

Texas Nonprofit Sector: Capacity in Nonprofit Organizations



Report of the

**NONPROFIT
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PROGRAM**

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About the Nonprofit Management Program at the Bush School

Established in 2006, the Nonprofit Management Program at the Bush School of Government and Public Service is dedicated to developing leaders for the nonprofit sector, increasing understanding of nonprofit organizations and their role in society, and building management capacity. The Nonprofit Management Program offers:

- Graduate Certificate in Nonprofit Management,
- Professional Development Training and Workshops, and
- Basic and Applied Research.

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Nonprofits face competition, high expectations for accountability, and increasing demand for services, all of which contribute to the need for these organizations to be more effective and efficient in fulfilling their missions. The need for efficiency and effectiveness, combined with a harsher economic climate, has brought organizational capacity to the forefront of the concerns facing the nonprofit sector. Concern regarding the capacity of small- and medium-sized nonprofit organizations has grown because the nonprofit sector is becoming increasingly polarized between large, well-resourced organizations and small- to medium-sized organizations that find it progressively difficult to compete for essential resources. As a result, public actors are considering ways of building the capacity of the sector and, in particular, the capacity of smaller organizations in order to respond to these challenges.

This study explores how executives of moderate-sized human service organizations discuss and explain factors that are instrumental to performance. A sample of 299 organizations was contacted. Of those, 66 executives were interviewed. A quick response survey was sent to each executive before a phone interview was conducted (see **appendix A** for detailed data collection methods).

This report begins with an explanation of organizational capacity and the theory guiding the research study. The paper will present nine propositions (see Table 1) found to be important for nonprofit capacity. Each proposition will be preceded by a short review of the literature supporting its function within the theoretical framework and followed by an analysis of the results of the study supporting the proposition.

Table 1: Propositions of Nonprofit Capacity

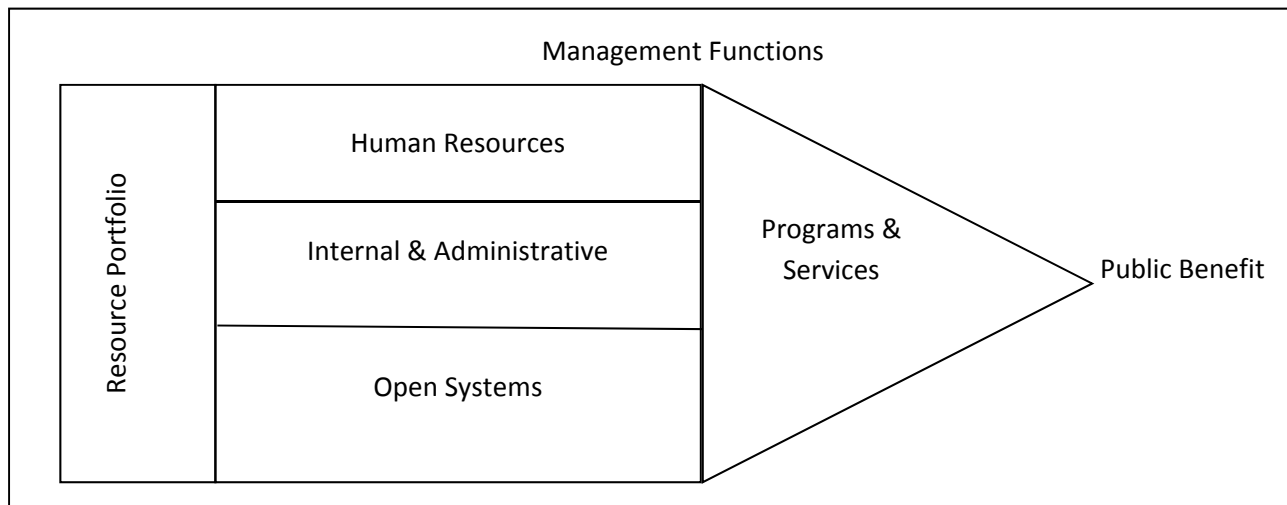
No.	Area	Organizational Capacity is associated with
1	Human Capital	a talented and committed workforce (volunteer and paid)
2	Financial Capital	organizations that have sufficient financial reserves, can raise necessary capital, and have reliable revenue streams
3	Physical Capital	having necessary physical assets, such as facilities and equipment
4	Social Capital	bridging (external) and bonding (internal) aspects of social capital
5	Human Resource Tasks	human resource tasks that build and utilize human capital
6	Internal Systems	efficient and high-quality internal systems
7	Open Systems	management systems that attend to the external environment
8	Programs and Services	High-quality programs and services
9	Board of Directors	an active and engaged board that fulfills governance functions

