The characteristics of an effective nonprofit organisation:
a critical analysis

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__Abstract__

This thesis presents a model of the characteristics of an effective nonprofit organisation and a practical tool to evaluate the extent to which nonprofit organisations comply with these characteristics. As part of identifying the characteristics of effective nonprofit organisations, it was necessary to establish whether or not nonprofit organisations and businesses were distinct from one another, since this would determine whether research on the characteristics of effective businesses could be applied to nonprofit organisations. An exploration of the key similarities and defining differences between nonprofit organisations and businesses subsequently revealed a number of startling and unexpected insights. The first was that the traditional stereotypes of "nonprofit organisation" and "business" are steadily losing their meaning and are no longer able to describe the important differences between organisations, especially not the nature of the value they create. The second insight was that a new paradigm of organisations is emerging, from the perspective of which organisations are understood as being value-creating entities, and are classified and judged according to both the economic and social value they seek to and actually do create in the world. The implications of this paradigm for nonprofit organisations is that they should only consider themselves effective to the extent that they can provide convincing evidence of having achieved their formally stated outcomes, and that effective organisations should be identified accordingly. These insights clearly meant that research on the characteristics of effective businesses could be applied to nonprofit organisations, and allowed for a model of the characteristics of effective nonprofit organisations to be designed which drew heavily on the insights of three well-known quality models. This model formed the basis for a practical and qualitative organisational evaluation tool to be designed, which when field-tested in alignment with rigorous qualitative research standards, was judged to provide valuable information on the extent to which organisations comply with the characteristics of effective nonprofit organisations.

The underlying message of this thesis is that it is time for nonprofit organisations that seek to become more effective and increase their positive impact on society, to abandon their outdated stereotype and adopt the paradigm revealed in this thesis.

<u>**Acknowledgements**</u>

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__Declaration__

I, Marcus Coetzee, hereby declare that the thesis entitled "*The characteristics of an effective nonprofit organisation: a critical analysis*", is of my own work and that I have received no other assistance in completing the said work other than stated sources and citations. Furthermore, I declare that this mini-thesis has not been submitted at any other university, college or institution of higher learning for any degree or academic qualification.

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1. Introduction

1.1   Research problem

There is very little research on the characteristics of effective nonprofit organisation and what differentiates an effective nonprofit organisation from an ineffective nonprofit organisation, or what nonprofit organisations should do in order to be more effective, as is discussed in chapter 4 of this thesis. There is also no consensus amongst researchers on how to define or identify an effective nonprofit organisation. (Herman & Renz, 1998; Rojas, 2000; Hitt & Middlemist, 1979; Lewin Group, 2000; Cameron, 1986; Connolly *et al.*, 1980; Sowa *et al.*, 2004).

This presents a problem to South African nonprofit organisations, which are uncertain about both what they should do in order to have a greater impact, and what they should avoid doing in order to prevent failure. This problem increases with the pressure for nonprofit organisations to have and attain measurable outcomes, in order to demonstrate that they actually make a difference in the world, and have and achieve measurable outcomes (Sowa et al., 2004; Bozzo, 2000; Wing, 2004; Lindenberg, 2001). There is a trend towards nonprofit organisations being held more accountable (Murray, 2004), and those organisations that are not up to this challenge may well cease to exist (Lindenberg, 2001).

The problem is further compounded with nonprofit organisations also being pressurised to become more business-like and to adopt some of the organisational practices typically used by businesses (Alexander & Weiner, 1998: 224; Lindenberg, 2001. Light, 2002). Unfortunately, there is little evidence of the characteristics of an effective "business-like" nonprofit organisation or what business practices are appropriate (Light, 2002). There is also a perception amongst nonprofit organisations that the blind adoption of various business tools may undermine their "unique" values and organisational culture (Lindenberg, 2001).

Fortunately, this problem can be addressed through identifying and publicising the characteristics of a nonprofit organisation that can be effective under these conditions. Once these characteristics are identified, nonprofit organisations can be evaluated in terms of how well they comply with these characteristics.

1.2 Research questions and objectives

This thesis began with the intention of identifying the characteristics of effective nonprofit organisations and developing a practical tool to evaluate the extent to which nonprofit organisations comply with these characteristics. This intention lead to the construction of four research questions, and these are as follows:

1. What are the key similarities and defining differences between nonprofit organisations and businesses?

2. How should organisational effectiveness in nonprofit organisations be defined and identified?

3. What are the characteristics of an effective nonprofit organisation?

4. Is it possible to design a valid model of the characteristics of effective nonprofit organisations and the relationships between these characteristics, as well as a tool that elicits valuable information on the extent to which a nonprofit organisation complies with these characteristics?

The answer to the first research question creates the foundation for this thesis. If it can be convincingly argued that there are substantial similarities and minimal real differences between nonprofit organisations and businesses, then it is appropriate to apply the thinking and research about effective businesses to nonprofit organisations. This would be extremely valuable since there is substantially more research on the effectiveness of businesses than research on the effectiveness of nonprofit organisations. It is also appropriate given the trend for nonprofit organisations to become more business-like. The first objective of this thesis is to identify the key differences and defining similarities between nonprofit organisations and businesses.

The second research question focuses on deciphering the controversy about how to define and identify an effective nonprofit organisation. This controversy centres on whether a nonprofit organisation's effectiveness can and should be judged according to the achievement of its formally stated outcomes, and a review of these varying arguments will determine whether such judgements can and should be made. The second objective of this thesis is to develop a definition of an effective nonprofit organisation and to decide on the criteria for identifying such an organisation.

The third research question seeks to identify the characteristics that distinguish an effective nonprofit organisation from an ineffective one. In order to do this, research on effective nonprofit organisations and businesses, as well as on the various quality models, is considered. This research will create a foundation for the development of a model of nonprofit organisational effectiveness. The third objective is to identify the characteristics of an effective nonprofit organisation.

This brings us to the fourth research question that considers whether it is possible to design a valid model of the characteristics of effective nonprofit organisations and the relationships between these characteristics, and also whether it is possible to design a tool that elicits valuable information on the extent to which a nonprofit organisation complies with these characteristics. The first challenge is to ensure that the criteria of this model are endorsed by scientific research as being correlated with effective organisations, in contrast to the organisational characteristics proposed by some nonprofit organisational effectiveness models and evaluation tools. The second challenge is to design an organisational evaluation tool that is able to provide information that its desired audiences (nonprofit organisations, donors, consultants and researchers) consider valuable, regarding the extent to which nonprofit organisations have complied with these characteristics. To make such claims, this organisational evaluation tool will almost certainly need to be field-tested in accordance with the strict standards for conducting rigorous qualitative research. The fourth objective of this thesis is thus to develop a valid model of the characteristics of effective nonprofit organisations and the relationships between these characteristics, and to refine a tool for eliciting information on the extent to which a nonprofit organisation complies with these characteristics.

The question of whether a nonprofit organisation has an impact that is constructive or destructive is outside the scope of this thesis, since it would require a detailed analysis of a nonprofit organisation's methodology, outcomes and impact.

The research questions and corresponding research objectives are clearly illustrated in figure 1.2 on the following page.

Research Questions and Objectives

Research Question 1
What are the key similarities and defining differences between nonprofit organisations and businesses?

Objective 1
To identify the key differences and defining similarities between nonprofit organisations and businesses.

Research Question 2
How should organisational effectiveness in nonprofit organisations be defined and identified?

Objective 2
To develop a definition of an effective nonprofit organisation and decide on the criteria for identifying such an organisation have been developed.

Research Question 3
What are the characteristics of an effective nonprofit organisation?

Objective 3
To identify the characteristics of an effective nonprofit organisation.

Research Question 4
Is it possible to design a valid model of the characteristics of effective nonprofit organisations and the relationships between these characteristics, and a tool that elicits information on the extent to which a nonprofit organisation complies with these characteristics?

Objective 4
To develop a valid model of the characteristics of effective nonprofit organisations and the relationships between these characteristics, and to refine a tool for eliciting information on the extent to which a nonprofit organisation complies with these characteristics.

Figure 1.2: Research questions and objectives

1.3   Practical value of this study

How will this thesis, and the achievement of its objectives, address the research problem? If it can be shown that there are minimal differences and increasing similarities between nonprofit organisations and businesses, then this will help to expose the false stereotypes commonly attributed to these organisations. This change in perception will hopefully encourage nonprofit organisations to change their behaviour and implement selected business practices in order to become more effective. It may also encourage businesses to become more socially responsible. In addition, if it is deemed to be appropriate to judge the effectiveness of nonprofit organisations in terms of the achievement of their formally stated outcomes, then nonprofit organisations may be encouraged to define their outcomes more clearly and measure the extent to which these outcomes are being achieved.

The development of a model of the characteristics of effective nonprofit organisations will help to provide the decision-makers, donors, consultants and researchers of nonprofit organisations with a clear understanding of the characteristics of an effective nonprofit organisation. Furthermore, the existence of a practical organisational evaluation tool that is judged to provide valuable information on the extent to which nonprofit organisations comply with these characteristics, will prove to be invaluable to donors (to manage the risk of their investments), decision-makers (to focus their attention on their organisations' strengths and weaknesses), consultants (to design effective interventions) and researchers (to start thinking about nonprofit organisations in a different way). The desired long-term outcome of this thesis is for nonprofit organisations to become more effective, thereby increasing their positive impact on society.

2. The key similarities and defining differences between nonprofit organisations and businesses

Nonprofit organisations and businesses have traditionally been stereotyped as being fundamentally different types of organisations. On the one hand businesses have been perceived as trying to make as much profit as they can get away with, and nonprofit organisations have been perceived as morally responsible organisations striving to bring about good in the world. However, with the emergence of nonprofit organisations that behave like businesses, and businesses that behave like nonprofit organisations, these traditional stereotypes and the boundaries between these two types of organisations are being progressively eroded.

Given these trends, the key similarities and defining differences between nonprofit organisations and businesses clearly need to be re-examined without the burden of traditional stereotypes, especially since this will help to determine whether research and thinking on the effectiveness of businesses can be applied to nonprofit organisations. A new paradigm of understanding organisations as value-creating entities, and classifying them according to both the social and economic value they create is also introduced. This paradigm is driven by the increasing similarities between nonprofit organisations and businesses the lack of defining differences between them. Evidence suggests that we are on the brink of a paradigm shift in the way that we understand organisations, despite some desperate criticisms from those researchers trapped in the fading paradigm.

This chapter starts by considering the differences and similarities between nonprofit organisations and businesses. This is followed by a discussion of the logic underlying all organisational processes, as well as of how organisations intend to and ultimately do create a particular combination of social and economic value. A model for classifying organisations according to their value creation is also introduced. This model, when combined with the ability of organisations to measure the value they have created (and even to quantify it in monetary terms), helps to consolidate this emerging paradigm despite the various criticisms that have been levelled against it. The strength of these discussions will also help to determine if it is appropriate to apply research and thinking on the effectiveness of businesses to nonprofit organisations, and will set the tone for the remainder of this thesis.

2.1 Identifying the defining differences between nonprofit organisations and businesses

What are the defining differences between nonprofit organisations and businesses? It has generally been assumed that nonprofit organisations and businesses are fundamentally different creatures and are accurately described by their respective traditional stereotypes. Yet nowadays these stereotypes are being challenged both by the increasing desire of many businesses to become socially responsible (Trialogue, 2005), as evidenced by the social responsibility index on the stock exchange (Johannesburg Stock Exchange, 2006), and the increasing desire of nonprofit organisations to become more business-like (Light, 2002). The emergence of the social enterprise, an organisation that runs like a business yet exists to create positive changes in society, and which can be either a nonprofit organisation or a business, further undermines these stereotypes (Social Enterprise Coalition, 2003).

In order to identify the defining differences between nonprofit organisations and businesses, it is necessary to consider how nonprofit organisations and businesses are defined. In South Africa, a non-profit organisation is defined as a "trust, company or other association of persons established for a public purpose, and the income and property of which are not distributable to its members or office bearers except as reasonable compensation for services rendered" (Nonprofit Organisations Act, 1997).

While it is easy to define a nonprofit organisation, it is somewhat more tricky to define a business. At first glance a business is defined as a commercial organisation (*Compact Oxford English Dictionary*, 2005), yet it is far more complicated than this. Flynne & Weil (1992) expand on this definition and explain that a business is motivated by profit and growth, has owners to which the net assets of the business belong, and takes one of four different legal forms: the sole-proprietorship; close corporation; partnership; or private or public company. Out of all these legal forms only the company and close corporation have a legal identity separate from its owners (Flynne & Weil, 1992). This thesis therefore chooses to define a business as an organisation that has one or more owners who are entitled to its net assets either during its life or on its dissolution, and that has a legal identity separate from its owners, investors or employees. The legal forms of partnership and sole-proprietorship do not meet these criteria since they do not have a legal identity separate from their owners, despite the fact that they can engage in business-like and profit-orientated activities. The legal forms of trust, voluntary association and section-21 company also do not meet these criteria since they do not have owners to which their net assets belong.

A comparison of the definitions of a nonprofit organisation and a business reveals that defining differences between these two types of organisations may potentially exist in five key areas, namely their: i) legal forms; ii) ownership; iii) public purpose; iv) source of revenue; and v) profit motive. Reviews of each of these areas form the basis of sections 2.1.1 to 2.1.6 of this chapter, in order to identify any defining differences that may exist between nonprofit organisations and businesses.

2.1.1 Comparing the legal form of a nonprofit organisation and a business

Are the legal forms of a nonprofit organisation and a business fundamentally different from each other? To answer this question it is necessary to briefly review the key elements of the legal forms available to nonprofit organisations and businesses in South Africa.

There are three different legal forms available for South African nonprofit organisations: the trust; the section-21 company; and the voluntary association. Nonprofit organisations, regardless of their legal form, exist independently of their members, directors, employees or beneficiaries. Since nonprofit organisations have an independent legal identity, this means that their members, staff and directors are not liable (except in exceptional circumstances) for the actions of these organisations (Nonprofit Organisations Act, 1997). All nonprofit organisations have a governance structure to which people are elected by the organisation's members; trusts have a board of trustees, voluntary associations have an executive/management committee, and section-21 companies have a board of directors (Honey, 2000A).

There are two different legal forms available to businesses (as per this thesis's definition) in South Africa: the company and close corporation. Businesses with either of these legal forms exist independently of their owners, directors, staff and beneficiaries, and neither of these parties are liable for the actions of these businesses (except in exceptional circumstances such as malpractice of directors or close corporations exceeding the specified amount of members). There are strict laws and standards for the governance of companies. These indicate how their boards of directors should operate in order to comply to South African law and the recommendations of the King 2 Report on Corporate Governance. In close corporations governance is the responsibility of the owners or members (Flynne & Weil, 1992; King Committee on Corporate Governance, 2002).

Differences between the legal forms of nonprofit organisations and businesses both do and do not exist, depending on the level of analysis that is adopted. From a micro-perspective, there are almost as many differences between the legal forms available to nonprofit organisations as there are between the legal forms available to businesses. However, from a macro-perspective these differences are less evident. Both nonprofit organisations and businesses have: i) a legal identify separate from their owners, members, staff and beneficiaries; ii) the powers associated with separate identity; and iii) in-built governance structures.

Since this thesis has chosen to adopt a macro-perspective and is focused on concepts as opposed to details, the conclusion is that there are no defining differences between the legal forms of nonprofit organisations and businesses.

2.1.2 Comparing the ownership and distribution of net assets of a nonprofit organisation and a business

Do nonprofit organisations and businesses have fundamentally different ownership structures or arrangements? Nonprofit organisations technically do not have owners. Instead they have "members", which are individuals or organisations that are prepared to play the role typically associated with the shareholders of companies, and to assume the responsibility for ensuring good governance of these organisations. These members through various democratic procedures, such as voting at general meetings, elect the governance structure of nonprofit organisations and make important decisions, such as whether to dissolve the organisation or merge with another organisation. Since nonprofit organisations do not have owners, they are required by law to retain their net assets (which includes accumulated profits) and use them to further their public purpose. An interesting point, however, is that when nonprofit organisations succeed in generating substantial amounts of revenue, there is often a trend for staff, particularly the leadership of such an organisation, to demand higher salaries. This suggests that there may be a partial distribution of profits to staff during such an organisation's existence, which presents a further blurring of boundaries between nonprofit organisations and businesses (Nonprofit Organisations Act, 1997; Honey, 2000A; Honey, 2000B).

Surprisingly, businesses and their assets also cannot be owned. Instead businesses have shareholders. These shareholders are entitled to a business's assets on its dissolution and to dividends during its life, even though some shareholders may not choose to exercise this right (as may be the case when a business is owned by a nonprofit organisation on behalf of its public purpose). These shareholders, which can be individuals, businesses or nonprofit organisations, have very similar powers to the members of a nonprofit organisation and also exercise their powers democratically (Flynne & Weil, 1992).

The restriction of nonprofit organisations regarding the distribution of net assets, either during the life of the organisation or on its dissolution, is clearly a defining difference between a business and a nonprofit organisation.

2.1.3 Comparing the public purpose of a nonprofit organisation and a business

A common stereotype is that nonprofit organisations are guided by their public purpose whereas businesses are not. Yet this view is questionable, since there are numerous examples of businesses driven by their desire to bring about positive changes in the world (Social Enterprise Coalition, 2003).

Although the Nonprofit Organisations Act of 1997 defines a nonprofit organisation as having a public purpose, it fails to explain exactly what is meant by "public purpose". The South African Revenue Service

has tried to fill this gap and has produced an extensive list of what it considers public-benefit activities, and nonprofit organisations meeting these criteria are entitled to apply for selected tax exemption. An analysis of this list reveals that these activities all involve creating positive changes in the lives of individuals and society, and, as a result, reducing poverty (Wyngaard, 2001A; Ninth Schedule to the Income Tax Act, 1962).

However, the ability of organisations to have a public purpose is not the exclusive domain of nonprofit organisations. Many businesses (e.g. private hospitals, bio-medical engineering companies and public sector consulting companies) make their profits through creating positive changes in the lives of individuals in society. Some businesses also have a public purpose that they make as important as their financial objectives. For example, the Body Shop (2006) is a successful international business that prioritises its public purpose, which is the reduction of poverty. The Body Shop creates opportunities for businesses in poor third-world communities to form part of their supply chain. The Body Shop (2005) consequently pays attention to its social and economic impact on poor communities.

Businesses, such as the Body Shop, that are driven by their public purpose and the desire to bring about positive changes in the lives of individuals and to society are referred to as social enterprises. A social enterprise is defined as a "business venture created for a social purpose – mitigating/reducing a social problem or market failure – and to generate social value while operating with the financial discipline, innovation and determination of a private sector business" (Alter, 2004: 5). Social enterprises are motivated by profit just like the traditional business, the difference is that they are equally motivated by their public purpose. In business terminology, this would mean that they have a "double bottom line" of public purpose and financial results. Social entrepreneurship is embodied by nonprofit organisations such as Ashoka (2006) and the Swaab Foundation (2006), as these enterprises seek innovative solutions to social problems yet have the ambition and discipline typical of business entrepreneurs (Dees, 2001). The concept of a social enterprise also fits nicely with theory of the well-known management guru Prahalad (2005), who argues that poverty throughout the world can potentially be solved by businesses learning to value the poor as customers and finding innovative ways to include them in the economy.

It is likely that social enterprises will continue to become popular throughout the world, with more than 5,000 of them already existing in the United Kingdom (Social Enterprise Coalition, 2003), and various states developing policies to encourage their existence (Henry *et al.*, 2006). The primary reason for the increasing popularity of social enterprises is because they are self-sustaining (or only partially subsidised by donors or governments) and are focused on creating positive changes in the lives of individuals and to society. The emergence of social enterprises also corresponds with the realisation of donors such as the Shell Foundation (Kramer & Cooch, 2006) and REDF (2006) that investing in social enterprises may yield a better long-term benefit to society than simply funding a nonprofit organisation year after year. Investing in social enterprises has been named "proactive social investment" (Kramer & Cooch, 2006).

The emergence of social enterprises that can take the legal form of either a business or a nonprofit organisation challenges the idea that only nonprofit organisations can have a public purpose. Combined with the trend for many nonprofit organisations to become more business-like (Light, 2002) and for businesses to become more socially responsible (Trialogue, 2005), this further erodes the stereotyping of nonprofit organisations and businesses. Since nonprofit organisations and businesses can both have a public purpose, and can even share the same public purpose, we must conclude that the existence of a public purpose is not the exclusive domain of nonprofit organisation, nor a defining difference between a nonprofit organisation and a business.

2.1.4 Comparing the source of revenue of a nonprofit organisation and a business

A naïve outsider might assume that nonprofit organisations collect donations while businesses earn an income from the sale of products and services. However, an in-depth study of the sources of revenue of these organisations, and the classification of "donations" and "income", would prove such assumptions incorrect, especially since some nonprofit organisations survive solely on the income that they have earned from the sale of products and services (Social Enterprise Coalition, 2003). Furthermore, such nonprofit organisations are steadily becoming more common.

Traditional nonprofit organisations have existed primarily on donations that they have collected, and traditional businesses have existed on income that they have earned through the sale of their products and services. These stereotypes are however changing as progressively more nonprofit organisations (especially those that are social enterprises) begin to earn their revenue from the sale of products and services (Eikenberry & Kluver, 2004). This trend, when combined with the trend for many businesses to become more socially responsible and to attempt to have a constructive impact on individuals and society (Trialogue, 2005), reveals the emergence of a new type of organisation.

Figure 2.1.4 on the following page from Emerson (2000), clearly illustrates the emergence of organisations that earn most or all of their revenue from the sale of products or services, while at the same time striving to benefit society.
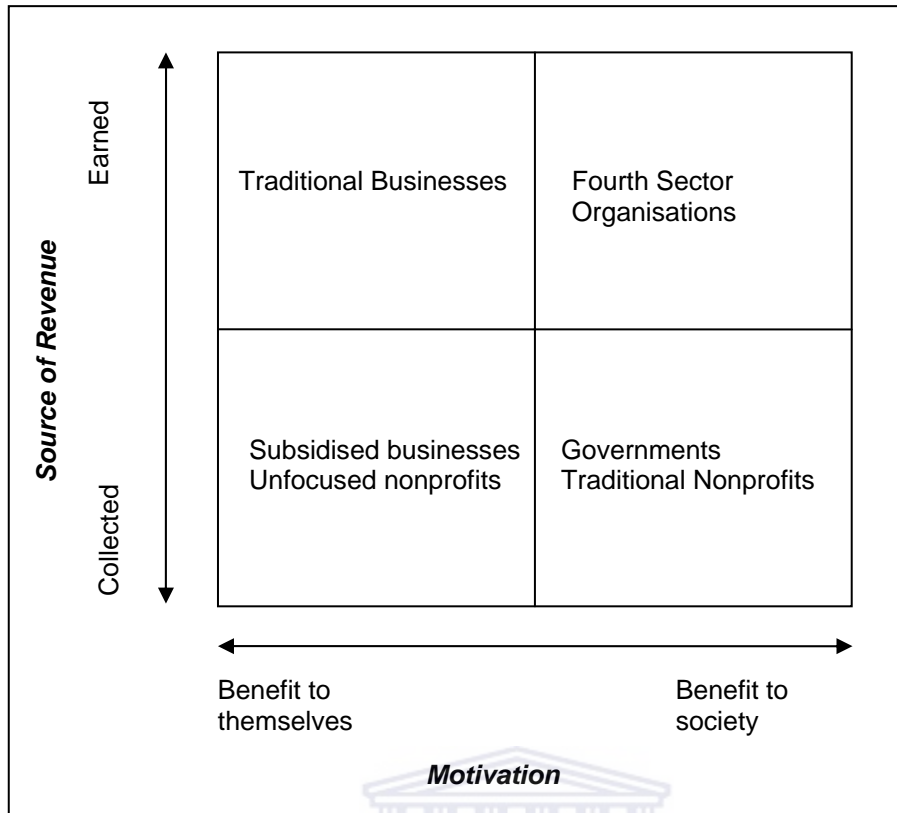
Figure 2.1.4: Motivation versus income source of organisations

If we start with the well known three-sector model of society (containing the private sector, the public sector, and the civil sector, the new type of social enterprise organisation must be seen to exist in a fourth sector (Emerson, 2000). It is evident from figure 3.1.4 that social enterprises are good examples of fourth-sector organisations as they earn much of their revenue from the sale of goods and services, and are driven by their public purpose (Social Enterprise Coalition, 2003). There are also a host of South African examples of nonprofit organisations that meet these criteria. For example:

i. E-Schools' Network (2006) is a nonprofit organisation that sells internet connectivity and related services to South African schools. It operates just like a business except for the fact that its income is used to further is public purpose of helping schools to function more effectively. Its profits are also retained for this purpose.

ii. TB Alliance DOTS Support Association (2006) is a nonprofit organisation that earns its income by helping provincial and district health departments design and implement TB treatment strategies in priority health districts. This nonprofit organisation earns its income in exactly the same way as businesses that consult to the public health sector, except it uses its income and profits to further its public purpose.

Nonprofit organisations seeking to earn an income are likely to approve of the recent amendments to the Income Tax Act, that now allow South African nonprofit organisations to earn in excess of 15% of their total revenue from the sale of products and services, without losing their valued tax exemption status, as previously tended to be the case (Wyngaard, 2001A; Wyngaard, 2001B; Income Tax Act of 1962 as amended in January 2006). In terms of this amendment, nonprofit organisations are simply taxed on their profits if they produce more than 5% of their revenue through the sale of products or services. This amendment, combined with the trend for nonprofit organisations to earn increasing amounts of their revenue from the sale of products and services (Eikenberry & Kluver, 2004), raises the question of whether the stereotype of a nonprofit organisation collecting donations and the stereotype of a business earning an income from the sale of products and services can still be upheld.

Another issue that needs to be investigated is what is meant by "income earned" and "donations collected or received", especially since these terms can be ambiguous. The definition of income is fairly obvious: "income" is defined as "money received on a regular basis for work or from investments (*Compact Oxford English Dictionary*, 2005)". It is clear from this definition that the majority of businesses and some nonprofit organisations, such as social enterprises, focus on earning income from their investments or sale of products or services. In contrast, a "donation" usually refers to a gift to a charitable cause (*Compact Oxford English Dictionary*, 2005). For example, the majority of churches collect donations from their congregations after their Sunday morning services, and St Luke's Hospice (2006) collects a substantial amount of donations from thousands of philanthropic individuals through their monthly debit orders. In both of these examples, these donations are given to these organisations in trust that they will be spent responsibly and as intended, and it is difficult for these individuals to withdraw the donations that they have already given (although they can choose to discontinue their donations). But while the terms 'income' and 'donation' are unambiguous in these examples, it becomes more difficult to distinguish between 'income' and 'donation' as the size of donations increase and donors and nonprofit organisations enter into contracts. For example, nonprofit organisations receiving donations in the hundreds of thousands frequently need to develop and submit business plans, and sign contracts detailing how this money is to be spent and the contractual obligations of both parties. What is the difference between the nonprofit organisations that receive donations as a result of such a contract and the nonprofit organisations that earn their income from selling their products and services as a result of a contract of sale?

Although no research was found to clarify this issue, there are, arguably, four differences that can be mentioned in response to the above question. Firstly, a donation occurs when the donor does not benefit directly from the product or service offered by the recipient of the donation. Secondly, a donation occurs when the recipient has to spend the money exactly as intended and any money not spent needs to be returned or utilised with the donor's permission to further the purpose for which it was originally intended. Thirdly, a donation cannot be revoked unless there is a material failure of the nonprofit organisation to deliver the required product or service. Fourthly, a donation must be utilised for a charitable purpose.

Let us examine each of these four points in turn. In response to the first point, it must be noted that donors frequently do benefit from their donations to nonprofit organisations, and in many cases consciously strive to ensure this – this is called strategic social investment (Bruch & Walter, 2005). It is also unclear where to draw the line between direct and indirect benefit, especially when dealing with nonprofit organisations that receive "donations" from the government, or a government-sponsored agency, in order to deliver government services. In such instances, is the government the direct or indirect beneficiary of these services, especially since it is their responsibility to ensure that these services are appropriately delivered? Could the revenue that nonprofit organisations receive from the government to provide something that could reasonably be considered the government's responsibility then be classified as income and not donations? In some other instances, the line is also unclear, although some revenue is unambiguously a donation, such as individual donations to organisations such as St Luke's Hospice (2006) and the Salvation Army (2006).

Regarding the second point, how donations are required to be utilised, it is apparent that some donors only require nonprofit organisations to use their donations to further the purpose of the organisation, and rely on these organisations' judgement on how best to do this. The same would also apply to income earned by nonprofit organisations in return for the sale of products and services, as their governing bodies (provided they practice good governance) would insist that this income is used to further these organisations' purposes. In both instances, those nonprofit organisations earning income and those receiving donations would still need to utilise these funds to further their purpose, and use their own judgement on how best to do this. This means that this particular criterion for donations can also be met by nonprofit organisations that clearly sell products or services, and is therefore of limited usefulness in distinguishing between donations and income.

The third point is that donations cannot be revoked unless there is a material failure of the nonprofit organisation to deliver the required product or service. This clause is also a requirement of the Income Tax Act for nonprofit organisations applying for tax exemption status with the South African Revenue Services (Wyngaard, 2001A). However, this point can also apply to the income earned by businesses and income-earning nonprofit organisations. For example, a business with a no-return or refund policy can also refuse to return a payment received from a customer, unless forced by a court to do so as a result of a material breach of contract on the part of the business. Some businesses, such as building contractors, also require substantial deposits in advance of services being delivered. This criterion for donations is therefore not absolute and can also apply to nonprofit organisations and businesses clearly selling products and services.

The final point is that a donation must be used for a charitable purpose, and "charitable" involves assisting those in need (*Compact Oxford English Dictionary*, 2005). However, there are businesses and nonprofit organisations that earn their income from selling a product or service that is charitable in nature. For example, a privately owned clinic may receive some income from the government to deliver free or subsidised health services to a poor community. Consider the example of parents paying a doctor to treat

their child. Is this doctor receiving a donation since they are using the income to treat someone in need? No, this doctor has clearly earned income from his/her services. This criterion of charitable purpose therefore does not sufficiently distinguish between income and donations.

It is clear from the above discussions that the difference between income and donations is not as clear-cut as could be expected. The criterion of direct/indirect benefit for the donor/customer is difficult to apply except in fairly straightforward circumstances. The criterion relating to the utilisation of donations can also apply to nonprofit organisations earning income. Both the criterion relating to revoking donations/income and the criterion relating to the charitable or public purpose can be met by both nonprofit organisations and businesses. This thesis proposes that a donation meets all four of these criteria, and this would mean that the organisations in our earlier example (churches and St Luke's Hospice) are clearly receiving donations and not income. In the other instances, especially where there is also a detailed contract between donor and the receiving organisation that clearly defines the rights and obligations of both parties, it is proposed that these nonprofit organisations are receiving income from the sale of their products and services. This would then suggest that there are many nonprofit organisations that consider themselves as receiving donations when they are actually receiving income, and these organisations should be encouraged to open their eyes and take another look at their source of revenue.

With an increasing number of nonprofit organisations earning their revenue from business-like activities, the conclusion is that the source of an organisation's revenue is no longer an accurate indicator of whether an organisation is a nonprofit organisation or a business.

2.1.5 Comparing the profit motive of a nonprofit organisation and a business

Are nonprofit organisations and businesses different from one another in their motivation to earn a profit? It can safely be stated that the majority of businesses are focused on making a profit for their owners, and that this profit is determined by subtracting a business's expenses from its income. Businesses that are successful in making a profit year after year, will usually create a reserve which could be used for:: i) making investments that will benefit the business; ii) paying dividends to shareholders/owners; and iii) saving to cover costs on "rainy days" or for future emergencies.

The name "nonprofit organisation" implies that nonprofit organisations are "not supposed" to make a profit, and are meant to simply receive and spend donations in the manner, and in the time period, specified by their donors. However, there are considerable and obvious risks involved in trying to run a nonprofit organisation this way, and nonprofit organisations that try to do so may find themselves using another donor's funds to resolve cash flow crises caused by gaps between donations and maintain the infrastructure needed to achieve their public purpose. For example, the executive director of a nonprofit organisation may find that the organisation needs to make a last-minute appearance at a crucial

conference or replace a computer that has just broken down, when it does not have the funds to do so. What happens then? Where to find the money for this is a dilemma common to many nonprofit organisations. In the researcher's experience organisations often spend the donations meant for some other purpose, which is a potentially risky and unethical practice.

