

PROSPECTING FOR PRACTICAL METHODOLOGIES
TO EXAMINE LINKS BETWEEN
GOVERNING BOARDS' PERFORMANCE
AND
ORGANIZATIONAL EFFECTIVENESS

**Boards and Beyond: Understanding the Changing Realities of
Nonprofit Organizational Governance**

**The Midwest Center for Nonprofit Leadership
University of Missouri – Kansas City**

March 31 – April 1, 2005

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ABSTRACT

This paper examines difficulties in linking the performance of governing boards to organizational effectiveness. It discusses the complexities inherent to defining and measuring effective performance of either organizations or boards independently of each other, let alone drawing causal links between the two. It reviews research that has attempted to establish correlations between board and organizational performance, describes typical methodology and summarizes findings. The paper raises the concern that CEO and staff performance, perhaps the major intervening variables between board performance and organizational effectiveness, are too often ignored in such research. It also raises questions about some of the commonly used proxy measures of organizational effectiveness. It argues that boards have not commonly assessed their own performance or that of their organizations, because of a lack of time, resources, expertise and a readily applied evaluation framework. As a means to maximize the return on investment of scarce research resources, the paper offers an evaluation framework that might be more readily applied by boards and proposes that near-term research efforts focus on organizations that already conduct some form of performance evaluation.

Public trust in nonprofit organizations and their boards depends upon transparent governance structures and processes and clear accountability to stakeholders. The assessment of board and organizational performance is important to demonstrating accountability and generating public trust; not to mention its potential for informing allocation of resources. However, the establishment of causal links between effective boards and strong organizational performance is fraught with difficulties; not the least of which is the establishment of valid measures to gauge effective board and/or organizational performance.

There is a long held conventional wisdom that good governance practices are important to effective organizational performance. Increasing research evidence supports this intuitive notion although, for the most part, it suggests correlative rather than causal relationships [Bradshaw, Murray & Wolpin (1992), Green & Greisinger (1996), Herman & Renz (1998, 2000, 2002), Jackson & Holland (1998), Holland and Jackson (1998), Letts, et. al. (1999), Gill et. al. (2005)].

The problems of assessing board and organizational effectiveness are entwined with those that afflict ‘outcomes evaluation’. Rigorous evaluation may be prohibitively expensive and attempts to link project activities to subsequent consequences difficult if not impossible. What constitutes ‘good’ performance? What questions do we need to ask to determine whether a board is governing well or an organization is effective? How do we get the answers to those questions and how do we know that the information we get is reliable?

Is an outcome the result of a particular program or nonprofit activity or a “constellation of influences (e.g. economic, political, environmental, demographic, public policies, external programs, private-sector activities, cultural norms) that are far beyond the influence of any individual program or agency?” (Plantz, et.al. 1996) Are there similar programs with which valid comparisons can be made? Are there material differences between those organizations (e.g. mission, target population, geographic location, staffing, service methodology, funding level)

that must be considered in assessing impact? What's the relationship between program effectiveness and organizational effectiveness? What about agencies with multiple programs where goal achievement may vary from one program to another?

Carman and Millesen (2004:10) reported that 28% of 305 organizations responding to their survey indicated that they made a concerted effort to conduct formal program evaluations and an additional 28% did some program evaluation. Only 18% reported that they went out of their way to evaluate programs and organizational activities. They concluded that organizations "are struggling with evaluation... *and that* "the problem is one of evaluation capacity and not having enough resources to acquire or develop trained staff that have the time and expertise to design, conduct, and maintain an evaluation system that is well-suited to the types of services that the organization provides." (pp.19-20)

Similar problems were reported by Hall, et. al. (2003:xi) in a survey of 1965 Canadian voluntary sector organizations and 355 funders. However, a somewhat surprising three quarters of organizations "reported that they'd done some evaluation in the previous year... Less than half of funders reported providing funding for evaluation...or making effective use of evaluation information." (p.ix)

Evaluation of Board and Organizational Performance

"To evaluate the effectiveness of an organization (or program), it is necessary to have a clear idea of (1) its ultimate goals, (2) the means being used to achieve those goals, and (3) the causal links between means and ends." (Murray and Tassie, 1994:305)

Evaluation of organizational or program performance may be described generally "as an attempt to answer questions in four basic areas:

1. *Aim* – Is the organization or program doing the right thing; that is, tackling the right problem? This is generally a subjective judgment in which those with the greatest power will make the ultimate determination about what is right and what will be measured.
2. *Economy* – Does the organization or program make use of its resources in the most economical (least wasteful) manner possible? This is an input measure.
3. *Effectiveness* – Is the organization or program effective (successful) in achieving the outputs it intends to generate or outcomes (benefits) it desires? This is a measure of intended products and benefits.
4. *Efficiency* – Is the organization or program efficient? That is, does it get the best possible value for money, or outcome for the resources available? Does it achieve the best possible balance between expenditures and outputs or outcomes? This is a ratio of inputs to outputs (cost per unit of service or goods produced); or a ratio of inputs to benefit (to the intended client or consumer). Calculating the latter would be an onerous, if not insurmountable, challenge for any nonprofit." (Gill, 2005:140)

Outcomes evaluation involves the collection, documentation and analysis of information that will permit a description of "what benefit has been created for who at what cost" (Carver, 1990:35) by a particular project or initiative and how this relates to the purpose and goals of the

organizational sponsor(s). Outcomes evaluation is essential to accountability. Accountability may be defined as “Shared expectations about conduct and performance, a shared language in which fulfillment of those expectations will be described, shared criteria defined (*in that shared language*) as to what constitutes fulfillment, and a means of communicating (*results*).” (Cutt and Murray, 2000:5)

“Outcomes evaluation serves accountability...managing organizations, programs and projects to achieve desired purposes and performance. Evaluation of the outcomes of organizational efforts can be both tricky and costly. ‘Outcomes’ are often difficult to define and assess in nonprofits as opposed to business enterprises where bottom-line profit/loss, return on investment, share value and price/earnings ratios are more readily measured. Attempts to link project activities to subsequent consequences may be difficult if not impossible. It is, in other words, difficult to establish a cause and effect relationship between the input/activity expenditure and the actual output products /outcome benefits.” (Gill, et. al. 2005)

Indicators of input efficiency and output (throughput) are more readily measured than outcomes, which are the real measure of organizational performance and community benefit. Some programs (e.g. health promotion, community development, public education, advocacy and capacity building) face special challenges in measuring outcomes.

