It is more and more widely recognized that governments in the United States have long been interdependent with nonprofit charitable organizations and that many nonprofit organizations rely heavily on government funding (Saidel 1991; Saidel and Harlan 1998; Salamon 1989; Smith and Lipsky 1993; Stone, Hager, and Griffin 2001). Thus, the effectiveness of nonprofit organizations is a concern for public policy makers and managers as well as public administration scholars. Certainly, the last several years have seen increased interest in nonprofit organizational effectiveness by governments and other funders. Much of this interest has focused on improving the measurement and tracking of program outcomes and on program evaluation rather than on more general organizational effectiveness.

Those interested in analyzing nonprofit organizational effectiveness confront a number of conceptual challenges. Is program effectiveness the same as or an acceptable substitute for organizational effectiveness? Is overall nonprofit organizational effectiveness a reality waiting to be discovered by those looking for it? Will all of those looking agree on what they have discovered? Do effectiveness indicators exist that can be appropriately applied across a wide range of nonprofit organizations?

In this article we report the results of a panel study of effectiveness using a sample of community-based, service-

providing nonprofit organizations in one metropolitan area. The study uses data gathered from and about the same organizations at two different periods and is designed to answer three fundamental questions. First, do different nonprofit constituencies or stakeholder groups judge effectiveness similarly? Second, do nonprofit boards that increase their use of recommended board-process practices become more effective? As we will observe in our review of the prescriptive literature on nonprofit boards, the literature argues that board effectiveness is crucial for the effectiveness of nonprofit organizations, and that board effectiveness is improved by following several “good practice” standards. The descriptive literature provides some support for these arguments, but virtually all of the empirical studies are cross-sectional. Third, do nonprofits that increase their

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use of practices identified as enhancing overall organizational effectiveness, in fact, become more effective? The general view that best practices exist and that organizations that adopt them will become more effective is commonplace today. However, the evidence for best management practices, at least in relation to nonprofit organizations, is slim and includes only cross-sectional research. In short, while it has its limitations, our panel study provides useful evidence about the value of managing by “doing the right things.”

Theoretical Perspectives on Nonprofit Organizational Effectiveness

The history of the theoretical development of the concept of organizational effectiveness is complex. Herman and Renz (1997) argue that the history of organizational effectiveness theorizing can be summarized as the development of alternatives or modifications to the goal model of effectiveness. The view that organizations have goals is fundamental to the commonsense understanding of organizations. In spite of the popular appeal of the goal approach, organizational theorists (see Mohr 1982 for a thorough summary) have noted many shortcomings. Among these are criticisms that only real people have goals, that goal statements often lack specificity, and that organizations fail to prioritize among goals and do not include unofficial but still important goals. Consequently, many have argued for alternative approaches.

Another approach to organizational effectiveness, the *system resource approach*, was proposed by Yuchtman and Seashore (1967). They treat effectiveness as an organization's ability to exploit its environment to acquire scarce and valued resources. This approach justifies the use of measures of resource acquisition—in practice, financial variables such as total revenues—as measures of organizational effectiveness. Some studies of nonprofit organizational effectiveness have used this approach. Pfeffer (1973), in studying hospitals (nearly all of which were nonprofit or government), used the percentage increase in the number of beds and the percentage increase in budget over a five-year period as measures of organizational effectiveness. In research on human services nonprofits, Provan (1980) used the extent of United Way funding and other funding, as well as the percentage change (in a three-year period) in United Way and other funding.

Certainly, resource acquisition is one important kind of effectiveness. It may be the most important criterion of effectiveness for chief executives or board members (though they would never say so), but it seems unlikely to be important to other stakeholders. Nonprofit leaders emphasize the importance of mission and progress toward accomplishing that mission, not budget increases. To empha-

size financial growth would threaten many nonprofits' legitimacy, which is crucial to their funding.

Our study is based on two contemporary theoretical perspectives related to organizational effectiveness. Kanter and Brinkerhoff (1981), in an early statement of the multiple-constituency perspective, observe that organizations have many constituencies or stakeholders, and each is likely to evaluate the organization's effectiveness on the criteria that are important to them. Thus, the authors argue that organizational effectiveness is not a single reality, but a more complicated matter of differing interests and expectations. We accept that nonprofits have multiple constituencies or stakeholders that may differ in the way they evaluate organizational effectiveness.

