Through Which Lens? Contingency and Institutional Approaches to Conceptualising Organisational Performance in the Not-for-Profit Sector

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Abstract

Conceptualising organisational performance has received considerable attention in both the management accounting and Not-for-Profit (NFP) literatures, yet achieving consensus on what constitutes “organisational performance” has been difficult. The unique character of NFPs, as well as the considerable size and influential impact of this sector in Western Economies prompts a call for a better understanding of the nature of performance in such organisations. Some argue that NFPs would benefit from adopting a similar perspective on organisational performance to that of their commercial counterparts; whilst others argue that NFPs are sufficiently unique such that commercial sector concepts are either inappropriate or extremely difficult to apply. This paper argues that these apparently conflicting views about how organisational performance might be conceptualised within the NFP sector are quite reconcilable. Conclusions presented may provide guidance for researchers and practitioners in considering the nature of performance in this important sector.

Keywords:

Organisational Performance
Organisational Effectiveness
Contingency Theory
Institutional Theory
Not-for-Profit Sector

Introduction

Improving the effectiveness or performance of business organisations has long been of central interest to management accounting researchers (e.g. Simon, Guetzkow, Kozmetsky and Tyndall, 1957; Anthony, 1965; Khandwalla, 1972). Examining organisational performance and identifying the relative influence of the composite elements comprising its causal structure represents one of the most common themes in management accounting research, (e.g. Govindarajan and Gupta, 1985; Govindarajan, 1988; Govindarajan and Fisher, 1990; Perera, Harrison and Poole, 1997; Ittner and Larcker, 1997, 1998; Chenhall and Langfield-Smith, 1998; Abernethy and Brownell, 1999; Baines and Langfield-Smith, 2003; Bisbe and Otley, 2004; Henri, 2006; Widener, 2007).

Irrespective of how it is conceptualised, or whether survey or case-based approaches are adopted, studies investigating organisational performance display strong similarities. Survey-based studies typically position this construct on the “left hand side of the equation”, with independent variables reflecting various contextual characteristics featuring on the right hand side in their individual or collective roles of identifying or predicting how performance outcomes might be improved.

Similarly, studies adopting case-based perspectives often regard organisational performance and its antecedents as something

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to be understood, shaped or explained, under various contextual situations - the aim being to identify and explain those aspects of organisational efforts and activities that might result in attaining, maintaining or enhancing performance outcomes.

Both forms of research, therefore, investigate approaches to improving organisational performance\(^1\), but the considerable diversity in the ways that organisational performance has been conceptualised in these studies reflects the ambiguous nature of this construct (Otley, 1999).

Improved organisational performance is also important to organisations operating within the Not-for-Profit (NFP) sector. While appreciable research has been undertaken on the similarities and differences between for-profit and NFP organisations (Heinrich, 2000), the implications for how organisational performance might be conceptualised within a NFP context have not been explicitly considered, and the contribution of management accounting research in informing this debate, has been limited.

Two opposing views emerge from the NFP literature about how performance might be conceptualised within this sector. On the one hand, NFP commentators have argued that the characteristics of this sector, such as their unique governance structure, financial and legal status, distinct culture, and goals based on social values, make discussions about how to conceptualise and, by extension, how to improve organisational performance in NFPs more complex than that in commercial organisations (Speckbacher, 2003; Moore, 2000; Herman and Renz, 1999). With its emphasis on the diverse array of social, economic, and operational variables and

\(^1\) Scholars often use the terminology “effectiveness” and “performance” interchangeably to describe the same phenomenon: the outcome of organisational activities (Selden, and Sowa, 2004, p.395). Therefore, for the sake of simplicity, no distinction will be made between the terms “performance” and “effectiveness” in this paper, and the term, “performance” will be used wherever possible. For a more detailed discussion comparing and contrasting these terms, see Henri, J-F. (2004) “Performance Measurement and Organizational Effectiveness: Bridging the Gap”, Managerial Finance, 30 (6): pp. 93- 123.

industry representation within the NFP sector, this view is consistent with a contingency approach to defining the nature of organisational performance in NFPs, and offers a rich environment for testing and developing theory relating to organisational performance.