“It is also important to distinguish between evaluation of the effectiveness of a single project or program and the overall performance of an organization. It is arguably easier to assess the effectiveness of single programs or projects since they may have more concrete objectives, the achievement of which is more readily assessed. The overall effectiveness of an organization cannot readily be measured by summing the results of evaluations on multiple programs operated by it.” (Gill, et. al. 2005)

Outcomes evaluation for nonprofit and public sector organizations is still in the early stages of theoretical and methodological development. “There are many things outcome measurement does not do. It does not:

- Eliminate the need to monitor resources, activities, and outputs;
- Tell a program whether it is measuring the right outcomes;
- Explain why a program achieved a particular level of outcome;
- Prove that the program caused the observed outcomes;
- Show, by itself, what to do to improve the outcome; or,
- Answer the judgment question of whether this is an outcome in which resources should be invested.” (Plantz, et. al., 1997:9)

Another cautionary note about outcomes assessment comes from Campbell (2002) who concludes that evaluation standards or benchmarks are “the products of inherently subjective, fragile, and highly political processes” and that funding decisions are more often based on relationships; “personal and organizational credibility based on track record, comfort and familiarity”. (p.256) This caution is overlaid on an earlier observation by Murray and Tassie (1994:309) that “those with the most power will impose their beliefs about what ends and means are important and how they should be measured.”

Commonly used Performance Measures

Proxy, rather than direct, measures of board and organizational effectiveness have typically been used in research studies. Board and organizational reputation, agency capacity to raise funds, and the absence of repeated financial deficits are examples of such proxy measures. Assessments of board effectiveness have relied heavily on self-assessment by board members and CEOs. With few exceptions (e.g. Jackson and Holland, 1998; Gill, et. al., 2005) there has been little effort to establish the validity and reliability of the instruments used as measures of board effectiveness.

Bradshaw, Murray and Wolpin (1992) identified three types of ‘objective’ measures of organizational effectiveness: input effectiveness (success in obtaining essential resources), throughput effectiveness (efficiency in use of resources, or cost of production) and output or outcome effectiveness (success in product or goal attainment).

Cutt and Murray (2000), in a comprehensive treatment of the complexities of nonprofit effectiveness evaluation, identified “two basic kinds of evaluation standards: absolute standards and relative standards” (p.33). Absolute standards are sufficiently concrete to allow assessment of how well an organization has achieved specified goals. Relative standards (benchmarks) allow comparison of an organization’s achievements to results achieved by other organizations in a similar field or to its own past performance. However, such evaluations are often expensive and beyond the capacity of current information systems.

Structural measures of board effectiveness have included formalization of board structure, including clarity of roles, rules and policies. *Process measures* have included dynamics such as common vision; CEO leadership; board engagement in strategic planning; good meeting management; low level of conflict (within the board and between board and staff); dedication to the organization (measured by active involvement); program monitoring; financial planning and control; board development; and, constructive board involvement in dispute resolution.

Measures of *organizational effectiveness* used in research have included effectiveness in carrying out mission (goal attainment); reputation of the board (capacity to attract credible board members) and organization; increases in annual budget (capacity to secure adequate funds as a measure of resource sufficiency); low deficit to budget ratios; and, results of accreditation surveys.

Review of Some Empirical Research

Bradshaw, Murray and Wolpin (1992:232), in a survey of CEOs from some 400 Canadian nonprofit organizations, used 2 measures of board performance (respondent satisfaction with overall board performance, and a weighted index of ratings on performance on seven of its most important functions) and 4 measures of organizational effectiveness; two subjective (mission effectiveness and reputation) and two objective (growth in budget and ratio of deficit to budget over three years). They found significant correlations between 13 ‘board process’ characteristics and at least one organizational effectiveness measure. The strongest board predictors of organizational performance were board engagement in strategic planning, a CEO-led common

vision, good meeting management, a pro-change core group, and low levels of internal conflict. They also found significant correlations between these characteristics and the formalization of board structure.

Green and Griesinger (1996) used a “goal attainment” model to assess organizational effectiveness and a “decision process” approach to assess board performance in 16 organizations serving developmentally disabled adults. They examined 33 activities in 9 areas of board responsibility by means of questionnaires and interviews with board members and CEOs. Organizational effectiveness was evaluated in terms of ratings by external evaluators and the results of accreditation surveys. Certain board activities predicted organizational effectiveness; especially policy formation, strategic planning, program monitoring, financial planning and control, resource development, board development and dispute resolution. They also found that CEO ratings of board performance were more strongly correlated with organizational effectiveness than were board ratings.

Jackson and Holland (1998) gathered responses from 623 trustees of 34 nonprofit organizations. They found significant correlations between organizational financial performance and board scores on the 6 competencies (contextual, educational, interpersonal, analytical, political and strategic) measured in their Board Self-Assessment Questionnaire (BSAQ). The competencies were based on practices that had previously been identified by a panel of experts on board development as either very effective or very ineffective.