This thesis proposes that it is the moral duty of nonprofit organisations to ensure that they make a financial profit in order to create a financial reserve, which can then be used to sustain and enhance the organisation's outcomes and impact. This is why the social enterprise model works so well. Social enterprises, regardless of their legal structure, focus on making a profit and using this profit to minimise their risks and further their public purpose, without relying solely on donations for their survival (Social Enterprise Coalition, 2003).

The concept of "social profit" presents another perspective on the role of nonprofit organisations in creating a profit. An organisation is defined as having made a social profit when the value of its social outcomes exceeds the value of its social inputs. Social profit can be calculated using measures such as Social Value Added (Richmond *et al.*, 2003). The beauty of the concept of social profit is that it helps to reframe the concept of profit for nonprofit organisations, and suggests that businesses should also strive to make a social profit, as well as a financial profit. It also presents the value that nonprofit organisations offer in the business terminology, and it is hoped that this will lead to the increased recognition of the role that nonprofit organisations play in society (Social Profit Network, 2006).

The conclusion is that both nonprofit organisations and businesses should strive to make a financial profit (in order to manage their risks and create the resources with which to achieve their desired outcomes) *and* a social profit (to make a positive difference to the world). The term nonprofit organisation is clearly a misnomer as it misguides nonprofit organisations and undermines the real value that that these organisations have to offer. The profit motive is therefore not a defining difference between nonprofit organisations and businesses.

2.1.6 Reflecting on potential defining differences between a nonprofit organisation and a business

These discussions have revealed some interesting insights about the differences between nonprofit organisations and businesses, and these are summarised as follows:

i. Both nonprofit organisations and businesses are independent legal entities and have powers associated with this independence as well as an existence separate from their members, owners, staff and beneficiaries.

ii. Both nonprofit organisations and businesses can be driven by a public purpose – they can even have exactly the same public purpose as each other.

iii. There is a clear trend for nonprofit organisations to seek to generate an income, as opposed to being solely reliant on collected donations. This means that the ability of an organisation to generate an income through the sale of products and services is not the exclusive terrain of businesses. An interesting insight was that the many nonprofit organisations that have entered into contracts with the government to provide specific products or services, are actually earning income as opposed to receiving donations.

iv. Both nonprofit organisations and businesses can have a profit motive. Nonprofit organisations that are motivated by profit (such as those that are social enterprises) are likely to be able to manage their financial risks more effectively and reduce their dependency on donations for their survival. Furthermore, nonprofit organisations, and ideally businesses, should also be focused on making a social profit. The existence of profit motive is no longer a useful indicator of whether an organisation is a nonprofit organisation or a business. Furthermore, the term "nonprofit organisation" is clearly a misnomer and has never been appropriate since nonprofit organisations have always sought to create a social profit.

v. The defining difference between nonprofit organisations and businesses relates to the distribution of net assets during the life of the organisation and on its dissolution. Businesses are permitted by law to distribute their net assets (including profits) to their shareholders during their existence, provided their shareholders have agreed to do this. In contrast, nonprofit organisations are required by law to retain their profits and use them to further their public purpose, although nonprofit organisations may choose to indirectly distribute some profits to staff through increased salaries. When a business is dissolved its remaining assets are distributed to its owners. In contrast, when a nonprofit organisation is dissolved, its remaining assets are required by South African law to be donated to another nonprofit organisation with a similar purpose.

The differences between nonprofit organisations and businesses are becoming blurred and traditional stereotypes may need to be discarded. The only defining difference between nonprofit organisations and businesses relates to the distribution of their net assets during their existence and on their dissolution, and a business's shareholders can choose not to exercise their rights to these assets. The lack of defining differences between these two entities, when combined with the emergence of social enterprises and other fourth-sector organisations, clearly suggest that classifying organisations according to whether they have a legal form of a nonprofit organisation or a business is becoming less meaningful, especially since such classification no longer guarantees a valid description of an organisation's essential characteristics. This is a significant anomaly that the traditional paradigm, which perceives nonprofit organisations and businesses as being fundamentally distinct from one another, is unable to address. According to Kuhn (1962), this is a sign of an imminent paradigm revolution.

The following section builds upon these discussions and explores the similarities between nonprofit organisations and businesses. It suggests that organisations can be understood as being value-creating

entities, and can even be classified according to the value they seek to, and actually do, create in the world.

2.2 The creation of social and economic value: a new way of understanding what nonprofit organisations and businesses have in common

Just how similar are nonprofit organisations and businesses to each other? The discussions in the previous section have already revealed some areas in which nonprofit organisations and businesses are either similar to each other or have the potential to be similar to each other. Both of these types of organisations: i) have an independent legal structure and the powers associated with this independence; ii) can have a public purpose; iii) have "shareholders" that exercise their powers democratically; iv) can earn an income through the sale of products and services; and v) can focus on making a profit.

This chapter builds upon these key similarities and draws together a whole range of different views and arguments to present important elements of a new paradigm for both understanding and classifying organisations. From the perspective of this paradigm, organisations are understood as being value-creating entities and are judged as being similar or different from one another, depending on the various combinations of the social and economic value that they seek to, and actually do end up, creating – their blended value proposition (Emerson, 2000; Alter, 2004). Furthermore, it is also possible for the value that organisations create to be measured according to a variety of established techniques.

The purpose of this chapter is threefold: i) it reveals how organisations are value-creating entities; ii) it demonstrates that in the context of the traditional boundaries between nonprofit organisations and businesses being eroded, there is a far more useful way of understanding the important differences and similarities between organisations and of classifying organisations; and iii) it shows how nonprofit organisations and businesses with similar blended value propositions (and therefore strategies) are very similar to each other where it really matters – the difference they seek to and actually do end up making in the world.

2.2.1 The logic model: how organisations use resources to achieve their outcomes and impact

There is an underlying logic common to all organisations in how they use their resources to produce outputs and achieve outcomes that in turn have a longer-term impact. This logic can be clearly illustrated

using the logic model, and a discussion of this model will help to explain how organisations create value. It will also contextualise the definition of organisational effectiveness used throughout this thesis.

Figure 2.2.1 below clearly illustrates the underlying logic beneath an organisation's activities, and is based on the format used by the W. K. Kellogg Foundation (2004).
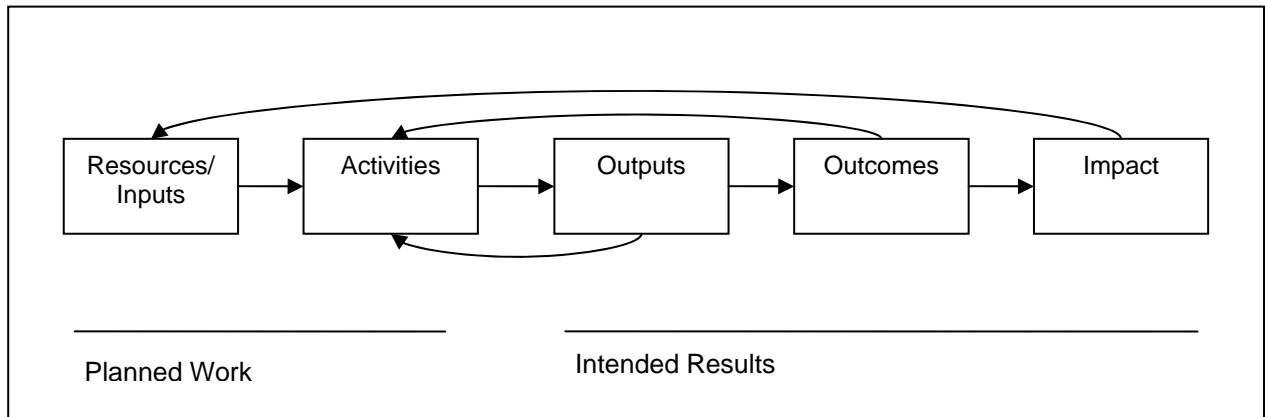
Figure 2.2.1: The logic model

In terms of the above logic model:

i. "Resources" or "inputs" include factors such a time and money, and the resources that time and money can create or purchase, such as skilled staff. These are the key building blocks that an organisation uses to achieve its outcomes and create the desired impact. The feedback loops in the above diagram illustrate how the impact of an organisation affects the resources it can draw upon. For example, the impact of a clinic (nonprofit or business) in a closed community would enhance the health of the community and the pool of staff and volunteers that the clinic could draw upon. Furthermore, healthy community members may be more able to pay the clinic's fees and increase the clinic's goodwill in the community.

ii. "Activities" are what the organisation does with the resources in order to produce its outputs. For example, an organisation could manufacture a product or provide a personal service to their customers. The feedback loops in the above diagram illustrate how learning organisations adjust their activities based on the outputs and outcomes they are achieving.

iii. "Outputs" are what the organisation produces through its activities. Stereotypical outputs for nonprofit organisations include the numbers of workshops facilitated, counselling sessions conducted, articles written, people trained, condoms distributed, etc. Stereotypical outputs for businesses include the numbers of units produced, the numbers of sales made, etc. Although outputs in themselves do not tend to have value, they are instrumental in the creation of value.

iv. "Outcomes" are the immediate changes that are created by an organisation's outputs. They are what the outputs have achieved – the difference that they have made. For example, if a nonprofit

organisation specialises in training youth about HIV/AIDS and the importance of practising safe sex, then the desired outcomes of such an organisation would be the increased knowledge of programme participants about HIV/AIDS, a positive shift in their belief systems and a change in their sexual behaviour and their responses to people with HIV/AIDS. The outcomes of a business could include factors such as the total value of sales, the competitive position achieved or market share gained.

v. The "impact" of an organisation arises from its outcomes and usually occurs in the long term. An organisation's impact is also frequently influenced by factors outside of its control such as community, national or global dynamics. For example, the desired impact of the nonprofit organisation mentioned in the above point, could be to reduce the HIV/AIDS infection rate amongst youth in a particular community, and this desired impact would be influenced by a multitude of factors such as government policy and levels of employment in the community. A good example of the impact of a business could be an improvement in the wealth of a community from which it draws its labour, and the consequences of such an increase of wealth.

At first glance it seems logical to define organisational effectiveness as the ability of organisations to achieve their desired outcomes and impact. However, in practice it is unrealistic to judge organisational effectiveness based on the extent to which organisations have achieved their desired impact, especially since an organisation's impact can be easily influenced by factors outside of its control. The use of outputs as an absolute measure of organisational effectiveness is also not ideal since it simply examines an organisation's productivity and not how well the organisation applies its resources to implement its strategy.
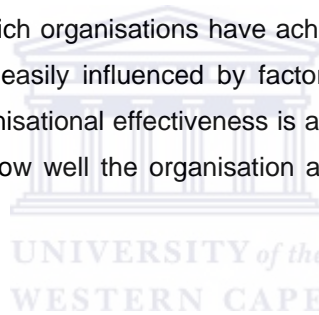
This thesis proposes that measuring an organisation's effectiveness in terms of how well it achieves it desired outcomes is the best measure of how effective it is. (The exact reasons for this are discussed in the following chapter.) If we consider the previous example of the nonprofit organisation operating in the HIV/AIDS field, this would mean that this organisation is only effective if it changes the sexual behaviour of youth attending these workshops, and not because of the number of workshops it has facilitated or numbers of youth who have attended these workshops. Unfortunately, the vast majority of nonprofit organisations do not measure the extent to which they have achieved their outcomes as they prefer to focus on outputs as a measure of organisational effectiveness (Murray, 2004).

Finally, there are two approaches to interpreting the efficiency of an organisation. The first is that efficiency is the ratio between an organisation's outcomes and the resources/inputs used by the organisation. However, this particular approach only measures efficiency of production and not the efficiency of the organisation as a whole. The second approach, and the one adopted by this thesis, is that the efficiency of an organisation is the ratio between the extent to which an organisation's outcomes have been achieved and the resources/inputs used by the organisation – how well the impact/resources have been used to achieve the outcomes. In nonprofit organisations this efficiency ratio can be measured using the Social Return on Investment (SROI) index (Richmond *et al*, 2003).

2.2.2 How do organisations create social and economic value?

Since all organisations create social and economic value (Alter, 2004; Emerson, 2000), where can this value be detected? From the perspective of the logic model, organisations add value to their resources/inputs through their activities and the way their outputs are directed by their strategies. For example, a bakery uses various inputs (flour, water, labour, etc.) to bake bread that is eventually sold and eaten by their customers, depending of course on the quality and intention of this bakery's strategy. The most obvious outcomes of this bakery would most probably be to provide its customers with adequate nourishment and an enjoyable meal, and to increase its own wealth. Assuming this bakery was baking bread for a children's feeding scheme, then the impact might be to ensure that these children succeed in school. The value that this bakery has created can be identified by comparing the value of its outcomes and impact with the value of the resources or inputs that it started with. Figure 2.2.2a below clearly illustrates this value creation process.
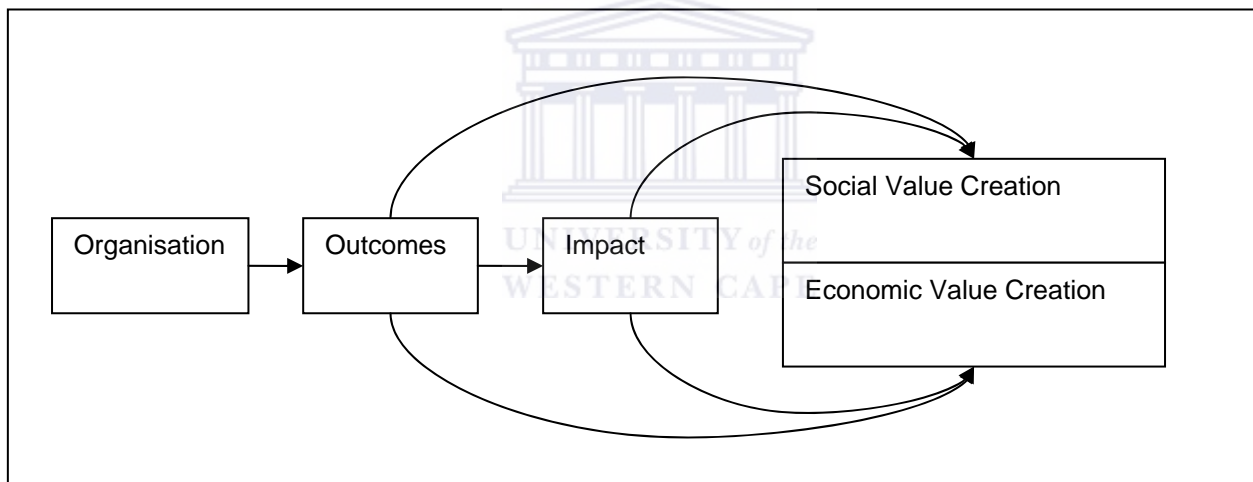
Figure 2.2.2a: The creation of social and economic value

This diagram and the preceding discussions raise the following questions: i) how is social and economic value defined? ii) what is the difference between social and economic value? iii) how do the value propositions of nonprofit organisations and businesses differ? iv) can nonprofit organisations and businesses be classified according to the value they create? and v) can the value that organisations create be measured? The following sections will try to answer these questions.

What is the difference between the social and economic value that organisation's create? Social value is created when individuals judge the quality of their lives and society to have been improved (Emerson, 2000; Emerson *et al.,* 2001; Alter, 2004; Quarter *et al.*, 2001). The creation of social value also

corresponds with the creation of economic value since these concepts exist along a continuum (Emerson *et al.*, 2001). For example, the Post Natal Depression Support Association (2006), a South African nonprofit organisation, helps mothers with post natal depression to cope with their depression and move on with their lives. The social value is created in the changes to these mothers' mental health and quality of life, and to the lives of their children and the people close to them. This nonprofit organisation also creates economic value as these mothers are enabled to become economically productive sooner than would otherwise have been the case. In another example, consider a business such as Electrolux that manufactures household vacuum cleaners. The homes purchasing these vacuum cleaners will have cleaner and more healthy homes since the amounts of dangerous bacteria, allergenic particles, dust mites and dirt would have been reduced. This improvement in well-being and health resulting from a cleaner house is the social value that has been created by this business.

Economic value is created when an organisation generates products or services that have market value exceeding those of the original inputs (Emerson *et al.*, 2001). As mentioned in the previous paragraph, the creation of economic value also corresponds with the creation of social value, since these concepts exist along a continuum (Emerson *et al.*, 2001). For example, a bank creates economic value for its shareholders primarily through its interest earned, investments and bank charges. It also creates economic value for its employees through the salaries it pays, and for its customers through the loans that it provides (since customers may choose to use these loans to study further, start businesses, etc., which in turn will create economic value). This economic value that has been created is also linked to the creation of social value. For example, as we have just shown, loans can be used to improve people's education, even if this education has no economic impact. This bank may have a social responsibility project or some of this bank's customers could choose to spend their salaries/loans on activities that create social value and so on. Nonprofit organisations can also create economic value. For example, a skills training centre such as Zenzele Training and Development (2006) provides unemployed people in the Khayelitsha township with skills training in sewing, carpentry, metalworking etc. The intention of this nonprofit organisation is for the graduates of these programmes to start their own businesses and earn themselves a living.

These examples show that both nonprofit organisations and businesses create both social and economic value through their activities, and that this value can be detected in their outcomes and impact. They also help to illustrate that organisations are value-creating entities. It is also evident that the extent to which organisations focus on or succeed in creating a particular combination of social and economic value, is not dependent on whether they have the legal form of a nonprofit organisation or business, but rather on the nature of each organisation and its strategy.

To further illustrate that the combination of social and economic value that organisations create is not dependent on whether they are a nonprofit organisation, the blended value proposition of four imaginary organisations (A, B, C and D) have been plotted on figure 2.2.2b below.
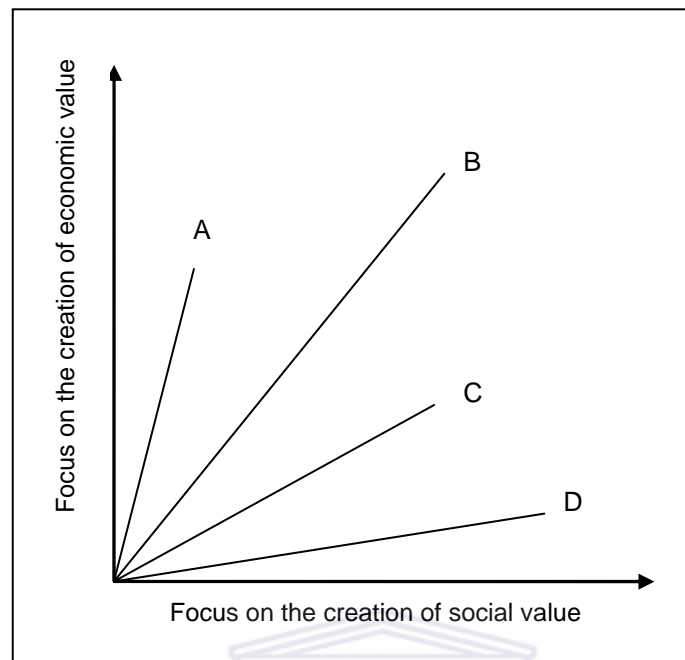
Figure 2.2.2b: Mapping value creation

This graph was loosely based on a graph presented by Emerson (2000) and could also be adapted to plot the amount of social and economic value actually created by these organisations. The graph only has positive axes since it is assumed, for the purposes of this thesis, that all nonprofit organisations and businesses create, as opposed to destroy, social and economic value, which in practice may be contrary to the acts of some organisations in our society, such as the various terrorist groups in the news, most tobacco companies, some fast food companies, etc. (However, such groups may actually consider themselves as creating value.) This graph also illustrates the trajectory of organisations as they grow and increase the amounts of value that they create.

Now let us examine this graph and consider some of the possibilities for these four imaginary organisations.

i.   Organisation A could be a bank focused on creating predominantly economic value and at the same time creating a degree of social value through its loans, taxes, salaries and social responsibility programme. This bank could have the legal form of a business (e.g. Standard Bank, 2006) or a nonprofit organisation (e.g. Grameen Bank, 2006 or Kuyasa Fund, 2006).

ii. Organisation B could be a social enterprise (either a business or nonprofit organisation) involved in selling products and services on the open market. For example, Pioneer Human Services is a nonprofit organisation that exists to provide employment and rehabilitation to

inmates who have just been released from prison, and would most probably have a similar blended value proposition to this. This nonprofit organisation generates a turnover of over $40 million annually and has successfully used its profits and activities to assist over 100,000 former inmates in starting a new life for themselves (Pioneer Human Services, 2006; Dahle, 2000). The Body Shop (2005; 2006) would most probably be another good example of a business with a value proposition similar to this, since this business is committed to ethical business practices and developing poor communities through their inclusion in the Body Shop's supply chain.

iii. Organisation C could be a clothing manufacturer in a poor community that seeks to provide community members with minimal wage employment and focuses on developing their self esteem. This organisation could be a nonprofit organisation (e.g. Zenzele Training & Development, 2006) or a business owned by some more enterprising community members.

iv. Organisation D could be a primary health care clinic in a poor community that is either a business run by a group of philanthropic doctors, or a primary health nonprofit organisation such as SACLA Health Project (2006), which is funded by international donors to run clinics in certain communities in Cape Town.

These examples should be sufficient to illustrate that the value created by these organisations is not dependent on whether they are a nonprofit organisation or a business. Furthermore, nonprofit organisations and businesses can be extremely similar to each other and face similar challenges that have little to do with their legal forms. This is one of the most important insights of this chapter, and it suggests that there may be far more useful ways of classifying these organisations that really take into account their differences and the value that they create in the world, rather than just the legal form they have chosen.

Business Sculptors (2006), a South African management consulting company has realised the need to classify organisations according to the value they seek to and actually do create, which should be one of their defining features instead of merely their legal form, and has developed a model that is able to do this. This model, illustrated on the following page as figure 2.2.2c, classifies organisations as being one of four types of enterprises, irrespective of whether they are nonprofit organisations or businesses.
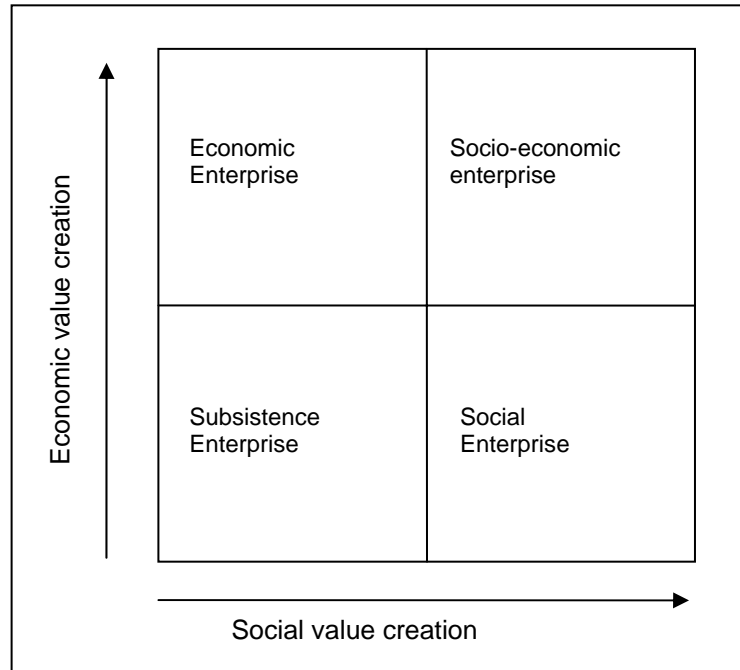
Figure 2.2.2c: Classifying organisations according to their value creation

In terms of this model, which is conceptual and used to illustrate a point, these four different types of enterprises are the: i) subsistence enterprise; ii) economic enterprise; iii) socio-economic enterprise; and iv) social enterprise. Each of these different types of enterprises is summarised as follows:

  i.   The "subsistence enterprise" is an organisation that strives to, and actually creates, sufficient value to stay in existence and meet the immediate survival needs of its owners and employees.

  ii. The "economic enterprise" is an organisation that has the ambition to create, and actually succeeds in creating, considerable amounts of economic value, and is best characterised by many successful businesses in the world.

  iii. The "socio-economic enterprise" is an organisation that has the ambition to create, and succeeds in creating, considerable amounts of both economic and social value – it has a genuine "double bottom line". A nonprofit organisation such as Pioneer Human Services (2006) or a business such as the Body Shop (2006) would likely fit in this quadrant.

  iv. The "social enterprise" is an organisation with the ambition to make a real positive difference in the world and actually succeeds in creating considerable amounts of social value. Social enterprises acknowledge the importance of operating according to business principles in order to achieve their desired outcomes and impact (Social Enterprise Coalition, 2003). A good example of a social enterprise would be Sunderland Home Associates which provides home-care services in the United Kingdom. This business is jointly owned by its 150 or so carers and generates annual revenue of more than £1 million (Social Enterprise Coalition, 2003). An example of a nonprofit organisation embarking on the process of becoming a social enterprise is the National Institute for Crime and the Reintegration of Offenders (2006), which sells a

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variety of services focusing on rehabilitating criminals and supporting victims of crime (Business Sculptors, 2006). What makes this nonprofit organisation a social enterprise is that it has begun to run itself as a business and it has the ambition and the potential ability to considerably reduce crime levels in South Africa.

Although there are some minor differences between the interpretation of "social enterprise" in this model and the interpretation presented so far in this chapter, the value of this model is hopefully evident. Another observation is that it is possible for nonprofit organisations and businesses to shift between quadrants depending on how they choose to adapt their ambition and strategy. The axes of this model could also be extended to include the possible destruction of value by organisations.

What the logic models and the various economic and social value models have revealed, is that there is an underlying logic in all organisations as they seek to and do create various combinations of social and economic value through their outcomes and impact. This represents a significant area of similarity between organisations, regardless of whether they are nonprofit organisations or businesses, since both these types of organisations are value-creating entities. Furthermore, with the boundaries between nonprofit organisations and businesses as well as their respective stereotypes being eroded, this presents a very useful way of classifying organisations. Finally, it is evident that a nonprofit organisation and business can be judged as being very similar, both in terms of their strategy and the difference they seek to make in the lives of individuals and to society, regardless of the legal form they have chosen to take. These insights help to illustrate the paradigm that is being presented in this thesis, and which proposes that organisations should be understood as being value-creating entities, and should be classified by the value they seek to and actually do create through their outcomes and impact.

2.2.3 Can the value that organisations create be measured?

The credibility of this way of understanding and classifying organisations, and the paradigm it represents, hinges partially on whether it is possible to measure the social and economic value that organisations have created in their outcomes and impact. This thesis proposes that this is possible, although there admittedly certain difficulties in doing so. The techniques for doing this and even quantifying social and economic value into monetary terms are currently evolving and becoming progressively more sophisticated.

According to Richmond *et al.* (2003), the value that organisations create can be measured at three different levels – primary, secondary and tertiary:

   i. Primary value is the value created directly for an organisation's customers or beneficiaries (Richmond *et al.*, 2003). For example, let us assume the existence of a nonprofit organisation that provides skills training to unemployed but motivated individuals. Primary value is likely to

be detected in the skills, knowledge and self-esteem of the individuals who have completed this training.

ii. Secondary value is the value created indirectly for an organisation's customers or beneficiaries (Richmond *et al.*, 2003). Following on from our earlier example, this value could be detected in any employment these individuals secure for themselves. Secondary value tends to be more difficult to measure than primary value.

iii. Tertiary value is the value created for individuals, organisations and society outside of a organisation's direct area of influence (Richmond *et al.*, 2003). In terms of our previous example, this value could be detected in the wealth these individuals create in their communities, the taxes they pay, the ability for them to send their children to a decent school, etc. Value created at this level tends to be very difficult to measure and is influenced by many variables outside of the organisation's control.

What are some of the techniques used for measuring the social and economic value that organisations have created? The social value that organisations have created can be measured by quantitative and qualitative outcomes' and impact evaluations, since value is present in an organisation's outcomes and impact. The concept of social accounting as a means for measuring social value creation is also becoming steadily more popular and is promoted by organisations such as the Social Audit Network (2006), New Economics Foundation (2006) and AccountAbility (2006). Social accounting can be described as the "systematic analysis of the effects of an organisation on its communities of interest or stakeholders, with stakeholder input as part of the data that are analysed for the accounting statement" (Richmond *et al.* 2003: 309). An organisation's social accounts are essentially records of the social value that has been identified through an organisation's outcomes' and impact evaluation. Another interesting trend is for the social accounts of organisations to be audited by a process known as social auditing, and specific standards for conducting social audits are promoted by AccountAbility (2006). The vision of social accounting is for organisations to present their audited social accounts alongside their audited financial statements.

It is however, not always easy to measure the social value that organisations created, with some elements of this value being potentially immeasurable (Alter, 2004). Common reasons that have been cited for this include:

i. There are potential "data limitations, methodological disputes and value conflicts" (Campbell, 2002: 244).

ii. Measuring an organisation's outcomes and impact is frequently a subjective process and vulnerable to political dynamics surrounding the organisation (Murray, 2004).

iii. Nonprofit organisations frequently have outcomes that are intangible and for which indicators cannot easily be identified (Kaplan, 2001; Herman & Renz, 1999).

iv. Conducting an outcomes and impact evaluation can be costly (Murray, 2004).

It may be because of these potential problems in measuring the social value created that there are so few nonprofit organisations that measure their outcomes, preferring instead to measure their outputs (Murray, 2004). Fortunately, there are clear guidelines on how to conduct outcomes' and impact evaluations, and to set the conditions to make these evaluations successful. Freely available and comprehensive guidelines are produced by a number of organisations such as CIVICUS (Shapira, date unknown), the Compassionate Capital Fund Resource Centre (Dare Mighty Things, date unknown) and The Urban Institute (2003). Similarly, guidelines on how to develop social accounts and conduct social audits are produced by the organisations such as the Social Audit Network (2006).

The economic value that organisations have created can be measured by formulae such as Economic Value Added (EVA), which has been developed and trademarked by Stern Stewart & Co. (2006). The EVA of an organisation is essentially the value created for shareholders in excess of the return they would have received through investing in standard investments such as in a bank; the return on investment for shareholders must be greater than the cost of capital (Stern Stewart & Co., 2006). According to Emerson *et al.* (2001), "measures of economic value creation have been refined over centuries, resulting in a host of econometrics, including return on investment, debt/equity ratios, price/earnings and numerous others".

A number of donors and organisations have also started using formulae such as Social Return on Investment (SROI) and Social Value Added (SVA) to measure the socio-economic value that organisations create. Socio-economic value is the sum of the social value that can be expressed in monetary terms, and the economic value that an organisation has created (Emerson *et al.*, 2001; Alter, 2004). The following model illustrated as figure 2.2.3, which has been adapted from Alter (2004), clearly shows the relationship between social value, economic value and socio-economic value.

Unquantifiable Social Value	Blended Socio-Economic Value (Basis for SROI and SVA)	
Social Value	Economic Value	
Double Bottom Line		
Strategy of the organisation		
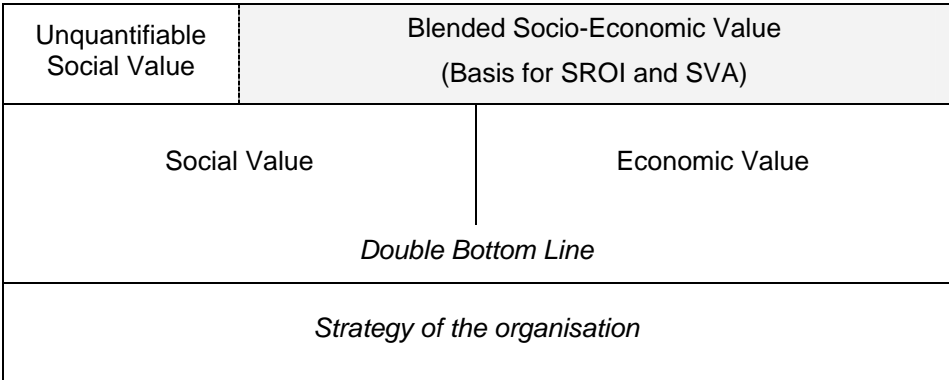
Figure 2.2.3: Relationship between social value, economic value and socio-economic value

SROI is the ratio between the monetary value of the socio-economic value that an organisation has created and the monetary value of its inputs. It is the return on investment for an organisation's donors or investors. SVA is the difference between the monetary value of the socio-economic value that an organisation has created and the monetary value of its inputs. The idea behind SVA is to develop an "expanded value statement" that can be presented alongside an organisation's financial statements (Richmond *et al.*, 2003). The SROI ratio is especially popular with organisations such as the Shell Foundation (Kramer & Cooch, 2006) as a method of determining how well their investments or donations have done.