In contrast, a recurrent observation appearing in the NFP literature is that the lines dividing for-profit and NFP organisations are becoming increasingly blurred (Stone, Bigelow, and Crittenden, 1999; Herman and Renz, 1999; Speckbacher, 2003; Beck, Lengnick-Hall and Lengnick-Hall, 2008). NFPs now operate in an environment where they compete for resources and are required to prove and improve their effectiveness. This has resulted in a greater need for them to determine their ‘best’ strategic direction (Stone, et al., 1999), and to control their efforts in pursuing this direction (Herman and Renz, 1999). In response, NFP practitioners have progressively looked to private sector practices to improve efficiency and productivity (Beck, et al., 2008; Lindenberg, 2001). This view is consistent with institutional theory, which predicts that it is likely for NFPs to exhibit a high propensity to adopt commercial approaches to conceptualising organisational performance as a direct response to isomorphic pressures (DiMaggio and Powell, 1991). From an institutional stance, it is therefore quite reasonable to expect that discernible differences in the conceptualisation of organisational performance between sectors would be insignificant (Ramanath, 2009).

These contrasting theoretical vantage points and their resulting paradoxical predictions on how organisational performance might be conceptualised within the NFP sector represents a tension, which the current study aims to confront.

This remainder of this paper is structured as follows. First, the evolution of organisational performance as it has been viewed in commercial organisations is briefly examined. This is followed by a reflection of how organisational performance has been treated in the NFP literature, then a comparison of the similarities and differences between the sectors in terms of their performance implications. The fourth section examines the two theoretical lenses – contingency and institutional – through which organisational
Organisational Performance in the Commercial Sector

The seminal theoretical work of Anthony (1965) has played a major role in the development of the management control literature, and by extension, how performance has been traditionally viewed by management accountants. According to Anthony, control was defined as, "the process by which managers ensure that resources are obtained and used effectively and efficiently in the accomplishment of the organisation's objectives" (Anthony, 1965, p.17). From this functionalist view of control, organisational performance was implicitly regarded as primarily financially-based. The role of management accounting was to monitor predominantly based financially-based metrics (such as revenue, cost, and profits) so as to enable the correction of deviations from preset standards. Indeed, much empirical management accounting research has focused on variations of an array of such financial criterion as a proxy for performance. For example, average annual growth in sales, growth in return on assets, growth in return on sales (Chenhall, 1997); revenues, expenses, margins, return on sales, retail customers, and business and professional customers (Ittner and Larcker, 1998); sales growth rate, operating cash flows, ROI/ROA, and pre-tax net profit to sales (Moore and Yuen, 2001); ROI, sales volume, and profits (Henri, 2006); overall profitability, market share, and delivery system (Widener, 2007). Even with their concentration on financial effectiveness, it is clear that as different studies examine different aspects of performance, under different conditions, and in different circumstances, comparisons of performance as conceptualised in these studies should be made with caution. Findings are sensitive to the selection of different measures of performance, and therefore, conclusions drawn from this research need to be considered in the light of this qualification.

Organisational Performance in the NFP Sector

In spite of the undisputed importance of such financial indicators as a reflection of organisational performance, it was recognised that financial results provided only one of many gauges of commercial effectiveness, and that concentration on financial outcomes failed to provide information reflecting the full consequences of organisational activities (Bennett, Rikhardsson, and Schaltegger, 2003; Schaltegger and Burritt, 2000). The advent of broader conceptualisations of performance (and frameworks for measuring performance) aimed to define costs and benefits beyond financial and operational terms by integrating insights from other disciplines, such as marketing, organisational behaviour, human resource management and strategy (Ratnatunga, 1988). This approach is broadly termed, Strategic Management Accounting (SMA) (Roslender and Hart, 2003). It includes such approaches to conceptualisations of performance as the Balanced Scorecard (Kaplan and Norton, 1992), which measures performance from four different perspectives: financial, customer, internal business, and learning and growth; ‘triple bottom line’ reporting, which recognises the economic, as well as environmental, and community impacts of organisational activity (Epstein and Birchard, 2000); and value-based reporting, which seeks to combine the reporting issues raised by economic, environmental, social, governance and empowerment frameworks (Ratnatunga, Vincent, and Duval, 2005).