Siciliano (1997) found that use of formal planning processes correlated with higher performance on certain financial and organizational performance measures, regardless of organizational size. Stone, Bigelow, and Crittenden (1999), in a comprehensive review of empirical journal articles on strategic management in nonprofits, similarly found that the use of formal planning processes was associated with greater board and organizational effectiveness. Moreover, board involvement in strategic planning was related to attainment of the social mission of the nonprofit organization.

Herman, Renz, and Heimovics (1997) and Herman and Renz (1997, 1998, 2000, 2002) found that highly effective organizations had more effective boards, as assessed by a range of stakeholder groups. Also, more effective boards were found to use a larger number of recommended board practices. Among the practices they identified as indicators of effectiveness were a mission statement, a recent needs assessment, a planning document, a measurement of client satisfaction, a formal CEO and employee appraisal process, an independent financial audit, and a statement of organizational effectiveness criteria. Much of the research on organizational effectiveness has included subjective assessments by different stakeholders or stakeholder groups, who often draw significantly different conclusions about an organization’s effectiveness based on their own criteria and personal experience.

A simple scale adapted by Herman and Renz (2002:13) from an instrument developed by Anne Tsui (1984) was used, along with other measures, to obtain independent ratings of organizational responsiveness. It asked respondents to indicate on a seven-point scale whether the organization (1) was performing the way they would like, (2) met their expectations, and (3) should be changed in the way it is run. This subjective assessment of organizational responsiveness was the

one scale/variable in that study that consistently correlated highly with judgments of organizational effectiveness and showed high correlations between the ratings of different stakeholder groups. The second item in this scale might be changed to “met their ‘needs’” rather than ‘expectations’ to focus more specifically on benefits when administered to consumers of the service.

Nobbie and Brudney (2003) reported some moderately significant associations between organizational effectiveness (as evaluated in terms of 5 dimensions: goal achievement, financial ratios, resource acquisition, internal processes and CEO job satisfaction) and the adoption of governance practices recommended by the Policy Governance model (Carver, 1990) or by the National Center for Nonprofit Boards (NCNB, 1999).

“The Governance Self-Assessment Checklist (GSAC) (Gill, et. al. 2005) completed by 281 board members and 31 CEOs of 32 nonprofits showed a high degree of correlation between board performance (*as measured by 144 items examining board structure; board culture; practices related to six dimensions of board responsibility; and, board development, management and decision-making*) and organizational effectiveness as rated by the board, CEO and external observers on measures independent of the GSAC. Independent indicators of *board effectiveness* were subjective assessments (social constructions) of overall effectiveness, board member comfort in asking challenging questions and level of board preparedness for meetings. Objective measures were board attendance, board and CEO turnover. *Organizational effectiveness* measures were subjective assessments of achievement of objectives, attracting reputable community leaders as board members; acquiring adequate financial resources; attracting volunteers for relevant activities; fulfilling stakeholders’ expectations; having high standards of professionalism and accountability; communicating well with stakeholders and the community; adapting to changing needs; benefiting the community; and overall effectiveness.”

General Conclusions from Research

These studies, in general, suggest that higher performing boards are more likely to have a high degree of involvement in strategic planning and setting the organization’s direction; a focus on needs of clients or consumers; a positive relationship with key stakeholders; a high degree of key stakeholder agreement on mission and values; a focus on results; a process for monitoring achievement of objectives; competent board and staff leadership; sufficient independence from management to make objective decisions based on sound information systematically gathered; effective use of resources; financial stability; clear lines of accountability; an organizational culture that encourages good teamwork, respect for organizational norms, values staff and encourages excellence; a commitment to board development and self-evaluation; a good balance between stability and flexible, innovative and adaptive responses to environmental changes; and, perceived legitimacy and credibility.

Herman and Renz (2002), based on a review of the literature including their own research, offer nine conclusions related to the assessment of board performance and its relationship to effectiveness of nonprofit organizations. These are:

1. “Nonprofit organizational effectiveness is always a matter of comparison (to others in a similar business, to past performance or to some ideal model).
2. It is multi-dimensional.
3. Boards of directors (*can*) make a difference in the effectiveness of nonprofit organizations, but how they do so is not clear.
4. Nonprofit organizational effectiveness is a social construction.
5. The more effective NPOs are more likely to use correct management (*and governance*) practices.
6. Claims about ‘best practices’ for nonprofit boards and for the management of NPOs warrant critical evaluation.
7. A measure of NPO effectiveness that emphasizes responsiveness may offer a solution to the problem of differing judgments of effectiveness by different stakeholder groups.
8. It can be important to distinguish between different ‘types’ of NPOs (*and boards*) in order to make progress in understanding the tactics, practices and strategies that may lead to NPO effectiveness.
9. NPOs increasingly operate as part of networks of service delivery. Therefore, network effectiveness is becoming as important to study as organizational effectiveness.”

Organizational Effectiveness Assessment Models

The United Way of America (1996) Program Outcome Model is a logic model for planning and evaluation of individual programs rather than overall organizational effectiveness. It follows a logical flow from inputs through activities, outputs and outcomes and stresses the importance of identifying direct constraints and other contextual influences on achievement of planned outputs and desired outcomes. It is a rigorous, time-consuming and staff intensive process, the implementation of which requires determination and deep commitment from organizational leadership. It is not deeply anchored in a problem/need identification process (Gill 2005:142-145) or the organizational mission statement as proposed in Kaplan (2001:361) for the Balanced Scorecard.