The other theoretical perspective that informs this study, social constructionism, is not a specific model of organizational effectiveness, but a general ontological perspective. Social constructionism considers that reality—or some parts of reality—are created by people's beliefs, knowledge, and actions. Thus, reality is not something that is independent of people, though people may believe that what they have created exists independently. For example, the idea and categories of race are increasingly recognized as social constructions rather than physical (biological) realities. The “new institutional” school in organization theory (see Scott 1995 for a summary) takes a social-constructionist approach to analyzing many features of organizations. In short, we adopt the view that overall nonprofit organizational effectiveness *is* whatever multiple constituents or stakeholders judge it to be.

Our position is that a nonprofit organization has multiple constituencies such as clients, employees, funders (both individuals and grant-making foundations, firms, and United Way and similar agencies), licensing and accrediting bodies, boards of directors, and vendors. These constituencies are likely to use different criteria in evaluating the nonprofit's effectiveness. Judgments about effectiveness are not capricious or arbitrary. For example, clients may pay the most attention to their personal condition (are they improving, achieving what they want from their relationship?), while organizational funders may pay more attention to accurate financial reporting and following “correct” management procedures (currently including such procedures as outcomes assessment, strategic planning, and social-enterprise efforts). Individuals within constituencies—and no doubt across constituencies—are likely to communicate with one another about the organization and how it is doing. They are also likely to see and hear communications from people in the nonprofit about how well they and the organization are doing. In such ways, judgments of effectiveness are developed and changed. Our view is that the social construction of nonprofit organizational effectiveness is not necessarily stable, nor is it in-

evitable that constituencies will differ in their judgments. The social processes resulting in judgments of nonprofit organizational effectiveness may lead different constituencies to develop the same criteria and to evaluate the information relevant to those criteria in the same way. Whether (and why and how) this happens is an empirical issue. Our expectation, consistent with past research, is that constituencies will differ in their judgments.

Board Practices and Board Effectiveness

Boards of directors (or trustees) of U.S. nonprofit organizations are ultimately legally responsible for the affairs and conduct of the organizations they head. It is widely accepted that nonprofit boards are expected to perform important and difficult roles (Houle 1997), and that many boards do not fully meet those expectations (Middleton 1987; Herman 1989). Recent research supports the hypothesis that board effectiveness is related to the use of certain prescribed board practices, and some research also supports the hypothesis that board effectiveness is related to overall nonprofit organizational effectiveness. Bradshaw, Murray, and Wolpin (1992) found that board involvement in strategic planning, the use of good meeting management techniques, and low conflict within the board were related to nonprofit executives' positive assessment of board performance.

Green and Griesinger (1996) measure board effectiveness by the use of various board practices and combine three ways of assessing organizational effectiveness (ranking based on accreditation reports, ranking by government official whose agency contracted with the sample nonprofit organizations, and ranking by one of the researchers). For chief executive officers, organizational effectiveness was related to board involvement in planning, policy formulation, fund-raising (including board member contributions), some aspects of financial management, and some board development practices. For board members, organizational effectiveness was related to fewer board practices, and boards did not perceive organizational effectiveness as closely related to board involvement in fund-raising or to personal contributions. Board members saw organizational effectiveness as related to the board's review of management information, communicating the organization's purposes, reassessing overall performance, and training new board members.

Recent work by Holland and colleagues also provides evidence that effective boards are related to effective organizations. In their development and testing of a board self-assessment instrument, Jackson and Holland (1998) found moderate correlations between the overall score on the board-performance instrument and its six components. In another article, Holland and Jackson (1999) report the re-

sults of board training intervention. Not only did participating boards show improvement in scores on the instrument, but there was also a modest correlation between changes in board (self-assessed) performance and financial gains.

Herman, Renz, and Heimovics (1997) use judgments from different stakeholder groups (funders and board members) as well as the chief executive to measure board effectiveness. They found that the use of certain recommended board practices was moderately correlated with the executives' judgment of board effectiveness, but not with the judgments of board members or funders. They also collected judgments by funders, senior managers, and board members (who were different individuals than those who had provided judgments of board effectiveness) of overall organizational effectiveness. They found a strong correlation between the average judgments of board and organizational effectiveness ($r = .64$). In a study of the 10 most effective and 10 least effective organizations in their sample, Herman and Renz (2000) found the strong correlation between board and organizational effectiveness was even stronger ($r = .83$), and that the top 10 nonprofit organizations used an average of 68 percent of the recommended board practices, while the bottom 10 used 56 percent on average.