Organizational Capacity

Capacity is conceptualized broadly in terms of the organizational assets and processes that are utilized to improve effectiveness and sustainability. There are numerous capacity models but relatively limited theoretically based, empirical attempts to refine models and identify priorities for managers. This research utilizes a resource-based view of the organization, which has evolved as one of the most prominent theories in understanding organizational capacity. Resource-based theory proposes that organizational attributes and capabilities facilitate performance. Capabilities, in this sense, describe the use of organizational attributes and resources to achieve objectives.

Managers utilize capabilities to achieve public benefit or social impact objectives and to secure resources. Objectives and tactics are guided by the public benefit mission of the organization and the context that it operates within. The nonprofit value framework models nonprofit capacity features. The framework depicts the attributes used to achieve public benefit objectives. These attributes are divided into two areas: resource portfolio and management functions (see figure 1).

Figure 1: Nonprofit Value Framework



The resource portfolio includes tangible assets and intangible assets that are owned or controlled by the organization. Physical, social, financial, and human capital are components of the resource portfolio. Management functions include the systems, processes, and activities that acquire, combine, and utilize resource attributes to achieve organizational objectives and create social value. Management functions are explained using a competing values perspective, which recognizes the various methods managers utilize to acquire, coordinate, and deploy resource attributes.

The competing values framework organizes tasks by considering four diametrically opposed features: internal vs. external orientations and control vs. flexible structures. Internal orientation focuses on the coordination of elements within the organization, and external orientation reflects the interface between the organization and the external environment. Flexible and control structures represent the need to be responsive to individuals and opportunities while building consistency and stability. The four resulting functional areas are human resources, open systems, internal processes, and program activities (see figure 2).

Figure 2: Management Functions

Flexible Structures		External Orientation
1) Human Resource Tasks Supporting engagement, cooperation, communication, and commitment	2) Open Systems Tasks External relations, fundraising, marketing, and networking	
3) Internal Process Tasks Administration, information systems, and monitoring	4) Program Activities Planning, coordination, services	
Control Structures		
Internal Orientation		

The function of the board of directors is considered a distinct management function. The performance of the board of directors is associated with the performance of the organization. Boards that fulfill their roles and responsibilities are associated with higher performing organizations.

Data and Analysis

Interviews, lasting an average of 45 minutes, were recorded and transcribed. The transcripts were analyzed using content analysis software. A coding scheme was developed based on literature, the nonprofit value framework, and participant responses. This resulted in the identification of over 40 factors grouped into three content areas: resource attributes, management functions, and board of directors. Further analysis was conducted to determine if managers considered their organization as having or lacking these factors. The following discussion describes the nine propositions and summarizes results from the study.

Resource Portfolio

Human Capital

Human capital is the sum of individuals engaged in the work of the organization. This includes the knowledge, skills, and abilities of paid staff, volunteers, and leaders (paid and unpaid). Human capital is one of the most significant resource attributes for nonprofits. People are the means to providing services. Managers are likely to discuss the human capital attributes of their organization and the levels of commitment enacted by different constituents. An important feature of human capital is the ability of volunteer leaders to govern the organization.

Proposition One – Human Capital

A talented and committed workforce (volunteer and paid) is associated with organizational capacity.

Table 2: Human Capital Factors of Concern to Nonprofit Managers

Factors	# of Managers	% of Total
Human Capital	62	94%
Staff	56	85%
Committed	24	36%
Talent (knowledge, skills, experience)	22	33%
Entrepreneurial	21	32%
Board Members	56	85%
Board member inputs	43	65%
Characteristics of board members	29	42%

Human capital is the most common resource attribute identified by respondents. It is often the first explanation that respondents provide when asked “what makes your organization successful?” Nearly every respondent (94%) mentioned the importance and contribution of “the people.” This includes paid staff, volunteers, and board members. About 70% of respondents believe they have good people in their organization. They often highlighted the quality of the workforce, their dedication, their skills and commitment to the organization and the mission (see table 2) with comments such as the following:

I've been very blessed to find wonderful people that are great managers, that are doing the jobs, that are visionaries, [and] that have a purpose and get that purpose into action and make things happen. As a result of that, we have been very effective.