Despite the advent of these more contemporary approaches, it is clear that despite the variety of models for examining organisational performance, there is still little consensus over what constitutes a valid set of performance criteria (Smith, 1998), and the diversity in the way in which performance has been operationalised reflects the observation that the construct, ‘performance’ remains, “an ambiguous term, and capable of no simple definition” (Otley, 1999, p. 364). This ambiguity suggests that if such a thing as an ‘ideal’ model exists upon which to conceptualise performance, it is likely to be contingent upon a range of considerations.

Organisational Performance in the NFP Sector

It has been argued that organisational performance is more difficult to conceptualise
in a NFP than in a commercial organisation (Anthony and Govindarajan, 2004). This argument is centred around the legal constraint on NFPs’ on distributing profits, thereby effectively abolishing the profit motive as a primary objective of NFPs, and the broader missions of NFPs as compared with their commercial cousins.

Profit is interpreted differently in commercial and NFP organisations. A dominant goal of most commercial organisations is to earn a profit or, more precisely, to create wealth for its owners. The extent to which revenue exceeds expenditure reflects progress towards this goal. As a general rule, the larger the profit, the better the performance. In a NFP however, a large profit may signal that the organisation is not providing the services that those who supplied resources had a right to expect. Clearly, profit is a necessary goal because NFPs cannot survive if on average, their revenues are less than their expenses; a string of losses will lead to bankruptcy, just as in a commercial organisation. As reported by Casteuble (1997) “we might be not-for-profit but we are not-for-loss either”. However, profit is not and should not be the dominant goal in a NFP. Financial considerations can play an enabling or constraining role but will rarely be the primary objective of NFPs (Kaplan, 2001), and although profit as a reflection of performance exists in NFPs, the overall effectiveness of such organisations can rarely be measured by this single quantitative metric (Brown, 2000).

Unlike commercial organisations, the mission or goal of NFPs is typically to provide some sort of public service. These services are often intangible, difficult to measure, and sometimes conflicting (Forbes, 1998). This is due largely to the heterogeneous goals, and needs of the variety of constituencies typically served by NFP organisations (Speckbacher, 2003). Such constituencies or stakeholders are numerous and diverse. They include funders, referral agencies, government officials, volunteers, clients, staff, the board of directors, the media, and the general public. A multiple constituency perspective of organisational performance recognises this wide diversity of stakeholders or constituents who respectively define the criteria with which they evaluate a given NFP. Different constituencies are likely to use or to give different priorities to different criteria, making the possibility of a single measure of performance unlikely. As a result, there is broad agreement that, again as in commercial organisations, no single conceptualisation of performance will work for NFPs (Sawhill and Williamson, 2001), and that performance in a NFP context is best conceptualised through a multi-dimensional framework rather than through a single construct (Rojas 2000).

A Difference that makes No Difference is No Difference.

From the preceding discussion, it appears as though many of the difficulties in conceptualising organisational performance are common to both NFP and commercial sectors. The academic study of organisational performance in business organisations is about as inconclusive and muddled as it is for NFPs. Research on performance and effectiveness, seems not to support any general conclusions. Financial factors are clearly important in both sectors, but if the role of management accounting is to assist managers in the realisation of goals, it follows that the desired goals must be identified, and the information required best to help achieve those goals must be determined (Kelly and Alam, 2008). For organisations operating in the for-profit sector, this has been recognised through an expansion of the way in which performance has been traditionally conceptualised, beyond solely the measurement and reporting of financial performance (Gray, Owen, and Adams, 1996; Ratnatunga, et al., 2005). Similarly, in NFPs, organisational performance involves identifying, integrating and prioritising the concerns and goals of all relevant stakeholders. This is not to say that the needs and requirements of stakeholders are of not important to commercial organisations. They are. For example, recent corporate collapses, such as, Enron and WorldCom, have increased interest in the role of accounting in looking after the interests of stakeholders (Ratnatunga and Alam, 2007). Nevertheless, the wider variety and heterogeneity of stakeholder constituencies in the NFP environment and the diversity in their goals, expectations and requirements has been argued to introduce a level of complexity in the conceptualisation of performance in NFPs beyond that of
commercial organisations (Herman and Renz, 2008).

The fundamental question of how performance should be conceptualised within a NFP context nevertheless remains. In the subsequent section, and against the comparison of performance between the sectors, this question is considered through the lenses of institutional theory and then, contingency theory. The aim being to provide insights into the extent to which sector-based differences might make a difference in conceptualising performance of NFPs.