The ability to measure the social and economic value that organisations create helps to consolidate this approach to classifying organisations (and supports the proposed paradigm). This is likely to have profound implications for nonprofit organisations as it becomes evident that businesses can also create considerable amounts of social value. This also places further pressure on nonprofit organisations to account for the value they have created and to justify themselves as being a good investment. As techniques for measuring value creation become more sophisticated it is likely that nonprofit organisations will need to become more outcomes-focused and committed to measuring the value they have created through their programmes.

2.3   Eroding stereotypes and a new paradigm: what does this all mean?
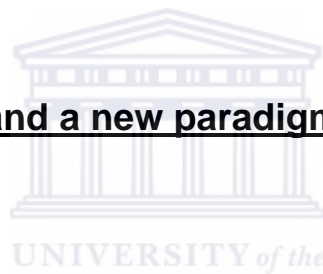
The traditional stereotypes of nonprofit organisations and businesses are clearly being eroded with many businesses striving to become more socially responsible and nonprofit organisations seeking to become more business-like. The emergence of social enterprises, which operate like businesses and strive to generate income while being driven by a desire to create positive changes in the lives of individuals and in society, further undermines these stereotypes. At the same time, the only defining difference between nonprofit organisations and businesses relates to the distribution of net assets, and a business's shareholders can choose not to exercise their rights to these assets. These factors suggest that the traditional paradigm of understanding nonprofit organisations and businesses as being fundamentally different from one another is losing validity.

Key elements of a new paradigm of organisations have been presented throughout this chapter. The first is that the differences between nonprofit organisations and businesses have been reduced to technical details of their legal forms and are not really considered defining features. The second is that both nonprofit organisations and businesses are value-creating entities and that the value that they create is not dependent on whether they are businesses or nonprofit organisations. Business Sculptors' response to this has been to introduce an entirely new terminology and to classify organisations as various types of enterprises, depending on the value they seek to and actually do create in the world. Business Sculptors'

model suggests that the nature of an organisation's blended value proposition is one of its defining features. The strength of this paradigm is further upheld by the ability of the value that organisations have created to be measured, and the increasing sophistication of the techniques for doing so. This leads to another element of this new paradigm, that the effectiveness of organisations can and should be judged according to how much of the value that they have sought to create they have actually created. (This is discussed in detail in the following chapter.)

The discussions within this chapter have made headway towards meeting the challenge posed by Emerson (2000; 34), who states:

> *The challenge may not be how to apply financial, business or economic tools, metrics or strategy to the social sector; or whether it is possible for social value to be created in a commercial vehicle. Rather, the challenge may be our inability to perceive the overarching framework that allows us to enunciate the expansive components of both. What understanding of returns would advance a unifying theory of the whole?*

This chapter has presented the beginnings of this unified theory in the form of a new paradigm of organisations. It has also revealed that it is appropriate to apply thinking and research on the effectiveness of businesses to nonprofit organisations, given the fundamental similarities and minimal differences between these two types of organisation. This lays the foundations for the discussions in the next two chapters.

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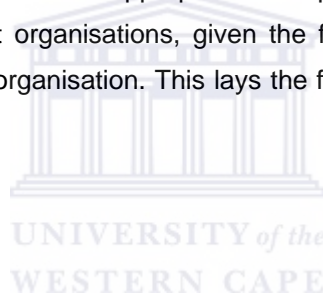
3. How should organisational effectiveness in nonprofit organisations be defined and identified?

Nonprofit organisations clearly need to be effective in order to achieve their desired outcomes and create positive changes in the lives of individuals and to society. Nonprofit organisations that are not able to do this waste valuable resources that could be better used elsewhere. But what is an effective nonprofit organisation and how should such organisations be identified? Unfortunately, researchers have been unable to agree on an answer to this question, and have spent decades debating various approaches to defining and identifying effective nonprofit organisations, all to no avail. This thesis strives to put an end to such pointless debates by getting to the heart of the matter.

Although researchers involved in the study of nonprofit organisational effectiveness generally agree that effective nonprofit organisations create value and will tend to achieve their desired and formally stated outcomes, there is a lack of agreement on a practical definition of an effective nonprofit organisation and the criteria that should be used to identify such an organisation. These researchers have largely steered clear of defining an effective nonprofit organisation in terms of how well it achieves its formally stated outcomes (and identifying such organisations accordingly), and consider it inappropriate to apply theory on the effectiveness of businesses to nonprofit organisations (Herman & Renz, 1999). In stark contrast, this thesis suggests that effective nonprofit organisations achieve their formally stated outcomes, are able to provide convincing evidence of having done so, and can be identified accordingly. This approach fits with the resolution in the previous chapter to apply research and thinking from the effectiveness of businesses to nonprofit organisations, and is an important element of the new paradigm that is being proposed in this thesis. It also fits with the trend for progressive nonprofit organisations, such as those that consider themselves social enterprises, to clearly define their outcomes, measure how well they have achieved their outcomes using social accounting, audit their outcomes using social auditing, and even quantify the value created in their outcomes into monetary terms using measures such as social return on investment (as also discussed in the previous chapter).

This chapter begins by establishing why it is so controversial to define an effective nonprofit organisation in terms of how well it has achieved its formally stated outcomes, and to identify such an organisation as one that can provide convincing evidence of having done so. This is followed by a critical review of the alternative approaches that have been proposed by other researchers in the field of organisational effectiveness. This chapter concludes by presenting a definition of an effective nonprofit organisation and the criteria that should be used to identify such an organisation.

3.1　Judging nonprofit organisations by their outcomes: why all this controversy?

It is evident from the literature review conducted in preparation of this chapter, that the one area in which researchers of nonprofit organisational effectiveness agree, is that there is no consensus on how to define or identify an effective nonprofit organisation (Herman & Renz, 1998; Rojas, 2000; Hitt & Middlemist, 1979; Lewin Group, 2000; Cameron, 1986; Connolly *et al.*, 1980; Sowa *et al.*, 2004). This conclusion is also evident in the large number of organisational effectiveness models that have been developed for nonprofit organisations, and the different philosophies that underpin these models. The reasons for this lack of consensus could be because organisational effectiveness is an abstract construct (Steers, 1975), or because researchers have tended to define effectiveness differently depending on their theoretical perspective and the purpose of their studies (Herman & Renz, 1999).

It is interesting that despite the pressure for nonprofit organisations to demonstrate that they actually make a real difference in the world and are a good investment (Sowa *et al.*, 2004; Bozzo, 2000; Lewin Group, 2000: 15; Fowler, 1997: 220; Wing, 2004), so many researchers in the field of nonprofit organisational effectiveness have tended to steer away from: i) defining an effective nonprofit organisation in terms of how well it has achieved its formally stated outcomes; and ii) identifying such an organisation as one that can provide convincing evidence of having done so. This is also happening when nonprofit organisations are being pressurised to become more accountable (Murray, 2004) and business-like (Light, 2002; Alexander & Weiner, 1998: 224; Herman & Renz, 1999). So why are so many researchers choosing this path?

The best way to explore an answer to this question is to review some of the key criticisms of the approach proposed in this thesis, together with a critique of these criticisms. The criticisms are listed below in italics, and then a counter argument is given for each of these criticisms.

i. *Criticism: The outcomes of a nonprofit organisation may change during the time period being considered.*

   Counter argument: In that case, new indicators need to be developed for the new outcomes. The organisation can also measure its effectiveness against the old indicators and new indicators in the time periods in which each of these sets of indicators were applicable.

ii. *Criticism: It is difficult to measure to measure the effectiveness of nonprofit organisations that have multiple programmes with differing outcomes, and where these programmes differ in the extent to which they achieve these outcomes.*

   Counter argument: Yet business groups/conglomerates are in a similar situation and are still required to account for the business group's/conglomerate's effectiveness. Nonprofit organisations, regardless of how many programmes they have, still have outcomes as a whole and surely effective organisations should be able to state these outcomes clearly and measure how well these

outcomes have been achieved. Programmes are merely the tools that nonprofit organisations use to achieve their outcomes and effective programmes do not automatically make an effective organisation. Furthermore, since there are minimal differences between nonprofit organisations and businesses, as concluded in the previous chapter, it is possible to define and measure nonprofit organisational effectiveness using a similar approach to that used by businesses – an outcomes-orientated approach for the organisation as a whole.

iii. *Criticism: Nonprofit organisations may deliberately select their beneficiaries in a way that helps them to achieve their outcomes, or select easily achievable outcomes, which is called "creaming" (Herman & Renz, 1999) or "cherry picking". This also relates to the observation that organisations can increase or decrease their effectiveness instantly simply by changing their formally stated outcomes.*

Counter argument: However, the donors of such organisations will soon become aware that such organisations are under-producing, especially when the outcomes that they achieve are realistically evaluated or compared with the outcomes that similar organisations have achieved. Such nonprofit organisations would need to restate their outcomes and become more effective in achieving these newly stated outcomes if they wish to continue being relevant and therefore funded. If nonprofit organisations change their outcomes from what was originally promised, this is also likely to be noticed by their donors or customers.

iv. *Criticism: The extent to which nonprofit organisations achieve their desired outcomes can easily be influenced by factors outside of their control that either limit or support the achievement of their outcomes and their donors may choose to invest/disinvest in these organisations when such organisations are falsely effective/ineffective (Herman & Renz, 1999).*

Counter argument: Businesses are also influenced by factors outside of their control. The reactions of the market and shareholders force businesses to identify and manage the risks that impact upon their effectiveness. Surely effective nonprofit organisations should be able to identify and manage their risks, and revise their strategies and formal outcomes appropriately, and consult their customers and donors when doing so? Furthermore, since successful investors in businesses do their homework thoroughly and carefully consider the context of a business before investing or withdrawing their investment, the same should apply to the donors of nonprofit organisations.

v. *Criticism: Nonprofit organisations have outcomes that are intangible or ambiguous and therefore cannot be properly measured or translated into measurable indicators (Kaplan, 2001; Lewin Group, 2000).*

Counter argument: There are a number of comprehensive and easily available guidelines on how to develop indicators for an organisation's outcomes (as discussed in the previous chapter). Surely effective nonprofit organisations should be able to clearly define their outcomes and develop appropriate indicators with which to measure the achievement of these outcomes? This relates to the tendency for some nonprofit organisations to state their formal outcomes in extremely abstract and global terms. For example the Novalis Ubuntu Institute originally intended to create a global Ubuntu and this organisation's contribution to this outcome and therefore its effectiveness would have been difficult to measure. Fortunately, this organisation has now changed its focus and now

seeks to change the organisational culture of schools in South Africa, and plans to measure these changes using a variety of tools, including but not limited to credible culture assessment tools (Confirmed with A. Bure, Novalis Executive Director, 2006).

vi. *Criticism: It is difficult to compare the effectiveness of nonprofit organisations using outcomes as a measure of effectiveness, and "the resulting effectiveness judgements could well be illegitimate" (Herman & Renz, 1999: 121).*

Counter argument: Not if they are compared against similar organisations and the unique context of each organisation is taken into account appropriately. At the same time alternate measures such as comparing the capabilities of organisations or their internal characteristics does not necessarily provide a better measure of effectiveness. The bottom line is that the existence of particular organisational characteristics or capabilities does not necessarily mean that the organisation is achieving its outcomes – activity does not mean results. Furthermore, comparing the outcomes of similar nonprofit organisations is also not always a valid comparison, since nonprofit organisations will tend to be faced with the challenges unique to their particular context, community, etc.

vii. *Criticism: Conducting an outcomes evaluation can take considerable resources (Lewin Group, 2000).* Counter argument: This depends on how vast an organisation's programmes are, and organisations with extensive programmes are likely to have more resources at their disposal to conduct an outcomes' evaluation. Surely it is possible to develop indicators with sufficient validity that are not too expensive to measure? Effective nonprofit organisations should also be able to budget for and access the resources needed to conduct outcomes' evaluations, and will hopefully realise the importance of prioritising such evaluations in order to inform strategic decisions and gather the resources they need in order to be effective. It is, after all, far easier for a nonprofit organisation to sell its products or services if it can convincingly provide evidence of the value that it has created, and the returns for its donors.

viii. *Criticism: Organisational evaluations (including outcomes' evaluations) are frequently a subjective process, and are thus influenced by political dynamics (Murray, 2004).*

Counter argument: This also depends on the nature of the outcomes being evaluated and the evaluation tools being used. External and "objective" researchers could be contracted with the agreement of all parties in order to reduce political influences. Properly conducted outcomes' evaluations should also be conducted in alignment with rigorous research practices and this would help to improve the validity or credibility of the findings.

ix. *Criticism: Organisations may use indicators that are not valid measures of an outcome (Herman & Renz, 1999).*

Counter argument: This is a why it is important for organisations to develop valid indicators of their outcomes during their initial strategic planning processes, and to involve appropriately skilled experts in this process. It also highlights why it is necessary for organisations to use skilled evaluators who can recognise invalid indicators, and for organisations that have conducted their own outcomes' evaluations to consider have their social accounts properly audited. Donors and investors can also identify this risk before investing in such organisations, by properly reviewing the

indicators that these organisations plan to use in order to determine if they have achieved their outcomes.

x. *Criticism: Outcomes' evaluations are not something that donors of nonprofit organisations take too seriously, since trying to "specify outcomes and their indicators often raises more questions than it answers" (Campbell, 2002: 244). This is evident by the lack of emphasis given by policy makers and investors when planning projects or investing in nonprofit organisations. Furthermore, there is a perceived fear amongst nonprofit organisations that outcomes' evaluations will be used to unfairly judge, control or exert power over them (Campbell, 2002).*

Counter argument: Yet all successful investors and donors need to justify the value of the investments, either to themselves or to their own investors or donors. It is logical to assume that the donors and investors have specific outcomes that they seek to achieve. Those that can measure the extent to which these have been achieved are more likely to attract the resources they need to function effectively and be successful in the long term than those that do not, especially since they themselves exist in a competitive environment. Regarding the concern that specifying outcomes and their indicators raises more questions than it answers, this is almost certainly positive since clearly these questions need to be answered, unless of course the parties concerned wish to proceed in ignorance. The measurement of outcomes should almost certainly be used as a primary source of information to judge the effectiveness of nonprofit organisations and for donors and investors to consider the actual or potential return on their investments. Finally, regarding the fear that outcomes' evaluations might be used to control nonprofit organisations, donors and investors should exert whatever power they deem ethical and appropriate to ensure that the nonprofit organisations they invest in achieve and measure their outcomes.

The researchers' criticisms presented above are common yet counter-productive. Perhaps the source of this counter-productive stance is that these researchers exist in a paradigm that sees nonprofit organisations and businesses as being fundamentally different from one another, and as a result believe that it is undesirable to apply the "bottom-line" measures (which would include the outcomes-orientated approach) of how effective businesses are to nonprofit organisations (Herman & Renz, 1999). Yet, from the discussions in the previous chapter it is obvious that this paradigm is becoming outdated and less useful, and that the traditional boundaries between nonprofit organisations and businesses are being rapidly eroded.

In contrast, this thesis proposes that the "bottom line" of all organisations, regardless of whether they are nonprofit organisations, businesses or public sector organisations, is to achieve their formally stated outcomes and create their desired combinations of social and economic value, and that the effectiveness of all organisations should be determined by how well these outcomes have been achieved. This proposition is another important element of the new paradigm that is presented in this thesis, which itself is supported by the ability of all organisations to define their outcomes, develop appropriate indicators, measure the extent to which these outcomes have been achieved, and also measure much of the value inherent in these outcomes.

3.2 What are the alternative approaches for judging the effectiveness of nonprofit organisations?

Given that there is so much criticism for defining an effective nonprofit organisation in terms of how well it has achieved its formally stated outcomes, and for identifying effective nonprofit organisations accordingly, what are the alternatives that are being proposed? A review of these alternative approaches has revealed that they can be grouped into three general categories: i) effective nonprofit organisations have, and should be identified by, the existence and quality of internal practices (systems, policies and procedures) that are considered essential to the achievement of their outcomes; ii) effective nonprofit organisations have, and should be identified by, the existence and quality of organisational capabilities that are considered essential to the achievement of their outcomes; iii) effective nonprofit organisations do not exist objectively and should be identified by the extent to which their stakeholders perceive them to be effective. (Interestingly, the various definitions of an effective nonprofit organisation are implicit in above descriptions of these approaches.) The following three sections consider the merits of each of these alternative approaches in turn.

3.2.1 The internal practices approach

The internal practices approach proposes that effective nonprofit organisations have, and should be identified by the existence and quality of internal practices (systems, policies and procedures) that are considered essential to the achievement of their outcomes (Lewin Group, 2000). For example, it has been argued that an effective nonprofit organisation will have a strategic plan, a system for measuring customer satisfaction, job descriptions for staff, a board manual, etc. (Herman & Renz, 1998). A review of some well-known organisational evaluation tools reveals that the majority of them are grounded within this approach (USAID, 2000).

The primary value of this approach are twofold: i) it allows the "effectiveness" of nonprofit organisations to be easily evaluated and compared; and ii) it allows nonprofit organisations to develop the various practices that might well result in an increase in organisational effectiveness, providing such practices are valid characteristics of effective nonprofit organisations. This approach and corresponding method for evaluating organisational "effectiveness" can therefore be constructive for nonprofit organisations with the ambition to become more effective and a need to implement the right internal practices.

However, the limitation of this approach is that it makes a false assumption that the existence and quality of organisational practices equate to the effective achievement of outcomes, yet activity does not equal the achievement of outcomes. For example, there is a common belief that organisations complying with

particular governance standards will be more effective than those that do not, and organisational evaluation tools have tended to emphasise these governance standards accordingly. Yet there is very little evidence that supports this relationship. Instead research indicates that the ability of boards of directors (and other governing body structures) to contribute to organisational effectiveness is linked to the skills, personalities and knowledge of directors and how they interact with each other (Roger, 2006.).

The internal practices approach is therefore not suitable for defining or identifying an effective nonprofit organisation, although it may assist some nonprofit organisations to identify and develop internal practices that could contribute to their effectiveness.

3.2.2 The capabilities approach

The capabilities approach proposes that effective nonprofit organisations have, and should be identified by the existence and quality of organisational capabilities that are considered essential to the achievement of their outcomes (Lewin Group, 2000). An organisational capability is defined as a "weaving together of business processes – the ability of a group of organisational processes to perform a particular function" (Stalk *et al.*, 1992:61). Capabilities are the "skills embedded in companies, people, processes and institutional knowledge" (Baghai *et al.*, 1999), and are what organisations need to be effective, succeed and outmanoeuvre their competitors in the long term (Stalk *et al.*, 1992). Since having the right organisational capabilities is so important, some businesses will even merge with or acquire other organisations in order to develop their required capabilities (Baghai *et al.*, 1999).

For example, most nonprofit organisations need to develop the ability to attract the resources needed to achieve their outcomes. This capability would involve various aspects of a nonprofit organisation's marketing, branding, financial reporting, relationship management, project management, database management and research processes working together in a synchronised fashion. This particular capability fits nicely with Yuchtman & Seashore's (1967) well-known system-resource theory, which proposes that effective organisations have the capability to attract the scarce and valued resources they need to achieve their outcomes.

This approach has value as it emphasises how important it is for nonprofit organisations to identify and develop the capabilities they need to be effective and succeed in the long term. This approach also takes a more systemic and strategic view of organisations since it acknowledges that just having the right internal practices is not enough for an organisation to be effective and succeed in the long term. Instead these internal practices need to work together with people and other organisational assets in a synchronised manner. The concept of organisational capability is more action-orientated than the concept of "organisational capacity", which dominates the jargon of the South African nonprofit sector. The limitation of the concept of capacity is that it does not imply action – it simply implies potential.

For example, a nonprofit organisation could be described as having organisational capacity if it has the right project management systems, as identified by the internal practices approach described in the previous section. However, this does not automatically mean that this organisation is effective at managing its projects. In contrast, a nonprofit organisation that has successfully developed its project management capability would have done whatever it took to ensure that its projects are being effectively managed. Another advantage of the concept of capability is that it operates across departments, functions and the abilities of staff – it is a far more practical and integrated approach than just focusing on particular policies, procedures, etc.

However, the capabilities approach is still subject to the primary limitation of the internal practices approach. The existence of required capabilities does not automatically equate to a nonprofit organisation achieving its outcomes, although it does increase the chances of this occurring. The conclusion is therefore that the organisational capabilities approach is not suitable for defining or identifying an effective nonprofit organisation, although it may assist some nonprofit organisations to identify and develop the capabilities that would hopefully contribute to their effectiveness.

3.2.3 The multiple constituency and social constructivist approach

The multiple constituency and social constructivist approach proposes that effective nonprofit organisations do not exist objectively and should be identified by the extent to which their stakeholders perceive them to be effective. This approach is based on the assumption that nonprofit organisations are likely to have multiple stakeholders (donors, clients, staff, governing body members, partners, etc.) and each of these stakeholders are likely to differ in their judgement of how effective a particular nonprofit organisation is. The judgement of these stakeholders will differ according to their beliefs of the characteristics of an effective nonprofit organisation, as well as how well the organisation is perceived to be meeting their needs. This approach also assumes that organisational effectiveness is a social construction and does not exist objectively, and the extent to which a nonprofit organisation is effective exists solely in the eyes of its stakeholders (Herman & Renz, 1998; 1999; 2004).

This approach has value as it emphasises the strategic importance for nonprofit organisations in being aware of their stakeholders, the needs of these stakeholders and the criteria that they will use to judge how effective a particular nonprofit organisation is. There is also evidence that effective organisations do measure the extent to which their stakeholders perceive the organisation to have met their needs (which will be discussed in detail in chapter 4).

However, the limitation of this approach is that a nonprofit organisation's stakeholders may potentially judge this organisation to be effective even if it does not achieve its formally stated outcomes. This

statement is indirectly supported by Herman & Renz's studies(1998, 1999; 2004) that found a tendency for a nonprofit organisation's stakeholders to differ in their judgement's of how effective a particular nonprofit organisation is, and for these judgements to also differ from the "objective" indicators of organisational effectiveness used in this study. It is Herman & Renz's belief that this proves that nonprofit organisational effectiveness is a social construct that is multidimensional in nature and exists in multiple realities. However, it could also interpreted that many of these stakeholders do not have an accurate and realistic idea of how effective the organisation actually is and are biased in their judgments. Another limitation of this approach is that it gives the impression that a nonprofit organisation exists to serve the interests of its stakeholders, instead of achieving its formally stated outcomes. The danger, of course, is that a nonprofit organisation may end up satisfying its stakeholders and considering itself effective, when instead it needs to make substantial revisions to its strategy. For example, a couple of years ago TB Care Association (2006) realised that the food-parcels it handed out to its TB patients were counterproductive and created dependency on the organisation for obvious reasons. This nonprofit organisation chose to change this part of its strategy towards health promotion, amidst the gripes and complaints of its patients and some of its stakeholders. This example illustrates that even though this organisation chose to implement best-practice strategies for implementing a community TB programme and consequently became more effective at achieving its outcomes with its limited resources, some of its stakeholders may have judged its effectiveness differently (Confirmed with R. Grant, Executive Director of TB Care Association, 2006).

In conclusion to the above discussion, the multiple-constituency and social constructivist approach is not suitable for defining or identifying an effective nonprofit organisation, although it may assist some nonprofit organisations to be aware of their stakeholders, the needs of these stakeholders and the criteria that they will use to judge a particular nonprofit organisation's "effectiveness". Furthermore, the assumption that organisational effectiveness is a social construct and exists only in the perceptions of an organisation's stakeholders, differs substantially from the definition proposed by this thesis and the objective criteria proposed for identifying effective nonprofit organisations.

3.3   What is an effective nonprofit organisation and how can it be identified?

There are obvious limitations to the three alternative approaches to defining and identifying effective nonprofit organisations that were described in the previous section, despite the value that these approaches have to offer. These approaches all have one thing in common, they are all process-focused as opposed to outcomes-focused. If these approaches are all combined, then an effective nonprofit organisation can be defined as having the required internal practices and capabilities, as well as satisfied stakeholders, and can be identified accordingly.

The danger of these approaches is that it is possible for nonprofit organisations to meet these criteria and be considered "effective", yet not achieve their formally stated outcomes. Are such organisations truly effective? This thesis proposes that they are not effective, even though they may end up inadvertently creating some combination of social and economic value. In the context of nonprofit organisations being pressurised to prove that they are good investments and actually make a real difference to the world, claims by such nonprofit organisations that they have various internal practices, capabilities or satisfied stakeholders is no longer enough to prove their worth. The tools which organisations can use to define their outcomes, develop appropriate indicators and measure how well they have achieved their outcomes clearly exist, and the time for excuses is over. This is why this thesis defines an effective nonprofit organisation as an organisation that has achieved its formally stated outcomes in the time period under consideration, and proposes that effective nonprofit organisations should be identified as being able to provide convincing evidence of having done so.

An effective nonprofit organisation (and also a business or a public sector organisation) therefore meets, and can be identified as meeting, the following criteria:

i. The organisation has clearly defined outcomes which have been formally stated. This criterion exists because it is impossible to measure how effective a nonprofit organisation is if it does not define its outcomes.

ii. The organisation has developed valid indicators (or credible indicators in the case of outcomes that can only be measured qualitatively) that can be used to measure the extent to which these outcomes have been achieved.

iii. The organisation measures the extent to which it has achieved its outcomes. Organisations that do not measure their outcomes are unlikely to know whether they are achieving their outcomes, or be able to provide convincing evidence of having achieved their outcomes, thereby making it impossible to identify if these organisations are effective or ineffective. The challenge is that many nonprofit organisations confuse outcomes with outputs (Murray, 2004). It is also likely to be difficult to find nonprofit organisations that measure their outcomes since studies have indicated that only about 18% of nonprofit organisations measure their effectiveness (Murray, 2004).

iv. The organisation achieves its outcomes and is able to provide convincing evidence of having done so. Organisations that achieve their outcomes and are able to provide convincing evidence of having done so, are by definition effective in the period in which these outcomes were achieved. The leads to the point about the efficiency of an organisation. For example, two nonprofit organisations providing the exact same products or services in similar contexts could both be judged to be effective. However, the one organisation could be considerably more efficient than the other and achieve significantly more of its outcome for a given amount of resources, and would be more likely to attract donors than the other. It is also clear that organisations can clearly be effective in one year and ineffective in another year and this is why statements about a nonprofit organisation's effectiveness should be linked to a particular time period or qualified appropriately.

The importance of nonprofit organisations setting outcomes, measuring outcomes and achieving their outcomes has generally not been given the emphasis it deserves. This is despite credible studies of nonprofit organisational effectiveness, such as those by Light (2002) and Light & Hubbard (2004), confirming that effective nonprofit organisations: i) have strategic plans that define outcomes; ii) measure their outcomes, and iii) apply business tools and approaches to their organisations. Furthermore, research on the effectiveness of businesses, which is reviewed in the following chapter, clearly confirms this.

The world needs effective nonprofit organisations that are able to provide convincing evidence that they have achieved their desired and formally stated outcomes in a given time period, and created the value inherent in these outcomes. This will clearly help to advance the credibility of nonprofit organisations as a valuable tool for addressing many of the urgent social and economic problems facing countries across the globe. This is especially pertinent with the realisation that both businesses and nonprofit organisations can create social and economic value, and that those businesses that are social enterprises are competing in the traditional domain of nonprofit organisations. It is likely that nonprofit organisations that are not able to meet this challenge and demonstrate their effectiveness will become a relic of the past, dying together with the belief that nonprofit organisations are unique. In contrast, organisations operating within the new paradigm presented in this thesis are likely to succeed in the future.

4. Research on the characteristics of effective nonprofit organisations

Effective nonprofit organisations achieve their formally stated outcomes in the time period in which they are judged to be effective, and are able to provide convincing evidence of having done so. This much is certain. What is uncertain is how exactly nonprofit organisations should function in order to be effective and create their desired combination of social and economic value. This is a pity since such information is invaluable to nonprofit organisations and their donors, investors and consultants, as it would give some indication of what nonprofit organisations should do in order to become more effective. Unfortunately, and as any thorough literature review will indicate, models of the characteristics of effective nonprofit organisations are scarce, and many of those that have been developed are not grounded in scientific research.

In the absence of scientific research on the characteristics of effective nonprofit organisations, there are two possible ways forward. The first would be to identify, using the criteria developed in the previous chapter, a mixed sample of effective nonprofit organisations and ineffective nonprofit organisations. A comprehensive evaluation of these organisations, and a comparative evaluation of these findings, would most probably reveal some of the key characteristics of effective nonprofit organisations. However, the problem with this approach is that it is likely to be extremely time consuming (beyond the scope of this thesis) and it would require the co-operation of many nonprofit organisations, many of which would be disinclined to participate in a study that is actively looking to identify some of its tests cases as ineffective. The second way forward would be to accept the similarity of businesses and nonprofit organisations (based on the arguments in chapter 2) and apply the findings of research on the characteristics of effective businesses to nonprofit organisations.

This second path is the path chosen here. However, the abundance of research on the characteristics of effective businesses presents a new challenge – what are the criteria for determining which studies should be presented in this chapter and used as a basis for designing the organisational effectiveness model in the following chapter? After much consideration, it was decided to use the following two criteria: i) the study must have been conducted according to scientific research standards (rigorous quantitative and/or qualitative research practices); and ii) the research findings should be user-friendly. These criteria will also be used to evaluate research on the characteristics of effective nonprofit organisations.

There are five parts to this chapter. In part one, three well-known studies on the characteristics of effective nonprofit organisations are reviewed. A number of established nonprofit organisation evaluation tools are also investigated to see if they can provide valuable information on the characteristics of effective nonprofit organisations. In part two, a meta-study on the characteristics of effective businesses is reviewed to determine whether there is any consensus amongst researchers as to what makes a

business effective. Part three consists of a review of three different quality models and research supporting their validity. These models and their supporting research were a surprising and valuable source of information on the characteristics of effective organisations. In part four, the reasons why it has been so difficult to make sense of organisational effectiveness research and the implications of this for this thesis are reviewed. Finally in part five, we reflect on the research that has been presented in this chapter and the extent to which this research has provided valuable information on the characteristics of effective nonprofit organisations. The overall findings of this chapter will form the basis for the organisational evaluation model and evaluation tool, the design of which is discussed in the following chapter.

4.1 What are the characteristics of an effective nonprofit organisation?

There is a substantial shortage of large-scale comparative or longitudinal studies on the effectiveness of nonprofit organisations. The majority of studies have been case studies and/or involved small sample sizes. There has also been a lack of synchronisation between those individuals and organisations advising nonprofit organisations on how to become effective, and those conducting empirical research on this topic (Murray, 2004). This was confirmed by a thorough but unproductive search of the internet and of electronic journals dealing with nonprofit organisations.

There were, however, three studies that stood out as being worth reviewing in this chapter. These were the studies by Light (2002), Herman & Renz (1998 & 2004) and Light & Hubbard (2004). A number of organisational evaluation tools that had been specifically designed for nonprofit organisations are also reviewed to establish whether these are based on scientific research and should therefore also be considered in this chapter.

4.1.1 The studies by Herman & Renz

Herman & Renz (1998 & 2004) have conducted two successive studies on the effectiveness of a particular sample of nonprofit organisations – the first study was conducted during 1993-1994 and the second during 1999-2000. The primary intention of the initial study was to compare the judgements of a nonprofit organisation's stakeholders regarding how effective the organisation was with objective indicators of "organisational effectiveness". These objective indicators were developed in meetings between a sample of donors, consultants and executive directors utilising the Delphi Method, and included:

> a mission statement; instrument of form to measure client satisfaction; planning document; list of calendar of board activities; description of or form used in CEO appraisal; description of or form

used in other employees' appraisal; report on most recent needs assessment; by-laws containing a statement of purpose; independent financial audit; statement of organisational effectiveness criteria, goals or objectives; and a board manual (Herman & Renz, 1998: 29).