There was a modest concern (expressed by just over 25% of the respondents) that they are likely to lose their talented and committed workforce. Respondents also reported that staff are creative and entrepreneurial; they innovate and get the job done—often with limited resources.

Comments about the quality of people in the organization include board members and the experience, skills, talents, and level of participation they bring to the organization. When talking about the board, respondents readily identified how board members bring valuable experience, talent, and commitment to the organization, which helps in operating more effectively at both the board and organizational level. These board members help in numerous ways, including financial oversight, fundraising, operational activities, marketing, and strategy.

Financial Capital

Financial capital includes financial assets and the nature and character of the revenue streams. Financial capacity is critical to the strategic success of a nonprofit and reflects a significant advantage that allows organizations to maintain stability overtime and move into new service areas. Nonprofits rely on a variety of funding sources, which often results in significant complexity in managing funding relationships. Above all, managers seek funds that are reliable and predictable.

Proposition Two – Financial Capital

Organizational capacity is reflected in organizations that have sufficient financial reserves, can raise necessary capital, and have reliable revenue streams.

Financial resources are one of the most frequently mentioned factors of organizational performance. Seventy-one percent of the total interviewees (n=47) said that financial capital significantly influences their effectiveness. Respondents most often discussed the lack of sufficient resources but also talked about reliability of revenue streams and access to different sources of revenue. Many respondents (30 of the 47) had serious concerns about losing money, and they commented on the need for more funds to expand programs and serve more people. Funding was rarely the first factor discussed, but issues concerning funding—consistency, reliability, and additional funding—were common reactions when respondents were asked how they could improve their performance or what they were most concerned about. According to respondents, improved capacity in financial capital would allow the organization to hire more people and provide more services.

Physical Capital

Physical capital entails the range of tangible objects and facilities owned and controlled by a nonprofit. This includes buildings, land, equipment, technology, and other articles of value. The appropriate mix of facilities and physical resources facilitates the effective performance of nonprofits. This includes access to quality facilities in locations that support service delivery. Another concern is information technology; human service organizations face significant demands to track and monitor service activities, and sophisticated software and equipment might be vital to achieving performance objectives.

Proposition Three – Physical Capital

Organizational capacity is associated with having necessary physical capital, such as facilities and equipment.

Physical capital was discussed by 39% of the respondents. They often discussed the quality, or lack thereof, of their facilities. Some discussed new buildings, while others lamented the poor condition or size of the current facilities. Some respondents discussed technological capabilities and the use or need for new technology or new equipment to support services. Physical capital was often discussed in conjunction with how they could improve operations and activities.

Social Capital

Social capital reflects the various types of social relationships that can be instrumental to organizational success. Social capital theorists recognize two types of social relationships: *bonding* relationships, which tend to be deeper and more socially homogeneous (co-workers), and *bridging* relationships, which are relationships with more distant actors (clients or donors). High levels of social capital within and external to the organization are of value; relationships rich in social capital are difficult to replicate and thereby can provide tremendous strategic advantage. Bridging relationships tend to bring access to resources. Bonding relationships facilitate sharing, integration, and utilization of resources. Both types of social capital can be of value for a nonprofit organization.

Proposition Four – Social Capital

Organizational capacity is associated with bridging (external) and bonding (internal) aspects of social capital.

Table 3: Social Capital Factors of Concern to Nonprofit Managers

Factors	# of Managers	% of Total
Social Capital	56	85%
<i>External (bridging) relationships</i>	49	70%
Partner in resources	22	33%
Partner in programs	20	30%
Reputation	16	24%
<i>Internal (bonding) relationships</i>	34	52%
Board relationship to Executive Director	23	35%
Interpersonal relationships (team, family)	19	29%
Relationships among board members	10	15%

Eighty-five percent of the respondents discussed bridging (external) and/or bonding (internal) social capital. Of those interviewed, 70% discussed external relationships with other nonprofits, government, and communities. These relationships are vital to securing resources and serving clients. Many interviewees recognized that support from community and other agencies often enables them to improve their organizational performance:

We have a very good relationship with other agencies. We realize that we are limited at what we can do; but if we come together as a group, united, we can impact more people in our communities.

