MOYNIHAN INSTITUTE OF GLOBAL AFFAIRS

TRANSNATIONAL NGO INITIATIVE

Maxwell School of Citizenship and Public Affairs
Syracuse University

Practitioner Brief No. 1

Defining Organizational Effectiveness

George E. Mitchell and Cesar Sevilla

Efforts to develop better measures of transnational NGO (TNGO) effectiveness can benefit from the perspectives of TNGO leaders. When asked, most TNGO leaders consider their organizations effective when they achieve measurable progress toward their goals. This diverges considerably from much of the academic literature and from the financially-driven standards adopted by many watchdog organizations (Hager and Flack 2004). As TNGOs continue to grow in numbers and influence (Wing et al. 2010), understanding how TNGO leaders define and measure effectiveness offers important insights into the evolution and future developments of the sector.

The Problem

Surprisingly little agreement exists about what TNGO effectiveness actually means (Lecy et al. 2011). Scholars have failed to agree on common definitions and many have concluded that effectiveness is too difficult to define and practically impossible measure. At the same time, donors and other stakeholders have turned to financial ratios calculated from IRS Forms 990 as proxy measures of efficiency and effectiveness. In the absence of TNGOs providing relevant information on their own, numerous watchdog agencies have filled the evaluation void by offering simplistic designations based largely on financial information.[1] Typically, high program costs relative to administrative and fundraising costs results in good ratings, regardless of whether an organization's programs actually accomplish anything, let alone efficiently. Measures derived solely from financial data equate effectiveness with high program spending and efficiency with cost ratios. But is this what effectiveness and efficiency mean to TNGO leaders in the real world?

The TNGO Interview Study

Researchers of the Transnational NGO Initiative interviewed leaders from 152 transnational NGOs registered in the U.S. and evaluated by Charity Navigator, an online ratings agency. Organizations span five major areas of activity: human rights, humanitarian relief, conflict resolution, sustainable development, and environmental protection. The respondents, primarily presidents and CEOs, were asked about their views on questions of governance, effectiveness, accountability, networking, and leadership.

Outcome Accountability

TNGO leaders fall into two main camps when asked to define organizational effectiveness (Mitchell 2012). The majority of respondents define organizational effectiveness as *outcome accountability*. In this view, leaders understand effectiveness as the extent to which their organizations demonstrably achieve their promised results and efficiency as cost-effectiveness in terms of results-per-dollar. This broad consensus on outcome accountability has three parts:

1. Defining specific, measurable goals as appropriate to the organization and its mission;
2. Achieving observable progress toward specific goals;
3. Demonstrating to stakeholders that the promised goals are being accomplished; and
4. Understanding efficiency in terms of results-per-dollar.

Overhead minimization

A minority of respondents define organizational effectiveness as *overhead minimization*, which emphasizes spending ratios such as overhead measures. These leaders are also more likely to focus on short-term outputs rather than long-term impact.

The problem with overhead minimization, according to most other leaders, is that despite its intuitive appeal—less money allocated to fundraising and administration means more to programs—it fails to take into account whether an organization's programs actually accomplish anything. An organization that has low overhead, low executive compensation and low fundraising costs might intuitively 'feel' more efficient or effective, but if its programs have no impact both its efficiency and effectiveness are zero. Most leaders in the TNGO study understand this point well, but pressures from misinformed stakeholders demanding low overhead regardless of substantive results or program cost-effectiveness create perverse incentives that can distract organizations from their missions. To paraphrase one respondent: "donors are asking the wrong questions."

Challenges to Outcome Accountability

The main challenge with effectiveness is measurement. Leaders who define organizational effectiveness as outcome accountability distinguish between inputs, outputs, outcomes and impacts and understand the difficulties associated with evaluations. However, as a sector, these organizations have failed to generate and disclose credible data about effectiveness to promote learning and inform more meaningful assessments by external stakeholders. There is a growing consensus that TNGOs must be held accountable for making good on their promises, and organizations must improve their assessment capabilities for this to happen.

Donor-Oriented Accountability

Moreover, many TNGO leaders assume that their organizational goals are aligned with the needs of their beneficiaries, but a majority has not yet developed explicit mechanisms to establish such feedback. When TNGO leaders talk about accountability, they are more accountable to donors than to other stakeholders such as their beneficiaries (Schmitz et al. 2011).

Conclusion

Unlike businesses, which maximize profits, TNGOs have no obvious and universal metric, like profitability, with which to measure success and failure. Most TNGO leaders define organizational effectiveness as outcome accountability, which emphasizes demonstrable goal achievement and is considerably more challenging to measure than cost ratios.

Although few leaders define effectiveness as overhead minimization, many donors and watchdog organizations apply this conceptualization to evaluate TNGOs largely because data about financial costs are widely available while data about meaningful programmatic outcomes are not. But if donors want TNGOs be more effective and efficient, and if TNGO leaders want stakeholders to "ask the right questions," TNGOs must generate and credibly disclose information about their goals, accomplishments, and cost-effectiveness. Only then will stakeholders have the information they need to make better giving decisions. Otherwise, ineffective and inefficient organizations with expensive programs and high ratings will continue to thrive while truly effective and efficient organizations achieving real impact will fail to attract the attention they deserve.

About the Authors

George E. Mitchell is an assistant professor of political science and an affiliate of the public service management program at the City University of New York (CCNY) and a Moynihan research fellow at the Transnational NGO Initiative at Syracuse University.

Cesar Sevilla is a joint graduate student in public administration and international relations. He holds a BA in communications from New York University. Cesar is a board member for the Masakhane Center, a sexual health education nonprofit in Newark, NJ. Cesar is interested in public-private partnerships, global health and social entrepreneurship.

Notes

[1] One of the main watchdog groups, Charity Navigator, is currently revising its rating criteria to put more emphasis on accountability and outcome assessment related indicators, although financial rations will continue to play a role

References

Hager, Mark A., and Ted Flack. 2004. "The Pros and Cons of Financial Efficiency Standards." Washington, D.C.: Nonprofit Overhead Cost Project/Urban Institute.

Lecy, Jesse D., Hans Peter Schmitz, and Haley Swedlund. 2012. "Non-Governmental and Not-for-Profit Organizational Effectiveness: A Modern Synthesis." *Voluntas: International Journal of Voluntary and Nonprofit Organizations* 23 (2), 434-457.

Mitchell, George E. 2012. "The Construct of Organizational Effectiveness: Perspectives from Leaders of International Nonprofits in the United States." *Nonprofit and Voluntary Sector Quarterly*, doi:10.1177/0899764011434589.

Schmitz, Hans Peter, Paloma Raggo, and Tosca Bruno-van Vijfeijken. 2011. "Accountability of Transnational NGOs: Aspirations vs. Practice." *Nonprofit and Voluntary Sector Quarterly*, doi:10.1177/0899764011431165.

Wing, Kennard T., Katie L. Roeger, and Thomas H. Pollak. 2010. "The Nonprofit Sector in Brief. Public Charities, Giving, and Volunteering." Washington, DC: Urban Institute.

.