It is not clear whether the objective indicators considered whether these organisations had defined their outcomes or could provide any evidence of having achieved them. The stakeholders involved in this study included a sample of each nonprofit organisation's donors, staff members and board members (members of these organisation's governance structures). Each of these stakeholders was required to complete a questionnaire in which they rated how effective the nonprofit organisation was according to predefined categories (Herman & Renz, 1998).

The findings of the study were as follows:

i. There is a correlation between the total revenue of nonprofit organisations with the extent to which nonprofit organisations comply with the objective indicators of organisational effectiveness and stakeholder judgements of organisational effectiveness (Herman & Renz, 1998).

ii. A nonprofit organisation's stakeholders tend to have differing perceptions of how effective it is. Where Herman & Renz (1998) assumed this to mean that organisational effectiveness existed in multiple realities and was a social construction, it could just as easily be assumed to mean that a nonprofit organisation's stakeholders tended to have a distorted view of its level of effectiveness. This is why this thesis proposes that a nonprofit organisation's effectiveness should be measured in terms of how well it achieves its formally stated outcomes, and such achievement should be measured as objectively and accurately as possible.

iii. The nonprofit organisations that complied with the objective indicators of organisational effectiveness tended to be judged as effective by their stakeholders. Similarly, the nonprofit organisations that did not comply with these objective indicators of "effective organisations" tended to be judged as being the least effective by their stakeholders (Herman & Renz, 1998).

iv. When the entire sample of organisations was correlated (including organisations that somewhat complied with the objective indicators of effectiveness), no statistically significant correlation was detected between judgements of organisational effectiveness and compliance with objective indicators of organisational effectiveness. This means that there is no guarantee that complying with the objective indicators of organisational effectiveness will result in an improved judgment of effectiveness by stakeholders (Herman & Renz, 1998).

The approach used by Herman & Renz (1998) is typical of the approach used by many researchers in the nonprofit sector, and suggests an underlying belief that it is either impossible or undesirable to measure a nonprofit organisation's effectiveness in terms of how well it has achieved its outcomes. Both this approach and its limitations were discussed extensively in the previous chapter.

Herman & Renz (2004) followed up on their previous study in 1999 in order to see what had happened to the nonprofit organisations that had been judged as least and most effective by their stakeholders. Out of the original sample of 64 organisations, only 55 still existed, and 44 of these were willing to participate in the study and were therefore included in the new sample. The conclusions from this round of their study were as follows:

i. Stakeholders still had differing judgements of how effective particular nonprofit organisations were, and Herman & Renz (2004) saw this as evidence confirming nonprofit organisational effectiveness as a social construct. However, this perception is based within the social constructivist and multiple constituency approach to understanding organisational effectiveness, the limitations of which were discussed in the previous chapter.

ii. There was a perception amongst stakeholders that nonprofit organisations with effective boards are more effective. However, it was also found that organisations that improved their board practices did not necessarily become more effective in terms of a recognised board effectiveness questionnaire (Herman & Renz, 2004). This is unsurprising as there is a lack of empirical evidence supporting a relationship between increased the compliance of boards with official governance standards and increased organisational effectiveness (Gillies & Leblanc, 2005).

iii. There was no correlation between organisations that changed in their compliance of the objective indicators of organisational effectiveness and changes in their stakeholders' judgements of their effectiveness (Herman & Renz, 2004). According to Herman & Renz (2004) this means that implementing the good management practices did not necessarily make a nonprofit organisation more effective. However, an alternate interpretation is that the objective indicators of "organisational effectiveness" lacked validity or credibility, especially since they did not take into account the extent to which these organisations properly defined, measured and achieved their outcomes. This, when combined with lack of consensus amongst a nonprofit organisation's stakeholders, suggests that stakeholders frequently form opinions about an organisation that are either biased or unfounded, unless of course they are informed by the findings of a proper outcomes' evaluation.

Herman & Renz's conclusion (2004) is that all nonprofit organisations should continue to improve their management practices, and should emphasise interactions with their stakeholders in order to be clear about their needs, their requirements from the organisation, and their criteria for evaluating the how effective a particular nonprofit organisation is. This conclusion makes sense and it is recommended that all nonprofit organisations take this into account. However, Herman & Renz (1998; 1999; 2004) have adopted two different approaches to organisational effectiveness, these being the internal practices approach (as illustrated by the objective indicators of organisational effectiveness, which did not include a measure of how well the organisation had achieved its outcomes) and the multiple constituency and social constructivist approach (as illustrated by the value attributed to stakeholder judgements of organisational effectiveness). This is in contrast to the definition of nonprofit organisation effectiveness that was presented in the previous chapter, which says that a nonprofit organisation is effective only if it can provide convincing evidence of having consistently achieved its formally stated outcomes.

Furthermore, even though an organisation's outcomes' evaluation may take stakeholders' perceptions into account, it is the findings of this evaluation that determines its level of effectiveness and not exclusively the perceptions of its stakeholders. The other point of difference between what this thesis and Herman & Renz proposes is their belief that organisational effectiveness is contextual and a social construct. Even though their may be some truth in this statement (e.g. different organisations may have different strengths they need to develop and weaknesses they need to overcome), effective nonprofit organisations clearly have certain generic characteristics as will become evident from the remainder of this chapter.

Herman & Renz's studies meet the criteria for screening research on the characteristics of effective organisations. Their research was conducted according to scientific research standards. It is also user-friendly since it clearly illustrates the importance of nonprofit organisations being aware of their stakeholders and these stakeholders' perceptions, and for emphasising the strategic sense of trying to meet these stakeholders' needs, though not at the sacrifice of achieving formally stated outcomes. The ability of nonprofit organisations to do this successfully is quite likely a characteristic of an effective nonprofit organisation. The limitation of Herman & Renz's studies is inherent in their paradigm and the validity of their objective indicators of "organisational effectiveness".

4.1.2 The study by Paul Light
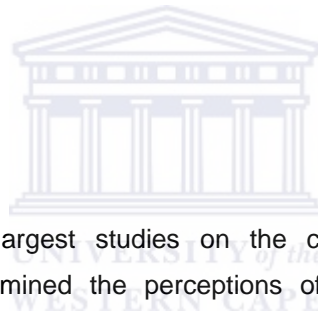
Light (2002) conducted one of the largest studies on the characteristics of effective nonprofit organisations to date. This study examined the perceptions of 250 opinion leaders (consultants, researchers and leading thinkers) and 250 executive directors of nonprofit organisations that were considered effective, regarding the characteristics of effective nonprofit organisations and what had made these organisations effective. The intention of this study was the same as the intention of this thesis – to provide nonprofit organisations with guidance on how to increase their effectiveness (Light, 2002).

How was this study conducted? One-hour telephone interviews were conducted with each of these individuals using a structured questionnaire. A smaller sample group was then re-interviewed more extensively using a semi-structured questionnaire in order to explore the findings from the first round of interviews in more detail. The questionnaires used to interview the executive directors were slightly different from the questionnaires used to interview the opinion leaders, as they had been customised appropriately. This did however hold challenges for presenting the findings from these two groups alongside each other, as is done in the following tables. Another challenge was how to filter the scores to present only significant findings, since the various questionnaires used different scoring frameworks. In response to both challenges, appropriate judgement was exercised (Light, 2002).

Table 4.1.2 describes the findings of this study, namely the perceptions of the opinion leaders and executive directors regarding the characteristics of effective nonprofit organisations.

Table 4.1.2a: What are the characteristics of an effective nonprofit organisation?

Opinion leaders	Executive Directors
Only the questions that >60% of the respondents expressed strong opinions ("most") and which are relevant to this thesis are listed below.	*Only the questions that >60% of the respondents expressed strong opinions ("a large extent" or "strongly agree" or "very well") and which are relevant to this study are listed below.*
- have been around for more than 7 years - collaborate with other organisations - have a diversified funding base - generate some unrestricted revenue - delegate authority to staff to make own decisions - use information technology to improve effectiveness - have experienced leaders that are good fundraisers, know how to motivate people and are able to foster open communications - have job descriptions for all staff - hold more than 4 board meetings each year - use data to make informed decisions - have a good strategic plan for the future	- have been around for more than 7 years and experienced significant growth in the last 5 years - collaborate with other organisations - measure outcomes of what they did - use information technology to improve effectiveness - have staff that work in teams - have leaders that are good fundraisers and know how to motivate people - have job descriptions for all staff - have boards that understand their roles - have accounting systems that provide useful and timeous decision-making information - have a good strategic plan for the future

Assuming that that the characteristics presented by these respondents are valid (i.e. actually are the characteristics of effective nonprofit organisations in terms of this thesis's definition), it is evident that effective nonprofit organisations: i) either became effective over an extended period of time and as a result of recent pressures to grow, or remained in business and grew substantially because they were effective; ii) collaborate with other organisations; ii) have a diversified portfolio of donors and generate some of their own unrestricted income; iii) have and use their financial and IT systems effectively; iv) have leaders who are skilled at fundraising, motivating staff, ensuring communication throughout their organisations, and who delegate where appropriate; v) have staff and board members that understand their respective roles; vi) have a good strategic plan that clearly defines the outcomes for the organisation; and vii) measure how well they achieve their outcomes.

These opinion leaders and executive directors were also asked a number of questions about what makes a nonprofit organisation become more effective. These questions are relevant to this thesis since it is logical to assume that something that increases an organisation's effectiveness targets a characteristic of an effective nonprofit organisation. The perceptions of the opinion leaders and executive directors regarding what makes a nonprofit organisation become more effective are presented in table 4.1.2b below.

Table 4.1.2b: What activities build organisation effectiveness?

Opinion leaders	Executive Directors
Only the questions that >60% of the respondents expressed strong opinions ("a great deal" + "a fair amount") and which are relevant to this study are listed below.	
- more strategic planning - giving executives access to better training - encouraging foundations to provide more money for capacity-building - increased emphasis on outcomes measurement - management assistance grants - increased openness to using standard business tools and techniques	- encouragement to collaborate with other nonprofit organisations - encouragement to do more strategic planning - greater access to training for executives - encouraging executive directors to stay in their jobs for longer - encouraging foundations to provide more money for capacity-building - increased emphasis on outcomes measurement - increased openness to using standard business tools or techniques

What insights can be drawn from these perceptions? Effective organisations are clearly perceived to have good strategies and competent executive directors. They also invest in their staff, take appropriate action to improve their effectiveness, use standard business tools and techniques, and measure how well they have achieved their outcomes.

In order to aid comparison of the different studies reviewed in this chapter, the insights from Light's (2002) study are categorised in table 4.1.2c on the following page according to the enabler criteria of the South African Excellence Foundation's (SAEF) quality excellence model. The decision to use this quality model

is based on a number of factors which are described in detail in section 5.2 of this thesis. Appropriate judgement has also been used to place Light's 2002 findings according to the criteria where they best fit.

Table 4.1.2c: Paul Light's findings categorised according to the enabler criteria of the SAEF model

SAEF enabler criteria	*Effective nonprofit organisations*
1. Leadership	• have leaders who are well trained and able to motivate staff, raise funds, foster open communications throughout their organisations and delegate effectively
2. Policy and strategy	• have a well-designed strategy where outcomes and their indicators are clearly defined • have measured how well they achieve their outcomes • have a diversified funding base and generate some unrestricted income • have constructive partnerships with other organisations • have invested highly in improving the capabilities that their organisations require in order to be effective
3. Customer and market focus	• have a well-designed strategy where outcomes are defined and measured
4. People management	• have governing body members and staff that clearly understand their roles • have competent and motivated staff that are able to make their own decisions
5. Resources and information management	• have useful information technology systems • have useful financial systems
6. Processes	• have made use of business tools and techniques where appropriate

The findings from Light's 2002 study begin to paint a clear picture of the characteristics of effective nonprofit organisations. This study also meets the screening criteria posed at the beginning of this chapter since it was conducted according to scientific research standards and presents user-friendly information. But to what extent are these findings endorsed by other research on the characteristics of effective nonprofit organisations?

4.1.3 The study by Light & Hubbard (2004)

In the previous section it was explained how the answers to the question of what builds organisational effectiveness can yield valuable insights into the characteristics of effective nonprofit organisations. Light & Hubbard's 2004 study of the efforts of eight donors to increase the effectiveness of nonprofit organisations is therefore worth reviewing.

The sample for this study is 273 donations with a total value of $20 million, which were given to increase the effectiveness of nonprofit organisations through 503 different engagements (an example of an engagement would be an activity such as a strategic planning process). The intention of this study was to understand which activities donors were putting their money behind, as this would give some indication of these donors' priorities and perceptions of what increases organisational effectiveness (Light & Hubbard, 2004).

Table 4.1.3, summarised from Light & Hubbard (2004), shows the frequency (in percentage terms) of the various types of activities that were sponsored by these donors as part of their efforts to increase the effectiveness of nonprofit organisations.

Table 4.1.3: What types of activities did these donors sponsor in order to increase organisational effectiveness?

Category	Focus area of activities	%
External Relations	Communications improvement, alliance building, mergers, business and programme development	16%
Internal Structure	Human resource management, staff development, restructuring and solving various management problems	9%
Leadership	Appointment and training of directors	10%
Strategic Planning	Strategic and project planning	21%
Internal Management Systems	Organisational assessments, governance and board development, fundraising, training in financial management, implementation of financial and technological systems	44%
		100%

These findings yield some interesting insights. They indirectly confirm many of the characteristics of effective nonprofit organisations as identified in Light's 2002 study (if we assume that these activities will tend to focus on developing the characteristics of effective organisations). These findings also imply that donors consider activities that build internal management systems more important relative to activities that develop the capabilities of staff and leadership, which is in contrast to the emphasis given to these activities in the three quality models reviewed later in this chapter. This most probably means that these donors are focused on ensuring that nonprofit organisations implement some very basic yet essential systems, such as financial systems, and not on ensuring that these originations become substantially more effective. It could also mean that these donors support the internal practices approach to organisational effectiveness, which was discussed in the previous chapter.

Unfortunately, when asked what activities have been most successful in increasing organisational effectiveness, the findings from Light's 2002 study, which were discussed in the previous section, are presented instead of new findings. The conclusion from this section is that these findings indirectly support some of the findings from Light's 2002 study, and that donors may well understand organisational effectiveness in terms of the internal practices approach. Therefore, while this study meets the screening criteria posed at the beginning of this chapter since it was conducted according to scientific research standards and presents user-friendly information, it does not provide much new information of the characteristics of effective nonprofit organisations.

4.1.4 Insights from well-known nonprofit organisational evaluation tools

Another potential source of information on the characteristics of effective nonprofit organisations are well-known organisational evaluation tools. It is logical to assume that these tools evaluate nonprofit organisations in terms of the characteristics of effective nonprofit organisations, provided of course that these tools are based on scientific research (research conducted according to rigorous research quantitative or qualitative research practices). Fortunately there are a substantial number of organisational evaluation tools that have been developed for nonprofit organisations, as a review of their proliferation indicates their current fashionable status. Our work is also made easier by the existence of comparative reviews of the more well-known tools by organisations such as USAID (2000) and Universalia (2002).

In order to establish whether it is worthwhile to investigate their organisational evaluation tools in more detail, the research on the four most well-known evaluation tools was reviewed. These tools were selected because they were known by researcher and are fairly typical of the evaluation tools available to nonprofit organisations. (There was no covert agenda behind the selection of this sample.) These four organisational evaluation tools are as follows:

- Capacity Assessment Grid developed for Venture Philanthropy Partners by McKinsey & Company (2001)

- Discussion Orientated Self Assessment (DOSA) developed by Levinger & Bloom (2001)

- Organisational Assessment Tool developed by NGO Manager (2006)

- Drucker Foundation Self-assessment Tool developed by the Drucker Foundation (2003)

An in-depth investigation of the organisational effectiveness research and models on these tools revealed some interesting insights. The overall sense was that these tools had been designed intuitively based on the knowledge and experience of their designers, who were familiar with organisational effectiveness research and took into account various case studies and other organisational evaluation tools. The exact nature of the research on which these tools were based could not be identified, nor whether this research had been conducted according to scientific research standards. Neither could any information on any attempts to test these tools on samples of nonprofit organisations using scientific research procedures be identified, even though such information may well exist. A cursory review of ten other nonprofit organisational evaluation tools revealed that these insights are likely to fit the majority of the other organisational evaluation tools that have been designed for nonprofit organisations. This means that despite the value that these tools may have to offer nonprofit organisations, they have a limited contribution to make to this thesis as they do not meet the screening criteria presented at the beginning of this chapter. This decision is further reinforced by the minimal emphasis given to the measurement and achievement of outcomes by these organisational evaluation tools (McKinsey, 2001; Levinger & Bloom, 1997 & 2001; NGO Manager, 2006; Drucker Foundation, 2003).

Of the various studies that have so far been reviewed in this chapter, the study by Light (2002) has yielded the most valuable information on the characteristics of effective nonprofit organisations, and this is perhaps why this study is so well known. Light's 2002 findings contribute substantially to the organisational effectiveness model that is developed in the following chapter. It is also evident that there is a drastic shortage of scientific research on the characteristics of effective nonprofit organisations, despite the important role they play in society, and this is why it is useful to investigate research on the characteristics of effective businesses for insights into the characteristics of effective nonprofit organisations.

4.2   Research on the characteristics of effective businesses

There is substantially more research on the characteristics of effective businesses than on the characteristics of effective nonprofit organisations. Much of this research also meets the screening criteria posed at the beginning of this chapter. Fortunately, this research can be applied to nonprofit organisations since there are, as was argued in chapter 2, minimal defining differences between nonprofit organisations and businesses, and nonprofit organisations are becoming progressively more business-like.

However, the abundance of research on the characteristics of effective businesses presents its own problems – which studies should be presented in this section? After reviewing research in this field and much contemplation it was decided to present Kirby's (2005) findings for the following reasons: i) Julia Kirby is a senior editor of Harvard Business Review, a well-respected and credible journal in this field, and she is in regular contact with cutting-edge theories on what makes businesses effective and more successful than their peers; and ii) her study involved a meta-analysis of the findings of several well-known "business gurus" regarding the characteristics of effective and successful businesses. The value of this is that it allows for a bird's-eye view on the field of business effectiveness, and shows up areas of consensus amongst researchers.

The sample for Kirby's study included books by ten different sets of researchers or "business gurus". These researchers and their best-known books are listed in table 4.2a below.

Table 4.2a: Business Gurus researched by Kirby

Author(s)	Key books published by these researchers
Thomas Peters & Robert Waterman	*In Search of Excellence: Lessons from America's Best Run Companies* (1982)
John Kotter & James Heskett	*Corporate Culture and Performance* (1992)
James Collins & Jerry Porat	*Built to Last: Successful Habits of Visionary Companies* (1994)
Arun Kumar Jain	*Corporate Excellence* (1998)
Jon Katzenbach	*Aligning the Hearts and Minds of Your Employees* (2000)
Richard Foster & Sarah Kaplan	*Creative Destruction: Why Companies that are Built to Last Underperform in the Market – and How to Successfully Transform Them* (2001)
Karl Weick & Kathleen Sutcliff	*Managing the unexpected: assuring high performance in an age of complexity* (2001)
Chris Zook & James Allan	*Profit from the Core: Growth strategies in an Era of Turbulence* (2001)
William Joyce, Nitin Nohria & Bruce Roberson	*What Really Works: The 4+2 Formulae for Sustained Business Success* (2003)
Timothy Breene & Paul Nunes	*Acenture* published materials

The various studies on which these books were based appeared to have all been conducted according to scientific research standards and therefore meet the first of the screening criteria presented at the beginning of this chapter. These studies were also quite extensive. For example, Joyce *et al.* (2003) in their book "*What Really Works: The 4+2 Formulae for Sustained Business Success",* studied 160 large businesses in-depth over a period of ten years and scientifically correlated the characteristics of these businesses with the value they created for their shareholders. However the findings of one of these studies is now suspect, since Peters and Waterman have now admitted that they faked some of their data (Kirby, 2005).

The challenge was how to organise the findings of these studies so that they could be compared and clearly presented. After some consideration, it was decided to categorise the proposed characteristics of effective businesses according to the Enabler Criteria of the South African Excellence Foundation's quality model, in much the same way as was done for the findings of Light's 2002 study. This decision was based on a number of different factors: i) the SAEF model is both valid and credible and illustrates the key characteristics of effective organisations; ii) it is useful to have a consistent means of comparing the characteristics of effective organisations as proposed by different studies; and iii) the SAEF model emphasises the importance of an organisation achieving both social and business outcomes, and this fits with the paradigm and definition of organisational effectiveness being proposed in this thesis. Appropriate judgement has been used to place the findings (the proposed characteristics of effective businesses) according to the criteria they best fit, even though this may mean placing a finding according to two different criteria. It was also decided that where the proposed characteristics relate to culture, they should be placed according to the leadership criterion, since it is assumed that leadership is instrumental in creating culture.

Table 4.2b on the following page categorises the findings of these various researchers, as presented by Kirby (2005), according to the enablers of the South African Excellence Foundation's quality model.

Table 4.2b: Characteristics of effective organisations

	Peters & Waterman	Kotter & Heskett	Collins & Poras	Jain	Katzenbach	Foster & Kaplan	Weick & Suttcliffe	Zook & Allen	Nohria *et al.*	Breene & Nunes
Leadership	Bias for action	Culture of attention to all constituencies Leadership from management at all levels		Entrepreneurship & innovation Courage & fire in the belly	Mission values & pride Entrepreneurial spirit Recognition & celebration	Transform rather than improve incrementally	Collective state of mindfulness		Culture Leadership	High performance anatomy
Policy & strategy	Stick to the knitting Simple form and lean staff		Preserve the core and stimulate progress A & B, not A or B Clock builders not time tellers Seeking consistent alignment	Guiding vision & stretch goals Develop new competencies		Create new business & close or sell laggards Abandon outdated structures & rules		Build & growing core business and logical adjacencies.	Strategy Structure Mergers & Partnerships Innovation	Distinctive capabilities
Customer & market Focus	Close to customer Tight-loose shop floor autonomy but central value									Marketing focus & position
People Management	Productivity through people Hands on value driven management Foster autonomy & entrepreneurship			Employee empowerment from sense of ownership Constant learning from balancing other factors Collective decision-making	Individual achievement				Talent	
Resources & information management					Process & metrics					
Processes				Communicate the core Global benchmark of excellence		New decision-making processes, control systems & mental models			Execution	

An analysis of table 4.2b reveals a number of important insights about the characteristics of effective businesses and studies to identify the characteristics of effective businesses. Firstly, it reinforces the validity of the criteria of the South African Excellence Foundation's quality model since findings from these studies can be accommodated in this model. Secondly it illustrates a degree of agreement amongst the findings of these various studies as to the characteristics of effective businesses. For example, many of these studies observed that effective businesses had good leadership and a performance-orientated culture. Thirdly, it shows the tendency for different researchers to notice different things about the characteristics of effective organisations. For example, where a number of these researchers observed that effective businesses were distinct from ineffective businesses in their customer and market focus, others did not consider this as a defining characteristic of effective businesses. Even within an individual criterion such as "customer and market focus", these researchers had different views of the characteristics of effective businesses. For example, where Peters & Waterman observed that effective businesses were "close to the customer" and had "tight-loose shop floor autonomy but central value", Breene & Noones observed that effective businesses had "market focus and position". Yet how different or similar are the views of these two groups of researchers to each other? Without an in-depth analysis and comparison of their research it is difficult to tell. This illustrates the primary problem with abstract models of organisational effectiveness, where different researchers observe organisations differently or use their own abstract terms to describe commonly observed phenomena.

These insights reveal the limitation of comparing research on the characteristics of effective organisations, especially where the findings are fairly abstract. Even though an in-depth analysis and comparison of these researchers' books are likely to yield valuable insights about the characteristics of effective organisations, their findings as presented by Kirby (2005) are not that user-friendly. They do however serve to illustrate the inherent limitations of comparing abstract and ambiguous findings of organisational effectiveness research. This means that, even though the findings of these studies are interesting, other sources of information on the characteristics of effective organisations still need to be investigated.

4.3 Quality models and their contribution to organisational effectiveness

The discovery of three well-known quality models during the literature review for this chapter proved to be invaluable to this thesis for a number of reasons: i) these models meet all the screening criteria posed at the beginning of this chapter; ii) these models have international credibility and it has been proven by a number of researchers that organisations that comply with their criteria tend to be more effective; iii) these models are user-friendly and illustrated diagrammatically in a way that reveals their underlying logic; iv) these models are supported by a large number of tools (questionnaires, toolkits, checklists, user-guides, etc.) on how to use the various models and comply with their criteria, which came in useful when designing the organisational effectiveness model and evaluation tool discussed in

the following chapter; and v) these models are outcomes-focused and emphasise measurement, which fits in nicely with the definition of organisational effectiveness and the paradigm being proposed in this thesis. These are the primary reasons that these three quality models need to be investigated in detail in this chapter.

What exactly are quality models? A quality model is a set of criteria that have been developed to represent the key characteristics of effective organisations, and these criteria are grounded in the principles of "leadership, management of people, customer focus, use of information and analysis, process improvement, strategic and quality planning" (Samson & Terziovski, 1999: 393-394). These quality models have been developed by various public sector or nonprofit organisations to assist other organisations in their respective domains to become more effective (to consistently achieve their desired outcomes and provide convincing evidence of having done so). These effectiveness-promoting organisations also provide organisations that best meet their criteria with prestigious awards, and this brings a number of indirect benefits such as increased recognition for the award winners. Examples of quality awards are: the Malcolm Baldrige National Quality Award, which is presented to award-winning organisations in the United States by their president, the European Quality Award; and the South African Excellence Award (Malcolm Baldrige National Quality Programme, 2006A&B; South African Excellence Foundation, 2006; European Foundation for Quality Management, 2003 & 2006). But awards aside, quality models are also used by organisations that simply want to evaluate themselves in terms of the characteristics of effective organisations and develop their awareness of how they can become more effective.

As was mentioned in the beginning of this section, the scientific value of the well-known quality models are beyond doubt, and the following points clearly illustrate this:

i. Businesses that have won recognised quality awards have a higher operating income and sales growth, over the ten year period following their winning of the award, than organisations that have not won awards. This conclusion was based on a study of 400 winners of quality awards between 1983 and 1993 (Hendricks & Singhal, 1997).

ii. The total quality model (referring to a composite of the well-known quality models) is a "reliable and valid instrument for predicting organisational performance" (Samson & Terziovski, 1999: 404). This conclusion was based on a study of 1,200 Australian and New Zealand manufacturing businesses *(ibid)*.

iii. Out of all the criteria typically presented by these quality models, those criteria relating to leadership, people management and customer focus are the best predictors of organisational effectiveness. This conclusion was based on a study of 1,200 Australian and New Zealand manufacturing businesses (Samson & Terziovski, 1999).

iv. Research has shown that organisations that implement quality models will tend to become more effective (Baldrige National Quality Programme, 2006B).

v. The Malcolm Baldrige National Quality Programme's quality model is perceived as being both useful and an accurate representation of characteristics of effective organisations (Samson & Terziovski, 1999).

vi. A study of 600 award-winners of 140 different quality awards found that these organisations increased their operating income by 91% in the five years following their winning of the award, compared with 43% for organisations in the control group. The sales figures of the award-winners had also grown by 69% in the same time period, compared with 32% for organisations in the control group (Hendricks & Singhal, 2000).

vii. "When total quality management is implemented effectively, financial performance improves dramatically" (Hendricks & Singhal, 2000: 17).

Although well-known quality models have received some criticism, Hendricks & Singhal (2000) note that many of the studies criticising the use of quality models and their effectiveness have focused on examining perceptions of these models, and not on their relationship with business results. Furthermore, these studies have also put quality models on a pedestal and expected them to solve all business problems, which is setting them up for failure instead of focusing on the real benefits that they have to offer (Hendricks & Singhal, 2000).

Since there are slight variations between the quality models and their criteria, it is worthwhile examining some of these models in more detail to get a better sense of how they view effective organisations. The quality models by the Malcolm Baldrige National Quality Programme, the European Foundation for Quality Management, and the South African Excellence Foundation will therefore be reviewed in the following sections. Since there is no real difference between nonprofit organisations and businesses, it is assumed that the characteristics of effective businesses are much the same as the characteristics of effective nonprofit organisations. Furthermore, as discussed in chapter 2, both nonprofit organisations and businesses are focused on generating the revenue they need to achieve their outcomes and create their desired combination of social and economic value.

4.3.1 The Malcolm Baldrige National Quality Programme (MBNQP).

The Malcolm Baldrige National Quality Programme (MBNQP) is the United States' national quality programme. It was established in 1987 and is hosted by National Institute of Standards and Technology in the United States' Department of Commerce. The MBNQP has published three slightly different sets of "Criteria for Performance Excellence" and these include the: Baldrige Healthcare Criteria; Baldrige Educational Criteria; and Baldrige Quality Criteria. It is noteworthy that the Baldrige Quality Criteria (2006) have been adapted to include nonprofit organisations, as this endorses the conclusion of chapter 2 of this thesis, that the traditional stereotypes of nonprofit organisation and business are rapidly eroding (Baldrige National Quality Programme, 2006A&B).

The purpose of the Malcolm Baldrige National Quality Programme's Criteria for Performance Excellence, is threefold: i) to identify the winners of the programme's quality awards; ii) to provide a self-assessment tool that organisations throughout the world can use to assess themselves in terms of the characteristics of effective organisations; and iii) to disseminate research on what makes a effective organisation. The core concepts and values on which this quality model is based are: visionary leadership; customer-driven excellence; organisational and project learning; the valuing of employees and partners; agility; a focus on the future; management for information; management by fact; social responsibility; a focus on results and creating value; and a systems perspective. These are perceived as the core concepts and values of effective organisations, regardless of whether they are businesses, nonprofit organisations or public-sector organisations. These core concepts and values are embodied in the 7 criteria and the 19 sub-criteria of this quality model (Baldrige National Quality Programme, 2006A&B).

The Malcolm Baldrige National Quality Programme's (2006A&B) quality model is illustrated below as figure 4.3.1.
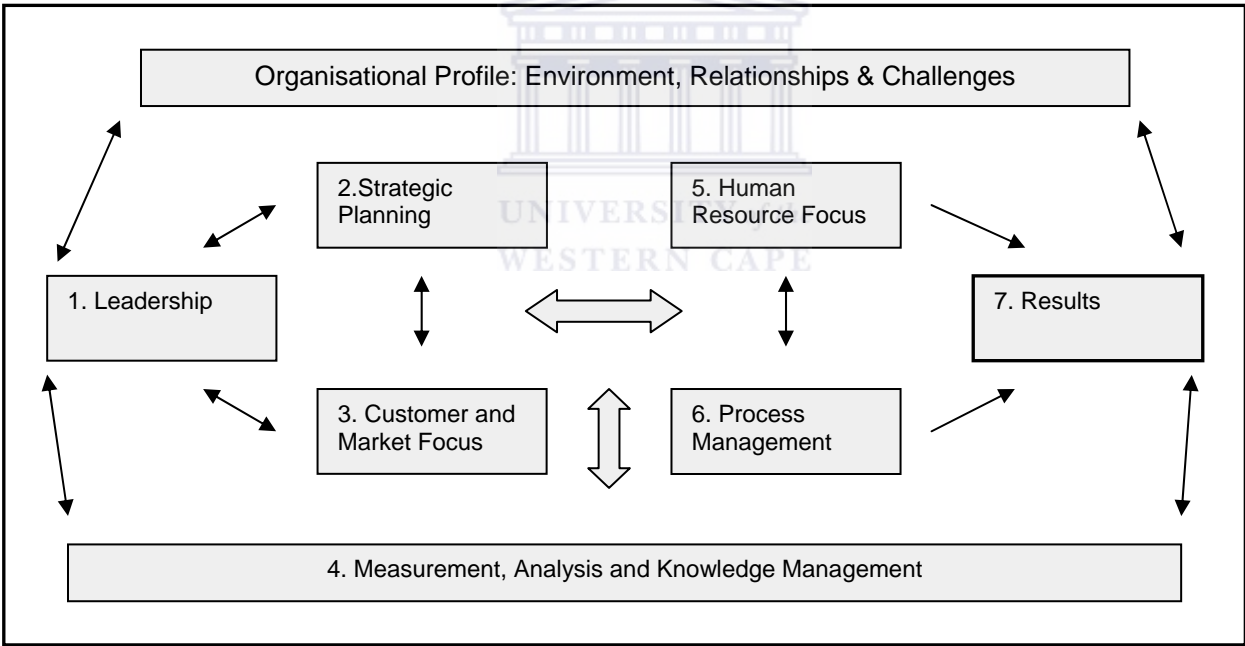
Figure 4.3.1: The Malcolm Baldrige National Quality Programme's quality model

The criteria and sub-criteria of the Malcolm Baldrige National Quality Programme's (2006A&B) quality model are summarised in table 4.3.1 below.