In addition, respondents explained that they are well-known and trusted organizations in the community. This is instrumental in an organization's ability to attract resources. The partnerships support activities that build awareness and reputation. In general, respondents are confident in the range and type of external relations they maintain, and just 10 respondents (15%) discussed the need for additional or stronger external relationships.

Bonding social capital was mentioned by 52% of respondents (see table 3). They discussed strong interpersonal relationships among the staff. They referred to the staff as a team that worked well together. The most common type of bonding social capital discussed by respondents was their relationship with the board. Twenty-three individuals (35%) commented that they had a good working relationship with the board. That relationship was paramount to effective performance of the board and, in many cases, the sanity of the executive.

Management Functions

Human Resource Tasks

Human resource tasks encompass all functions required to manage people in the organization. These tasks are a mix between internally oriented activities, such as facilitating communication among organizational members, and creating flexible structures to respond to the needs and talents of organizational participants. Personnel management involves structural systems that facilitate coordination and relationship development that supports engagement and professional growth. Nonprofits function, in large part, on the capabilities of the people associated with them. Nonprofit leaders actively work to strengthen the commitments of employees and volunteers.

Proposition Five – Human Resource Tasks

Human resource tasks that build and utilize human capital will be reflective of organizational capacity.

Close to 67% of interviewees (44 respondents) emphasized the contribution of human resource management practices to their organizational effectiveness, and over 50% of respondents believed they had good human resource management practices in the organization. They said they are able to work together to provide services and benefited from open communication practices, training, leadership development, and education. Many managers made comments such as, “*I think that the most important thing is I have been able to find the right people and put them in the right position where they take ownership of their job, and then they move on with it and excel.*”

Internal Process Tasks

Internal process tasks focus on monitoring performance and ensuring quality. These activities encompass the administrative aspects of organizations and are often concerned with efficiency and accountability. Accountability, specifically ethical practice or integrity, is a crucial internal process for nonprofit organizations. Because these organizations operate in industries without clear measures of success, stakeholders must trust the work and leadership of the organization.

Proposition Six – Internal and Administrative Systems

Organizational capacity is associated with efficient and high-quality internal systems.

Table 4: Internal and Administrative Systems Associated with Organizational Capacity

Factors	# of Managers	% of Total
Internal and Administrative	38	58%
Strategic direction	14	21%
Ethical practices	15	23%
Efficiency	13	20%

Internal systems and processes that facilitate efficiency and accountability were mentioned by 58% of the respondents. This includes general comments about "procedures," and comments about financial controls and efficiency in providing services (see table 4). For example, one executive stated "[I] understand structure, systems, processes—how to put those in place, how to make them work for you, how to identify when they aren't working any longer." Several respondents also mentioned creating and using plans to guide activities: "Strategic planning is a big piece of that—knowing which way we're going and what it is that we want to do and setting our goals and objectives." Respondents asserted that these features reflect criteria that are important to stakeholders and facilitate optimal utilization of limited resources.

Open Systems Tasks

Open systems tasks reflect an orientation toward the external environment and tend to require flexible structures that facilitate learning and innovation. This includes fundraising, public relations, and activities that manage stakeholder relationships. Successful nonprofits attend to external stakeholders and the resource environment by maintaining relationships and understanding the preferences and interests of key groups. This shift toward external "market" factors that affect organizational success is commonly referred to as a market orientation and is shown to be an important management function for nonprofits.

Proposition Seven - *Open Systems to Manage External Environment*

Management systems that attend to the external environment (open systems) will be reflective of organizational capacity.

Table 5: Open Systems Tasks Associated with Organizational Capacity

Factors	# of Managers	% of Total
Open System Approach	45	68%
Fundraising	23	35%
Marketing/PR	16	24%
Networking	12	18%

Almost 70% of the participants (n=45) commented on the need to respond to key stakeholders in the external environment. These stakeholders include community members to raise awareness, donors to provide financial support, and potential service partners to coordinate and/or expand services. Participants discussed fundraising strategies, marketing and public relations activities, and efforts to network with other providers (see table 5).

