

ECONOMIC ANNALS, Volume LIX, No. 200 / January – March 2014
UDC: 3.33 ISSN: 0013-3264

DOI:10.2298/EKA1400115A

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PERFORMANCE OF NON-PROFIT ORGANIZATIONS: EMPIRICAL CONTRASTS BETWEEN PRIVATELY AND PUBLICLY FUNDED CROATIAN HUMANITARIAN ORGANIZATIONS

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ABSTRACT: *In this paper we contrast different aspects of non-profit organizations' performance from the perspective of their funding sources. Based on previous empirical results indicating that sources of funding influence fundraising performance, we extend the existing research to the analysis of overall non-profit organizational performance. We use the social constructivist approach to non-profit performance to discuss*

contrasts between privately and publicly funded humanitarian organizations in Croatia. Some differences in growth- and development-oriented measures of non-profit performance for these groups are identified and discussed in the context of future regional research.

KEY WORDS: *non-profit performance, contrasts, public and private funding, Croatia*

JEL CLASSIFICATION: L31, L33

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1. EXPLAINING NON-PROFIT PERFORMANCE

The overall performance of a non-profit organization is dependent on its ability to raise funds in order to fulfil the organizational mission and goals (Ritchie and Kolodinsky, 2003). In addition, non-profits are often required to adopt more 'market-oriented' approaches to their organisational strategies in order to manage resources more efficiently (Macedo and Pinho, 2006). From the aspect of the funders it is very important to know how successful an organization is in accomplishing goals with the resources provided, which creates a need for efficiency ranking of non-profits. Several Web sites, including www.charitynavigator.org, www.charitywatch.org, www.myphilanthropedia.org, etc., have created (more or less successful) rankings for U.S. non-profit organizations.

These challenges have led to the development of a range of approaches to measuring fundraising performance, which usually involve indicators of total funds needing to be raised, categories of donors that will provide the resources, and the acceptable fundraising costs for planned income (Sargeant et al, 2010).

Nevertheless, there are many (objective) obstacles to defining non-profit performance as exactly as in the for-profit sector. Firstly, the vast diversity of organizational missions and objectives make it very difficult for direct comparison (Sawhill and Williamson, 2001; Poister, 2003; Andreasen and Kotler, 2008). In addition, non-profits are inherently oriented toward multiple constituencies (stakeholders) (Sargeant, Foreman and Liao, 2002; Padanyi and Gainer, 2004). Given that constituencies' perceptions and priorities differ significantly, the overall performance of a non-profit is almost always socially constructed (Herman and Renz, 1997). Although differing interpretations of the importance of non-profit performance dimensions make it difficult to provide a set of unified recommendations, managerial and governance practices contribute significantly to (socially constructed) performance (Herman and Renz, 1998). Therefore, performance measurement in the non-profit sector is complex, goes beyond the project/programme evaluation (Herman and Renz, 1999), and requires the use of a mix of 'subjective' and 'objective' performance measures (Sowa, Selden and Standfort, 2000), as well as intensive communication with constituencies and adoption of other good practices (Herman and Renz, 2008).

The previously listed reasons indicate why non-profits should not concentrate solely on currently needed financial resources, as an exclusive focus on fundraising and financial indicators shifts attention from other aspects of performance related to output, effectiveness, quality, and customer satisfaction (Poister, 2003). These

measures mostly revolve around the outcome of organizational activities, which are measured by assessing the overall impact of the activities performed, as well as their efficiency and efficacy in relation to resources spent (Behn, 2003).

These arguments support the application of multi-dimensional frameworks for evaluation of non-profit performance. There are three such concepts, the Balanced Scorecard approach (Kaplan and Norton, 1996), the Production of Welfare (POW) approach (Kendall and Knapp, 2000), and the Program Logic Model (Poister, 2003). All of those vary significantly in their perception of the most important performance dimensions/measures. The focus changes from strategy and mission in the Balanced Scorecard, to emphasizing efficiency (along with effectiveness) in the Production of Welfare concept, to project orientation in the program logic model. There is no 'right' way to measure performance, as each of these (or other) concepts might be especially useful for one non-profit organization and completely inappropriate for another.

Still, it is common sense that successful fundraising be viewed as an important aspect of non-profit performance. This is why we propose to study contrasts between privately and publicly funded organizations, as there might be significant, generalizable differences, previously determined in the case of 'correct' management practices (Herman and Renz, 1998; 1999; 2008). Even in the context of the socially constructed non-profit performance this is a realistic research orientation, since sources and amount of funds, as well as their adequacy will always play a significant role in evaluation of non-profit activities. The specific contrast related to public and private (individual and corporate) sources of funding, supplemented by self-generated revenue (e.g., from membership fees, social entrepreneurship, etc.), is determined by the long tradition of fundraising theory and research (Froelich, 1999).