These studies, based mostly on perceptions of effectiveness, clearly support the conclusion that board and organizational effectiveness are related. This research also supports the assertion that the use of various board practices is related to board effectiveness, though no specific practices have been consistently identified. The causal linkage, however, is another matter: The research to date provides almost no evidence that board effectiveness *causes* organizational effectiveness, and only one study uses a longitudinal design.

Management Practices and Nonprofit Organizational Effectiveness

Some research suggests a relationship between various management practices—often some part of the strategic planning process—and some measure of overall organizational performance. Studies by Odom and Boxx (1988), Crittenden, Crittenden, and Hunt (1988), and Siciliano (1997) identify relationships between certain planning practices, such as goal setting, financial analysis, stakeholder analysis, environmental trend analysis, competitive analysis, action plans, and monitoring of results (depending on the study) and various measures of performance, such as total membership, growth in membership, growth in contributions, and the ratio of total revenues to total operating expenditures. However, in a review of research on strategic planning in nonprofit organizations, Stone, Bigelow,

and Crittenden (1999) show that little can be said reliably about which elements of the strategic planning process nonprofit organizations should use to improve their overall effectiveness.

Herman and Renz (1998) sort part of a sample of nonprofit organizations into “highly effective” and “less effective” organizations based on the judgments of various stakeholders. Earlier, focus groups of experienced practitioners had identified management practices they considered lead to organizational effectiveness. Among the indicators of effectiveness were a mission statement, a recent needs assessment, a planning document, a measurement of client satisfaction, a formal appraisal process for the chief executive officer and for employees, an independent financial audit, and a statement of organizational effectiveness criteria. The analyses show that more effective organizations used more of the correct management practices (defined by the focus groups of experienced practitioners), and that greater use of the correct procedures was positively correlated with judgments of organizational effectiveness for all three stakeholder groups (funders, board members, and senior managers). Because these results derive from a cross-sectional study, they can legitimately be construed to mean one of two things: It may be that the use of correct practices leads to being judged an effective organization. Or, it may be that being judged as effective leads the organization to acquire additional resources, which then makes it easier to adopt correct management practices.

Sample and Methods

The study population was initially defined in 1993 as including only local nonprofit organizations or independently incorporated affiliates or chapters of national nonprofit organizations with local boards of directors. The study population included two types of nonprofit organizations in a large metropolitan area—health and welfare service providers that receive allocations from the local United Way, and organizations that provide services to the developmentally disabled. Health and welfare charities were included because of their prominence in every community’s nonprofit sector. Though quite diverse in terms of programs and clients, health and welfare organizations are generally similar in other ways, such as their relative size and complexity, sources of philanthropic support, and sources of potential board members. Organizations serving people with developmental disabilities were included because they are fairly similar in size and complexity to health and welfare organizations, but they are thought to depend to a greater extent on government contracts for financing and much less on philanthropic institutional support, such as that from foundations, corpora-

tions, and United Way. If true, we expect organizations serving the developmentally disabled to operate in a different institutional environment, and thus to be managed in somewhat different ways.

The first-wave sample included a random sample of locally based, United Way-funded health and welfare organizations ($n = 46$) and nearly the entire population of local organizations serving people with developmental disabilities ($n = 18$). Subsequent data analysis showed there was no utility in separating the two types of organizations because they have very similar distributions of funding from various sources (including government contracts) and similar variation in management and board practices.

In the second wave of data collection, which commenced in September 1999, we first determined which of the initial 64 organizations still existed. Of the 64 nonprofit organizations that had provided data in the first round, we determined that three had dissolved and six had merged with other organizations. We sent letters to the 55 extant nonprofits inviting them to participate in the second round in the fall of 1999. Interviewers called to arrange appointments a few days after the letters were sent. Interviews were ultimately conducted with 47 chief executives; in spite of repeated attempts, including calls by the principal investigators, we were unable to secure interviews with chief executives of eight of the 55 potential participating organizations.