Respondents believed that these management activities contributed to broader recognition of the organization, which is related to securing “support.” More than half (n=26) of those who discussed open systems activities felt they were able to manage the complexity of the external environment or, at the very least, had a number of systems and activities (e.g., fundraising events) that were successful. Nevertheless, 70% of the respondents (n=32) also recognized some concerns or needs regarding these activities.

Program Activities

Program activity tasks are those functions that focus on the service beneficiary and attend to fulfilling the public benefit goals of the organization. Services encompass a full range of specialized activities and programs to create outcomes. The outcomes of program activities create social value, which reflects how the community is better off because of the services provided by the nonprofit.

Proposition Eight – Programs and Services

High-quality programs and services will be reflective of organizational capacity.

Table 6: Programs and Services Associated with Organizational Capacity

Factors	# of Managers	% of Total
Programs and Services	49	74%
Orientation in mission and purpose	27	41%
Customer orientation	20	30%
Quality services	19	29%
Comprehensive services	15	23%

Comments in regards to programs and services and how they are managed were made by 74% of the respondents. Comments included, “You have to keep producing quality products,” and you must “meet the goal, which is our mission; that always needs to be the focus of whatever we do.” The range and quality of services as well as the approach utilized (attention to outcomes or the "customer") were common ways to describe how the programs and services contribute to organizational effectiveness (see table 6).

Board Leadership

The performance of the board of directors is associated with the performance of the organization. The nature of this association is not fully understood, but the board is consistently recognized as instrumental to organizational performance. The extent to which the board fulfills key roles and responsibilities is likely to be associated with the performance of the organization overall. Boards are expected to provide oversight and support for the organization. Both these functions have the potential to influence the performance of the organization.

Proposition Nine – The Board of Directors

An active and engaged board that fulfills governance functions is likely to be indicative of organizational capacity.

Table 7: Manager Concerns Regarding the Board of Directors

Factors	# of Managers	% of Total
Board of Directors	63	95%
Fulfillment of roles	46	70%
Recruitment	24	36%
Clarification of roles and responsibilities	19	29%
Strategic approaches	18	27%

Over 95% of respondents discussed the role of the board in supporting organizational performance. Respondents often referred to the board’s role fulfillment (see table 7) and whether the members had accomplished their expected roles and provided helpful insights to the organization. Respondents discussed a number of ways that the board can be effective. They talked about recruiting new members and working to ensure board members had a shared vision and purpose and a clear understanding of the organization’s operations and activities.

Some concerns were related to the commitment of the board members. A number of respondents expressed the need for more training and education for the board in regards to roles. The most common role discussed was related to fundraising. Respondents were either pleased with the board’s activities in this area or they lamented the limited involvement of the board in supporting resource development activities.

Conclusion

The nine propositions were found to be priorities of managers in regards to the capacity of their organization. The study supports the nonprofit value framework as a valid representation of nonprofit capacity attributes. Respondents readily identified both resource portfolio features and management activities when asked to explain factors that affected their organization’s performance. Findings such as the importance of human capital to the functioning of the organization are in line with much of the existing literature on organizational capacity. Two findings are intriguing: the importance of external relationships to organizational capacity and the importance of the board of directors.

External relationships were mentioned by as many executives as financial resources. Managers recognized that strong external relationships helped them accomplish their missions, provide services, and gain support. While the literature covering nonprofit capacity agrees that social capital is crucial, most studies focus on internal social capital. This research shows that nonprofit managers consider external relationships crucial to success.

The board also proved to be highly important to the executives. The respondents' reliance on the board for fundraising, oversight, public relations, and guidance falls very much in line with the ideas put forth in prior research that recognizes the importance of the board. Those with high-quality boards tended to maintain a positive outlook on organizational abilities, while those who considered the boards lacking often lamented about the difficulty in bringing everything together. This research suggests that the fulfillment of board roles and functions is crucial to performance and should be studied further as it relates to organizational capacity.

While the nine propositions were all found to be important to managers, the study found that managers considered their performance in certain areas to be more favorable than in others (see table 8). Generally, managers considered performance in each of the nine areas to be either favorable or unfavorable. Overall, the majority of respondents viewed areas relating to people and services positively. Many organizations wanted to expand their services or client base, but current services were often described positively. Managers described their human capital in similar terms and were especially positive about human capital as it relates to providing services. External relationships and their effects on providing services were also generally considered to be favorable, although responses were varied and included observations that reflect the challenges of managing external relationships (open systems).

