Defining Organizational Effectiveness

By George Mitchell and Cesar Sevilla

Introduction

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 academic literature and from common financial standards adopted by some donors and NGO watchdog organizations. As TNGOs continue to grow in numbers and influence, it is important to understand how TNGO leaders define and measure effectiveness to inform the many efforts already well underway to evaluate TNGOs.

The Problem

Surprisingly little agreement exists about what it actually means for a TNGO to be effective. Scholars often employ surveys to study what criteria stakeholders use to judge an organization’s effectiveness and frequently conclude that effectiveness is too complex, too difficult to define and impossible to measure.

Lacking better data, researchers have turned to publically available financial data from IRS Forms 990 to derive proxy measures of ‘effectiveness’ or ‘efficiency.’ Numerous watchdog agencies and standard-setting organizations have emerged to fulfill the demand for measures of effectiveness, efficiency or accountability by providing designations based partially or exclusively on financial information. Typically organizations that categorize most of their expenditures as program expenses and report lower fundraising costs get better marks. But is this what effectiveness and efficiency mean to TNGO leaders?
Findings

Researchers affiliated with the Transnational NGO Initiative interviewed leaders from 152 transnational NGOs registered in the U.S. and rated by Charity Navigator. Organizations span five major areas of activity: human rights, humanitarian relief, conflict resolution, sustainable development, and environmental protection. The respondents, primarily presidents and CEOs, discussed their views on governance, mission, transnationalism, effectiveness, accountability, collaboration, communications and leadership. For more information, visit http://www.maxwell.syr.edu/moynihan/tngo/Data/.

Outcome Accountability

TNGO leaders fall into two main camps when asked to define organizational effectiveness. The majority of respondents defined organizational effectiveness as outcome accountability. Under this view, leaders say that effectiveness means accomplishing the programmatic results they promised. Efficiency, moreover, means achieving those results cost-effectively. This broad consensus on outcome accountability has three parts:

1. Defining the goals and objectives as appropriate to the organization and mission;

2. Achieving observable progress toward specific outcomes for those objectives; and

3. Demonstrating to stakeholders that the promised outcomes are being attained.

Overhead Minimization

Only a minority of respondents defined organizational effectiveness as overhead minimization, which involves maximizing the percentage of an organization’s expenditures categorized as program spending. These leaders also appear to be more likely to measure short-term outputs rather than long-term outcomes.

The problem with overhead minimization is that despite its intuitive appeal—less money going to fundraising and administration means more for 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 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 Evaluation

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 TNGOs systemically fail 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 before this can happen.
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Donor Oriented Accountability

Many TNGO leaders assume that their organizational goals are aligned with the needs of their beneficiaries rather than incorporating constituency satisfaction as an explicit component of organizational effectiveness. Overall, when TNGO leaders talk about accountability, they appear to be more accountable to donors than to other stakeholders such as beneficiaries.

Conclusions

 Unlike businesses, TNGOs have no obvious definition of organizational effectiveness, nor do they have a universally convenient metric, like profitability, by which to measure success and failure. Most TNGO leaders define organizational effectiveness as outcome accountability, not overhead minimization, but the latter definition is widely used to evaluate organizations because financial data are available but outcome data and cost-effectiveness data are not. If TNGO leaders want stakeholders to ask the right questions, they need to generate and disclose the right data.

About the Authors

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