Table 4.3.1: The MBNQP's quality model and its criteria

Criteria	Sub-criteria
Leadership	Senior leadership
	Governance & social responsibilities
Strategic planning	Strategic development
	Strategic deployment
Customer and market focus	Customer and market knowledge
	Customer relationships and satisfaction
Measurement, analysis & knowledge management	Measurement, analysis and review of organisational performance
	Information and knowledge management
Human resource focus	Work systems
	Employee learning and motivation
	Employee well-being and satisfaction
Process management	Value-creation process
	Support processes and operational planning
Results	Products and service outcomes
	Customer-focused outcomes
	Financial and market outcomes
	Human resource outcomes
	Organisational effectiveness outcomes
	Leadership and social responsibility outcomes

There is considerably more depth to this model that just these criteria and sub-criteria, as the characteristics of effective organisations are also reflected in the detailed questions contained in the Criteria for Performance Excellence (Baldrige National Quality Programme, 2006A).

The basic principle behind this quality model is "that leadership drives the activities [such as people management, policy and strategy, management of process, and management of resources] towards excellence in quality results and customers' satisfaction" and that "these results need to be quantifiable, measurable and benchmarked" (Bohoris, 1995).

There is a substantial amount of research on this quality model as it is most probably the most well-known and influential of the various quality models that have been developed (Samson &Terziovski, 1999; Evans & Jack, 2003). In addition, many of the other quality models are either based on or are highly influenced by this model since it is recognised worldwide (Ferreira, 2003). Some key research findings on the MBNQP's quality model are as follows:

i. There is evidence for the hypothesis that there is a positive relationship between business results and organisational and management practices, as measured by the MBNQP's quality model (Evans & Jack, 2003).

ii. The winners of the Malcolm Baldrige National Quality Awards tended to have a higher level of financial performance, product or service quality, and market share than their competitors. This conclusion was based on a study of the 17 award-winners between 1987 and 1994. However, it was also concluded that compliance with this quality model would not guarantee effectiveness, although it would certainly increase an organisations current level of effectiveness (Wisner & Eakins, 1994).

iii. The MBNQP's quality model correctly illustrates the relationships between organisational constructs required from an effective organisation (Pannirselvam & Ferguson, 2001).

iv. The majority of large companies in the United States have implemented the MBNQP's quality model and there is evidence of a positive relationship between the implementation of this model and success in the market (Ferreira, 2003).

v. Organisations tend to find the MBNQP's quality model useful and exceeding their expectations (Samson &Terziovski, 1999; Pannirselvam & Ferguson, 2001). This is perhaps why more than two million copies of the Criteria for Performance Excellence have been formally requested between 1988 and 1999 (Flynn & Saladin, 2001).

This research and the preceding discussions give some indication of the validity and credibility of this model, and the extent to which it will be useful to this thesis.
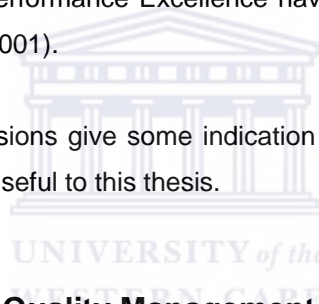
4.3.2 European Foundation for Quality Management (EFQM)

The European Foundation for Quality Management (EFQM) was established in 1988 with the Mission to "be a driving force for sustainable excellence in Europe" (European Foundation for Quality Management, 2003), and is meant to be Europe's equivalent to the Malcolm Baldrige National Quality Programme.

The core concepts and values on which this quality model is based are as follows: results orientation; customer focus; leadership and constancy of purpose; management by processes and facts; people development and involvement; continuous learning, innovation and improvement; partnership development; and corporate social responsibility. A comparison of these core concepts and values with those of the MBNQP's quality model reveals distinct similarities (European Foundation for Quality Management, 2003).

The European Foundation for Quality Management's (2006) quality model is illustrated below as figure 4.3.2.
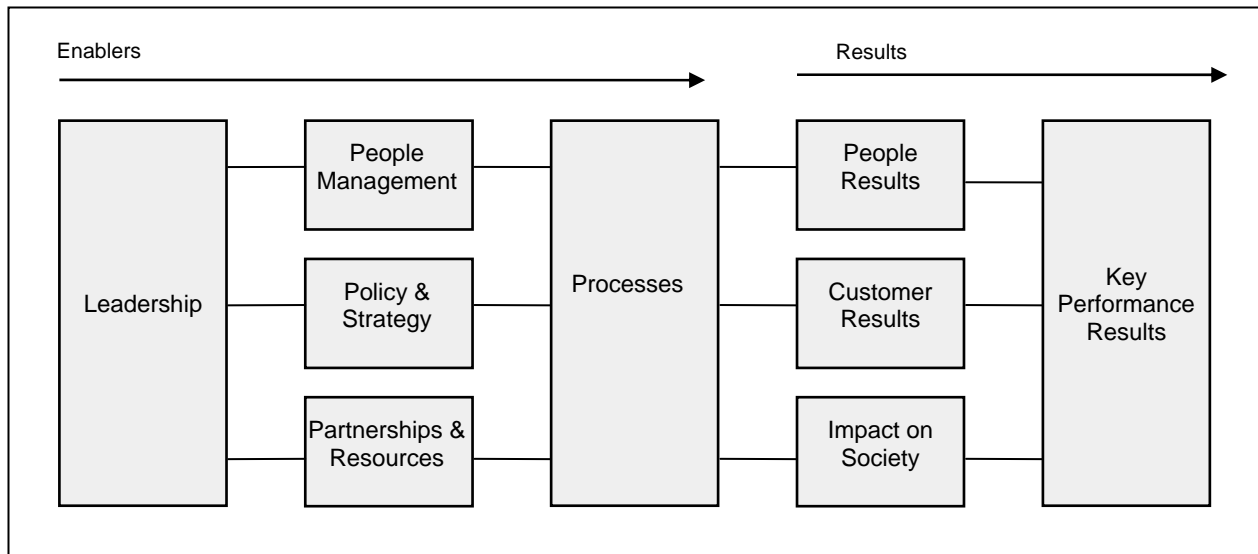
Figure 4.3.2: The European Foundation for Quality Management's quality model

The basic principle behind this quality model is that "the results, including customer and people satisfaction, and impact on society, are achieved through leadership driving the enablers, such as policy and strategy, people management, resources, and processes, leading to excellence in business results" (Bohoris, 1995).

There is also a fair amount of research on the EFQM's quality model and some of the key research findings are presented below:

i. A study of 120 businesses that had won the European Quality Award found that their sales, operating income, growth of assets, capital expenditure over assets and over sales improved substantially more that control/comparison companies over a five-year period following the winning of this award. The conclusion of this study was that implementing the principles embodied in the EFQM's quality model tended to help organisations become more effective (Centre for Quality Excellence, 2005).

ii. The associations between the enablers and the results in this quality model have been tested and found to be valid. Organisations which develop the enablers will achieve better results – there is a causal relationship (Bou-Lluser *et al.*, 2005).

The EFQM's quality model is clearly valid and credible, and therefore of use to this thesis.

4.3.3 South African Excellence Foundation (SAEF)

Inspired by the MBNQP's and EFQM's quality models, the South African Excellence Foundation (SAEF) was established in 1997 to change the culture and increase the effectiveness of South African organisations, with the long-term intention of improving the quality of life of South Africa's citizens. The SAEF's quality model is based on the EFQM's quality model, and is also influenced by MBNQP's quality model (South African Excellence Foundation, 2006).

The SAEF presents awards in the following categories: businesses, SMMEs, public sector organisations, and local government. This illustrates that this quality model does not only work for businesses but also for other types of organisations. The core concepts and values on which this model is based are as follows: results orientation; customer focus; leadership & constancy of purpose; management by processes and fact; people development and involvement; continuous learning, innovation and improvement; partnership development; and social responsibility. A comparison of these core concepts and values with those of the MBNQP and EFQM's models reveal definite similarities (South African Excellence Foundation, 2006).

The South African Excellence Foundation's 2006 quality model and its criteria are illustrated below as figure 4.3.3.
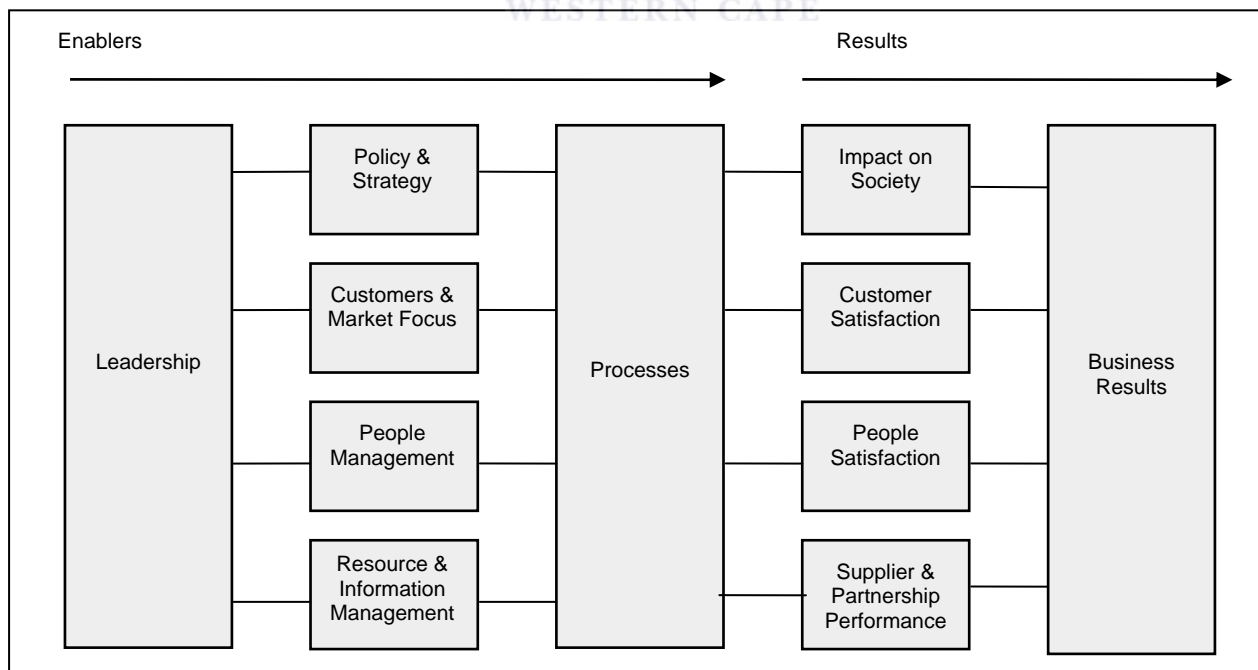
Figure 4.3.3: The South African Excellence Foundation's quality model

The various criteria of the South African Excellence Foundation's quality model are summarised in table 4.3.3 below.

Table 4.3.3: The SAEF's quality model and its criteria

Criteria	Description
Leadership	How the behaviour and the actions of the executive team and all other leaders inspire, support and promote a culture of Performance Excellence
Policy and Strategy	How the organisation formulates, deploys, reviews and turns policy and strategy into plans and actions
Customer and Market Focus	How the organisation determines the needs, requirements and expectations; enhances relationships and determines satisfaction of customers and markets
People Management	How the organisation develops and releases the full potential of its people
Resources and Information Management	How the organisation manages and uses resources and information effectively and efficiently
Processes	How the organisation identifies, manages, reviews and improves its processes
Impact on Society	What the organisation is achieving in satisfying the needs and the expectations of the local, national and international community at large (as appropriate)
Customer Satisfaction	What the organisation is achieving in relation to the satisfaction of its external customers
People Satisfaction	What the organisation is achieving in relation to the satisfaction of its people
Supplier and Partnership Performance	What the organisation is achieving in relation to the management of supplier and partnering processes
Business Results	What the organisation is achieving in relation to its planned business objectives and in satisfying the needs and expectations of everyone with a financial interest or other stake in the organisation

(The descriptions in table 4.3.3 are quoted directly from the South African Excellence Foundation, 2006.)

Just as with the MBNQP's quality model, there is considerably more depth to this model that just these criteria and sub-criteria, as the characteristics of effective organisations are also reflected in the detailed questions contained in the various organisational evaluation tools released by the SAEF to measure an organisation's compliance with this quality model (South African Excellence Foundation, 2006).

There is clearly a strong resemblance between the SAEF's and EFQM's quality models, and the underlying logic between the enablers and results are the same. Although no scientific research could be found on the SAEF's model, it clearly has scientific value since it is based on the MBNQP and EFQM's quality models and shares almost all the same criteria as these two models. (See table 5.3.4 for a comparison of the criteria of these models.)

4.3.4 Commonalities between these three different quality models

The MBNQP, EFQM and SAEF's quality models appear to have a lot in common, and this suggests one or more of three things: i) these quality models are closely influenced by each other; ii) these quality models are based on similar research on the characteristics of effective organisations; and/or iii) there are generic characteristics of effective organisations that can be identified through rigorous research and which are correctly reflected by these quality models. On reflection it does seem that all three of these points most probably apply, and this further reinforces the scientific value of these models and the characteristics of effective organisations that they propose.

A detailed analysis of these quality models reveals some of their key commonalities:

i. These quality models are non-prescriptive. They do not tell organisations how they should run or be structured – they simply provide advice on the characteristics of effective organisations and encourage self-reflection.

ii. These quality models are supported by substantial research that shows compliance with a recognised quality model is correlated with organisational effectiveness.

iii. These quality models are all systems models. In other words they view organisations as systems and consider the relationships between their various criteria (the characteristics of effective organisations).

iv. These quality models are all results-focused, as indicated by their logic and the weightings of their results criteria.

v. These quality models all contain fairly similar criteria, as is illustrated by table 4.3.4 following this section. (In this table the primary criteria of these three quality models are compared using the SAEF's model as the reference column. Appropriate judgement has been used to place the criteria in the rows where they best fit, even though it may mean placing a single criterion in a number of different rows.)

vi. These models all emphasise the value of self-assessment and reflection, as organisations are encouraged to assess themselves in terms of these models and reflect on what they need to do in order to increase their effectiveness.

vii. These models all weight their criteria and tend to use fairly similar weightings. This shows that there is some agreement on the relative contribution of these criteria to overall organisational effectiveness.

viii. A comparison of the organisational evaluation tools used to measure compliance with the SAEF and MBNQP's quality models reveals a degree of similarity in their questions, and this demonstrates a degree of consensus on the characteristics of effective organisations. (Baldrige National Quality Programme, 2006A&B; South African Excellence Foundation, 2006; Fantus Technologies, 2004; European Foundation for Quality Management, 2003 & 2006).

There are also some differences between the various quality models, although not really between the SAEF and EFQM's quality models, since the SAEF's model is based on the EFQM's model. The primary

difference between the EFQM's (and therefore the SAEF's) quality model and MBNQP's quality model is nicely summarised by Bohoris (1995), who observes that:

> *The MB (Malcolm Baldrige) accepts that quality is customer-driven and therefore focuses on customer satisfaction, benchmarking, competitive comparisons with the industry average, the industry leader, and the principal competitors in the company's key markets. The EQA (European Quality Award) focuses on the relations with the community, and customers' and employees' satisfaction.*
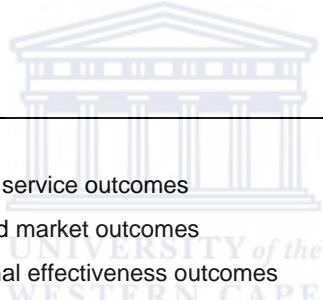
These three quality models clearly meet the screening criteria posed at the beginning of the chapter. They are based on and supported by scientific research, and therefore have scientific value. These models also appear to be user-friendly. The existence of various toolkits (including organisational evaluation tools) that are associated with these quality models further consolidates the value they have to offer this thesis.

Table 4.3.4: Comparing the three quality models

South African Excellence Foundation	Malcolm Baldrige National Quality Programme	European Foundation for Quality Management
Enablers		
Leadership • Impact of executive team and leaders on organisational excellence	1. Leadership • Senior leadership • Governance and social responsibilities	1. Leadership
2. Policy & strategy • Strategy formalisation • Strategy deployment • Strategy review	2. Strategic planning • Strategic development • Strategic deployment	3. Policy & strategy
3. Customer & market focus • Determine needs of customers • Relationships with customers • Measure satisfaction of customers	3. Customer & market focus • Customer & market knowledge • Customer relationships and satisfaction	
4. People management • Staff development and utilization	5. Human resource focus • Work systems • Employee learning and motivation • Employee well-being and satisfaction	2. People management • Developing people • Utilising full potential of people
5. Resources and information management • Utilisation of resources and information	6. Process management • Value-creation process • Support processes and operational planning	4. Partnership & resources
6. Processes • Identifying processes • Managing processes • Reviewing processes • Improving processes	4. Measurement, analysis and knowledge management • Information and knowledge management 6. Process management • Support processes and operational planning	5. Processes

Results		
7. Impact on society • Impact on communities and broader society	7. Results • Leadership and social responsibility outcomes	8. Impact on society
8. Customer satisfaction • Customer satisfaction	7. Results • Customer-focused outcomes	7. Customer results
9. People satisfaction • Staff satisfaction	7. Results • Human resource outcomes	6. People results
10. Supplier and partnership performance • Supplier-related outcomes • Strategic-partner-related outcomes		
11. Business results • Achievement of business objectives • Satisfaction of stakeholders' expectations	7. Results • Product and service outcomes • Financial and market outcomes • Organisational effectiveness outcomes	9. Key performance results

4.4 Why has it been so difficult to decipher research on the characteristics of effective organisations?

It has been surprisingly difficult to make sense of research on the characteristics of effective organisations, especially with the controversy surrounding the definition of organisational effectiveness and the characteristics of effective organisations. Why does this controversy exist and why have researchers in this field not been able to agree on a universal theory of organisational effectiveness? It is worthwhile to reflect on the reasons for this, as it may have implications for the organisational effectiveness model that will be developed in the following chapter.

The first challenge with comparing and making sense of organisational effectiveness research relates to the agenda and paradigm of the researchers involved. Since organisational effectiveness is an abstract construct (Steers, 1975), researchers have tended to define organisational effectiveness differently depending on their perspective and the purpose of their studies (Herman & Renz, 1999: 107). Furthermore, studies that have used different criteria to define an effective organisation and have used different ways of selecting organisations to participate in their sample groups (Kirby, 2005), may find a lack of agreement between their findings. For example, this thesis has defined effective nonprofit organisations as those that are able to provide convincing evidence of having consistently achieved their formally stated outcomes, and has focused on identifying the characteristics of such organisations. In contrast, Herman & Renz (1998 & 2004) seem to have defined effective nonprofit organisations as those that are either judged to be effective by their stakeholders or have certain characteristics that indicate their "effectiveness". This would mean that the characteristics of effective organisations selected using this thesis's definition of organisational effectiveness may differ from the characteristics of "effective" organisations selected using Herman & Renz's definition.

There are a range of other variables that influence the findings of organisational effectiveness studies and the extent to which they can be compared. Some studies have identified the characteristics of effective organisations in a particular context and make the mistake of generalising them out of context. This undermines the validity or applicability of those characteristics that are context dependent (Steers, 1975). Studies have also tended to examine organisations over different time periods and this potentially presents a problem, since organisations that are effective in the short term may have different characteristics from organisations that are effective in the long term (Steers, 1975; Connolly *et al.*, 1980). Studies may also have used different levels of analyses and this is a potential source of confusion since an effective branch or department may have different characteristics from an effective conglomerate (Kirby, 2005). To further complicate matters, some studies have found that organisations may require different characteristics to be effective at different points in their lifecycle (Quinn & Cameron's, 1983; Cameron & Whetten, 1981). These are but some of the factors that can influence the findings of organisational effectiveness studies, and which should be born in mind when analysing this research. This is one of the reasons why it is so important for researchers to clearly present their research procedure and define the context of their studies.

Fortunately the well-known quality models appear to have reached a degree of consensus on the generic characteristics of effective organisations, which apply across contexts, time-frames and lifecycles. Another point in favour of these quality models is the fact that they have also taken causality into account in the relationships between the enabler and results criteria, something which other studies may not have sufficiently considered (Steers, 1975; Cameron, 1986; Kirby, 2005).

The above discussions illustrate the importance of being aware of the context of organisational effectiveness studies and the research procedure that was used, before considering their findings. These discussions also suggest that the field of organisational effectiveness is likely to remain controversial for the near future.

4.5 Reflecting on the characteristics of effective nonprofit organisations

Research on the characteristics of effective nonprofit organisations has been gathered from three different sources. The first and most obvious source was research on the characteristics of effective nonprofit organisations, yet with the exception of Herman & Renz's 1998 and 2004 studies, Light's 2002 study, and Light & Hubbard's 2004 study, there seemed to be a distinct lack of research that was conducted according to scientific research standards in this field. A review of some well-known organisational evaluation tools also failed to yield useful information on the characteristics of effective nonprofit organisations, since it could not be established whether they had scientific value. Light's 2002 study proved to be a valuable source of information, and its findings are indirectly supported by Light & Hubbard's 2004 findings. The primary value of Herman & Renz's 1998 and 2004 studies is to illustrate another paradigm of organisational effectiveness, as well as the importance for nonprofit organisations to properly manage their relationships with their various stakeholders.

The second source of research was research on the characteristics of effective businesses, which is applicable to nonprofit organisations given the trend for nonprofit organisations to become more business-like. However the abundance of research in this field presented its own challenge – which studies to present in this chapter. After much consideration it was decided to present Kirby's (2005) meta-analysis of research by several researchers or "gurus" in the organisational effectiveness field. The findings of these researchers were categorised using the South African Excellence Foundation's quality model as a framework. A review of these findings in this new format led to two key insights. The first was that it is difficult to understand and compare abstract findings without an in-depth understanding of what is meant by them. The second is that they endorse the enabler criteria of the SAEF's quality model since they could all be accommodated in this model. The conclusion was that the characteristics of effective organisations that these various researchers proposed had limited value to this thesis, even though an in-depth analysis of their books might yield value.

The various quality models proved to be an unexpected but valuable source of research on the characteristics of effective organisations for the reasons presented at the beginning of section 5.3. They also met all the screening criteria posed at the beginning of this chapter since they are based on and supported by scientific research, and are user-friendly. The conclusion was that these quality models, and their associated organisational evaluation tools, accurately represent the characteristics of effective organisations and should therefore form the basis for the organisational effectiveness model and evaluation tool that will be developed in the following chapter.

5. Designing a nonprofit organisational effectiveness model and organisational evaluation tool

Effective organisations, regardless of whether they are nonprofit organisations or businesses, share certain generic characteristics because of the similarities between them. It logically follows that those organisations that have successfully developed these characteristics are more likely to become effective than those that have not, and this assertion has been verified in research presented in the previous chapter. This raises the question of what this thesis has to offer those nonprofit organisations that are committed to becoming more effective. The answer is two things. The first is a valid model of organisational effectiveness that clearly illustrates the characteristics of effective organisations and the relationships between these characteristics, and is built upon research discussed in the previous chapter. The second is a tool that elicits valuable information on the extent to which a nonprofit organisation complies with these characteristics. The objective of this chapter is therefore to develop such an organisational effectiveness model and evaluation tool that provides information which nonprofit organisations, researchers, donors, investors and consultants will find valuable.

There are a number of steps that need to be followed in order to achieve this objective. The first step is to design a model of organisational effectiveness that takes the findings from the previous chapter into account, and contains criteria which are endorsed by scientific research (see definition) as being correlated with effective organisations. The second step is to select the research philosophy in which the organisational evaluation tool will be based, and then to design the organisational evaluation tool that is capable of evaluating the extent to which nonprofit organisations comply with the proposed characteristics of effective nonprofit organisations. The third step involves field-testing the organisational evaluation tool to determine if it can succeed in the real world and provide information that its desired audiences would consider valuable, and revising this tool according to the feedback received. Rigorous research practices will also need to be investigated before this can be done since they will have an important impact on both the procedure for conducting the field-test and recommended procedure for future use of this organisational evaluation tool. In the spirit of transparency and scientific research practices, the reasoning behind design decisions and the field-testing procedure will be clearly presented throughout this chapter.

5.1   Designing a model of nonprofit organisational effectiveness

There are three possible strategies that can be followed in designing a model that clearly illustrates the characteristics of effective organisations and the relationships between these characteristics. The first strategy involves designing an entirely new model from scratch, based on research regarding the characteristics of effective nonprofit organisations. This strategy is, however, time-consuming, and it is likely that it will require considerable effort to establish the validity or credibility of this "reinvented" model. The second strategy involves using an existing organisational effectiveness model in its current form. The

three quality models that were reviewed in the previous chapter would most probably be the best candidates for this for reasons discussed in the previous chapter. These quality models are also internationally recognised and supported by a range of resources, which include organisational evaluation tools that have already been designed and tested. However, the limitation with using these models as is, is that they are designed with businesses is mind and do not consider some of the finer details of nonprofit organisations, such as the existence of donors or the importance of social impact. This leads on to the third strategy, which is to customise or fine-tune an existing organisational effectiveness model to better reflect the essence of nonprofit organisations and the characteristics which make them effective. One of the three quality models seems to be the best material to customise, for the reasons just mentioned. The question is which one of these three quality models would most be most suitable for customisation.

After much consideration it was decided to customise the South African Excellence Foundation's (SAEF) quality model and to try and incorporate the best features of the other two quality models, as well as key findings from the previous chapter, into its structure. The decision to use the SAEF's quality model in preference to the other two quality models was based on three factors: i) the SAEF's quality model is based on both the MBNQP and EFQM's quality models and has already sought to incorporate the best features of both these quality models into its structure; ii) the researcher has access to the organisational evaluation tool and other resources used by the SAEF and consulting businesses to implement this model in organisations, courtesy of Fantus Technologies (2006); and iii) it seems appropriate to use a South African quality model since the researcher lives in South Africa and South African nonprofit organisations have participated in the field-test of the organisational effectiveness model and evaluation tool.

A number of changes were needed to be made to the SAEF's model in order to customise it for nonprofit organisations, and these included:

i. The enabler criterion "Customer & Market Focus" was replaced with the enabler criterion "Society Focus". Where "Customer & Market Focus" had focused on an organisation's understanding of the needs of its customers and markets, "Society Focus" focuses on an organisation's understanding of its beneficiaries, the various players its industry and the social problems it strives to solve. This new criterion reflects the actual "customers and markets" of nonprofit organisations.

ii. The result criterion "Donor satisfaction" was added because of the important role that donors play in many nonprofit organisations. Without satisfied donors, nonprofit organisations are unlikely to survive in the long term and access the resources they need to achieve their formally stated outcomes. This criterion also relates to whether nonprofit organisations have measured how satisfied their donors are, since organisations that do this are logically likely to be more successful in managing their relationships with their donors than those that do not. However, when this model is applied to nonprofit organisations that have investors instead of donors, this criterion should be changed to "Investor Satisfaction"; and when it is applied to nonprofit organisations that have neither donors or other investors, and therefore survive on income generated from the sale of

products or services to customers that are not beneficiaries, this criterion should be changed to "Supplier satisfaction", which was an existing criterion in the SAEF's model.

iii. The result criterion "Customer results" was renamed "Beneficiary results" and focuses on how satisfied a nonprofit organisation's beneficiaries are with the products or services that it is providing. In most instances, satisfied beneficiaries are a fairly good indication that a nonprofit organisation has understood and is meeting the needs of its beneficiaries. This criterion also relates to whether nonprofit organisations have measured how satisfied their beneficiaries are, since organisations that do this are logically far more likely be successful in managing their relationship with their beneficiaries than those that do not, as well as ensuring that their products and services actually meet the needs of these beneficiaries. However, when this model is applied to nonprofit organisations that have customers instead of beneficiaries, this criterion should be renamed "Customer results" once more, and when it is applied to nonprofit organisations that have both customers and beneficiaries, and where these two groups are separate from one another, then both the criteria of "Customer results" and "Beneficiary results" will need to exist. For example, a nonprofit organisation might be paid by the government (the customer) to deliver services to clinics in poor communities (the beneficiaries).

iv. The result criterion "Impact on society" was moved alongside "Business results" and renamed "Social impact". This is because the purpose of nonprofit organisations is to create positive changes to the lives of individuals and to society – in other words, to create social and economic value. Having the criterion "Business results" alongside "Social impact" also reflects the trend, which was discussed in the chapter 2 of this thesis, for social enterprises to have a double bottom line of social outcomes (including both the social and the economic value created by an organisation) and financial results. Nonprofit organisations are deemed to have fulfilled the criterion of "Social impact" if they can provide convincing evidence of having consistently achieved their formally stated outcomes. This means that only effective nonprofit organisations comply with the criterion of "Social impact". The converse is that nonprofit organisations that do not comply with this criterion are simply not effective, no matter how well they comply with the requirements of the other criteria.

The customised model of nonprofit organisation effectiveness is show below as figure 5.1.
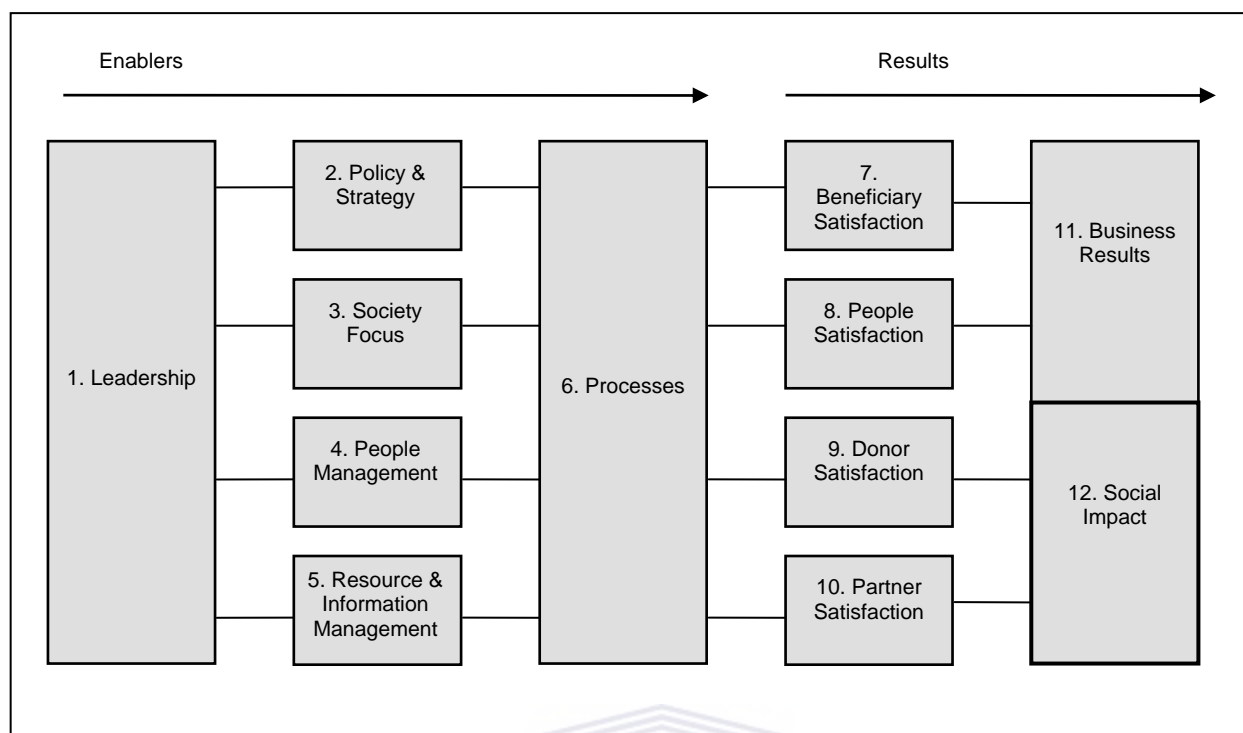
Figure 5.1: The customised organisational effectiveness model

The criteria of this model reflect the general or abstract characteristics of effective nonprofit organisations, and are described in table 5.1 below.