In addition to an interview, which took about an hour, we also asked chief executives to complete a short questionnaire and to supply our interviewer with a variety of documents. In addition to documents about board and management practices, we requested IRS Form 990 information for the three previous years, a current board roster, the names of senior staff members, and the names of foundations or companies that had recently made significant grants or donations. In several instances, chief executives were unwilling or unable to complete the questionnaire or provide the requested information while our interviewer was there. Several later mailed the questionnaire or the other information. Three who provided interviews were not willing to provide sufficient additional information, such as the questionnaire, the board roster, staff names, funder names, or various documents to make including their organizations meaningful. Thus, our sample at time 2 consisted of 44 organizations. We do not have complete data on all 44 organizations. Most frequently, we did not always receive board effectiveness questionnaires and organizational effectiveness questionnaires from the various stakeholder groups for each organization. Thus, for some analyses, sample sizes are in the mid-thirties. Attrition and nonresponse clearly affected our study; nonetheless, we have sufficient numbers to carry out many important and revealing analyses.

Variables and Data Collection

Given our theoretical perspective and substantive interests, we collected data on several classes of variables: (1) board practices that have been widely recommended as correct practices, (2) the use of practitioner-defined correct management practices, (3) judgments of board effectiveness, (4) judgments of organizational effectiveness, and (5) other organizational characteristics, including age, total revenues, strategies, and the like (table 1). We collected the data on the same variables in the same way, at both times 1 (1993–94) and 2 (1999–2000). To avoid common-source correlation, we collected the judgment data, in each wave, from different individuals in three general types of constituency groups—either the chief executive for board effectiveness or senior managers for organizational effectiveness, board members, and funders, that is, officials from foundations, corporate contributions programs, federated fund-raising organizations, and government funding agencies. Some of the same individuals participated in data collection at both time 1 and time 2. Of the 44 chief executives interviewed at time 1, 22 were again interviewed at time 2. We do not know precisely how many board members, senior staff members, or funders provided data at both times. Probably few board members were re-surveyed. Further, given the substantial interval between data-collection periods—at least five years—we are confident those who participated at both times could not have inflated relationships across time by remembering their previous responses.

The management practices we studied were developed by two focus groups of practitioners: long-time nonprofit chief executives and officials of intermediary and funding

organizations. One group was composed of executives and officials from health and welfare nonprofits, the other executives and officials from nonprofits serving the developmentally disabled. We started by asking the participants to identify the criteria or indicators they actually use to assess nonprofit organizational effectiveness. The meetings resulted in rather lengthy lists of criteria for each type of organization.

Our next step was to carry out a Delphi process, a method for collecting and refining expert opinion. Sixty practitioners, mostly chief executives, but also including funding officials, in both fields rated each of the focus-group-generated criteria for their importance as indicators of nonprofit organizational effectiveness. We then sent a second round of questionnaires, along with information on group averages and individual ratings on each criterion, to each participant. Participants reviewed their earlier responses and the group averages and rated the criteria again. Ratings changed very little from the first round.

Chronologically these were among the first steps because we needed to specify the management practices prior to conducting interviews and examining documents. Because the sample had been taken, we took care to select participants for the focus groups and the Delphi process who were not affiliated with our sample organizations.

After the second round in the Delphi process, we selected the most highly rated criteria. Many items were identified by both the health and welfare and developmental disability groups, while five additional items were included solely for the latter organizations (appendix A). Because the criteria selected by participants emphasized the use of certain management practices, we have come to refer to

these criteria as “correct” management practices. At both time 1 and time 2, our interviewers checked for documentary evidence of which practices the sample organizations used. To facilitate analysis we created an index of management practices by summing the number of items exhibited by each organization, divided by the number of possible items for that type of organization (either health and welfare or developmental disability).

Our collection of data about *board practices* began after developing an initial list based on our review of the prescriptive board literature. We also consulted with several nonprofit chief executives and board members about the list, adding some items based on their suggestions (appendix B). At both times, our interviewers asked the chief executives about their boards’ use of each of these practices. We also asked our interviewers to examine documentary evidence for certain items

Table 1 Summary of Data-Collection Procedures

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

(not all practices involve documents). To facilitate analysis, we created an index of board practices by adding the number of practices that a board used, dividing that number by the total number of practices, and multiplying by 100. We excluded “consensus decision making” and “CEO role in board nominations” because these variables are not dichotomous.

To measure judgments of *organizational effectiveness*, we created an instrument and tested and refined it. The final version of the questionnaire contained nine items (appendix C). The instrument was sent, both times, to the same types of stakeholders, but to different individuals than the board effectiveness instrument. The board president, a nonofficer board member, two senior management staff members, and two funders for each sample organization were mailed cover letters and organizational effectiveness questionnaires.