All the same, other theoretical vantage points can and have been used to study organisational performance in NFPs. Examples include, resource dependency theory, (see, Brown, 2000); agency theory, (see, Miller, 2002); and stakeholder theory, (see, Baruch and Ramalho, 2006). Such theoretical perspectives have made considerable contributions to field, and an explanation of why they have not been adopted as analytical lenses in this paper is justified. Resource dependency theory (Pfeffer and Salancik 1978), focuses on power/dependence relations within the environment that can lead to improved performance. This is achieved through the facilitation of connections to influential resources (such as funders, technical competencies, supply of materials, and staff). With its emphasis on bridging resources deficiencies, the practical and operational focus of resource dependency theory is likely to be intuitively appealing to practitioners. This theoretical perspective however, essentially considers performance from the viewpoint of the measured rather than the measurer. It is therefore relevant more as a framework for performance improvement, rather than on how performance might be better conceptualised.

Agency theory posits a fundamental conflict relationship between the owners (the principal) and those they engage (the agent), to perform some service on their behalf. In broad terms, it predicts it is probable the agent may not always act in the best interests of the principal, and consequently emphasises the necessity to align the interests of the principal with those of their agents. The applicability of agency theory to a NFP context however, has been questioned because of the difficult challenge in defining “the principal” (Brown, 2000). Moreover, agency theory in the NFP sector has been argued to “paint an incomplete picture of a highly complex phenomenon, as its assumptions about people and conflict do not hold in NFPs” (Miller, 2002, p. 447). Further, as has been established earlier, performance in NFPs is recognised as most likely being multi-dimensional, and considerably influenced by parties beyond those of principals and agents. The unidirectional stance implicit in agency theory is therefore argued to be inadequate for the purposes of the current investigation.

The concern of unidimensionality is to an extent, mitigated by stakeholder theory which suggests it is the responsibility of managers to select activities and direct resources to obtain benefits for legitimate stakeholders. A key attribute of stakeholder theory is its simultaneous attention to the needs of stakeholders (Donaldson & Preston, 1995), and is therefore an appealing lens through which to view and scrutinise organisational performance. Notwithstanding its multidimensional position, a fundamental deficiency of this theory as applied to a NFP context is the ability to accurately identify all stakeholders. Furthermore, some stakeholders will be more credible than others, some will be more influential than others, and as noted above, stakeholders often evaluate performance differently, and, as Herman and Renz (2008) observe, important stakeholders are frequently unclear about their bases for assessing NFP effectiveness, and their evaluative criteria can be expected to change over time. Clearly, the needs and expectations of stakeholders are important in determining what constitutes performance, however the question of what constitutes organisational performance is broader than the operationalisation of the construct. Whilst stakeholder theory provides insights into how performance might be measured (by different constituencies), it provides only part of the answer to the complex question of how these different viewpoints might be integrated.

In contrast, both institutional and contingency theories are well-suited as a theoretical frame of reference from which to examine organisational performance. The broad contention that there are no ‘universally valid rules’ of what constitutes organisational
performance, and that the “appropriate” conceptualization of organizational performance will be influenced by, and needs to be matched to, the context within which NFPs operate, enhances the attractiveness of contingency explanations. Institutional theory too, is a sufficiently broad lens through which to view performance, and some empirical support vindicates this claim. In a synthesis of the results of studies investigating organisational performance in the NFP sector, Herman and Renz (2008) argue that more effective NFPs are more likely to use what are perceived to be “best practices”, pointing to the importance of isomorphic pressures and institutional theory as a compelling framework for conceptualising organisational performance.

In many ways, contingency and institutional theory may be considered to represent two extremes of a “theoretical, ontological and epistemological spectrum”. Tensions inevitably exist between interpretative approaches, such as institutional theory, and the positivist focus of contingency theory. Although alternate theoretical vantage points can be brought to bear on an investigation of organisation performance in the NFP sector, the conflicting predictions apparently offered by institutional and contingency theory present an appreciable obstacle to conceptualising organisational performance in a NFP context. It is for this reason that these two positions have been selected in this enquiry, as lenses through which to more closely view organisational performance.