The Balanced Scorecard (Kaplan and Norton, 1996; Kaplan, 2001) is used by business, public and nonprofit sector corporations to assess organizational performance from four perspectives: Learning and Innovation, Internal Processes, Customer Satisfaction, and Financial. It grew out of the dissatisfaction of private sector companies with simple reliance on traditional financial-oriented measures of corporate performance. It assists in aligning corporate activities and intended outcomes with the organizational mission. Speckbacher (2003) concludes that the Balanced Scorecard may be the most appropriate tool for effectiveness evaluation in nonprofits.

Sawhill and Williamson (2001) developed a model for measuring mission success for the Nature Conservancy. The model was built on a family of measures “divided into three broad areas: *impact, activity, and capacity*...best expressed as a set of questions: i. Are we making progress toward fulfilling our mission and meeting our goals? ii. Are our activities achieving our programmatic objectives and implementing our strategies? and, iii. Do we have the resources – the capacity – to achieve our goals? (p.372) The basic framework of the ‘Family of Measures Model’ was aligned on a continuum of Mission > Vision > Goals > Strategies > Programs, and evaluated for Impact, Capacity and Activity.

Sowa, Selden and Sandforth (2004) proposed a multidimensional integrated model of nonprofit organizational effectiveness (MINOE) as a framework for assessing organizational performance. Their model proposes measurement of effectiveness on two dimensions: management (systems and activities) and program (specific services or interventions), with assessment of both capacity and outcomes in each of the two dimensions. “*Capacity* refers to how the organization or program operates, the structures in place, and the operating processes that dictate and direct employee activity. *Outcomes* are the results produced by management and program activities.” (p.715)

They contend, “that both objective and perceptual measures are needed to fully capture the dimensions of effectiveness.” (p.716) The following table outlines the indicators suggested for the MINOE framework.

Table 1 – MINOE Dimensions and Indicators

Dimension	Management	Management	Program	Program
Indicator	Capacity	Outcomes	Capacity	Outcomes
Objective Indicators	Formal structures, systems & processes	Financial health; Employee satisfaction measured by e.g. turnover	Resources, Technologies, Practice/service standards	Goal attainment, Quantitative measures, Service outcomes,
Perceptual Indicators	Management & employee perceptions of how well these are utilized or applied	Management reports on financial well-being; Employee assessment of satisfaction & motivation	Staff perceptions of interrelationship between elements of capacity, integrity of application & resource adequacy	Consumer satisfaction tempered by understanding of program and degree to which it suits their own needs

They advocate use of a multilevel structural equation model (SEM) for analyzing the complex intra- and inter-group variables that may directly or indirectly affect outcomes. Using a model such as this in esoteric research may be of academic interest but may have less appeal to nonprofit managers and practitioners whose most important chronic challenge may well be acquisition of adequate resources to ‘cover the basics’. Furthermore, the MINOE framework pays scant attention to the critical difference between organizational or program ‘outputs’ as opposed to ‘outcomes’, the latter often being nigh unto impossible to measure, as noted earlier.

Simpler and more subjective approaches to gauging organizational effectiveness have more typically been used by funders. These include assessing the demand for and use of an organization’s services (member or client enrollment and participation); demand for services; public visibility; references to the importance of their projects or their organization; reputation in the public and key constituencies; clarity of objectives; past track record; and positive

relationships between funders and the organization. While this method is prone to subjective interpretation and political nuance it is far less expensive an undertaking than the more rigorous approach normally associated with performance evaluation.

Past experience suggests that the latter approach is likely to continue to predominate in a milieu in which politics often trumps logic and rationality in decisions about funding and allocations. Nevertheless, those organizations that have adopted more robust organizational effectiveness evaluation processes may gain a competitive edge in the pursuit of scarce resources, over those that have not.

Assessing some commonly used Organizational Effectiveness Measures

A number of measures of organizational effectiveness commonly used in nonprofit research studies bear some scrutiny as to whether they actually measure organizational effectiveness as correlates of board performance. Nobbie and Brudney (2003:575) identified the five most commonly used frameworks for measuring organizational effectiveness as goal achievement, financial viability and resource acquisition, internal processes, CEO job satisfaction and CEO effectiveness. Problems inherent to some of these measures are discussed here.

Goal Attainment

This may be the most reliable measure of organizational effectiveness. However, it also has its limitations. Organizations may set goals and objectives at a level at which they have reasonable expectations of achievement. Outside raters may be insufficiently familiar with the explicit goals or whether they have been achieved. In fact, this was one of the measures that outside observers were frequently unable to rate in the scale reported by Gill, et. al. (2005). Nevertheless, there may be no better alternative for judging organizational effectiveness. It is, however, important to make a clear distinction between outputs and outcomes when using this measure.

Financial Viability and Resource Acquisition.

Bradshaw, et. al. (1992:233) used ‘percentage change (growth) in the annual budget’ and ‘size of any deficit incurred’ over the past three years to gauge organizational effectiveness. They found “no significant relationship between the ability to obtain budget increases and the ability to avoid deficits; that common vision is negatively associated with budget growth”; that certain negative board characteristics are associated with big budget deficits; and that “boards that engage in more strategic planning have smaller deficits.” (p.242-3)

Nobbie and Brudney (2003) used annual ‘revenue to expenditure ratios’ (a measure of surplus or deficit) to examine whether adoption of the policy governance model or practices recommended by the National Center for Nonprofit Boards would improve their performance on these ratios over a five-year period. No significant differences were found between the first and second time periods. This suggests that board performance has no significant impact on this particular measure of organizational effectiveness.