In the first round of the study, we received replies from 162 people: 63 board members, 60 staff members, and 39 funders. We received at least two judgments about each organization in the first round. This instrument also had strong reliability, with Cronbach’s alpha of 0.85. In the second round of data collection, we received responses to our organizational effectiveness questionnaire from 199 individuals—98 board members, 64 staff members, and 37 funders. We computed an average organizational effectiveness score only when we had responses from two stakeholder groups. The instrument had very good reliability at time 2, with an alpha of 0.78.

To measure judgments of *board effectiveness*, we adapted the 11 items in the *Self-Assessment for Nonprofit Governing Boards* (Slesinger 1991), used with the permission of the National Center for Nonprofit Boards (now known as BoardSource). We chose this instrument because it has been widely used with boards and is considered meaningful by board members (appendix D). The questionnaire was sent to the chief executives of sample organizations at both times, as well as to two board officers at both times and two funders. In the first round we received responses (thanks to several follow-up mailings) from 250 individuals (63 chief executives, 101 funders—several organizations were rated by the same funders—and 86 board officers). At time 1 we obtained at least two board effectiveness judgments for each organization, often more. The questionnaire had high reliability at time 1, with a Cronbach’s alpha of 0.89.

In the second round of research, we received returns from 123 individuals, 43 chief executives, 32 funders—again, some organizations were rated by the same funders—and 48 board officers. In spite of several follow-up contacts, we were not able to obtain at least two effectiveness judgments for each sample organization. Funders were particularly reluctant to respond, some telling us they had

too few staff and too little time to respond, and others saying they had little information about the boards of the organizations they fund. The lack of funder replies for several sample organizations resulted in missing data for averaged board effectiveness because we computed that average only when at least two stakeholder groups responded. The reliability of the instrument at time 2 was also strong (Cronbach’s alpha = 0.82).

Our research is complicated by the fact that stakeholder groups differ substantially from one another in their judgments of organizational effectiveness, which was one of our findings in round 1. Before we began our second round of data collection, we searched for alternative approaches to measuring judgments of effectiveness. Although we found nothing helpful at the organizational level of analysis, we were aware of Tsui’s instrument (1984) for measuring coworkers’ judgments of the effectiveness of individual managers and adapted her three-item instrument, with her permission, to apply to organizations (appendix E). What we found desirable about Tsui’s scale is that the items do not define how effectiveness was to be understood, as our instrument does, but ask respondents to assess the organization’s effectiveness. The basis for their response is whatever is important to them. For this reason, we describe the instrument as a measure of *organizational responsiveness as effectiveness*. We included the adapted instrument with the questionnaires we sent to stakeholders. The instrument has very strong reliability, with a Cronbach’s alpha of 0.91. Of course, we have data on this measure only at time 2.

Both research (Provan 1980; Galaskiewicz 1985) and anecdotal evidence confirm that a board’s prestige affects an organization’s level of contributions and access to certain types of funding. Thus, once we knew which organizations could provide mostly complete data, we asked three long-time participants in the area’s nonprofit sector to rate the prestige of the boards of each time-2 sample organization. The same individuals judged board prestige with the same procedure at time 1. At time 1 the correlations of the three judges’ board prestige scores were 0.74, 0.77, and 0.84, for an average of 0.78. At time 2 the correlations were 0.56, 0.50, and 0.44, for an average of 0.50. Although these correlations are not as high as at time 1, our view is that they are high enough to warrant using the mean score as the value for board prestige for each organization.

Results

1. Stakeholders do not judge nonprofit organizational effectiveness similarly. As observed earlier, our time-1 analyses show that the correlations of the three stakeholder groups’ average judgments of overall organizational effectiveness were rather low ($r = 0.27$ for staff

and funder judgments, $r = 0.06$ for staff and board members, and $r = 0.28$ for board members and funders). The time-2 correlation between staff and funder judgments was 0.02, 0.39 between staff and board members, and 0.41 between board members and funders. These relatively low or modest correlations make it inappropriate to combine organizational effectiveness scores from the three groups into a single score for each organization.

2. Stakeholders continue to see board and organizational effectiveness as correlated. However, analyses suggest that a change in the use of recommended board practices is not related to a change in board effectiveness.

Data analysis at time 1 shows the correlation between stakeholders' judgments of board and organizational effectiveness was $r = 0.64$ ($n = 59$). At time 2, the correlation was somewhat smaller at $r = 0.40$ ($n = 31$). Because the board and organizational judgment data were collected from different individuals, the results support the conclusion that board effectiveness is related to organizational effectiveness. But, is there evidence that board effectiveness is increased by using more correct board practices?