Contrasting Theoretical Lenses

The Convergence View – Through the Institutional Lens

The attention of both NFP researchers and practitioners over the past two decades has been progressively directed towards looking to private sector practices as potential avenues for NFP efficiency and productivity improvement (Lindenberg, 2001; Beck, et al., 2008). NFPs are increasingly operating in an environment where they compete for resources and are accordingly required to demonstrate and improve their effectiveness (Rojas, 2000). This is particularly true as funding agencies and government require increased accountability and governance in evaluating the efficiency and effectiveness with which NFPs deliver their outcomes (Gray, Bebbington, and Collison, 2006; Unerman and O’Dwyer, 2006; O’Dwyer and Unerman, 2008). Moreover, as outlined above, similar to profit-seeking firms, NFPs typically face the same economic pressures to survive (Clohesy, 2003; Beck, et al, 2008), and in response, are increasingly looking towards implementing businesslike models in order to enhance their efficiency and productivity (Shoham, Ruvio, Vigoda-Gadot and Schwabsky, 2006). For example, management principles derived from the commercial sector are frequently used by NFPs to guide their efforts in demonstrating accountability (Griggs, 2003; Herman and Renz, 1999; Parker, 1998) in response to growing expectations and requirements of stakeholders (Sowa, Selden and Sandfort, 2004; Nobbie and Brudney, 2003; Speckbacher, 2003).

These trends are consistent with institutional theory, which posits that organisations seek internal and external legitimacy by engaging in similar activities, codifying the same practices, following approved procedures, and developing comparable structures (Herman and Renz, 2008). In terms of how organisational performance is conceptualised in NFPs, institutional theory predicts that NFPs adopt what (they perceive) they are required to adopt as a consequence of coercive pressures, professional or industry established ‘best practice’, in order to achieve or maintain their legitimacy, thereby demonstrating they are pursuing the ‘right’ objectives in the ‘right’ way.

The expectations and requirements of funding providers and other stakeholders as discussed above represent a central consideration for NFPs in determining what constitutes their effectiveness (Stone, et al., 1999). In NFPs, measures of performance tend to focus on the activities specified in the organisation’s mission, goals, and objectives, which are influenced by the collective expectations of numerous external constituencies (Herman and Renz, 1999). These performance expectations may be regarded as a form of coercive isomorphism, and from a practical perspective, their accommodation by NFPs is understandable. If NFPs adopt particular standards, targets or objectives as mandated by
funders, or consistent with stakeholder requirements or expectations, then they are rewarded for doing so through an increase in resources.

Mimetic isomorphism might also provide an explanation of why NFPs adopt particular conceptualisations of performance, in that such conceptualisations signify, “a symbolic demonstration of managerial competence” (Mulhare, 1999, p. 323), a point reinforced by (Herman and Renz, 1999, p. 122), “keeping up with what is regarded as best practices is a sign of effective management and legitimises a NFP in the eyes of many of its stakeholders”. This form of isomorphism has some empirical support. NFP board members have been found to judge organisational effectiveness in relation to the extent of use of ‘correct’ management practices (Herman and Renz, 2008). Moreover, the extent to which NFPs ‘follow suit’ with commercial concepts of performance because such concepts are (perceived to be) ‘best practice’ in the for-profit sector, have also been identified (see, Beck, et al., 2008). The results of these empirical studies point to an inclination by NFPs to imitate established views of effectiveness, grounded in the for-profit sector, particularly when there is substantial uncertainty about the methods for achieving outcomes or when outcomes are difficult to measure, in order to achieve or maintain their legitimacy.

Normative isomorphism, that is the pressure to conform stemming from the prevailing values, norms and accepted practices of professional or peer groups (DiMaggio and Powell, 1983), may also influence NFPs’ perception of what constitutes organisational performance. Although difficult to substantiate empirically, this claim can be inferred from the following line of argument. Strong, shared ideologies and forms of expression develop around certain occupations (Frumkin and Andre-Clark, 2000). Many NFP professionals, including managers seek to bring a new rigor to their work and develop standards to measure performance (Stone et al., 1999). If senior managers or board members have previous private sector experience, an educational background (in business, accounting or commerce, for example), or are members of professional business, accounting or commercial associations, it is quite conceivable that this would influence their view on performance – thereby linking performance in their NFP context with commercial views of performance. This is not to say that such senior managers or board members would attempt to replicate commercial perspectives, measures or frameworks of performance, in their entirety, but almost certainly, their conceptualisation of performance would include some similarity with that of commercial organisations, and it is argued that this imitation would be driven to some extent by normative pressures. From this discussion then, it is argued that one or more isomorphic pressures quite conceivably drive NFP conceptualisations of organisational performance. These conceptualisations are based on sector-based similarities. However, differences between the sectors are also likely to influence how performance is viewed in NFP organisations, and it is towards a consideration of the implications of these sector-based differences on how performance may be viewed, that the attention of this paper is now directed.