Ritchie and Kolodinsky (2003) identified 16 potential financial performance measurement ratios in 4 categories (fiscal performance, fundraising efficiency, public support and investment

performance and concentration) that might be reasonably accessible as organizational effectiveness measures in university fundraising foundations. They found that fiscal efficiency, public support and fiscal performance could be gauged by two measures in each category. While their analysis pertained more specifically to fundraising operations, they generally reinforce my own perspective as a former agency CEO (practitioner) that the ratios noted below are the most important measures for assessing financial performance.

Three measures of financial performance should be readily available for any nonprofit: 1) the ratio of administrative expenses to overall expenditures; 2) the annual surplus or deficit as a percentage of annual expenditures; and, 3) the cumulative surplus or deficit as a percentage of the annual budget. Most sectors have some generally accepted standard for the proportion of total expenses that are consumed by administrative overheads. These typically range from 7 to 20 percent in service delivery agencies. For example, Revenue Canada guidelines for charities assert that no more than 20 percent of receipted fundraising revenues should be allocated to fundraising costs. Comparisons to other agencies and to past performance would provide some indication of relative efficiency.

Whether a deficit is planned and manageable seems as important as the actual level of a deficit, provided that there is a longer-term strategy to recover from such deficit. The ratio of cumulative deficit to the annual operating budget may be a better indicator of this. Some agencies, in my experience, purposely generate deficits to ‘expand their funding envelope’, sometimes with the tacit blessing of funders, governments in particular. The ‘manageability’ of a deficit will be determined by the credit limitations on the agency and the prospects for recovery of deficit-funded expenditures.

The adequacy of resources is pretty much a subjective judgment, except in nonprofits that may have a statutory mandate with an uncontrollable demand (e.g. hospitals and child welfare agencies). In such cases, annual deficits may be more a matter of funding inadequacy than organizational ineffectiveness per se.

Growth in budget, may be a dubious measure of organizational effectiveness in times of funding constraints imposed from external sources. In fact, some of the most effective organizations studied by Gill (2001) were those that had sufficient resilience to adapt to such funding constraints and to reposition their mandate and operations as leaner, more viable and efficient organizations, less reliant on core government funding.

CEO job satisfaction.

“Inconsistent correlations between the GSAC and the executive directors’ perception of board support for their management of the organization (such support would presumably contribute to an executive director’s job satisfaction) should give pause to the use (e.g., by Nobbie and Brudney, 2002) of CEO job satisfaction as a criterion of either board or organizational effectiveness. In fact, CEO job satisfaction may be a correlate of boards that are either clear in their expectations of management or simply ‘allow managers to manage’. The former may be construed as a measure of board competence, while the latter may suggest abdication of responsibility for direction and oversight.” (Gill, et. al. 2005)

CEO effectiveness.

Nobbie and Brudney (2003:585) hypothesized (based on the Carver contention that CEO and organizational performance were one and the same...a contention not without detractors) that high board effectiveness in implementing policy governance behaviors would correlate with high ratings of the CEO by board chairs. They asked board chairs to rate CEOs “in terms of their ability to work toward the goals of the organization without violating the organization’s policies”. While the correlations were in the right direction, they were not statistically significant. This measure was perhaps not sufficiently robust or multidimensional and suffered from sole-source influence.

Missing Investigative Links – Executive Leadership and Staff Performance

Experienced board members and executives, whether in the voluntary, public or private sector, know that it is the CEO who steers the organization to achievement of its goals, drives implementation, and makes sure that ‘things get done’. Yet executive leadership, as a major variable intervening between board performance and organizational effectiveness, has been too often overlooked in recent research on organizational effectiveness. The dearth of attention to this is troubling given the central role of executive leadership demonstrated by earlier research by Heimovics, Herman and Jurkiewicz, (1995).

They concluded that preoccupation with the board’s role in organizational outcomes underestimates “the critical role and actions of the chief executive...who is expected to influence, and even control, the events (*even those external to the organization*) that determine the success or failure of the nonprofit organization” and who receives both censure for failures and credit for successes. They referred to this as “the ‘psychological centrality’ of the chief executive in a hierarchy of responsibility for organizational outcomes.” (p.235) In fact, it is more than ‘psychological centrality’. It flows from practical responsibility for the implementation role and accountability for ‘getting the job done’.

They examined the espoused leadership theories and practical actions of executives deemed to be especially effective and a comparison group of executives deemed not to be ‘especially effective’ through four ‘frames’ or lenses’: structural, human resources, symbolic and political. They found that 70 percent of critical events identified by either group “occurred in the external environments of their organizations” (p.235) and that the effective executives were more likely than the comparison group to espouse “the importance of rationality and the value of structures” (p.243) but also significantly more likely to act with political acuity and artfulness in spanning organizational boundaries. (p.244)

It is also self-evident that the actual ‘work’ of the organization, whether performed by staff of large organizations or members of operational boards, is likely to have a greater impact on program and organizational outputs and outcomes than the management of that work or the governance of larger organizations. The inertia or momentum in well-established, mature organizations often allows staff to carry out the work, at least in the short term, despite shortcomings in management or governance. Hence, staff performance may be an even more

essential element to evaluate in relationship to organizational effectiveness than CEO or board performance.