2. SOURCES/CHARACTERISTICS OF FUNDING AND THEIR IMPACT ON NON-PROFIT ORGANIZATIONS

Organizations are not isolated, but rather represent elements of a broader system involving external and internal factors whose interactions need to be managed (McGee and Donoghue, 2009), including resource exchanges. Resources are unstable, inadequate, and uncertain, which sometimes leads to the fundraising success imperative being imposed over other performance dimensions. As organizations adapt themselves to the requirements of important resource providers (Froelich, 1999) they may experience 'mission drift'.

Mission drift is usually interpreted as departure from the idealistic and voluntary nature of an organization and the replacement of the initial, intrinsic motivation by professionalism and widely accepted managerial practices (Hwang & Powell, 2009). This process usually involves sector-wide acceptance of tools and approaches transferred from the for-profit sector, including the metrics of non-profits' relevance to society. The 'marketization' of non-profit organizations by accepting such principles is sometimes considered dangerous, not only for the achievement of their original mission but also for civil society as a whole, including the values of democracy and civic participation (Eikenberry and Drapal Kluver, 2004).

Inter-organizational relationships can be affected in predictable ways by resource dependency (Getz, 2001). Thus, balanced stakeholder relationships can be endangered by the dominance of a single funding source. This is exactly the case of 'crowding out', i.e., of high dependence on a single donor, which causes the organization to neglect other sources of funding. The most frequent scenario is related to the crowding out of private donations from public sector funds (Andreoni and Payne, 2003), although some studies show that its effects may not be uniform across the entire non-profit sector (Smith, 2007). One of the sources of 'crowding out' may be private donors' belief that their support for non-profits is not required, as this sector already receives significant funds from the public tax-financed budget (Benzing and Andrews, 2004). The other source for this phenomenon can be attributed to non-profits themselves. It is not uncommon for all sorts of organizations to focus their activities on serving the needs and/or requirements of a major customer or another key stakeholder. In the non-profit sector this occurs as governments increasingly transfer the responsibility for solving social problems to well-known and established non-profit organizations (Jang and Feiock, 2007). This is a common contemporary practice (Evers, 2005), which is usually motivated by public budget constraints. However, it may also be a sign of good practice in the public sector, since participative non-profit/community involvement in development of public services strengthens both society and the welfare system (Pestoff & Brandsen, 2008).

It is not only involvement of non-profits in public sector programmes or direct funding from public budgets that can indicate extensive resource dependence. This can also be the result of intensive financing of non-profit projects from public funds or funds distributed through public sector institutions, as suggested by Croatian non-profits for the use of pre-accession EU funds (Alfirević, Pavičić and Najev Čačija, 2013).

The most important problem related to co-operation with the public sector is that highly resource-dependent non-profit organizations are motivated to adapt excessively to government rules and regulations. In addition to shrinking the donor base, this can result in bureaucratization, change in organizational structure, goal modification (replacement), and/or loss of administrative autonomy (Froelich, 1999). This line of argument has been empirically supported by Camarero, Garrido and Vicente (2011), who found that increased public funding is associated with stifling innovation and discouraging organizational change in European non-profit museums.

Nevertheless, a high level of government funding also provides benefits for the non-profit sector, and not only in terms of ensuring continuity of its activities. In some cases, by funding formally autonomous non-profits, governments may be able to support causes/activities that may not be acceptable from the political point of view. Although such an approach can provide additional flexibility for the government, it may blur the line between the non-profit associations and autonomous public sector institutions, such as regulatory agencies (Krashinsky, 1990). This further supports the argument that government influence contributes to the change of non-profit organizations' identity in the long term (Scheitle, 2007).

The previously presented arguments favour the diversification of resource providers, which implies that the prevention of funder dependency is advantageous for non-profits (Macedo and Pinho, 2006). Such a theoretical position implies that domination by one source of funding can be associated with the lower overall performance of a non-profit organization. We are not aware of previous attempts to empirically test this proposition, which makes it a good starting point for further discussion. In addition, the social constructivist point of view that dominates in existing research supports the idea of unbalanced stakeholder relationships leading to lower performance.