Table 5.1: Criteria of the customised organisational effectiveness model

Criteria	Abstract characteristic of an effective nonprofit organisation
1. Leadership	The nonprofit organisation is guided and inspired by its leaders.
2. Policy & strategy	The nonprofit organisation has designed, and is implementing, a well-thought out strategy to achieve its formally stated outcomes.
3. Society focus	The nonprofit organisation clearly understands the problem it is focused on addressing and the best practice for solving this problem.
4. People management	The nonprofit organisation has developed its people to their full potential (staff members, volunteers and governing body members).
5. Resources & information Management	The nonprofit organisation manages its resources and information efficiently and effectively.
6. Processes	The nonprofit organisation has identified and improved essential processes.

7. Beneficiary satisfaction	The nonprofit organisation can provide convincing evidence of having satisfied its beneficiaries.
8. People satisfaction	The nonprofit organisation can provide convincing evidence of having satisfied its people (staff members, volunteers and governing body members).
9. Donor satisfaction	The nonprofit organisation can provide convincing evidence of having satisfied its donors.
10. Partner satisfaction	The nonprofit organisation can provide convincing evidence of having satisfied its partners.
11. Business results	The nonprofit organisation has met its financial targets in all areas.
12. Social impact	The nonprofit organisation can provide convincing evidence of having achieved its formally stated outcomes.

(The concrete characteristics of nonprofit organisations, which make up the abstract characteristics that are illustrated by the model's criteria and the above table, are identified and evaluated by the organisational evaluation tool which is developed in this chapter. Table 5.2 in the following section illustrates the relationship between the concrete and abstract characteristics of an effective organisation.)

Nonprofit organisations that comply with this model's criteria are deemed to be effective and to have the characteristics of effective organisations. Nonprofit organisations that do not comply with the "Social impact" criterion are deemed to be ineffective, even though they may have many of the characteristics of effective organisations. This reflects the decision, explained in chapter 3, to define organisational effectiveness in terms of the achievement of an organisation's formally stated outcomes and not the existence of particular systems or processes.

This model is considered to be valid and to be endorsed by research conducted according to scientific research standards. The reasons for this are as follows. Firstly, this model contains much the same criteria as the SAEF, EFQM and MBNQP's quality models, and these models and the organisational characteristics their criteria represent, have been correlated with organisational effectiveness (as is evident from the previous chapter). In other words, organisations that comply with these models and their criteria are likely to be more effective than organisations that do not, and organisations which increase their compliance with these models and their criteria are also more likely to become more effective than those that do not. Secondly, it is impossible for nonprofit organisations to comply with all the criteria and not be effective, since organisations have to be effective (by this thesis's definition) to comply with criterion 12 of "Social impact".

The findings from the previous chapter on the characteristics of effective nonprofit organisations are also taken into account by this model. For example, one of Light's 2002 findings was that effective organisations tended to have a well-designed strategy and measured their outcomes. Both of these characteristics are included in the criteria of "Strategy & policy" and "Social impact" respectively (and are

specifically identified and evaluated by the organisational evaluation tool which is developed later in this chapter). The findings of Light & Hubbard (2004) are also taken into account by this model. For example, one of their findings was that donors frequently invested in the recruitment and training of directors with the belief that this would help nonprofit organisations to become more effective, and this is included in the criterion of "People Management" (and is specifically identified and evaluated by the organisational evaluation tool that is still to be developed). Herman & Renz (1998 & 2004) believe it is important for nonprofit organisations to be aware of how their stakeholders perceive them and to be able to satisfy these stakeholders. This is reflected in the inclusion of the results criteria of "Beneficiary satisfaction", "People satisfaction", "Donor satisfaction" and "Partner satisfaction" in the model. The inclusion of these criteria says that nonprofit organisations that are able to provide convincing evidence of having satisfied these different stakeholders are more likely to be effective than those that do not.

This model clearly illustrates the characteristics of effective nonprofit organisations and the relationships between these characteristics. This model will hopefully guide not only nonprofit organisations and their consultants, researchers and donors towards a better understanding of the characteristics of effective nonprofit organisations and what they need to focus on in order to become more effective, but also businesses that are social enterprises and which desire to achieve both financial and social outcomes.

5.2   Designing a tool to evaluate the characteristics of nonprofit organisations
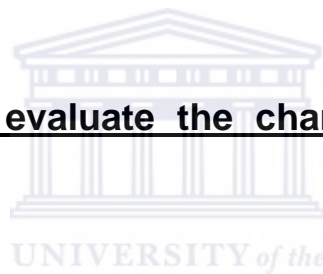
To ensure that this organisational effectiveness model has practical value, it needs to be supported by an organisational evaluation tool that is capable of providing valuable information on the extent to which a nonprofit organisation complies with the characteristics of effective nonprofit organisations, as represented by the model's criteria. However, this is no easy task and there are number of challenges that need to be met. Firstly, this tool has to be able to identify the concrete organisational characteristics that make up the abstract characteristics represented by the model's criteria. For example, one of the model's criteria is "Policy & strategy" and this refers to whether a nonprofit organisation has designed, and is implementing a well-considered strategy to achieve its formally stated outcomes. This tool will identify the concrete characteristics of an organisation that is implementing such as strategy. The second challenge is to identify whether this organisational evaluation tool should be based within the qualitative or quantitative research philosophies, since this will have implications for the form which this tool assumes, as well the scientific research practices that will need to be followed when either field-testing it or using it to conduct future organisational evaluations. The third challenge is to determine and design the basic components of this organisational evaluation tool, whether it be questionnaires, organisational checklists, focus-group prompting questions or recommended evaluation procedures. These are some of the questions that need to be answered in this section.

Before discussing the design of this model, it is worthwhile examining the differences between the concrete and abstract characteristics of organisations, and how they are represented by the model of organisational effectiveness and the organisational evaluation tool, as this will help to prevent confusion later on. These differences are clearly illustrated in table 5.2 below.

Table 5.2: Comparing the characteristics of an effective organisation with the organisational effectiveness model and evaluation tool

Characteristics of an effective organisation	Organisational effectiveness model and evaluation tool
Abstract characteristics of an effective organisation (e.g. The nonprofit organisation has designed, and is implementing a well-considered strategy to achieve its formally stated outcomes.)	Criteria of the organisational effectiveness model (e.g. Policy & strategy)
Concrete characteristic of an effective organisation (e.g. The organisation has clearly defined its outcomes and these outcomes are achievable, measurable and related to its core business.	Question in the organisational evaluation tool (e.g. "Please describe how your organisation defines its outcomes and ensures that these outcomes are achievable, measurable and related to its core business.")

It is evident from table 5.2 that the organisational evaluation tool needs to be based on a solid understanding of the concrete characteristics of effective nonprofit organisations, which make up the abstract characteristics that are illustrated by the model's criteria. Without this understanding it will be impossible to evaluate the extent to which a nonprofit organisation complies with the criteria of this model. This table also illustrates that the organisational effectiveness model and evaluation tool both perform important functions and reflect the characteristics of effective nonprofit organisations, though at different levels of abstraction. Where the model's 12 criteria illustrate the abstract characteristics of effective nonprofit organisations, the tool's 50+ questions examine the more concrete characteristics of effective organisations, which contribute to the fulfilment of these 12 criteria.

However, there is still one more issue that needs to be discussed before discussing the organisational evaluation tool, and this is in which research philosophy this tool should be based, since this will have implications for the form which this tool assumes, as well the scientific research practices that will need to be followed when either field-testing it or using it to conduct future organisational evaluations

5.2.1 In which research philosophy should the tool be based?

There are two different research philosophies in which this organisational evaluation tool can be based: the quantitative or qualitative research philosophy. It has already been mentioned how the decision of in which philosophy to base this tool will have implications for the form which this tool assumes, as well the scientific research practices that will need to be followed when either field-testing it or using it to conduct future evaluations of nonprofit organisations. In order to make this decision it is first necessary to examine the key features of the qualitative and quantitative research philosophies, as is done in table 5.2.1 below.

Table 5.2.1: Comparing the qualitative and quantitative research philosophies

Quantitative research	Qualitative research
Quantitative research focuses on identifying "hard facts" which can be generalised to the rest of the population and from which theories about the entire population can be developed (Gillies & Leblanc, 2005; McNeill *et al.*, 2002; Whittemore *et al.*, 2001).	Qualitative research focuses on gathering in-depth subjective information from fewer subjects in a particular context (McNeill *et al.*, 2002; Whittemore *et al.*, 2001). Furthermore, the intention is not to make generalisations about the entire population as in quantitative research.
Quantitative research strives for large sample sizes which are proportionally representative of the population being studied.	Qualitative research strives for smaller samples that can reflect the diversity of information that exists within the population being studied. This is because of the time and cost associated with collecting and analysing qualitative data results in smaller sample sizes, and because qualitative research does not seek to generalise findings to the population being studied but rather study a phenomenon in depth (Seale & Silverman, 1997).
Quantitative researchers strive for an objective distance between themselves and their subjects in order to prevent bias (Davies & Todd, 2002).	Qualitative researchers tend to strive for rapport with their subjects and an experience of their subjects' realities (Davies & Todd, 2002).
Quantitative research findings tend to be presented in terms of numbers (Gillies & Leblanc, 2005).	Qualitative research findings are presented in words (Gillies & Leblanc, 2005).

The decision of in which research philosophy to base this tool clearly rests with type of information which the organisational evaluation tool seeks to gather. Does it seek to gather facts or numbers that can be quantified, or judgements and opinions that cannot necessarily be quantified but may reveal important insights about an organisation? Let us consider what this would mean for the types of questions that are asked of an organisation undergoing an evaluation. Questions such as "Does the organisation have a

financial policies and procedures policy document, yes or no?" or "What percentage of revenue is provided by the largest donor?" gather facts and numbers and are clearly quantitative questions. Questions such as "Have the organisation's leaders been able to create a sense of community in the organisation?" or "Does the organisation have an effective system for determining how satisfied its beneficiaries are?" can only really be answered subjectively, yet these subjective answers may lead to in-depth information being provided about the organisation in question.

After much consideration it was decided that the organisational evaluation tool should be based in the qualitative research philosophy. This is because it will require the "systematic collection, organisation, and interpretation of textual material derived from talk or observation" (Malterud, 2001: 483), in order to evaluate the extent to which nonprofit organisations comply with the characteristics of effective organisations as represented by the model's criteria. Furthermore, anyone using this tool to conduct an organisational evaluation will need to use their subjective judgment in choosing how to probe and score the questions in the organisational and leadership questionnaires. The findings from these organisational evaluations will therefore be influenced by the mental models of both the researcher and the research participants or subjects. The decision to ground the organisational evaluation tool in the qualitative research philosophy is also particularly appropriate for conducting the field-test of this tool, since a primary intention of this field-test is to gather feedback on whether or not the tool elicits valuable information and how the quality of this tool could be improved.

5.2.2 Determining and designing the basic components of the organisational evaluation tool

After making the decision regarding which research philosophy the organisational evaluation tool should be based in, it was decided that the organisational evaluation tool should be made up of the following three components:

- an organisational questionnaire to measure how well an organisation complies with the model's criteria (except the leadership criterion)

- a leadership questionnaire to evaluate how well a nonprofit organisation complies with the leadership criterion

- a suggested procedure for how nonprofit organisations should be evaluated using this tool.

The reasoning behind having a separate questionnaire to evaluate the quality of leadership in an organisation is really quite simple. The intention is for the organisational questionnaire to gather its information through interacting with the management of an organisation. In contrast, it seemed logical to evaluate the quality of leadership in an organisation from the perspective of people experiencing leadership, as opposed to just from the perspective of the official leaders of the organisation who may be biased in their judgements of the quality of leadership that they provide. This necessitates a separate

leadership questionnaire that can be distributed throughout the organisation and returned in confidentiality to the researcher.

It is envisioned that there are two main ways in which this tool will be used. The first is as a diagnostic tool to evaluate the extent to which nonprofit organisations comply with the characteristics of effective nonprofit organisations, as embodied by the organisational effectiveness model, in order to design an organisation development plan or evaluate the risks within an organisation. The second is as a research tool to gain insight into the characteristics of a particular population of nonprofit organisations. It is expected that the primary users of this organisational evaluation tool will be donors, management consultants and the organisations themselves.

For the organisational evaluation tool to have scientific value, the questions in the two questionnaires need to be based as closely as possible on the questions used by the MBNQP, EFQM and SAEF to evaluate compliance with their quality models. Bearing this in mind, it was decided to use the following two sources of information to develop the leadership and organisational questionnaires:

- the questionnaire developed by the SAEF to evaluate the extent to which organisations comply with the criteria of its quality model. (This questionnaire was extracted from the Introspect Questionnaire Assistant software which had been developed by Fantus Technologies in 2004 to assist organisations to comply with the criteria of the SAEF's quality model and implement Total Quality Management in their organisations.)
- the Criteria for Performance Excellence supplied by the MBNQP (2006).

The immediate challenge that presented itself was to reduce the numbers of questions contained in the SAEF's questionnaire and Criteria for Performance Excellence to a practical number, which could be used in an evaluation taking a couple of days at the most. The SAEF's questionnaire contained more than 150 questions and the MBNQP's Criteria for Performance Excellence suggested a wide range of questions throughout its 82 pages. Eventually, after much work, the leadership questionnaire was designed around 8 questions that are believed to be valid indicators of the quality of leadership in an organisation, and the organisational questionnaire was designed around 52 questions that are believed to be credible indicators of the extent to which a nonprofit organisation complies with the characteristics of an effective organisation, as embodied by the criteria of our organisational effectiveness model.

The scoring frameworks were simplified and converted into a five-point scale, with a separate scoring framework for the questions related to the enabler and result criteria of our organisational effectiveness model. The scoring descriptions are loosely based on those used by the MBNQP and SAEF. It was also decided not use a five-point agreement-scale as such a scale does not present an external reference point for the organisation being evaluated.
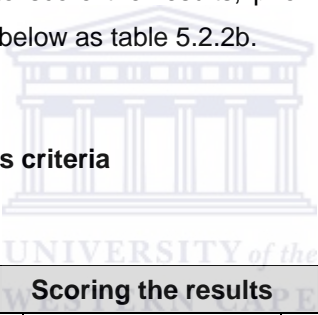
The scale that was originally designed to score the enablers (including the leadership criterion), prior to feedback from the sample group involved in field-testing this questionnaire, is show below as table 5.2.2a.

Table 5.2.2a: Scoring the enabler criteria

1	2	3	4	5
There is limited evidence of this practice existing in your organisation, even though **there may be some good ideas/attempts**	There is **some evidence of this practice** existing in your organisation, and your organisation **may be making improvements** in this area.	There is **evidence of the practice** existing in your organisaiton and your organisation i**s making improvements** in this area.	There is **substantial evidence of this practice** existing in your organisation and your organisation regularly reviews and **strives to continually improve** its practices in this area.	Your **organisation does this with world class excellence**. It has achieved its potential and is committed to maintaining its standards in this area and being a role model to other organisations.

The scale that was originally designed to score the results, prior to feedback from the sample group involved in field-testing the tool, is shown below as table 5.2.2b.

Table 5.2.2b: Scoring the results criteria

Scoring the results				
1	**2**	**3**	**4**	**5**
There is **little evidence** of results in this area.	There is **some evidence** of results or progress in this area. The organisation may also have begun collecting data in this area.	There are **average results** in this area. There are indications that these results will continue.	There are **substantial results** and progress in this area. Most results show positive trends or sustained performance over at least 2 years.	There are **excellent and "world class" results** in this area that show either continuous improvement or sustained performance over at least 4 years.

The questions in both the leadership and organisational questions, and the scoring frameworks for the results and enabler criteria were revised extensively based on feedback received from the field-test. The final post-revision leadership and organisational questionnaires are attached as appendix 2 and 3 respectively.

The third component of the organisational evaluation tool is the suggested procedure for how it should be used to evaluate the extent to which nonprofit organisations comply with the characteristics of effective organisations, as embodied by the criteria of our organisational effectiveness model. Given the similarities between this procedure and the procedure for field-testing the organisational evaluation tool, which will be

discussed extensively in the remainder of this chapter, it was decided to simply attach this suggested procedure as appendix 4 to this thesis.

5.3   Field-testing the organisational evaluation tool

The purpose of field-testing the organisational evaluation tool is to identify how the executive directors and staff members in the sample perceive the organisational evaluation tool, and how the quality of this tool could be improved. This will establish whether this tool is practical and is judged to provide valuable information on the extent to which organisations comply with the characteristics of effective nonprofit organisations. For this field test to be done properly and for the findings of this test to have scientific value, rigorous qualitative research practices will need to be identified and followed. Care will also need to be applied to the selection of the sample of nonprofit organisations for the field test, since this will also have implications for the scientific value (see definition) of the field test's findings. In order to be transparent and comply with the research standard of auditability, the exact field-testing procedure and its findings are clearly described, as are the revisions to the organisational evaluation tool based on these findings.

5.3.1 Standards for conducting rigorous qualitative research

Before the field test was planned and carried out, it was necessary to investigate the standards for conducting rigorous qualitative research. These standards clearly need to be followed for findings of this field test to be taken seriously and to have scientific value. This section therefore investigates the standards for conducting rigorous qualitative research and considers the implications of these standards for the field test and the suggested procedure for using this tool in future.

The question of what is rigorous qualitative research practice is a controversial topic. This is because our understanding of research practices have been substantially influenced by those of quantitative research. There are also a number of misconceptions surrounding qualitative research, the primary one being the incorrect belief that qualitative research is unscientific, and lacking in rigour, particularly in the areas of reproducibility, generalisability, and subjectivity (May & Pope, 1995).

Many of the well-known standards for rigorous research have arisen from quantitative research practices. For example, both the well-known standards of validity and reliability evolved from, and are used in, quantitative research. This raises the question of whether it is appropriate to evaluate the quality of qualitative research practices using the same criteria as for quantitative research. Surely it is inappropriate, especially considering the different priorities and practices of qualitative and quantitative research, to apply the standards for rigorous quantitative research practices to qualitative research? (Whittemore *et al.*, 2001; Davies & Todd, 2002; Gillies & Leblanc, 2005; Sandelowski, 1986; Malterud,

2001) Surely it is far better to develop separate standards for rigorous qualitative research practice? (Davies and Todd, 2002)

Fortunately, the debate nowadays amongst scientists and researchers has shifted and is "no longer whether qualitative research methods are useful, but how rigour (in qualitative research) could be improved or enhanced" (Barbour, 2001: 115). There is now a considerable amount of research on how to ensure validity and reliability in qualitative research, despite the initial concern that qualitative research practices were not scientific (Seale & Silverman, 1997).

So what are the current standards for ensuring rigorous qualitative research practices? Sandelowski (1986) proposes four main standards for ensuring rigour in qualitative research, which appear frequently in other literature on qualitative research. These are the standards of credibility, fittingness, auditability and conformability.

The standard of credibility

Credibility is qualitative research's equivalent to the standard of internal validity. In the context of quantitative research, internal validity refers to the ability of a research instrument to actually measure what is being studied. In other words, the research procedure does not distort the phenomenon under study. However, this is not an appropriate standard for qualitative research which is by nature, subjective. The replacement standard of credibility is upheld when: i) the findings are perceived to be credible, reasonable reflections of people's opinions or real-world organisations, which the intended audience of a study can identify with or accept having just read about the study; ii) the researcher is able to describe his/her own subjective experiences in interacting or observing with the subjects since the nature of this relationship influences the credibility of the research findings, and should equally consider themselves a subject of the research (Sandelowski, 1986).

There are a number of obvious and easy things that can be done to ensure the credibility of the findings emerging from the field test. Firstly, the executive directors should be given the opportunity comment on the findings from the field test and judge whether they appear to be reasonable and credible. Secondly, the researcher should practice appropriate self-awareness/reflection during interactions with nonprofit organisations and their staff, and should both note and report on his subjective experiences during this process in order to openly present any areas of bias or perceptual distortion.

The standard of credibility essentially measures whether the findings are perceived to be reasonable given the research procedure and the issue being investigated. This is why the standard of credibility has been used throughout this thesis to judge the usefulness of research findings arising from qualitative studies.

The standard of fittingness

Fittingness is qualitative research's equivalent to the standard of external validity. In the context of quantitative research, external validity refers to the extent to which the findings can be generalised to the population being studied and requires that the research procedure is tightly controlled. This is also based on the assumption that the purpose of research is to create generalised theories about the broader population (Sandelowski, 1986). Instead the "findings from a qualitative study are not thought of as facts that are applicable to the broader population at large, but rather as descriptions, notions, or theories applicable within a certain setting" (Malterud, 2001: 486). For example, any findings of the extent to which a particular nonprofit organisation or sample of nonprofit organisations comply with the characteristics proposed by the organisational effectiveness model cannot automatically be generalised to all nonprofit organisations throughout South Africa. Instead they can be judged to "fit" with and be applicable to other nonprofit organisations, depending on whether the standard of fittingness has been upheld.

The replacement standard of fittingness is said to be upheld when: i) subjects are members of a population being studied and the researcher is able to explain the relationship of the subjects with the broader population; ii) the findings appear to fit the data; iii) subjects are able to provide information the researcher and other significant audiences find relevant and meaningful. If these standards are met then the findings have "external validity" to the extent to which they "fit" into other contexts (Sandelowski, 1986).

There are a number of things that can be done to ensure the fittingness of the findings emerging from the field test. Firstly, the nature of the sample of nonprofit organisations and how they relate to the broader population of South African nonprofit organisations must be clearly described. Secondly, both the researcher and the executive directors of the nonprofit organisations should be required to judge whether the findings appear to fit the information that was gathered in the interviews and from the staff who had completed the leadership questionnaires. Finally, the researcher and the readers of this thesis should judge for themselves whether they find these findings relevant and meaningful. These factors will determine the extent to which these findings can be said to be typical of the findings that might be gathered by field-testing the organisational evaluation tool on other nonprofit organisations.

The standard of fittingness essentially focuses on the extent to which a set of findings that have emerged from a sample group are applicable to a broader population. This standard will be borne in mind when making statements about nonprofit organisations in general, or considering the implications of this research for other nonprofit organisations.

The standard of auditability

Auditability is qualitative research's equivalent to the standard of reliability. In the context of quantitative research, reliability refers to the extent the subject provides scores that are internally consistent (the subject is consistent in their answers and does not contradict themselves), consistent over time (the subject provides consistent scores over time provided that specified conditions remain the same), and that similar tests yield comparable results with a particular subject and similar subjects provide

comparable scores using the same tests. The problem of applying this standard to qualitative research is that qualitative research considers each subject's experience to be unique. In qualitative research it is more important to get a range of observations from a subject than to attempt to replicate the observations over and over (Sandelowski, 1986).

The replacement standard of auditability is proposed for qualitative research and this standard is upheld when: i) another researcher must be able to audit the reasoning of the researcher and the process which they followed, and not come up with a different interpretation of events; ii) the researcher leaves a "clear decision trail concerning the study from the beginning to the end" (Sandelowski, 1986: 33). In other words, the research process must be systematic and carefully documented (Malterud, 2001).

In the context of this field test, complying with the standard of auditability would mean that the researcher must take accurate notes of the procedure they followed and any decisions they may have made, and must double-check this procedure and their findings with fellow a researcher/colleague before finalising any research findings arising from such research.

Auditability essentially focuses on designing and following a transparent research procedure that can be verified if necessary.

The standard of confirmability

Confirmability is qualitative research's equivalent to the standard of neutrality. In the context of quantitative research, neutrality is said to exist when the researcher is objective and where the study is both reliable and valid. More importantly, quantitative researchers strive to maintain a clearly defined and objective distance between themselves and their subjects. This contrasts with the principles of qualitative research, according to which there is value in closing the distance between the researcher and subject. In terms of the qualitative research philosophy, "scientific objectivity is itself a socially constructed phenomenon that produces the illusion of objectivity … there is no way to study a thing without changing it" (Sandelowski, 1986: 34). The analysis of data is always at some level influenced by the observer's theoretical framework and pure induction is impossible, the observer always interprets data in order to understand it (Sandelowski, 1986; Davies & Todd, 2002).

The replacement standard of confirmability is upheld when it is possible for the findings to be confirmed with the subject, and this is applicable given the inherent subjectivity of qualitative research (Sandelowski, 1986). In the context of this field test, this means that the researcher should confirm the conclusions or findings of each interview with the executive director concerned. The opinions of the staff who completed the leadership questionnaire are already confirmed since they were written down by the staff themselves. The executive directors should also be required to confirm whether they can recognise the summarised findings from the field test as potentially arising from themselves and their understanding of their organisations.

These four standards for conducting rigorous qualitative research will need to be upheld both when field-testing the organisational evaluation tool and using the tool in the future to evaluate the extent to which organisations comply with the characteristics of effective nonprofit organisations, as embodied in our organisational effectiveness model, since it will determine whether these findings are taken seriously and deemed to have scientific value.

5.3.2 Selecting the sample on which to field-test the tool

The method for selecting the sample on which to field-test this organisational evaluation tool has profound implications for whether the findings arising from this field-test, and the perceptions of the executive directors and staff members regarding the organisational evaluation tool, have any scientific value. A poorly selected sample may raise questions about the quality of feedback from staff and executive directors, and call into question the scientific value of the field test's findings.

As mentioned earlier in the comparison between the quantitative and qualitative research philosophies, sample sizes in qualitative research tend to be comparatively smaller than sample sizes in quantitative studies for populations of similar size. There are a number of reasons for this. The first is that qualitative research tends to be more time-consuming, and is as a result more costly when compared with a quantitative study of a similar scope. The second reason relates to the cost of the specialised skills required to collect and analyse qualitative data. Both these factors necessitate smaller sample sizes in qualitative research with a set budget (Bowling, 1997).

The third reason for smaller sample sizes in qualitative research has to do with the different intentions of qualitative research and quantitative research. Remember that the intention of qualitative research is not to gather a proportional and statistically significant slice of the population being studied, with the intention of making generalisations about the broader population, but rather to gather a diverse and information-laden set of observations that reflect the full range of those available in the population. This means that the sample in qualitative research does not have to be of a size that is statistically significant from the perspective of quantitative research. It merely has to provide sufficient information for the researcher's needs and reflect the diversity of views within the population. Subjects are chosen because they are able to provide meaningful and useful information on the area of study (Malterud, 2001; McNeill *et al.*, 2002). As a general rule, a sample is big enough when the researcher believes that he/she has gathered adequate data and where additional subjects are no longer providing new insights and are repeating existing data (McNeill *et al.*, 2001; Bowling, 1997).

It was therefore decided that a sample size of ten non-profit organisations was sufficient to gather information with sufficient diversity on how the executive directors and staff members included in the sample perceive the organisational evaluation tool, and how the quality of this tool could be improved. Remember that the intention of this field test is not to make generalised statements about the characteristics of the organisations that participate in the sample.

This led to the next question of what sampling method should be used to determine the sample for the field test of the organisational evaluation tool. There were a range of different sampling methods available, each with their pros and cons. The chosen sampling method could be classified as a combination of the purposive sampling method (where the sample is selected to include particular types of subjects that have particular characteristics) and the convenience sampling method (where the sample is selected because it is close at hand and the subjects are willing to participate in the study).

The specific criteria which were used to select the sample are as follows:

i. The researcher has to be able to establish contact with the executive directors of the nonprofit organisations selected for the sample. The challenge is that it is difficult to get access to these directors and there is a tendency for them not to return phone calls or emails (or to do so with suspicion) from a researcher they do not know, unless there are very clear incentives to ensure participation or consequences for non-participation. This conclusion is based on the researcher's previous experience in contacting directors of South African nonprofit organisations for research purposes.

ii. The executive directors of the nonprofit organisations selected for the sample must be prepared to commit between 2 and 2.5 hours of their valuable time to participate in the study. They must also be prepared to grant a selection of staff permission to complete the leadership questionnaire. In return, the only direct value for nonprofit organisations choosing to be involved in this study are the insights they may receive during the evaluation process and the findings of the organisational questionnaire. Unfortunately, a common complaint from the executive directors who declined to participate in this study was that it would take up too much of their own time and the time of their staff.

iii. The executive directors of the nonprofit organisations selected for the sample should feel that they and their staff can trust the researcher and express their views freely without any adverse consequences.

iv. The nonprofit organisations selected for the sample must be based within Cape Town, since this will allow the researcher to travel to their premises for the interviews without incurring additional costs.

v. The sample should ideally contain as much diversity as possible so that the greatest range of information can be elicited through feedback. Ideally the sample should contain: small and large nonprofit organisations; organisations based in and staffed by the communities in which they work (community-based organizations or CBOs), as well as the contrary; and nonprofit organisations that can provide evidence of having achieved their formally stated outcomes as well as those that cannot. If these criteria are able to be met, then the sample would be stratified, which enhances the credibility of the tool.

The last criterion was the most difficult of the above criteria to meet.

The above sampling criteria suggested that the researcher might need to select a sample of nonprofit organisations from nonprofit organisations that either had a pre-existing relationship with the researcher or where goodwill existed towards the researcher. This was possible since the researcher had extensive

professional networks in the South African nonprofit sector. The alternative would have been to randomly select nonprofit organisations from a database, such as those held by the South African NGO Coalition (2006) or SANGONET (2006). However, it was decided that such an approach would not necessarily yield a sample of sufficient size that would meet the above criteria, and this decision was substantiated by the researcher's prior experience of the difficulties in trying to contact nonprofit organisations from such a database without a clear incentive for participation or an unfavorable consequence for non-participation (which would anyway undermine the field test). A well-known South African donor was also approached in order to gain access to the sample of nonprofit organisations they fund. The idea was for this donor to randomly select nonprofit organisations meeting these criteria and to introduce them to the researcher, but unfortunately this donor refused access even though the donor would have gained value from this study.

The primary limitation with this sampling method (selecting nonprofit organisations that either had a pre-existing relationship with the researcher, or where goodwill existed towards the researcher, using a nonrandom sampling method) was the potential for bias in three areas. The first area where bias could occur was if the researcher deliberately (either consciously, unconsciously or coincidently) selected a sample of organisations that would provide a particular type of feedback. The second area where bias could occur was if staff of the selected nonprofit organisations deliberately (either consciously or unconsciously) provided distorted feedback and scores to the researcher based upon some agenda of theirs regarding the researcher. The third area where bias could occur was if the researcher allowed preconceptions of these organisations, based upon prior interactions with, or knowledge of them, to interfere with the research process. However, it was decided that all three of these potential areas of bias could be satisfactorily controlled by following the rigorous research practices identified in the previous section. It was also decided that the trust that exists between the researcher and these organisations was judged to be more beneficial than detrimental, and would possibly cause those interviewed to be more open and honest in their responses.

The biggest concern with selecting the sample as proposed, was the extent to which the findings of the field test, the feedback from the sample group of nonprofit organisations regarding the organisational effectiveness model, could be considered to be representative of perceptions of other nonprofit organisations and their staff throughout South Africa. However, taking into account the standard of fittingness, no attempt will be made to generalise any of these findings to other nonprofit organisations or their staff, as this is not the intention of the field test. The purpose of the field test is to gather information with sufficient diversity on how the executive directors and staff members in the sample perceive the organisational evaluation tool, and how the quality of this tool could be improved. This relates to what was said earlier by McNeill *et al.* (2001) and Bowling (1997), that a sample is sufficient when the researcher believes that he/she has gathered adequate data and where additional subjects are no longer providing new insights and are repeating existing data, provided of course sufficient diversity exists in the sample. Since such data saturation was met during the field test, the conclusion is therefore that the proposed sampling method met the needs of this research.

5.3.3 Procedure for field-testing the organisational evaluation tool for nonprofit organisations

The procedure for field-testing the organisational evaluation tool, and key decisions related to this procedure, are described in table 5.3.3 below. This contributes to ensuring compliance with the standard of auditability since it makes it possible to track the procedure and the logic underlying the research process.

Table 5.3.3: Research procedure for field-testing the organisational evaluation tool

Step 1	Research was presented and discussed on the similarities and differences between nonprofit organisations and businesses (chapter 2), the best approach to define and identify organisational effectiveness in nonprofit organisations (chapter 3), and the characteristics of effective organisations and various models of organisational effectiveness (chapter 4).
Step 2	An organisational effectiveness model for nonprofit organisations was designed, based on the SAEF's quality model (chapter 5, section 1). This model illustrates the characteristics of effective nonprofit organisations and the relationship between these characteristics.
Step 3	A organisational evaluation tool was designed to evaluate the extent to which nonprofit organisations comply with the characteristics of effective nonprofit organisations, as embodied by the organisational effectiveness model (chapter 5, section 2).
Step 4	The research procedure was designed to field-test this organisational evaluation tool. In order to do this properly, the standards for rigorous qualitative research were investigated and the rationale behind the selection of the sample was explained (chapter 5, section 3).
Step 5	A letter was emailed to the executive directors of 35 nonprofit organisations that the researcher had previously interacted with in a positive way. This letter explained the nature of this research and inviting them to participate in this field test. In the month that followed, only nine of these directors responded to this email and agreed to participate in this study. The researcher followed up on these emails with a phone call, thanked the directors for being willing to assist with the research and arranged a time for them to be interviewed.