Reviewing the Essential Functions of the Board

“The board of directors is the embodiment of a legally constituted corporate entity that:

- Has a separate legal personality under the law;
- Can be held accountable under the law for the performance and actions of the organization;
- Carries the share/stakeholders (owners, members, electors, investors) and public trust and accountability on behalf of the organization it governs;
- Represents the interests of share/stakeholders and the public to the organization, and vice versa;
- Sets or approves the general direction and financing of the organization;
- Can protect the directors from personal liability for certain actions of the corporation;
- Develops or safeguards the organization’s mission;
- Selects, supports, evaluates and, if necessary, terminates the senior manager;
- Provides advice to management;
- Provides an ‘institutionalized’ accountability structure for management;
- Guards against self-serving conduct by the CEO; and
- Serves as an organizational ‘safety net’ for management of critical events or transitional.”
(Gill, 2005:20-21)

The added value that the board brought to one of the largest nonprofit social services agencies in Canada, in my 12 years experience as its CEO, fell generally within these parameters. The board’s legitimacy and credibility grew with the credibility of its individual members drawn from major stakeholder groups. It partnered, but did not lead, the evolution of organizational mission, strategic and operational plans. It added credibility to these plans, within the stakeholder groups, the general public and the media; but it did not have the specialized knowledge (nor time) to develop those plans independent of management and staff. The board’s credibility, as an accountable body of responsible citizens, assisted in securing and substantially expanding both operational and capital resources.

It played an effective role (complementary to that of the CEO) mediating between the organization and the media during certain highly public and controversial cases. The board also played a critical mediating role with funders and other community agencies defending the organization against proposed restructuring of children’s services that would have resulted in significant reallocation of its resources to other community agencies. While the board created an ‘umbrella of respectability and credibility’ that allowed management and staff to carry out their work, it would be a huge stretch to draw causal relationships between board activities and either management or staff outputs or client outcomes. Its role could be described as enabling and empowering in this regard. A less competent board might, at other times, be equally ‘disabling’.

Anecdotal reports (or storytelling) such as this may be as legitimate a gauge of board effectiveness as board self-reports or other measures that have been used by researchers. Such reports certainly merit consideration in future research as one measure of board effectiveness.

A Culture of Performance Measurement and Common Language

Nurturance of nonprofit organizational cultures committed to organizational performance evaluation, as a means of improving service delivery, is important to advancing and affording research in this area. An important step in this direction would be a common understanding and consistent use of terminology related to performance measurement and organizational effectiveness evaluation.

The following definitions are offered for consideration by boards, managers, evaluators and researchers:

“Problem/needs definition is the foundation upon which an organization’s mission and goals are built and from which project/program objectives are derived. *Mission* is the organization’s reason for existence...how it will improve on the current reality or state...*Goals* state the general purposes of the organization...*Objectives* are more specific statements about desired outputs and outcomes...

Inputs are the resources used by a program to carry out the activities necessary to achieve the program objectives; the raw materials of the production process...*Activities* are the work and (production) processes necessary to achieve the project objectives...its outputs and outcomes; everything that is done to transform the raw materials into the final product...

Outputs are the direct products of activities as they may be viewed from the perspective of the ‘producers’ or sponsors of the program or project as the ‘finished products’...*Outcomes* may be viewed as benefits for stakeholders or recipients of the program or project as they might be viewed from the perspective of the ‘beneficiary’ as a direct or indirect consequence of the output...

Constraints are limitations on activities, outputs and outcomes imposed by: laws; regulations; funder priorities and requirements; available financial and human resources; access to decision-makers and the levers of power; competing interests; and, similar internal and external influences over which the project sponsor has little or no control.

Indicators are measures (qualitative or quantitative) of the achievement of an intended or planned output or outcome...The basic question that determines whether a causal relationship exists between an activity and an output (or between an output and an outcome) is: Would this outcome have been produced in the absence of that particular activity, project or output?” (See Gill, 2005:142-147 for more detailed definitions, and 116-118 for an outline of a more comprehensive planning and evaluation logic model.)

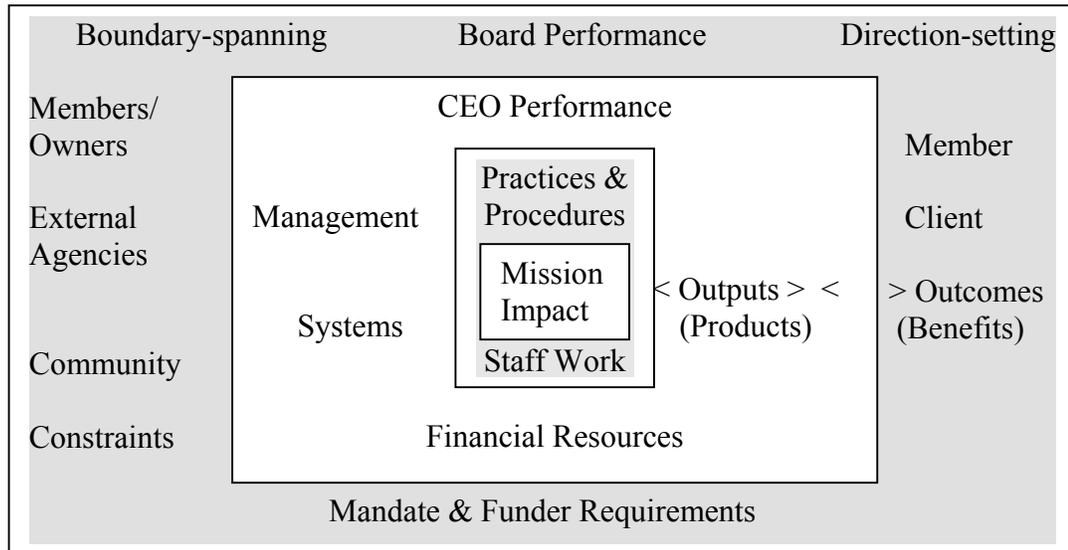
Measuring What Can Be Measured

“An organization’s performance can be assessed against its own past performance, the performance of other organizations in the same business or against established standards or benchmarks for a service. Accreditation programs or more specific ‘industry’ standards may establish preferred ratios for inputs (e.g. staff/client or time/task), outputs (services delivered,

operations completed) or outcomes (rehabilitation rates, educational achievement).” (Gill, et. al. 2005)

A comprehensive framework for examining links between board and organizational performance might look something like that suggested in the following logic model and descriptions.