Finkel (1995) reviews alternative approaches to analyzing panel data and argues that the static-score approach is preferable. In this approach, the time-2 value of the dependent variable is predicted from its earlier time-1 value and from time-2 values of the independent variables. Because we have small sample sizes for the three stakeholder groups, we had to limit the number of independent variables. Stevens (1986) states that the n/k ratio (sample size divided by the number of independent variables) is crucial for generalizability, and for small ratios such as 5:1 or less, generalizability drops substantially.

Of the 44 organizations for which we have time-2 data, 24 showed increases in the number of recommended board practices in use, six had no change, and 14 reported using fewer recommended board practices. As table 2 shows, for board members the use of board practices at time 2 is *not* related to board effectiveness at time 2, controlling for board effectiveness at time 1. Though not quite statistically significant at conventional levels (its probability is about 0.09 with sample size of only 19), the size of the standardized partial-regression coefficient for surplus at time 2 suggests that board members use financial results to evaluate how well they are doing as a board.

For funders as well, the use of board practices at time 2 is *not* related to board effectiveness at time 2, controlling for board effectiveness at time 1. We included board prestige in the regression analysis because that is one board characteristic most funders are likely to know. Though far from statistically significant, the relative size of the standardized partial regression coefficient is consistent with the view that board prestige has a greater effect on funders'

judgments of effectiveness than does the number of board practices in use.

For chief executives, the use of board practices at time 2 is *not* related to board effectiveness at time 2, controlling for board effectiveness at time 1. Chief executives' judgments of board effectiveness, like those of board members, are affected by financial results. Both board members and chief executives apparently regard the financial condition of the organization as the true measure of board effectiveness. Perhaps this "results orientation" helps to account for the fact that 14 organizations *decreased* the extent to which they used recommended board practices. Perhaps in those organizations, the board members and chief executives decided that certain practices were not furthering the board's contribution to the organization's financial condition.

Table 2 Regression Analysis of Board Effectiveness at Time 2

Stakeholder group	n	Independent variable	Standardized reg. coeff.	Sig.
Board members	19	Board effectiveness T1	.07	NS
		Board practices T2	-.02	NS
		Surplus T2	-.51	.09
Funders	17	Board effectiveness T1	.06	NS
		Board practices T2	.02	NS
		Board prestige	-.51	.30
Chief executives	41	Board effectiveness T1	.23	.15
		Board practices T2	-.11	NS
		Surplus T2	-.32	.04

3. A change in the use of correct management practices is *not* related to a change in judgments of overall organizational effectiveness. Of the 44 nonprofit organizations in the time-2 sample, 23 increased their use of correct practices (which practitioner experts had defined as indicating nonprofit organizational effectiveness), 6 showed no change, and 15 decreased the extent to which they used correct management practices between time 1 and time 2.

Using the same static-score approach, table 3 shows the results for analyses of time-2 values of organizational effectiveness judgments. We included time-2 values for board practices in the analysis because board effectiveness is correlated with organizational effectiveness, and it may be that greater use of recommended board practices leads directly to greater organizational effectiveness. One stakeholder group, board members, makes judgments of organizational effectiveness in relation to the extent of use of correct management practices, though no group's organizational effectiveness judgments are affected by the extent of use of board practices.

For board members, the use of correct management practices is strongly and positively related to organizational effectiveness judgments (in table 3, the negative sign for

Table 3 Regression Analysis of Organizational Effectiveness at Time 2

Stakeholder group	n	Independent variable	Standardized reg. coeff.	Sig.
Board members	25	Organizational effectiveness T1	.17	NS
		Board practices T2	.13	NS
		Management practices T2	-.48	.03
Funders	18	Organizational effectiveness T1	.53	.06
		Board practices T2	.07	NS
		Management practices T2	.11	NS
Senior staff	22	Organizational effectiveness T1	.39	.10
		Board practices T2	.17	NS
		Management practices T2	-.09	NS

the coefficient results from the coding for organizational effectiveness being “backward”). For the other two stakeholder groups, time-2 judgments of organizational effectiveness are affected by such judgments at time 1. Apparently, both funders and senior managers see some continuity in the extent of nonprofit organizational effectiveness.