It was a definite concern that so few of these directors responded positively to the email, as it meant that all the respondents would need to be included in the sample. This meant that the sample would not be of sufficient size to allow for stratification, as discussed in the previous section. This also reinforces the difficulty of conducting research with South African nonprofit organisations without a clear incentive, or adverse consequence for non-participation being provided. |

	The nine nonprofit organisations that participated in the sample group were: TB Alliance DOTS Support Association; New Day Consulting; The Caring Network, Lifeline/Childline Western Cape; TB Care Association; Nonprofit Consortium; Rural Development Support Programme; and Development Action Group.
Step 6	The interviews with the executive directors from these nine nonprofit organisations were conducted. These interviews took between 2 hours and 2.5 hours. Ideally these interviews should take place over a full working day so that the researcher(s) has time to properly verify the processes and documentation that were mentioned during the interview. Unfortunately this was not possible given time constraints and the researcher had to trust that these executive directors were telling the truth.

The following process was followed during these interviews:

    i. The purpose of the research and interview, and the process that was to be followed during the interview was explained.

    ii. The organisational evaluation tool (organisational questionnaire, leadership questionnaire and the procedure for evaluating organisations) was carefully explained to these directors.

    iii. The scoring framework was introduced and explained to the executive director being interviewed. These directors were given a copy of the scoring framework to refer to in front of them.

    iv. The executive director was asked each of the questions in the organisational questionnaire. These questions were phrased as "is/how/does your organisation …". The director was then asked to describe how their organisation functioned in each of the areas being examined by these questions and provide suitable examples. Appropriate prompts were provided to keep the conversation flowing.

    v. The executive director was asked to suggest a score for their organisation in response to each of these questions, using the scoring framework which had been explained and presented to them.

    vi. The researcher probed the executive director's responses to this question using his knowledge of the organisational effectiveness and characteristics of other nonprofit organisations in the area being examined. If appropriate, the scores the director suggested, and the examples they provided, were challenged.

    vii. The executive director and the researcher strove to agree, and in the vast majority of cases, eventually agreed on a score for their non-profit organisation. In the few cases where there was clearly a difference in opinion, the score that the researcher suggested prevailed without any resentment on the executive directors part. (This was partially because of the researcher's professional experience with evaluating nonprofit

organisations.)

viii. Throughout the interview the researcher made detailed notes on the organisational questionnaire, noting the comments of the directors being interviewed, reflections by the researcher on the views during the interview, shortcomings of the questionnaire, ways in which the questionnaire could be improved, etc. (This contributes to the standard of auditability being upheld.) With the exception of the first interview, the interviews were not recorded electronically since it was decided that there was no added benefit to recording the interview – all key points could noted down by hand. Where quotes were taken, the exact wording was verified with the director being interviewed.

ix. Once all the questions in the organisational questionnaire had been asked and answered, the researcher and each executive director reviewed the scores that had been assigned for their organisation and reflected on the meaning and implications of these scores.

The scores that were assigned to each question were deliberately not totalled for each criterion of the organisational effectiveness model. This was because it was decided that assigning scores would take attention away from the areas that the organisation needs to focus on developing and would result in destructive judgements being made. Clear patterns were detected and perceived to provide meaningful information in all instances. (Researchers using this tool in the future may choose to total scores if they believe it will make the findings more meaningful.)

x. The executive director was then asked the following questions:

a) What is their general impression of the organisational evaluation tool and does it produce information that they consider valuable?

b) What are the changes they would recommend to the organisational evaluation tool?

c) Are the questions in the organisational and leadership questionnaires good measures of the criteria they seek to measure – the characteristics of effective organisations as embodied in our organisational effectiveness model?

d) Do questions need to be revised, removed or added from these questionnaires?

e) What knowledge, skills, abilities, training, etc. are required of a researcher using the organisational evaluation tool to evaluate a nonprofit organisation?

f) What additional information such as prompts and examples are required to ensure that an organisational evaluation achieves its desired objectives?

g) Is there anything else that needs to be changed about the organisational evaluation tool to improve its ability to measure the extent to which nonprofit

	organisations comply with the characteristics of effective nonprofit organisations, as embodied by our organisational effectiveness model?
	xi. These findings (the answers to the above questions) were confirmed with the executive director. This contributes to the standard of confirmability being upheld.
	xii. The researcher asked if the executive directors could complete the leadership questionnaire themselves and randomly select 4–5 staff members to complete the leadership questionnaire and email the completed questionnaire directly to the researcher. It was emphasised that the details of the completed leadership questionnaires would remain confidential. These leadership questionnaires all contained a section where the staff who completed the questionnaire expressed their opinions about the questionnaire and how its quality could be improved. Unfortunately, only 9 completed leadership questionnaires were emailed to the researcher in the weeks following the interviews.
	(These liberties were permitted since the intention of this study was to field-test the leadership questionnaire and to get feedback on how it could be improved. In the event that this questionnaire is used as part of a proper organisational evaluation, then every staff and governing body member and key volunteers would need to complete this questionnaire. Furthermore, the results of this questionnaire would need to be compiled from the perspective of the entire organisation, function/departmental levels and teams.)
	xiii. The interviews were closed and the process from hereon was explained. The executive directors were thanked for participating in the interviews and told that they would be notified of the results of this study, the completed thesis, when it becomes available.
	xiv. The following day, an email was sent to the directors who participated in the interview to thank them for their participation.
	The researcher practiced appropriate self-awareness during this interview process and noted down the subjective experiences of conducting this test. Experiences that are noteworthy are presented in the following section of this thesis. This contributes to the standard of credibility being upheld.
Step 7	Once the researcher had returned home or to the office, the researcher reflected on the interview process and reviewed the notes that had been made. Key insights and feedback was then recorded on the computer (see chapter 5, section 3.4).
	There was a sharp decrease in the novelty of the findings after approximately six nonprofit organisations had been evaluated using the organisational evaluation tool, as findings feedback regarding the organisation evaluation tool had begun to be repeated. This was an indication that

		the sample was of sufficient size for the field test and that data saturation had been reached.
Step 8		The researcher received via email any leadership questionnaires that had been completed in the week following the interview, and the contents of the leadership questionnaire were reviewed and recorded.

Step 9		The findings were written up and emailed to the executive directors who had been interviewed so that they could:
		
		    i. comment on the findings of the field test and judge whether they appear to be reasonable and credible (this contributes to the standard of credibility being upheld)
		
		    ii. comment on whether the findings of the field test appear to fit the information which was gathered in the interviews and from the staff who had completed the leadership questionnaires (this contributes to the standard of fittingness being upheld)
		
		    iii. comment on whether they could recognise the findings of the field test as arising from themselves (this contributes to the standard of confirmability).
		
		In the two weeks following this email, seven out of nine of the executive directors replied and acknowledged that the findings did appear to be reasonable and credible, fit the information which was gathered in the interviews and from the staff who had completed the leadership questionnaires; and were recognisable as arising from themselves. This helps to endorse the scientific value of the study since it shows that rigorous qualitative research standards were followed.

Step 10		The research procedure and resulting data was reviewed with a fellow researcher to confirm that a transparent process had been followed and that sensible procedural decisions had been made. This contributes to the standard of auditability being upheld.
Step 11		The organisational effectiveness tool was revised based upon the findings of the field test. The organisational evaluation tool is attached as an appendix to this thesis. (The organisational questionnaire is appendix 2, the leadership questionnaire is appendix 3, and the evaluation methodology is appendix 4.)

The research procedure was constructed in such as way as to maximise compliance with the standards for rigorous qualitative research and therefore the scientific value of the field test's findings, as is illustrated below:

- The standard of credibility was upheld since the researcher described his own subjective experiences in conducting the field test and the executive directors were given the opportunity to review the findings from the field test, subsequently judging them to be both reasonable and credible.

- The standard of fittingness was upheld since the executive directors were given the opportunity to comment on whether the findings of the field test appear to fit the information which was gathered in the interviews. The exact nature of the nonprofit organisations that participated in the sample and how they were selected was also described. Readers of this thesis are also welcome to find out more about the nature of these organisations by visiting their websites. Finally, the researcher considers the findings of this field test to be relevant and meaningful.

- The standard of auditability was upheld since the research procedure was clearly described and the audited by a fellow researcher.

- The standard of confirmability was upheld since the executive directors were given the opportunity to comment on whether could recognise the findings of the field test as arising from themselves, which they did. Furthermore, at the end of each interview the findings regarding the executive directors' perceptions of the organisational evaluation tool and how it could be improved was confirmed with them. The feedback regarding the leadership questionnaire from staff members who had completed this questionnaire did not need confirming since the staff members had provided their feedback in writing.

In was clearly possible to comply with a number of these standards simultaneously during the field-testing procedure. Although there may have been additional means of further ensuring compliance with these standards, they were unable to be implemented given various constraints, such as time. The fact that the standards for conducting rigorous qualitative research were complied with as far as was reasonable, suggests that the findings from the field test, as presented in the following section, can be considered to have value.

5.3.4 Findings of the field test and subsequent revisions to the organisational evaluation tool

The purpose of field-testing the organisational evaluation tool was to identify how the executive directors and staff members included in the sample group perceived the organisational evaluation tool, and how the quality of this tool could be improved. The intention was also to establish whether this tool provides valuable information on the extent to which organisations comply with the characteristics of effective nonprofit organisations.

In order to identify how the organisational evaluation tool is perceived and how its quality could be improved, the executive directors who were interviewed were asked to be mindful of the following questions during their interviews and to answer them as and when they thought appropriate, as well as formally at the end of their interviews:

i. What are the general impressions of the organisational evaluation tool and does it produce information that is considered valuable?

ii. What changes need to be made to the organisational evaluation tool in order to improve its quality?

iii. Are the questions in the organisational evaluation questionnaire good measures of the criteria they seek to measure – the characteristics of effective organisations as embodied in our organisational effectiveness model?

iv. Do questions need to be revised, removed or added?

v. What knowledge, skills, abilities, training, etc. are required of a researcher using the organisational evaluation tool to evaluate a nonprofit organisation?

vi. What additional information such as prompts and examples are required to ensure that an organisational evaluation runs smoothly and produces the required findings?

The researcher also strove to be mindful of the above questions throughout the field test and took notes as appropriate. Furthermore, the staff who had completed the leadership questionnaire were also asked what was their general impression of the questionnaire and how it should be changed to improve its quality. The remainder of this chapter is dedicated to describing significant answers to these questions and key changes that were made to the organisational tool following these findings.

The pilot field test

It was decided to field-test the organisational evaluation tool (organisational questionnaire; leadership questionnaire; evaluation methodology) on two nonprofit organisations in the sample so that this tool could be revised prior to being field-tested on the remaining sample. The belief was that this would maximise the value gained from the findings since it would allow for the tool to be revised twice instead of just once.

The two interviews with the executive directors using the organisational questionnaire, and feedback from the three staff in these two organisations who had completed the leadership questionnaire, yielded the following significant findings:

i. One of the executive directors was concerned that the model and organisational questionnaire did not make any value judgments about the "developmental practices" of the nonprofit organisations being evaluated, and the efficiency of the organisation in achieving these outcomes. In response to this comment, the researcher explained that this was not the intention of the organisational effectiveness model or evaluation tool, although nonprofit organisations clearly needed to be mindful of whether they were creating or destroying value as well as how efficient they were.

ii. One of the executive directors correctly observed that it was possible for nonprofit organisations to change the degree to which they are effective simply by redefining their outcomes. (This observation is discussed in detail in chapter 3 of this thesis.)

iii. One of the executive directors observed that the organisational evaluation model and evaluation tool did not consider organisational culture, which she believed to be a major determinant of organisational effectiveness in nonprofit organisations. (However, there appeared to be little

consensus in the literature reviewed for this thesis as to the organisational culture of effective nonprofit organisations. It is also interesting that neither of the quality models contained a specific criterion to measure culture, although it did appear that organisational culture was indirectly measured by the leadership criterion. Even though a number of the studies reviewed by Kirby (2005) presented culture as one of their findings, there did not appear to be any clear consensus amongst such studies as to the culture that defines an effective organisation. The assumption of this thesis is that the optimal culture for a nonprofit organisation is situational and is indirectly measured by our organisational effectiveness model's criteria of leadership, people management and people satisfaction.)

iv. All three of the staff members that had completed the leadership questionnaire were confused about which leader they should be evaluating in their organisation. One staff member even said that their leaders in the organisation are not the official leaders and lead from behind, and another staff member said that the scoring framework was difficult to decipher and should be simplified considerably.

v. The feedback from these three staff members regarding the leadership questionnaire was very neutral, with much of this feedback relating to problems with this questionnaire and how it could be improved.

vi. The researcher found it cumbersome to ask the questions in the organisational questionnaire in the form that they had been written. For example, the question "the organisation has developed a comprehensive system for measuring the achievement of its outcomes" was far easier to ask as "please describe how (name of organisation) measures the extent to which it has achieved its outcomes". It was found that questions rephrased in this way were easier to answer and tended to provide more valuable information about the organisation being evaluated.

vii. The researcher realised that the number of questions originally developed to measure the results criteria (with the exception of the financial results criteria) could be reduced considerably. Another problem was that the original questions asked for documented evidence of the various results being achieved, and neither of the two organisations had documented evidence (with the exception of financial results), although they could provide convincing evidence.

viii. One of the two executive directors was concerned that the organisational evaluation tool would discriminate against community-based organisations, which do good work and have less formalised structures than well-established nonprofit organisations. (However, as per this thesis's definition of organisational effectiveness, nonprofit organisations are considered to be effective if they can provide convincing evidence of having achieved their formally stated outcomes in the time period under consideration, and not because they have various systems. Nonprofit organisations should be judged in terms of their outcomes, no matter how sophisticated they are. The purpose of the organisational effectiveness model and evaluation tool is to assist nonprofit organisations in developing the characteristics that will help them to become more effective, instead of those characteristics that are merely window dressing.)

ix. The researcher realised that the executive directors being interviewed needed to have a scoring framework in front of them to refer to when they suggested scores for their organisations.

x. In the interviews with both the executive directors, the researcher needed to emphasise that the organisational effectiveness model and evaluation tool did not seek to identify effective

organisations since this was done through an outcomes' and impact evaluation. Instead the model proposed the characteristics of effective nonprofit organisations, and the tool is focused on measuring the extent to which nonprofit organisations complied with these characteristics, one of which was whether an organisation's outcomes' evaluations indicated that it was effective. The overall intention of the model and tool, which is to help nonprofit organisations to become more effective, needed to be clearly explained.

xi. Both of these executive directors found the discussions surrounding the questions in the organisational evaluation questionnaire and the scores assigned to their organisations to be valuable since it helped them to become aware of gaps in their organisations as well as the areas in which their organisations were doing very well. This showed them when their organisation complied with the characteristics of effective nonprofit organisations, as embodied by our organisational effectiveness model.

xii. Both of these executive directors considered the findings of the organisational questionnaire (the extent to which their nonprofit organisations complied with the criteria of the organisational effectiveness model, and the characteristics of effective nonprofit organizations, excluding leadership), to be a reasonable and credible reflection of their organisations. Furthermore, these findings were perceived as being a fair reflection of the information they had provided during the interview.

Subsequent to the field test of the organisational evaluation tool on two nonprofit organisations, a number of revisions clearly needed to be made to the organisational evaluation tool (organisational questionnaire; leadership questionnaire; evaluation methodology) in order to improve its quality and prepare it for the remainder of the field test.

It was decided that the purpose of this research, as well as the value and limitations of the model and organisational evaluation tool, needed to be explained more clearly in future to prevent any misunderstandings or incorrect assumptions from being made. The questions on the organisational questionnaire were rephrased as the initial findings had suggested. The numbers of questions for results criteria, with the exception of questions relating to financial results, were reduced into a single question which asked if the organisation being evaluated could provide any convincing evidence of the criterion in question being met, and, if so, then what this evidence indicated. A handout with the scoring framework and a illustration of the organisational effectiveness model was prepared for the executive directors to refer to throughout the interview.

The leadership questionnaire also needed to be revised quite substantially following the initial findings of this field test. The questions were changed to measure the consequences of effective leadership in an organisation no matter who the leaders are. For example, where a question was phrased as "Leaders create a sense of community in your organization, yes or no?", it now reads as "Do you experience a sense of community in your organisation?" The advantage of this redesign is that it prevents confusion about which leader to evaluate and may make it easier for staff to give honest answers without fear of adverse consequences. The scoring scale for the leadership questionnaire was also changed and the new scale is shown below as table 5.3.4a.

Table 5.3.4a: Scoring the leadership questions

1	2	3	4	5
Not really	Sometimes	Much of the time	Almost always	Always

The second part of the field test

Following these revisions, the field test was continued with a revised version of the organisational evaluation tool. Significant findings from the second part of the field test are as follows:

   i. The researcher found the nature of the feedback received regarding the organisational evaluation tool (organisational questionnaire, leadership questionnaire and evaluation procedure) to be noticeably more positive following the revisions after the pilot field test. The researcher also found it substantially easier to conduct the interviews using the revised organisational questionnaire than before, although this may have been because of his increasing confidence and familiarity with the organisational evaluation tool and not because of its improved quality.

   ii. The majority of the executive directors were satisfied with the organisational effectiveness model and found it easier to understand the relationships between the various criteria than prior to the initial revisions. Some of these directors appeared to be pleasantly surprised by the inclusion of the results criteria in this model (and therefore the organisational questionnaire), since these criteria were not usually included in the organisational evaluation tools that they had previously encountered.

   iii. The majority of the executive directors were in favour of defining and measuring organisational effectiveness in terms of the extent to which their organisations had consistently achieved their formally stated outcomes. The discussions surrounding this definition of organisational effectiveness focused on what were the various organisations' outcomes and the best way to measure them.

   iv. The questions in the organisational questionnaire relating to the various results criteria, and the framework that is used to score them, were still cumbersome to use despite the initial set of revisions.

   v. The researcher found that probes such as: "Describe a particular instance …; Please give an example …; What are the exact nature of activities in the process?; How well does (subject matter) work when compared with other organisations?; How often does (activity) occur?" were almost always required to elicit the information needed to score the answers to the questions in the organisational questionnaire.

   vi. It was evident from the feedback of the executive directors and the researcher's own experiences in conducting this field test, that the accuracy of the findings produced by this organisational evaluation tool depended significantly on how experienced the organisational consultant/researcher was, and whether this person had a good sense of how organisations (particularly nonprofit organisations) functioned and what the benchmarks for these types of organisations were. For example, good judgment resulting from years of experience was required to evaluate the quality of

a nonprofit organisation's vision, mission statement and strategic objectives, or the extent to which the performance of staff was well managed.

vii. The researcher found it particularly challenging to conduct the interview with one of the executive directors who had a tendency to consistently overrate the extent to which this director's organisation complied with the characteristics of effective organisations, as embodied in the organisational effectiveness model. This was further complicated by the fact that the researcher's probes, challenges and counter examples did nothing to correct this director's perceptions. The researcher also felt that exerting additional pressure on this director would merely have destroyed rapport, built resistance to the researcher and not have achieved any positive outcomes from this session. This raises the debate of to what to do in such a situation. On reflection, possible solutions could be for the researcher to: a) provide two different scores for questions where there was such as dispute; b) leave out the scores to such questions entirely; c) to score the questions in secret and provide a report/feedback to the organisation concerned carefully justifying the scores that had been assigned; or d) claim that the evaluation was invalid and could not yield credible findings, given a lack of consensus between the researcher and the staff involved in such an evaluation.

viii. Some of the executive directors had questions about why the organisational questionnaire did not give much emphasis to evaluating formal organisational policies and procedures (such as recruitment, disciplinary, financial and governance policies and procedures) as these tended to be evaluated by other organisational evaluation tools. These directors correctly observed that only one of the model's criteria, namely "Processes", seemed to specifically relate to formal policies and procedures, and that the questions relating to this criterion adopted a meta-perspective on these policies and procedures. In response to these observations, the researcher explained that although organisations required many of these policies and procedures in order to function ethically and smoothly, they were not a defining characteristic of an effective organisation as both an ineffective and effective nonprofit organisation could have exactly the same policies and procedures. This is substantiated by the fact that the three quality models reviewed in the previous chapter tended to give the "Processes" criterion a fairly low weighting (10–15%) and this reflects its contribution to an organisation's effectiveness. However, what research (such as the SAEF's questionnaire) did indicate, is that the ability of an organisation to identify which policies and procedures and processes they needed in order to be more effective, and to monitor and improve the quality of these policies and procedures and processes, was a characteristic of an effective organisation.

ix. Based on the duration and depth of the interview session, it is suggested that the interview using the organisational questionnaire should take place over an entire day. It may also be beneficial to the organisation to involve some of the members of the organisation's governing body, as well as senior staff in this interview, since the conversations surrounding the various questions in the organisational questionnaire were judged by the executive directors to be valuable. This observation endorses the value of participatory organisational evaluations.

x. The general impression of the staff members who completed the leadership questionnaire was that this questionnaire was "short and to the point" and served its purpose. One of the staff members observed that it asked a "wide range of questions about the organisation". Two of the staff members suggested worthwhile revisions to this questionnaire. The first was that the question "Do you have a clear sense of what your organisation's vision is and where it is headed?" should

instead read "Do you have a clear sense of what your organisation's vision is and how it aims to achieve it?". The second suggested revision was that the rating scale should be changed to: "no; not really; sometimes; on most occasions; always".

xi.   A number of the questions in the organisational questionnaire needed to be rephrased, combined or deleted in order to improve their ability to evaluate the extent to which organisations comply with the various criteria of the organisational effectiveness model and the proposed characteristics of effective nonprofit organisations.

xiii. All of the executive directors found the discussions surrounding the questions in the organisational evaluation questionnaire and the scores assigned to their organisations to be valuable, since it helped them to become aware of gaps in their organisations as well as the areas in which their organisations were doing very well. These showed that the organisation complied with the characteristics of effective nonprofit organisations, as embodied by the organisational effectiveness model.

xii.   All of the executive directors considered the findings of the organisational questionnaire (the extent to which their nonprofit organisations complied with the criteria of the organisational effectiveness model, and the characteristics of effective nonprofit organizations, excluding leadership), to be a reasonable and credible reflection of their organisations, as well as a fair reflection of the information they had provided during the interview.

Given the findings of this field test, a number of further revisions needed to be made to the questions and scoring framework of the organisational and leadership questionnaires, and these are evident in appendix 2 and 3, and not described in this section. In addition a number of these findings also had implications for the recommended procedure (see appendix 4) for using this tool to conduct organisational evaluations.
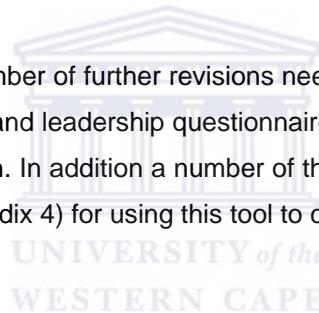
5.3.5 Reflecting on the findings of the field test

The field test went well and the researcher enjoyed conducting the interviews with the executive directors, and found it satisfying that the executive directors gained value from their participation in the field test. It was also considerably easier to conduct the organisational evaluation after the initial set of revisions to the organisational evaluation tool following the pilot field test, and it is anticipated the most recent set of revisions will make it even easier to conduct organisational evaluations using this tool.

The researcher, however, had two primary concerns with the findings of the field test. The first was that it did seem to take considerable skill and experience to conduct an organisational evaluation and produce findings that were accurate and considered of value by the executive directors who had participated in the field test. This raised the question of whether the evaluation tool should be simplified, yet after much consideration it was decided that this would result in a net decrease, as opposed to a net increase, in the value of this tool and its findings, since it would result in more superficial organisational evaluations being conducted.

The researcher's second concern was that some of organisations in the sample had many of the characteristics of effective organisations yet had not clearly defined their outcomes and/or could not provide convincing evidence of having consistently achieved them. This illustrates that even the more established nonprofit organisations needed to seriously consider implementing the definition of organisational effectiveness as presented by this thesis. The researcher's sense was that this scenario was unfortunately typical of many nonprofit organisations in South Africa and this suggests that there was a need for many South African nonprofit organisations to re-examine their understanding of organisational effectiveness as well as their paradigm for understanding nonprofit organisations.

Looking back upon the field test at the time of finalising this thesis, one of the researcher's most significant realisations is that much of the value that was gained by the staff of the organisation being evaluated and the researcher came from their conversations, and not from the formal findings of the organisational evaluation. In other words, by the time the evaluation was completed, much of the value had already been gained by its participants, which included the researcher, who had learnt more about how nonprofit organisations function and about certain innovative ways that nonprofit organisations had overcome a number of their problems. The researcher also realised that successful organisational evaluations were essentially a participative process, which could only work if grounded in trust. Therefore, in retrospect, the sampling method used in this field test seems very appropriate.

The objective of this chapter has clearly been achieved. A valid model of the characteristics of effective nonprofit organisations, and the relationships between these characteristics has been designed. This model is supported by a tool that appears to elicit valuable information on the extent to which a nonprofit organisation complies with these characteristics. The findings from the field test suggest that not only the staff and governing body members of nonprofit organisations, but also the researchers, donors, investors and consultants involved with these organisations, may find this organisational effectiveness model and evaluation tool to be of value to them.

6. Conclusion

This thesis began with the intention of identifying the characteristics of effective nonprofit organisations and developing a practical tool to evaluate the extent to which nonprofit organisations comply with these characteristics. It was and is still believed that this research would assist nonprofit organisations to become more effective, thereby increasing their positive impact on society. However, in the process of realising this intention, this thesis ended up challenging the traditional approach to nonprofit organisations and inadvertently revealing the emergence of a new paradigm, from the perspective of which organisations are understood as being value-creating entities. On reflection, it is believed that this is probably the most significant contribution of this thesis and is therefore worth examining in some detail. This section therefore highlights some of the key arguments that were made throughout this thesis and summarises how this thesis arrived at the recommendation that nonprofit organisations and businesses need to abandon their traditional stereotypes and adopt a new paradigm.

The first significant argument of the thesis was that the traditional stereotypes of nonprofit organisation and business are clearly being eroded, with many businesses striving to become more socially responsible and many nonprofit organisations seeking to become more business-like. Increasingly organisations are refusing to conform to their respective stereotypes and are moving to occupy an undefined space somewhere between what was stereotypically expected of them. The emergence of social enterprises, which can have the legal form of either a nonprofit organisation or business, and which operate like businesses and generate an income, while also being driven by a desire to create positive changes in the lives of individuals and in society, further undermines these stereotypes. This is because social enterprises operate in the traditional domain of both nonprofit organisations and businesses, and compete with both businesses and nonprofit organisations.

Furthermore, an examination of the differences between nonprofit organisations and businesses had revealed that the only defining difference between these two types of organisations relates to the distribution of net assets, and even this difference is mitigated by the ability of a business's shareholders to choose not to exercise their rights to these assets (as might occur when a philanthropist or nonprofit organisation is the primary shareholder of a business), and the ability of a nonprofit organisation to distribute a portion of its net assets to its staff through increased salaries. There are also substantial similarities between nonprofit organisations and businesses since they are independent legal entities that can be driven by their public purpose, can generate an income, and can even make a profit.

The term "nonprofit organisation" was shown to be a misnomer since nonprofit organisations have always strived to make a social profit. It was argued that it is the moral duty of nonprofit organisations to strive to make a financial profit as well as generate an income in order to manage their risk and generate the resources they need to achieve and expand their outcomes, and this argument was supported by examples of nonprofit organisations such as Pioneer Human Services that had done this quite

successfully. It was further argued that businesses can and should be focused on making a social profit and well as a financial profit.

These arguments and the lack of defining differences and increasing similarities between nonprofit organisations and businesses revealed a significant anomaly that the traditional paradigm of understanding nonprofit organisations as being fundamentally different from businesses is in unable to explain. This raises the question of whether this paradigm is still of any use. The conclusion that nonprofit organisations and businesses are often very similar to each other also meant that research on the characteristics of effective businesses could be applied to nonprofit organisations, as was done throughout this thesis.

It was also shown how all organisations, regardless of their legal form, are value-creating entities that strive to, and actually do create or destroy various combinations of social and economic value, though not necessarily in the amounts and combinations they had originally intended to. From this perspective, it is possible for a nonprofit organisation to create more economic value than a business, and likewise for a business to create more social value than a nonprofit organisation. This realisation further challenges the stereotype that nonprofit organisations are focused on creating social value, and businesses only economic value. It also places further pressure on nonprofit organisation to prove that they are effective and efficient at creating particular types of social value than businesses, and likewise it places pressure on businesses to become more socially responsible as nonprofit organisations that are social enterprises enter their domain using their social focus as a competitive advantage. These pressures will hopefully encourage nonprofit organisations to become more professional and business-like, and for businesses to become more concerned with creating social value as part of their normal course of business and not just through their corporate social investment departments.

The insight that all organisations are value-creating entities led to the question of whether there is a more useful and meaningful way of classifying organisations, than by the question whether they are have assumed the legal form of a nonprofit organisations and businesses. Fortunately, Business Sculptors, a South African management consultancy has done just that and developed a conceptual model that classifies organisations as being one of four different types of enterprises depending on the particular combination of social and economic value that they strive to, and actually do, create in the world. This research finds that this approach to classifying organisations according to their blended value proposition is potentially far more useful and meaningful than just classifying them according to the legal form they have chosen for themselves. The credibility of this approach is further enhanced by the possibility of measuring the value that organisations create, and even quantifying it in monetary terms, and by the increasing sophistication of techniques for doing so.

Given that the value that organisations create can be measured, quantified in monetary terms and even audited by social auditors or traditional financial auditors, it was argued that it made sense to define

organisational effectiveness in terms of the achievement of an organisation's formally stated outcomes, and subsequently to judge how effective an organisation was by whether it could provide convincing evidence of having achieved its formally stated outcomes. Although this approach to defining and measuring organisational effectiveness is taken for granted by businesses, it is considered to be extremely controversial and is often opposed outright by many researchers of nonprofit organisational effectiveness, who argue against applying thinking from businesses to nonprofit organisations. This is particularly surprising given the pressure on nonprofit organisations to prove that they make a real difference to the world and are worthwhile investments, and the similarities between nonprofit organisations and businesses. These researchers present a whole host of reasons why the effectiveness of a nonprofit organisation should not be judged in terms of the achievement of its formally stated outcomes, and even argue that organisational effectiveness cannot be measured objectively. In a review of these criticisms this thesis argues that these contentions do not hold much weight and can mostly be addressed through the skilful setting and measurement of outcomes and their indicators.

The alternative approaches to judging an organisation's effectiveness in terms of the existence of particular internal practices or capabilities, or according to the views of an organisation's stakeholders, were also considered and deemed to be unsuitable for judging an organisation's effectiveness. Such activity, or the existence of particular organisational systems or perceptions amongst an organisation's stakeholders, do not automatically mean that an organisation is effective and has achieved its formally stated outcomes. The conclusion from these discussions was that effective organisations, regardless of whether they are businesses, nonprofit or public-sector organisations, are effective in the time period during which they can achieve their formally stated outcomes and are able to provide convincing evidence of having done so. It is also worth noting that this definition implies that an organisation cannot by definition be effective without measurement, and this fits with research on the characteristics of effective organisations that was reviewed in section 5 of this thesis.

These discussions led to the question of what the characteristics of effective nonprofit organisations are, and a review of research on the characteristics of these organisations proved to be unsatisfying. It was particularly surprising that there was such an absence of research on the characteristics of effective organisations or models of nonprofit organisational effectiveness, despite the important role that these organisations play in society and the numbers of nonprofit organisations throughout the world. Fortunately it was possible to apply research on the characteristics of effective businesses to nonprofit organisations, given the similarities between nonprofit organisations and businesses. The three quality models that were reviewed in chapter 4 proved to be an unexpected and valuable source of information on the characteristics of effective organisations since they: i) were based on, and supported by, research conducted according to scientific research standards; ii) have international credibility; iii) are user-friendly and illustrated diagrammatically in a way that reveals their underlying logic; iv) are supported by a large number of tools (questionnaires, toolkits, checklists, user-guides, etc.) on how to use the various models and comply with their criteria; and v) are outcomes-focused and emphasise measurement, which fits nicely with the definition of organisational effectiveness and the paradigm that is being proposed in this thesis.