Figure 1 – Effectiveness Evaluation Logic Model



Evaluation of effectiveness using this logic model would require an analysis of several distinct but inter-related dimensions that would allow assessment of the inter-dimensional correlations. It is important for organizations to begin to build their data collection and information management systems based on such a model, starting with what they currently have and building toward greater capacity over time. Some of the measures and indicators that might be used to make assessments in each of these dimensions are described here.

Mission Impact

- Documentary evidence of planned vis a vis actual outputs.
- Documentary evidence of planned vis a vis actual outcomes, where such are ascertainable.
- Organizational responsiveness scale (Herman and Renz , 2002:13; Tsui, 1984) adapted to query ‘needs’ met, rather than ‘expectations’ met for ratings by consumers (members, clients, customers) and agencies sending or receiving referrals to/from the organization. This may be used for the organization as a whole or for individual programs.

Internal Practices and Procedures

- Evidence of formal guidelines and prescribed practice standards.
- Compliance audits on these.
- Accreditation reports.

Management Systems

- Documentary evidence of established information systems adequate to inform planning and control; use of contemporary technologies; human resources policies; financial management policies and systems based on GAAP; risk management procedures; communications policies.
- Sufficiency assessments and compliance audits on these.
- Accreditation reports.

Financial Performance and Condition (Perceptual and Objective)

- Perceptual rating by board, management, staff and funders on whether the organization has sufficient resources to conduct its operations in pursuit of its goals without undue risk to staff, volunteers and consumers.
- Ratio of administrative expenses to overall expenditures.
- Unit costs per activity and output.
- Annual surplus or deficit as a percentage of annual expenditures.
- Cumulative debt as a percentage of the annual budget (analogous to debt/Gross Domestic Product ratio for a government).
- Cumulative reserves as a percentage of the annual budget.
- Variance between actual and planned annual revenues.
- Variance between actual and planned annual expenditures.
- Return on investments (particularly for foundations).
- Periodic trend analysis on these measures.
- Comparison with other similar organizations.

CEO Performance (Objective and subjective)

- Self-assessment on achievement of performance objectives factoring in contextual constraints.
- Board or executive committee members' (not just Chair's) ratings based on objective performance measures factoring in contextual constraints.
- Perceptual ratings of CEO leadership by board, CEO and 'direct reporting' subordinates based on factors such as: visioning, listening, consensus-building, negotiating, conflict-resolution and delegation skills as well as interpersonal respect, clarity of direction and communications, creativity, fairness and trustworthiness.

Board Performance

- Board attendance (proxy measure of engagement), rate of board turnover or attrition (proxy measure of level of conflict and/or degree of board influence), and frequency of CEO turnover (proxy measure of level of board or board/CEO conflict). (Gill, et.al. 2005)
- Self-assessment with one or more research-validated assessment instruments linking board performance to organizational effectiveness.
- CEO assessment with the same instrument.
- Funder/donor ratings of board credibility, capacity to attract reputable community leaders as board members; transparency; accountability; communication with stakeholders and the community; and, adapting to changing needs.

Prospecting for Practical Methodologies

- Other stakeholders' ratings on these measures.
- Anecdotal reports on what 'added value' the board has brought to the organization.

Constraints

There are often constraints on effectiveness that are beyond the control of the organization's board, management or staff. Funding restrictions; staff work stoppages; substantial board, management or staff turnover; environmental calamities; and major public controversies are examples of these. These should be factored into assessments in each of these dimensions, at least in anecdotal fashion.

Practical Methodologies to Link Board Performance to Organizational Effectiveness

Since effectiveness research is complex and expensive it seems wise, in the quest to examine links between board and organizational effectiveness, to seek sectors and organizations that have better developed performance measures based on established professional and practice standards. Nonprofits that subscribe to one of the established accreditation programs or already conduct regular outcomes evaluation using a framework such as that developed by the United Way of America may be a fertile source for future research in this area. However, it may also be fruitful to extend such research beyond the realm of traditional nonprofits into less traditional nonprofit and public sector organizations.

Many hospitals, for example, have undertaken 'Balanced Scorecard' reporting on four dimensions of hospital performance: patient care, patient satisfaction, finances, and keeping up with change. Similarly, many nonprofit child welfare agencies have regulated or policy-directed process standards that invite evaluation of organizational performance. This is in addition to performance results reported in regular accreditation surveys. Police services regularly report on complaints, investigations, crime rates, charge clearance and conviction rates, financial ratios and numerous other indicators. These may be fruitful fields to harvest in pursuit of more sophisticated approaches to assessing board performance and its relationship to organizational effectiveness.

The Balanced Scorecard can be used to focus planning and evaluation efforts in conjunction with a logical planning and evaluation framework and adapted to unique organizational contexts. Ontario Hospitals have adapted it for use in an annual evaluation of their performance. (Hospitals Report, 2004) Activities and outcomes are assessed in the areas of Financial Performance and Condition, Clinical Utilization and Outcomes, System Integration and Change, and Patient Satisfaction.

Financial Performance and Condition describes how hospitals manage their financial and human resources. It is concerned with a hospital's financial health, efficiency, management practices, and human resource allocations. *Clinical Utilization and Outcomes* deals with clinical performance with reference to access, clinical efficiency, and quality of care. *System Integration and Change* examines patients' perceptions of their hospital experience, including perceptions of overall quality of care, and unit-based care. *Patient Satisfaction* tests a hospital's ability to adapt to its changing health care environment, how clinical information technologies, work processes,

and hospital and community relationships function within the hospital system. Eight to twelve indicators are assessed in each of these four ‘quadrants’ of the Scorecard.