As described earlier, before we began the second-round data collection, we adapted a managerial effectiveness instrument developed by Tsui (1984) to measure the extent to which stakeholder groups found an organization responsive. All stakeholder groups saw organizational responsiveness as strongly related to judgments of organizational effectiveness. The correlations between those two variables for each group are -0.73 ($n = 35$) for board members, -0.86 ($n = 26$) for funders, and -0.72 ($n = 33$) for senior managers (the negative sign is appropriate because responsiveness is scaled, with higher numbers indicating more responsiveness, while for the effectiveness variable smaller numbers indicate greater effectiveness). The correlations between each stakeholder group’s judgment of responsiveness and the overall average for responsiveness are quite high at 0.77 ($n = 30$), 0.76 ($n = 22$), and 0.77 ($n = 31$), respectively. The last two sets show not only that responsiveness is related to effectiveness for all groups, but also that each group’s responsiveness is highly related to the average of the groups. This means we can use the average responsiveness score as an indicator of effectiveness.

Is organizational responsiveness related to correct management practices? The correlation between the two variables using the time-2 values for correct management practices is 0.25 ($n = 32$, reported one-tail significance level < 0.10). This is a very modest correlation. Examination of the correlations between the organizational responsiveness scores for each stakeholder group (considered separately) and correct management practices reveals that only board members consider correct management practices to be important to their satisfaction with their organizations’ responsiveness—the correlation coefficients are 0.36 , 0.20 ,

and 0.05 for board members, funders, and management staff, respectively.

A regression analysis with average organizational responsiveness as the dependent variable and correct management practices and board practices as the independent variables shows the use of correct management practices has a marginally significant effect on average organizational responsiveness (significance level $< .10$). Regression analyses of organizational responsiveness for the three stakeholder groups, though, show again that the current extent of correct management practices affects evaluations of organizational responsiveness only for board members. The organizational responsiveness measure promises to permit organizationwide analyses. The results of our analyses of its relation to correct management practices mirror the results for judgments of organizational effectiveness: Only board members pay attention to correct management practices in assessing organizational responsiveness or effectiveness.

Conclusions and Implications

1. Claims about best practices in the management of nonprofit organizations and boards must be evaluated critically. Doing things right is not a guarantee of effectiveness.

In the last several years, the concept of best practices has been widely invoked and applied. Many sources that claim to offer best practices about nonprofit boards or management provide little or no basis for assertions about best practices. What evidence is required to support a claim of best practice? Keehley et al. (1997) argue that best practices should meet seven criteria: They should be successful over time, show quantifiable gains, be innovative, be recognized for positive results (if quantifiable results are limited), be replicable, have relevance to the adopting organization, and not be linked to unique organizational characteristics (generalizable). We are aware of no best practice for nonprofit organizations that comes close to meeting these criteria. Studies of what have been promoted as best practices for business corporation boards have also found no relation between best practices and corporate performance (Heracleous 2001).

One key assumption of the best practices approach is that a particular technique or process that works well in one setting can and should be incorporated into different settings. No doubt this is true in some instances—for example, changing procedures to improve billing cycles. However, in many instances a practice that enhances effectiveness in one organization may not be consistent with other practices or norms in another organization. Collins and Porras (1994), in their study of 18 highly successful businesses and 18 not quite so successful firms that served

as a comparison group, show that many highly successful firms do not conform to what may have been regarded as best practices at various crucial stages in their lives. Rather, they emphasize that what accounts for long-term success is consistency and alignment among core values, structure, strategy, rewards, and other practices.

Obviously we cannot claim there are no best practices for nonprofit boards or for organizational management. It is impossible to evaluate all of the potential practices that may be regarded as best practices. However, we suggest that an alternative interpretation of the purpose of best practices provides another plausible account of why best board and management practices have been promoted. For charitable nonprofit organizations, best practices can be regarded as legitimating techniques and, therefore, as a moving target. Given the great difficulty of assessing nonprofit organizational effectiveness, funders and others feel the need for some indicators of effective management. Drawing on practices used in what are regarded as well-managed business corporations, on practices advocated by "management gurus," or on practices that foundations or technical assistance providers have invented, important stakeholders (typically institutional funders) promote a (changing) set of best practices. Nonprofit organizations that keep up with this set are likely to be regarded as effective, thereby increasing their legitimacy and their chances of securing funding to afford to keep up with the changing best practices.

Of course, another key assumption of the best practices approach is that there is one best way—that it exists and can be identified. Organizational theorists have long held there is not one best way to organize (Lawrence and Lorsch 1967). We have again learned that lesson.