3. RESEARCH PROBLEM, HYPOTHESIS, AND METHODOLOGY

From the results of previous research presented above it can be concluded that sources of funding and fundraising practices matter, as they influence different aspects of non-profits' operations and outcomes. However, it is still not clear whether sources of funding can be singled out as significant predecessors of organizational performance in the non-profit sector. This is why we chose to address the following research questions: How do the prevailing sources of

funding influence the performance of non-profit organizations? Are there any differences in performance between privately and publicly funded non-profits?

If the ‘crowding out’ effect exists, dependence on public funding or a major single donor and adherence to their agenda(s) might deter smaller funders from getting involved. In turn, this limits the perspective of such organizations by influencing their assessment of which stakeholders are relevant. When non-profit performance is explained from the social constructivist viewpoint (i.e. from the viewpoints of different organizational stakeholders and their perception of reality), there is a negative relationship with the concentration of funding sources, due to the reduction of stakeholder input. This leads to the formulation of the following hypothesis: Sources of funding, which can be linked to the ‘crowding out’ effect, decrease the overall performance of non-profit organizations.

If this hypothesis is accepted, further differences in performance between privately and publicly funded non-profit organizations will prove to be a function of the ‘crowding out’ strength of each funding source.

To test this hypothesis we conducted an empirical study of Croatian humanitarian non-profits that draw at least a small percentage of their funds from either private or public donors. (Other funding options recognized included user fees and proceeds from social entrepreneurship.) The organisations included in the study are all humanitarian non-profit organizations active in the Republic of Croatia, as defined by the Law on Civil Associations and the Law on Humanitarian Assistance. However, the many inactive non-profits that have been formally registered and included in the relevant state registries¹ mean that it is very difficult to determine the actual number of operating non-profit organisations. More than 50,600 civil associations met the Croatian Ministry of Public Administration’s formal registration criteria for non-profits in January 2014. Therefore our study sample was defined as a non-probabilistic selection of active, high-capacity Croatian humanitarian non-profit organizations. The methodology of snowball sampling (chain referral) was used to reveal such a ‘hidden sample’ (Atkinson and Flint, 2001). Its approach is relatively simple: initial informants are asked to refer other potential respondents to the researcher(s). The referral chain is created in several cycles, which allows access to previously unknown subjects/respondents: in this case the high-capacity organizations of which the previous group of respondents

¹ Those registries are also made available over the Internet to the public. See: <http://www.apluprava.hr/RegistarUdruga> (Ministry of Public Administration) and <https://banovac.mfin.hr/rtnopr> (Ministry of Finance).

has some personal knowledge. Alfirević and Gabelica (2007) successfully used this approach for sampling non-profit organizations in the Croatian context in order to solve the same problem, which further justifies its use.

The research instrument used for the study was a specially designed questionnaire, which addressed several segments of the surveyed organizations' operations and outcomes. Since its scope was quite complex, the questionnaire design was conducted in two stages. Firstly, initial respondents (top managers of humanitarian organizations personally known to the authors) were interviewed by telephone, both in order to receive information about subsequent referrals and to check their opinions on the constructs and their measurement to be included in the final research instrument. After fine-tuning the draft questionnaire with those initial respondents/experts, the final questionnaire was distributed by mail (in the form of a postal survey). New potential respondents were also initially approached either personally or by preliminary telephone contact. However, many of the potential respondents did not have the time or the motivation to participate. After each referral round reminders were sent by e-mail or communicated by phone or in a personal meeting, until a sample of 68 organizations was reached.

Some initial results from the survey are reported in a forthcoming study, analyzing the relationship between fundraising and overall non-profit performance. This study was conducted on a subset of 42 high capacity, high performing non-profit organizations which were the first to respond to our survey. Some other partial results relating to the influence of funding sources on fundraising performance for the complete sample have been previously reported (Alfirević, Pavičić & Najev Čačija, 2013). The empirical results of these studies have already been summarized in the previous sections of the paper.

The research constructs analyzed in this study include sources of funding, which were relatively easy to identify from the interviews with initial respondents, and the overall performance of the surveyed organizations. As previously outlined in the theoretical section of the paper, the prevailing approach in the literature to measuring these constructs is based on the social constructivist view. Nevertheless, there are significant methodological problems in identifying all relevant stakeholders of non-profit organizations and realistically assessing the influence of their perceptions on the social interpretation of overall non-profit performance. In an additional literature review, performed in order to identify empirical studies that have successfully solved these methodological challenges, no references were found.