**The Divergence View – Through the Contingency Lens**

“It is generally agreed that there is a conceptual separation and distinct differences between for-profit and NFP organisations and activities” (Lewis, 1998, p.136). These differences stem from the unique character of NFP organisations, which has been well documented in the NFP literature (Moore, 2000; Sawhill and Williamson, 2001; Brown and Iverson, 2004; Baruch and Ramalho, 2006; Beck, et al., 2008). They include the unique culture prevalent within the NFP sector (Lindenberg, 2001; Lewis, 2002; Abraham, 2004); a lesser accessibility to crucial knowledge, skills, and abilities and resources (Schneider, 2003; Lindenberg, 2001); the dependence on, but lack of control that NFPs have over resources (Stone, et al., 1999), the need to manage a wide array of constituencies and stakeholders (Balser, and McClusky, 2005), and to accommodate multiple, complex, diverse and sometimes conflicting sets of goals (Herman and Renz, 1999; Brown and Iverson, 2004).

These characteristics have been reasons variously advanced to suggest the NFP sector is sufficiently unique so as to render many
prescriptions for ‘success’ developed in the private sector either inappropriate, extremely difficult to apply, or even detrimental (Beck, et al., 2008). Moreover, it has been contended that the superimposition of for-profit practices on NFPs has not always produced the best solutions (Rojas, 2000; Moore, 2000), and their uncritical adoption may carry considerable risk (Bielefeld, 2006). Indeed, it has been argued that NFPs would be better served by the adoption of modified business practices (Brown and Iverson, 2004), or even a different model altogether (Lewis, 1998).

This recognition of the differences between NFPs and commercial organisations is consistent with a contingency theoretical orientation, which adopts the view that the appropriate conceptualisation of organisational performance will be influenced by the context within which it operates (Chenhall, 2003). That is, a contingency approach suggests that prescriptions developed in the commercial sector cannot be assumed to be automatically transferable to a NFP environment. Rather, contingency theory aims to isolate and examine how contextual variables – in this case, sector-based differences - may influence the way in which organisational performance is viewed, defined and measured in a NFP context.

From the earlier discussion, three such differences appear to be of particular relevance. First, the time consuming and expensive nature of a consultative process with numerous stakeholders, with disparate and diverse goals (Mara, 2000), is likely to pose practical difficulties in arriving at consensus about what constitutes performance.

Second, the strong and distinctive organisational culture prevalent in many NFPs may very well be incongruent with private-sector approaches to conceptualising performance. This is consistent with the contentions of a number of NFP researchers. For example, Herman and Renz (1999) pointed to organisational culture as an important factor differentiating NFPs from their commercial and public sector counterparts. Baraldi (1998) reports ‘soft’ variables (perception, acceptance, and organisational agreement are crucial in NFPs. Abraham, (2004, p. 1) argued that in a sector that, “values informal relationships, voluntary participation and ‘niceness’, the idea of accountability is somewhat alien”. Sawhill and Williamson (2001) noted the concept of accountability has traditionally been foreign to the NFP culture. As observed by Lindenberg (2001, p. 261):

“Nonprofit staff members clearly have different motivations for remaining in their chosen workplace. They have been willing to trade salary dollars for organizational participation and the satisfaction of working for a better world. They believe they have the right to be cynical about detailed analysis and data collection”.