2. Management and board practices are not unimportant. Rather than adopt what are advocated as best practices by someone, every organization must discover and continually seek to improve its practices, consistent with its values, mission, and stakeholders' expectations. Practices are effective because of their value within the context of the organization and to the extent they work together.
3. If there is a best practice, it seems likely to us, it is regular and effective communication in a variety of ways with significant stakeholders. The critical interest is to engage in ongoing dialogue with those constituencies whose judgments of the organization's effectiveness are likely to be important to the organization. This is important to enhance the organization's leaders' understanding of stakeholders' interests and expectations and to help the organization stay abreast of how stakeholders' criteria for judging effectiveness are evolving. Constructive dialogue may enable the organization's leaders to inform and shape the expectations stakeholders will use in future judgments of effectiveness.

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Appendix A "Correct" Management Practices

For all organizations:

- Mission statement
- Use of form or instrument to measure client satisfaction
- Planning report
- List or calendar of board development activities
- Description of or form used in CEO performance appraisal
- Description of or form used in employee performance appraisal
- Report on most recent needs assessment
- Bylaws containing a statement of purpose
- Independent financial audit
- Statement of organizational effectiveness criteria, goals, or objectives
- Board manual

Additional indicators for organizations serving people with developmental disabilities:

- Description or form for measuring satisfaction of families of customers
- Description or form for measuring satisfaction of funders
- Report or form for report of incidence of illnesses or accidents of customers
- Report or form for report of incidence of customer abuse or neglect
- Reports or evaluations from inspection and regulatory bodies

Appendix B "Correct" Board Practices

- Nominating or board development committee
- Board profile
- Nominees interviewed
- Written selection criteria for board members
- Board manual
- Orientation for new members
- Written policy about attendance at board and committee meetings
- Written policy on dismissal for absenteeism
- Absenteeism policy enforced
- All board members have office or committee responsibility
- Agenda distributed prior to meetings
- Annual board retreat
- Executive committee of board
- Written policy specifying roles and powers of executive committee
- Collective board self-evaluation
- Board self-evaluation results distributed and used
- Evaluation of individual members
- Members receive feedback from individual evaluations
- Written expectations about giving and soliciting
- Board meets expectations about giving and soliciting
- Board process for CEO appraisal
- Limit on number of consecutive terms for board members
- Recognition of retiring board members
- Board uses consensus decision making (not part of board practices index): almost always, usually, sometimes, almost never
- CEO role in board nominations (not part of board practices index): CEO official member, participates fully; not official member but participates fully; not official member, provides suggestion or reactions when asked; not at all involved

Appendix C Elements in Organizational Effectiveness Questionnaire

Individuals identified as board members, top level managers, and foundation or corporate officials whose organizations funded the specific organization about which data were being collected were mailed a questionnaire that included a heading "Judgments of Effectiveness" and asked them to circle the number on a 1 (highly effective) to 5 (very ineffective) scale about each element of organizational effectiveness listed below. Each element was more thoroughly defined.

- Financial management
- Fund-raising
- Program delivery
- Public relations
- Community collaboration
- Working with volunteers
- Human resource management
- Governance relations
- Board governance

Appendix D Elements in Board Effectiveness Questionnaire

Chief executives, board members other than those sent the management practices questionnaire, and funders (we usually did not have names of individuals, only organizational names) of the nonprofit organization studies were sent questionnaires developed by the National Center for Nonprofit Boards. The questionnaire instructions mention "making judgments of the effectiveness of nonprofit boards" and ask respondents to indicate on a 1 (completely fulfills responsibility) to 5 (does not fulfill responsibility at all) scale how well the board fulfills the following responsibilities. Each is further defined in the questionnaire.

- Mission definition and review
- CEO selection and review and working relationship between board and CEO
- Program selection consistent with mission and program monitoring
- Giving and soliciting contributions
- Financial management
- Strategic planning
- New board member selection and training
- Working relationship between board and staff
- Marketing and public relations
- Conduct of board and committee meetings
- Role in risk management

Appendix E Elements in Organizational Responsiveness Questionnaire*

This brief questionnaire was included with the questionnaire about organizational effectiveness and uses a seven-alternative scale, from "a" (not at all) to "g" (entirely).

- Organization performing the way you would like it to perform
- Organization met your expectations
- Change the manner in which this organization is run (reverse scored)

*Based on an instrument developed by Anne Tsui (1984) and used with her kind permission.