This was the reason for using a simplified approach, suggested by Mitchell (2012), who leaves the non-profit leaders to define their own notion of what the performance of their organization is. Our preliminary interviews with the initial informants/respondents in the snowball sampling process, who were non-profit leaders/experts, led to the conclusion of a *growth and development orientation*. This is exemplified by an inclination to describe organizational performance by referring to the quantitative growth of revenues/resources, number of employees, volunteers, and beneficiaries, and by the qualitative development of all internal actors (employees/volunteers). All the perceptions were measured on the standard 5-point Likert-type scale. The methodological suitability of this approach has been confirmed in our study on the relationship between fundraising and non-profit performance (Alfirević, Pavičić & Najev Čačija, 2014).

4. RESULTS OF THE EMPIRICAL RESEARCH

The majority of the humanitarian organizations in our sample that responded (Mean = 54.36%; Stdev = 25.91) are financed from public sources, i.e., from state and municipal budgets, as well as from EU funds which are also distributed through the public sector. A much smaller amount of funding comes from private donors (Mean = 19.14%; Stdev = 25.91) and foundations (Mean = 9.1%; Stdev = 17.19), while members' fees and proceeds from social entrepreneurship account for 11.34% of funds received (Stdev = 20.43).

The previous study (Alfirević, Pavičić & Najev Čačija, 2013) confirmed the *crowding-out effect for public funding*, along with the existence of two clusters of organizations, identified by the criterion of their major funding coming from the public sector. To arrive to a more balanced clustering of respondents in this study, all five identified sources of funding (public funds, private funders, foundations, fees/social entrepreneurship proceeds, other sources) were used as clustering criteria.

The obtained empirical results are presented in Table 1, which identify *Cluster 1* as being predominantly financed from *private and own funds* (N=27) and *Cluster 2* as being predominantly funded from *public funds* (N=41). It is interesting to note that the clustering solution does not change when all sources of funding are used as criteria, as compared to the simple approach using public funding as the only criterion. Therefore, the obtained result can be assessed as highly reliable, as well as evidence of a rather high level of crowding out by public funds.

FUNDING AND PERFORMANCE OF NON-PROFIT ORGANIZATIONS

Table 1. Clustering of respondents according to sources of funding

	Cluster	
	1	2
Number of cases in the cluster	27	41
Funding by private donors (%)	39,06	6,02
Funding from public sector (%)	15,57	79,92
Funding from foundations (%)	16,54	4,19
Membership fees and social entrepreneurship proceeds (%)	18,65	6,52
Other sources of funding (%)	10,18	3,35

Sources: Authors' calculation

Indicators of overall organizational performance for these two clusters, discussed in the previous section of the paper, are presented in Table 2.

Table 2. Indicators of non-profit performance, according to funding clusters

Non-profit performance indicators		Cluster 1		Cluster 2	
		Statistic	Std. Err.	Statistic	Std. Err.
Revenue growth	Mean	2,8519	,26529	2,2439	,10921
	95% Mean Confidence Interval (CI) Lower Bound	2,3065		2,0232	
	95% Mean CI Upper Bound	3,3972		2,4646	
	Std. Deviation	1,37851		,69930	
Employee growth/development	Mean	2,7778	,24069	2,3659	,19049
	95% Mean CI Lower Bound	2,2830		1,9809	
	95% Mean CI Upper Bound	3,2725		2,7509	
	Std. Deviation	1,25064		1,21976	
Volunteer growth/development	Mean	3,0000	,22646	2,8780	,17873
	95% Mean CI Lower Bound	2,5345		2,5168	
	95% Mean CI Upper Bound	3,4655		3,2393	
	Std. Deviation	1,21976		1,14445	
Increase in the number of beneficiaries	Mean	3,3704	,21449	2,9756	,17973
	95% Mean CI Lower Bound	2,9295		2,6124	
	95% Mean CI Upper Bound	3,8113		3,3389	
	Std. Deviation	1,11452		1,15082	
Average performance assessment	Mean	3,0000	,18442	2,6159	,12654
	95% Mean CI Lower Bound	2,6209		2,3601	
	95% Mean CI Upper Bound	3,3791		2,8716	
	Std. Deviation	,95826		,81028	

Sources: Authors' calculation

The empirical results show that, for all growth- and development-oriented indicators of non-profit performance, Cluster 1 outperforms Cluster 2. The same applies to the average measure of non-profit performance, computed as the mean of individual

indicators. However, it is also important to test whether these differences are statistically significant, which requires the use of non-parametric methods due to the departure from the normality assumption, previously checked by a series of one-sample Kolmogorov-Smirnov tests. Empirical results of significance testing are presented in Table 3.