Finances were the least favorable item discussed. There were very few executives who had overcome resource issues. Based on the descriptions of their fundraising and marketing systems, it was apparent that most organizations lacked specificity in tactics for gaining substantial success in this area. Often the board was discussed in conjunction with fundraising. Here too the board was a concern. While some boards fulfilled this need, managers were generally concerned about the board's ability to fulfill fundraising objectives.

Table 8: Manager Perceptions of Factors That Influence Organizational Performance

Propositions	# of Managers	% of Total	Nature of Responses
Human Capital	62	94%	Strength
Financial Capital	47	71%	Weakness
Physical Capital	26	36%	Mixed
Social Capital	56	85%	Strength
Human Resources	44	67%	Mixed
Internal and Administrative	38	58%	Positive
Open Systems	45	68%	Mixed
Program and Services	49	74%	Positive
Board of Directors	63	95%	Mixed

How managers view their success concerning these propositions offers insight into organizational capacity. Improving areas of concern must take place concurrently with efforts to maintain areas of strength. While human capital was considered the most important aspect and was viewed positively, it is likely that improving weak factors would increase their importance in relation to capacity and performance.

Implications

The findings presented in this study suggest a few implications for managers, funders, and boards. First, people matter. Managers should prioritize their human capital. Improving human capital through training, education, and affirmation will benefit the organization. Increasing the productivity and capacity of staff and volunteers will increase organizational productivity at a lower marginal cost than many other capital improvements. Second, open systems, bridging relationships, and financial capital are interconnected; and financial success is dependent on all of them. Organizations must implement more sophisticated open system tasks to capitalize on strong external relationships and improve their financial standings. Finally, board productivity is crucial. Engaging the board members through training and support will increase their efficacy and potentially their engagement. Engaged boards can have a large positive impact on organizational performance.

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Appendix

Sampling Criteria

The sample was limited to small- to medium-sized human service organizations (\$100,000 to \$10,000,000 in annual revenue) as this size range represents one of the largest segments of the Texas nonprofit sector. Given the desire to profile nonprofits in Texas, two regions characteristic of Texas demographics were chosen. The Houston metro area and rural south Texas were chosen to ensure diversity in the sample. Human service providers were the focus of the study. Using the National Taxonomy of Tax Exempt (NTEE) codes, the following human service categories were identified:

- Health Care;
- Mental Health Care and Crisis Intervention;
- Crime and Legal-Related;
- Employment;
- Food, Agriculture, and Nutrition;
- Housing and Shelter;
- Youth Development; and
- Human Services.

Procedures

There are 1,533 organizations that meet the sampling criteria in the Business Master File from the National Center for Charitable Statistics (NCCS). Five hundred sixty-four organizations were randomly selected from this pool and contact information was obtained. After excluding organizations without substantial information available, 308 organizations were contacted. Nine mailed surveys were returned to sender, resulting in a final sample size of 299. Of the 299 contacted, 66 completed interviews.

Data Collection

Interviews were structured to explore the responses from the quick response survey that was sent ahead of time. The survey asked participants to rate, on a scale of 1 (very ineffective) to 7 (very effective), the overall effectiveness of their organization, board of directors, and themselves. Respondents tended to rate themselves highly—an average of 6.3. Although inherently subjective, the focus of the interview was to determine what criteria the managers used to determine their assessment of effectiveness and what factors influenced their capacity to perform.

Two principal investigators conducted phone interviews lasting an average of 43 minutes. Participants were asked to discuss their perspectives on the organization's performance based on the answers they provided to the survey. They were also asked to explain the criteria they used to arrive at the effectiveness score. Respondents were then asked to discuss some of the features they felt indicated high performance. Moreover, interviewees were asked to identify the factors that influence their organization's current level of effectiveness. In order to explore this further, managers were asked what it would take to improve the effectiveness of the organization. This sequence of questions was repeated for the organization as a whole, the board of directors, and the manager.



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The Program in Nonprofit Management develops leaders for the nonprofit sector, contributes to understanding nonprofit organizations and their role in society, and supports the practice of effective management.