Many nonprofit child welfare agencies have established professional service standards for abuse investigations, family support and childcare. Several across Canada have begun use of the well-tested and researched “Looking After Children’ (OACAS) instrument to assess progress of children in care. Annual audits of Children’s Aid Societies in Ontario examine care of crown wards on a number of dimensions. A separate audit reviews compliance with investigative and care standards related to responsiveness, documentation and supervision of children in care as well as those in their parental homes.

Police services are becoming increasingly sophisticated in measurement and reporting on their performance. There is general recognition that, as with hospitals using the Balanced Scorecard, organizational effectiveness is multi-dimensional. Simplistic traditional performance measures such as crime clearance rates simply won’t do. Among the many factors that need to be considered are call volumes; crime rates; charge and arrest rates; clearance rates; fear of crime/victimization and perceptions of safety; public complaints; and workforce and community satisfaction. And all these need to be considered in the context of numerous community socio-economic and demographic factors as well as police responsiveness, which can encourage or discourage reports and complaints.

Conclusion

While there may be increasing consensus and research evidence to support recommended practices as characteristic of effective governing boards, the research does not answer the fundamental question: Are these practices instrumental to effective organizational performance, or incidental to the selection and support of a competent CEO? Are governing boards important at the margins or at the core of an organization? Is there a greater relationship between management (or staff) competence and organizational effectiveness than between board competence and organizational effectiveness? There is a continuing need to search for answers to these questions as well as for more objective measures of effective organizational performance.

There is an additional challenge for researchers not addressed earlier in this paper. Much of the research cited here has been conducted on larger organizations with CEOs. The vast majority of nonprofits is smaller and has limited resources and capacity to support this type of research. Many of these have few, if any, staff resources and may not have a CEO. In such cases (for example operational, collective, management and fundraising boards) board members are necessarily more directly engaged in organizational activities that produce outputs and influence outcomes. Hence there may be a more direct link between performance of board members, operating in management or staff capacities, and organizational effectiveness. The challenge is to include this group of smaller nonprofits in future research to examine whether more causality can be established between board performance and organizational effectiveness.

It is in the interests of efficient use of public resources that investments in evaluation of board and organizational performance research to strive for the highest possible return on investment. Organizations and sectors that already have developed some performance measurement

programs based on established professional or practice standards may produce the best value in future attempts to examine the relationship between board performance and the effectiveness of the organizations entrusted to them. Nonprofits that subscribe to one of the established accreditation programs or already conduct regular outcomes evaluation using a framework such as that developed by the United Way of America or the Balanced Scorecard may be a fertile source for future research in this area.

However, it may also be fruitful to extend such research beyond the realm of traditional nonprofits into less traditional nonprofit and public sector organizations with a statutory mandate and more advanced organizational performance measures such as hospitals, child welfare agencies and police services. Greater standardization in the evaluation methodology using validated instruments to assess board performance and consistent use of common frameworks and measures to assess organizational performance would allow for more valid comparison of results across studies.

Simpler and more subjective approaches to gauging organizational effectiveness have more typically been used by funders. These include assessing the demand for and use of an organization's services (member or client enrollment and participation); demand for services; public visibility; references to the importance of their projects or their organization; reputation in the public and key constituencies; clarity of objectives; past track record; and positive relationships between funders and the organization. While this method is prone to subjective interpretation and political nuance it is far less expensive an undertaking than the more rigorous approach normally associated with performance evaluation.

At the same time it is important to nurture development of a nonprofit and public sector organizational culture committed to performance measurement. There is good reason to believe that the adoption of a logical framework for planning and evaluation imposes valuable discipline to these activities. Nevertheless, nonprofits are well advised to keep effectiveness evaluation practical and use formal evaluative frameworks, where affordable, and use these to complement more subjective approaches traditionally used by funders and other key stakeholders.

A quick review of the framework offered in this paper supports the view that rigorous multi-dimensional analysis of board and organizational effectiveness is complex, time consuming, expensive and that causal relationships will continue to elude. Nevertheless, researchers will justifiably continue to 'chase the pot of gold at the end of the rainbow' and strive to advance the science, or at least the artfulness of the science.

Several recommendations emanate from the overview of board and organizational provided in this paper.

1. Organizations embarking on effectiveness evaluation (board or organizational) are admonished to follow the old adage: 'Start where you are, use what you have and do what you can.' It's also advisable to apply the KISS principle.
2. Similarly, organizations might consider adding anecdotal 'story-telling' about board contributions and organizational effectiveness to add 'life' and 'colour' as a complement to more objective performance measures.

3. Organizations are well advised to adopt a planning and evaluation model and begin with small steps to develop the data collection and information management systems necessary to support it.
4. Evaluators are advised to focus on demonstrable organizational outputs rather than ephemeral outcomes, but to include assessment of those outcomes that are readily measurable.
5. Attempts to assess board performance should incorporate research-validated board assessment instruments.
6. Impact assessments using a modified version of the ‘organizational responsiveness’ scale originated by Tsui (1984) adapted by Herman and Renz (2002) are encouraged as a simple and relatively inexpensive means of approximating an organizational effectiveness measure.
7. Future research projects should target organizations and sectors that already have developing or established performance evaluation programs.
8. Researchers and theorists should continue to strive for a simpler model for evaluating the links between board performance and organizational effectiveness that can be utilized by organizations with scarce resources.
9. Such a model should contain some of the financial ratios identified in this paper as readily accessible for most nonprofits.
10. Funders are again urged to earmark resources specifically support both the governance and effectiveness evaluation functions.

The author welcomes feedback on this paper and suggestions for simplification of the evaluative framework presented here.

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