Table 3. Significance testing for indicators of non-profit performance, according to funding cluster

	Cluster membership	Mean Rank	Sum of Ranks	Significance testing	
Revenue growth	1	41,26	1114,00	Mann-Whitney U	371,000
	2	30,05	1232,00	Z	-2,440
				Asymp. Sig. (2-tailed)	0,015
Employee growth/ development	1	37,83	1021,50	Mann-Whitney U	463,500
	2	32,30	1324,50	Z	-1,195
				Asymp. Sig. (2-tailed)	0,232
Volunteer growth/ development	1	37,07	1001,00	Mann-Whitney U	484,000
	2	32,80	1345,00	Z	-,942
				Asymp. Sig. (2-tailed)	0,346
Increase in the number of beneficiaries	1	38,41	1037,00	Mann-Whitney U	448,000
	2	31,93	1309,00	Z	-1,439
				Asymp. Sig. (2-tailed)	0,150
Average performance assessment	1	40,17	1084,50	Mann-Whitney U	400,500
	2	30,77	1261,50	Z	-1,935
				Asymp. Sig. (2-tailed)	0,053

Sources: Authors' calculation

Unfortunately, statistically significant differences between Cluster 1 and 2 were obtained for the revenue growth indicator only, although differences in assessment of average performance are positioned on the very 'edge' for the assessment of the 5% statistical significance level. Such findings indicate that, *at least for some measures of non-profit performance, there is an empirically verifiable relationship between sources of funding and socially constructed non-profit performance.*

However, there are also limitations to this study, especially relating to the non-probabilistic approach to sampling, which provides indicative results only. This

means that the finding that *organizations mostly funded by private donors and own activities outperform those funded by the public sector* should be taken with care.

A potential explanation of the existence of such a relationship could be found in the EU accession context of Croatian non-profit organizations during the last decade. The wide accessibility of EU funds, distributed through the Croatian public sector (TACSO, 2013), might have led to the neglect of the traditional user and donor bases. This has been suggested in a previous study on the influence of type of funding on fundraising success (Alfirević, Pavičić & Najev Čačija, 2013), although without further empirical assessment. This is why we chose to perform an additional analysis of project application success for the non-profits belonging to different clusters (see results of empirical research in Table 4).

Table 4. Differences in project application success (including results of significance testing) for funding clusters

PROJECT APPLICATION (FUNDING) SUCCESS	Cluster 1		Cluster 2	
	Statistic	Std. Error	Statistic	Std. Error
Mean	63,3929	8,33414	73,3878	4,54443
95% Mean Confidence Interval (CI) Lower Bound	46,0081		64,1525	
95% Mean CI Upper Bound	80,7776		82,6232	
Std. Deviation	38,19183		26,88518	
DIFFERENCE SIGNIFICANCE TESTING	Cluster 1		Cluster 2	
Mean Rank	26,67		560,00	
Sum of Ranks	29,60		1036,00	
Mann-Whitney U	329,000			
Z	-,658			
Asymp. Sig. (2-tailed)	,510			

Sources: Authors' calculation

Unfortunately, empirical results demonstrate that *it is not possible to accept the previously proposed explanation*, since the statistical testing results do not support it. Some new propositions should therefore be developed and tested in future research.

5. CONCLUSIONS, IMPLICATIONS, AND FUTURE RESEARCH TASKS

In this study we tried to address the issue of empirically verifying the potential influence of diversification and sources of funding on overall non-profit performance. Our findings extend previous empirical research on fundraising success, which has confirmed the existence of the ‘crowding-out’ effect in the Croatian non-profit sector by public sector funds. The empirical results confirmed that organizations funded by private and own funds outperform those funded from the public sector. Nevertheless, we were only able to establish a statistically significant difference between cluster members for the revenue growth indicator. Based on these results, it can be inferred that funding that leads to the ‘crowding-out’ effect might be linked to perceived lower levels of performance, which confirms our hypothesis.

The obtained results should be treated as preliminary findings, to be confirmed by future research. They do support the need to continue empirical analysis of the relationship(s) between funding characteristics, fundraising success, and overall performance of non-profits in the SEE region. Future research should try to address the methodological issues of defining the population of active non-profit organizations and, ultimately, lead to a shared methodological framework, similar to the global CIVICUS framework (see, e.g., Doerner, 2011). This would enable researchers and other stakeholders of civil society development to perform direct comparisons for different countries in the region. From the managerial point of view, diversification of funding sources should be singled out as the most important practical implication. This might mean giving up the funding ‘rat race’ for the sake of assuring organizational reputation and stakeholder success in the long term.

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Received: January 27, 2014

Accepted: May 28, 2014