These quality models therefore formed the basis for the development of a model of the characteristics of effective nonprofit organisations and a tool to evaluate the extent to which nonprofit organisations comply with these characteristics. The purpose of this model and tool is to provide decision-makers, donors, consultants and researchers of nonprofit organisations with a clear understanding of the characteristics of an effective nonprofit organisation, as well as the ability to evaluate the extent to which organisations comply with these characteristics. Such information is invaluable to donors (to manage the risk of their investments), decision-makers (to focus their attention on their organisations' strengths and weaknesses) and to consultants (to design effective interventions). This organisational effectiveness model is valid given its associations with the three quality models on which it is based. The organisational evaluation tool was field-tested in alignment with the standards for rigorous qualitative research, and was subsequently judged by the executive directors of nine nonprofit organisations to provide them with valuable information on the extent to which their organisations complied with the characteristics of effective nonprofit organisations.

It is clear that there are two key themes that have run throughout this thesis. The first was that the traditional paradigm of nonprofit organisations, which many researchers and organisations uphold, is facing significant anomalies that question its credibility. It in fact needs to be confined to old textbooks and the memories of retired researchers. This traditional paradigm is characterised by: i) the outdated stereotypes of "nonprofit organisation" and "business", ii) the belief that nonprofit organisations are fundamentally different from one another, iii) the misnomer of "nonprofit organisation" since these organisations create a social profit, and should consider creating a financial profit; and iv) the belief that the effectiveness of nonprofit organisations should not be judged in terms of the achievement of their formally stated outcomes. The second theme is that a new paradigm of organisations is emerging and that this paradigm considers all organisations, regardless of whether they are businesses, nonprofit or public-sector organisations, as value-creating entities. This paradigm is supported by the fact that the value that organisations have created can be measured and even quantified in monetary terms. This paradigm also proposes that it is both possible and meaningful to classify organisations according the nature of their blended value proposition and the value they actually do create in the world. In the context of this paradigm, whether an organisation is a businesses or nonprofit or public-sector organisation is merely a legal detail and does not describe their essential nature. The final ingredient of this paradigm is that effective organisations are able to provide convincing evidence of having achieved their formally stated outcomes and should be identified accordingly.

It is recommended that nonprofit organisations that seek to become more effective and increase their positive impact on society, adopt this new paradigm of organisations, develop the characteristics of effective organisations as illustrated by the model of organisational effectiveness designed in this thesis, and finally use the organisational evaluation tool as a practical instrument to evaluate how well they are succeeding in developing these characteristics. It is also recommended that businesses abandon their traditional stereotype and become mindful of the value they are either creating or destroying in society

through their daily activities. It is believed that the implementation of these recommendations will have a positive impact on society.

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<u>Appendix 1 - Definitions</u>

These are the definitions of key terms used within this thesis. (Please note that these terms may be defined differently by other researchers in other contexts.)

Applicability:	This term refers to the ability of qualitative research findings to be considered applicable to other contexts, which can only happen if the qualitative research standard of fittingness has been met.
Beneficiaries (of a nonprofit organisation):	The beneficiaries of a nonprofit organisation include the individuals, organisations or communities that benefit directly or indirectly from its services or products. Nonprofit organisations therefore have direct as well as indirect beneficiaries.
Business:	A business is an organisation that has an owner(s) that is/are entitled to its net assets and which has a legal identity separate from its owners, investors or employees. In South Africa, the legal forms of close corporation, public company, and private company meet this criteria (Flynne & Weil, 1992). The legal forms of partnership, sole-proprietorship, trust, section-21 company, voluntary association do not meet these criteria despite the fact that they can be engaged in business-like and profit-orientated activities.
Blended value proposition	This refers to the particular combination of social and economic value that all organisations seek to create, regardless of whether they have the legal form of a nonprofit organisation or business or part of government (Emerson, 2003).
Capability (of an organisation):	Organisational capabilities are the "collective skills, abilities, and expertise of an organization, and the outcomes of investments in staffing, training, compensation, communication, and other human resources areas. They represent the ways that people and resources are brought together to accomplish work. They form the identity and personality of the organization by defining what it is good at doing and, in the end, what it is. They are stable over time and more difficult for competitors to copy than capital market access, product strategy, or technology" (Ulrich & Smallwood, 2003). For example, the majority of nonprofit organisations need to develop the capability of project management and attracting the resources the need to function effectively.
Capability-building (of an organisation):	This refers to activities to build an organisation's capabilities (see definition of capability). For example, a nonprofit organisation may seek to employ highly skilled fundraisers, improve project reporting, develop a attractive brand, purchase donor databases and donor management software in order to improve its capability to attract the resources it needs to function effectively.
Capacity (of	Organisational capacity is the potential of an organisation to be effective and

organisations):	develop the capabilities it needs to be effective. For example: • a nonprofit organisation with substantial amounts of funding could be said to have organisational capacity when compared to a similar nonprofit organisation with less funding, yet the existence of this funding does not necessarily mean that this organisation is able to utilise this money to increase its effectiveness and impact; • a nonprofit organisation with brand-new computers for all its staff could be said to have more organisational capacity than one that does not, yet the existence of these computers without appropriately trained staff or a clear purpose for which to use them does not make such an organisation more effective than the organisation with fewer and old computers. • a clone of an Olympic athlete could be said to have the capacity to be an Olympic athlete, yet without the right upbringing, opportunity, training etc. is unlikely that this athlete's ability would ever be developed or that this athlete would ever compete at the Olympics. What is the difference between organisational capacity and organisational capability? An organisation has capacity if it has the potential to achieve its desired outcomes, and an organisation has the capability if it has successfully developed its ability to achieve its outcomes. The terms "organisation(al) capacity" is popular jargon with South African nonprofit organisations, and reflects the organisational characteristics approach to organisational effectiveness as described in section 4.2.1 of this thesis.
Capacity-building (of organisations):	This refers to activities to increase an organisation's capacity. For example, lets assume a nonprofit organisation has been donated computers and software, and these computers have been connected to the internet. This organisation now has the potential or capacity to identify and correspond with donors on line in order to raise funds. However, this potential does not necessarily mean that this nonprofit organisation has developed their capability to raise funds or is more effective.
Credibility	This is one of the standards for rigorous qualitative research that is used judge the scientific value of qualitative research findings or qualitative research instruments (such as a tool to measure has the extent to which organisations have complied with the characteristics of effective organisations). The standard of credibility is upheld when: i) the findings are perceived to be credible, reasonable reflections of people's opinions or real-world organisations, which the intended audience of a study can identify with or accept having just read about the study; ii) the researcher is able to describe

	his/her own subjective experiences in interacting or observing with the subjects since nature of this relationship influences the credibility of the research findings, and should equally consider themselves a subject of the research (Sandelowski, 1986).
Customers:	Customers are the individuals or organisations that purchase products or services from an organisation and which are either direct or indirect beneficiaries of the organisation. For example, a government could be a customer of a nonprofit organisation that provides relief to poverty stricken communities, if it pays for this nonprofit organisation's products or services.
Donation:	A donation is a gift of monetary or physical resources to an organisation that is provided by a donor and which has the following characteristics: • the donor does not benefit directly from the product or service offered by the recipient of the donation; • the recipient has to spend the money exactly as intended and any money not spent needs to be returned or utilised with the donors permission to further the purpose for which it was originally intended; • the donation cannot be revoked unless there is a material failure of the nonprofit organisation to deliver the required product or service; • the donation must be utilised for a charitable purpose.
Donor:	The individual or organisation that provides a donation (monetary or physical resources) to a nonprofit organisation or public-sector organisation.
Effectiveness	(See definition of "organisational effectiveness".)
Economic-value creation:	Economic value is created when the ability of an asset to generate products or services, that have market value exceeding those of the original inputs, has increased (Emerson *et al.*, 2001). For example, a nonprofit organisation may develop the skills of an unemployed person to earn a living and find that person a job. The economic value that has been created is the ability of that individual to generate a income and the opportunity to do so. Businesses have traditionally existed to create economic value (Alter, 2004). There are a number of different measures for how much economic value has been created, and popular measures include debt/equity ratio, return on investment, economic value added etc. The creation of economic value will always correspond with the creation of social value – these concepts exist along a continuum (Emerson *et al.*, 2001).
Executive director:	This is the individual responsible for managing a business or nonprofit organisation on a daily basis. This individual is accountable to the organisation's governing body. In nonprofit organisations and companies, this individual is also accountable to a governing body. The executive director is

	sometimes referred to as the chief executive officer or managing director.
Field test:	This refers to the process of gathering information on whether the findings of the organisational evaluation tool are useful and meaningful, and how this tool could be improved.
Fittingness:	This is one of the standards for rigorous qualitative research that is used judge the scientific value of qualitative research findings or qualitative research instruments (such as a tool to measure has the extent to which organisations have complied with the characteristics of effective organisations.)
	The standard of fittingness is said to be upheld when: i) subjects are members of a population being studied and the researcher is able to explain the relationship of the subjects with the broader population; ii) the findings appear to fit the data; iii) subjects are able to provide information the researcher and other significant audiences relevant and meaningful. If these standards are met then the findings have "external validity" to the extent to which they "fit" into or are said to be applicable to other contexts (Sandelowski, 1986).
Investor:	This refers to an individual or organisation that provides financial capital to an organisation in expectation of a desired return. A donor is not an investor since donors do not benefit directly from their investment whereas investors do. The term "social investor" is also confusing and may refer to either a donor or an investor depending on the facts of the case.
Leadership questionnaire:	This questionnaire is one of three parts of the organisational evaluation tool designed in this thesis, and focuses on gathering information from an organisation's staff, governing body members and volunteers on the quality of leadership in a nonprofit organisation.
Members (of a nonprofit organisation):	This refers to activities to increase an organisation's capacity. For example, lets assume a nonprofit organisation has been donated computers and software, and these computers have been connected to the internet. This organisation now has the potential or capacity to identify and correspond with donors on line in order to raise funds. However, this potential does not necessarily mean that this nonprofit organisation has developed their capability to raise funds or is more effective.
Model of organisational effectiveness	A model of organisational effectiveness refers to description of the abstract characteristics of an effective organisation and the relationships between these characteristics. A model also contains a visual representation of these characteristics.
Organisational evaluation tool:	An organisational evaluation tool is a research instrument for determining to what extent nonprofit organisations comply with the criteria of a model of

	organisational effectiveness (the characteristics of an effective nonprofit organisation). There are three components to the organisational evaluation tool designed in this thesis, and these are:
	• an organisational questionnaire
	• a leadership questionnaire
	• an organisational evaluation methodology.
Organisational questionnaire:	This questionnaire is one of three parts of the organisational evaluation tool designed in this thesis, and which focuses on gathering information on the extent to which an organisation meets the criteria of the model of organisational effectiveness. The findings from the leadership questionnaire are also accommodated in this organisational questionnaire.
Organisational effectiveness:	Organisational effectiveness is the extent to which an organisation has achieved its formally stated and desired outcomes within the time period being considered, and is able to provide convincing evidence of having done so. Effective organisations therefore need to: i. clearly define their outcomes ii. develop valid indicators for these outcomes iii. measure the extent to which they have achieved their outcomes iv. achieve their outcomes Organisational effectiveness is also linked to a given time period in which an organisation met the above criteria, and this means that statements about an organisation's effectiveness should always mention the time period in which the organisation was judged to be effective. Nonprofit organisations that have a positive impact on society but do not clearly define or measure their outcomes are, as per this definition, deemed ineffective. A nonprofit organisation can also be deemed effective in achieving its outcomes, yet be destructive in the long-term. For example, a nonprofit organisation providing food handouts may be an effective in preventing short-term starvation, but may undermine longer term income-generation programmes being run by other organisations. This thesis makes no judgements about the value of a particular nonprofit organisation's outcomes, and simply assumes that all nonprofit organisations are constructive in their outcomes. An effective organisation will generally be deemed a successful or excellent or high-performing organisation, although successful or excellent or high-

	performing organisations are not necessarily effective.
Nonprofit organisation:	"A trust, company or other association of persons established for a public purpose, and the income and property of which are not distributable to its members or office bearers except as reasonable compensation for services rendered" (Non-profit Organisations Act, 1997).
Paradigm:	A paradigm refers to an agreed "model or pattern of thinking (Kuhn, 1962: 23)" which provides structure to the beliefs and thinking of those individuals upholding a particular paradigm. Paradigms evolve through a process known as scientific revolutions that occur when an established paradigm is no longer able to explain various anomalies deemed important by those scientists working in the field, or explain problems as effectively as a new theory or cluster of theories can (Kuhn, 1962). This thesis argues that the traditional paradigm of understanding nonprofit organisations and businesses is coming to an end, especially with the lack of defining differences and the increasing similarities between these two types of organisations. This thesis argues that the classification of organisations according to their legal form no longer holds much value and does not describe the essential nature of organisations. From the perspective of the paradigm presented in this thesis, organisations (or enterprises to use terminology introduced in this thesis) are value-creating entities and should be both classified and judged according to the nature of the social and economic value which they seek to and actually do create through their outcomes and impact.
Public-sector organisation (PSO):	This is an organisation forming part of the public sector (part of the government or state).
Scientific research or scientific research standards:	This is the term used throughout this thesis to describe research which has been conducted according to rigorous scientific research standards. The standards for rigorous qualitative research include: credibility, fittingness, auditability, and confirmability. The standards for rigorous quantitative research include: internal validity, external validity, reliability and neutrality (Sandelowski, 1986). Scientific research is deemed to have scientific value.
Scientific value:	This is the term given to research findings emerging from scientific research.
Social accounting:	Social accounting is the "systematic analysis of the effects of an organisation on its communities of interest or stakeholders, with stakeholder input as part of the data that are analysed for the accounting statement" (Richmond et al. 2003: 309). An organisation's social accounts are the records of the social value that it has created.
Social enterprise:	"A business venture created for a social purpose – mitigating/reducing a social

	problem or market failure – and to generate social value while operating with the financial discipline, innovation and determination of a private sector business" (Alter, 2004: 5). This means that social enterprises have a "double bottom line" of business results and social impact. Social enterprises can also have the legal form of either a nonprofit organisation or a business (Social Enterprise Coalition, 2003). This thesis defines social enterprises as having ambition and only considering themselves effective to the extent that they can provide convincing evidence of consistently achieving their formally stated outcomes.
Social value creation:	Social value is created when individuals judge the quality of their lives and society to have been improved, and is difficult to define and therefore measure in economic terms (Emerson *et al.,* 2001). For example, someone who is sick with tuberculosis would consider their lives to have been improved (and social value created) if they were cured of TB. Social value could also be said to be created if the levels of crime in a community were decreased through improved policing. Nonprofit organisations have traditionally existed to create social value (Alter, 2004).
	The social value an organisation has created can be measured by qualitative and quantitative outcomes and impact evaluations. There have also been attempts to quantify the economic value and parts of the social value that organisations have created into monetary terms using measures such as Social Return on Investment (Alter, 2004; Emerson et al., 2001; Richmond *et al.*, 2003).
	The creation of social value will always correspond with the creation of economic value – these concepts exist along a continuum (Emerson *et al.*, 2001).
Validity:	This is a standard for rigorous quantitative research that determines the extent to which a research procedures measures what it presumes to (internal validity) and can be generalised to other contexts and the broader population being studied (external validity).

Appendix 2 – Organisational Leadership Questionniare

Name:	
Organisation:	
Position:	
Department/Project:	
Date:	

You have been selected to score your perception of the leadership practices in your organisation. This will contribute to the results arising from an evaluation of your entire organisation, and should provide valuable information on how your organisation could become more effective.

To answer these questions, simply write the score (a number between 1 and 5) in the space provided. The scoring framework is described below.
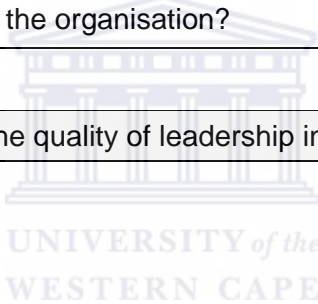
The scores that you give each of these questions is confidential, and will only be seen by the person conducting the evaluation of your organisation.

Once you have completed this questionnaire, either give or email the completed questionnaire to (name & contact details of person conducting organisational evaluation).

UNIVERSITY of the
WESTERN CAPE
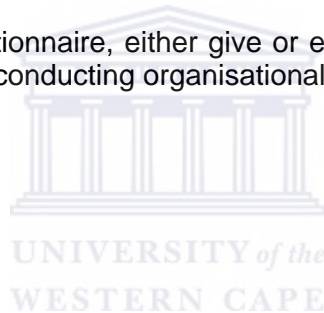
Scoring the Questions				
1	2	3	4	5
No	Not really	Sometimes	Most times	Always

The following questions examine the quality of leadership in your organisation.	1	2	3	4	5
Do you feel that the leaders (at all levels) in your organisation set a good example for you to follow?					
Are you actively involved in deciding how to improve your organisation and increase its effectiveness?					
Do you feel that your good work is recognised and appreciated?					
Do you have a clear sense of what your organisation's vision is and how it aims to achieve it?					
Do you feel that positive changes are being created in your organisation?					
Do you experience a sense of community with your organisation?					
Do your feel that you really matter to the organisation?					

What is your general impression of the quality of leadership in your organisation?

What do you believe would improve the quality of leadership in your organisation?

Thank you for taking the time to complete the questionnaire.

Model of the characteristics of effective nonprofit organisations

Designed by Marcus Coetzee and inspired by the quality models of the South African Excellence Foundation, European Foundation for Quality Management and the

Balridge National Quality Programme.

Enablers				Results		
1. Leadership	2. Policy & Strategy	6. Processes		7. Beneficiary Satisfaction	11. Business Results	
	3. Society Focus			8. People Satisfaction		
	4. People Management			9. Donor Satisfaction	12. Social Impact	
	5. Resource & Information Management			10. Partner Satisfaction		
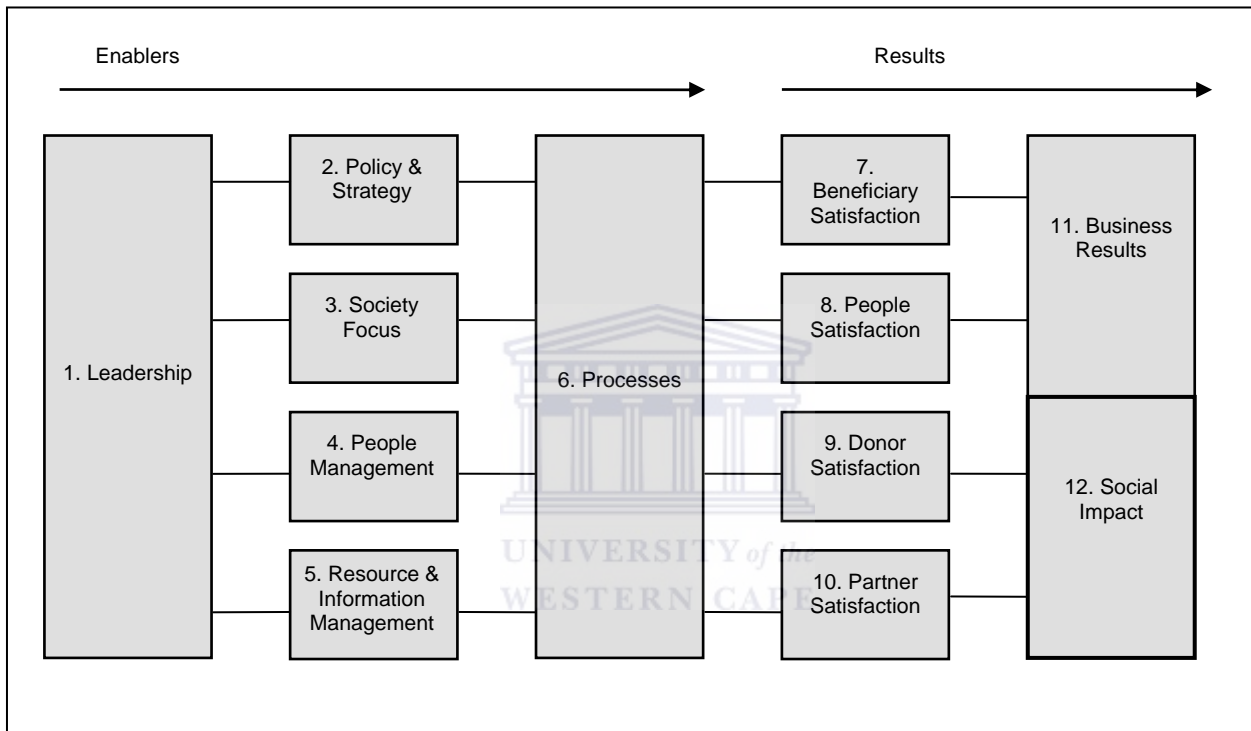
Section A: The Enablers

Scoring the Enabler criteria				
1	**2**	**3**	**4**	**5**
Your organisation does not really do this, even though there may have been some good attempts	Your organisation tries to do this (or has tried to do this), and is busy making improvements in this area	Your organisation does this (or has done this) at an acceptable level and is making improvements in this area.	Your organisation does this (or has done this) very well and is committed to continuous improvement in this areas.	Your organisation does this with world class excellence. It has achieved its potential, is committed to maintaining its standards in this area and being a role model to other organisations.

Criteria 1: Leadership
This criterion was measured by the Leadership Questionnaire, and the results are analysed independently of this questionnaire.

Criteria 2: Policy & Strategy					
What is the quality of (name of organisation)'s strategy to achieve its formally stated outcomes?	**1**	**2**	**3**	**4**	**5**
How does … analyse its external and internal environment and ensure that these findings are accommodated in its strategy?					
What are …'s formally stated outcomes and how were they developed?					
What are the measures which … uses to indicate whether it formally stated outcomes have been achieved?					
How does … determine whether it has achieved its formally stated outcomes?					
What are …'s strategic objectives for the next year and how were they developed?					
What are the capabilities that … needs to develop in order to succeed, and how were these capabilities identified?					
Who are …'s primary competitors and how does … plan to deal with them?					
Who are the individuals or organisations which have been judged to have a significant impact on … itself, and how does … plan to deal with them?					
Does …'s strategy describe detailed measures (e.g. a workplan) to improve its effectiveness over the next strategic period?					
How does … ensure that all of its people understand its overall strategy, as well as their part in successfully implementing this strategy?					
How does … review and revise its strategy?					

Criteria 3: Society Focus					
How well does (name of organisation) understand its industry, the problem it is focused on addressing and best practice for solving this problem?	**1**	**2**	**3**	**4**	**5**
What exactly is the problem (or need) that … is focused on addressing, and what steps has … taken to ensure that it properly understands this problem?					
How extensively has … researched the agendas and needs of the various individuals or organisations, which have been judged to have a significant impact on this problem?					
How does … keep up-to-date with best-practice for solving this problem?					
How does … ensure that it understands the needs and expectations of its beneficiaries, and takes them into account when designing its strategy?					
How does … determine how satisfied its beneficiaries are with the products or services it is delivering?					
How extensively has … researched the agendas and needs of the various individuals or organisations, which have been judged to have a significant impact on … itself?					

Criteria 4: People Management					
How well has (name of organisation) developed it people (staff members, volunteers and governing body members) to their full potential and utilised them accordingly?	**1**	**2**	**3**	**4**	**5**
Has … identified the types of people (abilities, knowledge, personality, etc.) that it needs to implement its strategy and achieve its formally stated outcomes, and if so then how was this done?					
Has … audited the abilities of its people, and if so then how was this done?					
How does … develop its people to their full potential?					
How does … ensure that its people are aware of the outcomes they need to achieve in order for the organisation to achieve its own formally stated outcomes?					
How does … review the performance of its people and provide constructive feedback to the individuals concerned?					
How does … ensure that its people continually improve their performance?					

Criteria 5: Resource & Information Management					
How well has (name of organisation) managed its resources and information?	**1**	**2**	**3**	**4**	**5**
What financial information do decision makers throughout … have access to, and how current is this information?					
What information about the performance of the organisation's programmes and functions do decision-makers throughout … have access to, and how current is this information?					
How does … record important interactions with external parties?					

How does … ensure that best practice and knowledge amongst its people is shared and recorded, and is not lost when people leave the organisation?					

Criteria 6: Processes					
How well has (name of organisation) been able to identify and improve its key processes (systems, policies, procedures etc.)	**1**	**2**	**3**	**4**	**5**
What are the key processes that influence …'s ability to implement its strategy and achieve its formally stated outcomes, and how were these processes identified?					
How has … sought to improve the quality of these processes?					
Has … been able to identify if any of these improvements have led to improved results, and if so then how was this done?					
How has … ensured that its people understand any changes that have been made to its processes, and have the skills and knowledge to implement/comply with these new processes?					

SECTION B: RESULTS

Scoring the Result Criteria (except the financial results criteria)				
1	**2**	**3**	**4**	**5**
Your organisation cannot provide evidence in this area.	Your organisation can provide some evidence in this area, or the evidence is implied indirectly by some other event.	Your organisation can provide fairly convincing evidence in this area.	Your organisation can provide convincing evidence in this area and has implemented specific systems to gather such evidence on an annual basis.	Your organisation can provide convincing evidence in this area for the last 3 years, and has implemented specific systems to such evidence on an annual basis.

Criteria 7: Benefiary Satisfaction					
How well has (name of organisation) been able to satisfy its beneficiaries?	**1**	**2**	**3**	**4**	**5**
What evidence can … provide of its beneficiaries being satisfied with it?					

Criteria 8: People Satisfaction					
How well has (name of organisation) been able to satisfy its people (staff, volunteers and governing body members)?	**1**	**2**	**3**	**4**	**5**
What evidence can … provide of its people being satisfied with it?					

Criteria 9: Donor Satisfaction					
How well has (name of organisation) been able to satisfy its donors?	**1**	**2**	**3**	**4**	**5**
What evidence can … provide of its donors being satisfied with it?					

Criteria 10: Partner Satisfaction					
How well has (name of organisation) been able to satisfy its partners?	**1**	**2**	**3**	**4**	**5**
What evidence can … provide of its partners being satisfied with it?					

Criteria 12: Social Impact					
How well has (name of organisation) been able to achieve its formally stated outcomes?	**1**	**2**	**3**	**4**	**5**
What evidence can … provide of having achieved its formally stated outcomes?					

Scoring the Financial Results Criterion				
1	**2**	**3**	**4**	**5**
These financial results are poor and indicate a high-risk situation.	These financial results are unsatisfactory and need improvement. They also indicate a potentially risk situation.	These financial results are acceptable and indicate that responsible financial decisions have been made.	These financial results are favourable and there is indication of a positive trend that seems likely to continue.	These financial results are excellent, set to continue and have defined the standard for other organisations to strive towards.

Criteria 11: Business Results					
How well has (name of organisation) performed financially?	**1**	**2**	**3**	**4**	**5**
What evidence can … provide of being in a strong financial position (balance sheet)?					
What evidence can … provide of being profitable (income statement)?					
What evidence can … provide of being able to manage its cash flow (cash flow statement)?					
What evidence can … provide of being self-reliant (unrestricted income)?					
What evidence can … provide of having developed a financial reserve (balance sheets)?					

Appendix 4 – Suggested procedure for using the Organisational Evaluation Tool

The following table provides a broad overview of the suggested procedure for conducting an organisational evaluation using the organisational evaluation tool designed in this thesis. This procedure is deliberately conceptual as opposed to detailed since it will almost certainly need to be customised to reflect the exact intention of the evaluation and the nature of the organisation being evaluated. It has also been assumed that the researcher conducting an evaluation using this tool has considerable experience in either evaluating the effective of nonprofit organisations or helping nonprofit organisations to become more effective, since this is a strong determinant of the value gained from these evaluations.

Step	Broad description of step
Step 1	The researcher should familiarise him/herself with the contents of this thesis.
Step 2	The researcher should negotiate the terms of the organisational evaluation with the relevant parties (which may include the organisation's donors, chairman, executive director etc.) and explain the overall procedure for conducting this evaluation.
Step 3	The researcher ensure that he/she is familiar with the organisation and its work.
Step 4	The researcher should ensure that the staff, directors etc. of the organisation being evaluated understand: the purpose of the evaluation; the procedure which will be followed during the evaluation; the various components of the evaluation (leadership questionnaire and organisational questionnaire); organisational effectiveness model on which the evaluation is based; the ethics which guide the evaluation; the implications of the evaluation for themselves and their organisation. The researcher should also try to ensure that these individuals feel that their concerns have been suitably addressed. All staff members of this organisation should be provided with copies of the leadership questionnaire to complete and submit to the researcher before the evaluation workshop (when the organisational questionnaire will be used.)
Step 5	The researcher should analyse the data from the leadership questionnaires. It is suggested that the results of each question are averaged for the organisation as a whole, and for each programme and function (e.g. finance department) in the organisation. The researcher could choose to present these results and findings to the executive director of the organisation concerned in advance of the evaluation workshop, if deemed appropriate.
Step 6	The researcher should facilitate an evaluation workshop based around the organisational

	questionnaire. This evaluation should ideally be conducted at the organisation's head-office premises since relevant information may be close at hand. The primary participants of the evaluation should be the executive director, financial manager and up to three other senior staff or governing body members, since these individuals are likely to be able to provide answers to the questions in the organisational questionnaire ,and are more likely to support the outcomes of the evaluation if they have participated in it. Before starting this session, the researcher should ensure that these workshop participants have copies of the organisational questionnaire (which includes the scoring framework) and understand how this questionnaire has been designed and the exact procedure that will be followed during this workshop. The researcher should also have made provision to take extensive notes throughout this workshop.

The process for using the organisational questionnaire is really quite simple. The researcher should ask the participants the first question in the organisational questionnaire, and facilitate discussions around the answers to this question, using appropriate probing questions to gather the required information. Where judged necessary the participants may need to go and fetch documentation from their offices etc. to support their answers. Once the researcher has judged that sufficient information has been provided to answer this question, the participants should be asked to suggest and agree upon a score for their organisation. The researcher should challenge this score it seems to too high or low given the answers to this question, and try and tactfully negotiate a score which better fits the organisation. If the researcher and the participants are unable to agree on this score, then the researcher should assign a score and explain the reasons for this score being chosen. This process should continue for each of the remaining questions in the organisational questionnaire.

Once all the questions in the organisational questionnaire have been answered, the researcher should present the findings from the leadership questionnaire and facilitate discussions around the findings of the entire evaluation (findings from both the leadership and organisational questionnaires). The implications of these findings for the organisation should also be discussed. The researcher should also ask the participants whether the findings appear to be reasonable, credible, and fit the information which was provided and the organisation being evaluated.

The researcher and the participants should then agree on the next step and ensure that any of the participants questions have been answered and concerns have been addressed. The participants should also be thanked for participating in the evaluation. |
| Step 7 | The researcher should prepare a report on the evaluation for the organisation giving a brief overview of the procedure that was followed, their subjective experiences when conducting the evaluation and a detailed description of the findings and the implications for the organisation which has been discussed. The researcher should also review the procedure and the findings with a fellow researcher to ensure that appropriate judgements were made throughout the |

	evaluation.
Step 8	The researcher should meet with the participants of the evaluation workshop in order and review the report, and identify whether any changes need to be made to this report.
Step 9	The report should be formally presented to the parties commissioning the evaluation (board of directors, donors etc.)
Step 10	The researcher should ensure that everyone who participated in the evaluation (directors, staff members, etc.) are aware of the general outcomes of the evaluation, the implications for their organisation, and have has their concerns appropriate addressed.

Appendix 5 - Further research topics

There is a need for future research to continue the journey started in this thesis. Three possible areas of future research are as follows: i) to use the organisational evaluation tool on a sample of contrasting effective and ineffective nonprofit organisations to identify if there are any organisational characteristics that are exclusive to effective nonprofit organisations (apart from criteria 12 – social impact); ii) to gather information on the characteristics of a sample South African nonprofit organisations in order to identify the types of consulting support that South African nonprofit organisations are likely to need; and iii) to identify what proportion of South African nonprofit organisations are effective, as per this thesis's definition.

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