NFPs often possess an “ideological aversion” to view themselves as comparable to commercial organisations, and the application of a corporate model, which emphasises a ‘business mindset’, immediately clashes with the philanthropic values of many NFPs, which stress community, cooperation, and caring (Lindenberg, 2001). This aversion may be a potential source of conflict between managerial and operational staff that arises from a “clash of cultures” between these occupational groups. “Conflict emerges when salaried professionals engage in behavior directed towards maintaining or increasing their own autonomy and management implement control systems designed to control that behavior” (Abernethy and Stoelwinder, 1995, p. 1). The ‘clash of cultures’ phenomenon has also been observed, and its implications discussed, in a NFP context in the wider management accounting literature. In their study of the relationship between professionals and bureaucracies in one large NFP hospital in Australia, the findings of Abernethy and Stoelwinder (1995) may provide illustrative lessons. Examining the effect of the interaction between professional orientation and the control environment on role conflict and the subsequent impact on organisational outcomes of 100 physician and nurse subunit managers, they concluded that “the type of control environment that individuals with a high professional orientation find most offensive is one dominated by output forms of control, that is, an environment where superiors impose targets to be achieved and measure performance based on those targets” (Abernethy and Stoelwinder, 1995, p. 13).
These findings are of particular relevance to the current study as the evidence from NFP research suggests that the “clash of culture” phenomenon may extend beyond the professionals investigated by Abernethy and Stoelwinder (1995), to all NFP employees. Newman and Wallender, (1978) argued that professionals enter NFPs with highly socialised value sets developed and reinforced through a process that has taught them to internalise particular values, judgment, and ethics and embrace the ceremonies, associated with the profession, with an allegiance to a profession that exists outside of the focal organisation’s boundaries. If such an effect were salient in NFPs, it would almost certainly represent a restriction on the adoption and implementation of commercially grounded views of performance.

A final sector-based difference, related to the influence of organisational culture, is the perceived difference between NFP and commercial organisations, in supply and demand. For many NFPs, the concept of competition is rejected because their service market far outstrips organisational capabilities (Frumkin and Andre-Clarke, 2000). NFPs often feel that their service niche is secure (Brown and Iverson, 2004). This difference between the sectors may reflect a lack of recognition by NFPs of the need for, or importance of, a structured, rigorous approach to conceptualising performance – or at least one that demands the accountability and fiscal reliance as necessarily exercised by commercial organisations (Brown and Iverson, 2004).

**Which Lens is “Best”?**

Based on the discussion to date, two contrasting theoretical lenses provide very different views about how organisational performance may be conceptualised within a NFP context. On the one hand, institutional theory focuses on the similarities between the sectors and advocates NFPs will seek to emulate their longer-established commercial cousins in their view of what constitutes performance. On the other hand, contingency theory emphasises that the differences between NFPs and commercial organisations necessitate a different way of viewing the MCS-strategy relationship, because “what works in business will not necessarily work in NFPs”.

As both contingency and institutional theory offer conflicting explanations about how performance might be conceptualised within a NFP context, and in the absence of empirical evidence to suggest the predominance of one particular theoretical perspective, it is concluded that both theories may contribute to building a more complete understanding of how performance is and should be viewed within the NFP sector. If NFP and commercial organisations are fundamentally different, there is little point in NFPs seeking to draw lessons from management in the private sector. If, on the other hand sector-based differences are not appreciable, NFPs can learn potentially useful lessons from their commercial counterparts.

On the basis of the evidence presented, we contend that to profess the ‘superiority’ of a particular theoretical stance would be foolhardy. Whether or not isomorphic pressures equate to, ‘doing the right thing for the wrong reasons’ (or vice-versa), or whether contingent factors have a genuine influence in fact, or merely represent conventional wisdom prevailing in the NFP sector is, it is argued, largely irrelevant. What is suggested is that these two theoretical vantage points are not implicitly mutually exclusive. At least, not necessarily. Notwithstanding reasons for adopting commercial conceptualisations of performance, it is likely that contingent factors might impair, impede or mitigate the effectiveness of such conceptualisations. Such contingent factors as identified in this study are able to be incorporated and assimilated within definitions, frameworks and measures of performance, thereby preventing the assignment of NFPs to an ‘institutional prison’ in their approach to conceptualising this construct. Table 1 summarises potential institutional responses to the contextual factors suggested by contingency theory as identified in this paper. These responses suggest that the stances of contingency and institutional theory need not be automatically regarded as mutually exclusive but rather, are possible of operating simultaneously. That is, in a spirit of combining different research traditions rather than emphasising their exclusivity, institutional theory may be held to influence what approach is adopted in conceptualising...
Table 1: Potential Institutional Responses to Contingent Factors

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<th>CONTINGENT FACTORS</th>
<th>POTENTIAL INSTITUTIONAL RESPONSES</th>
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<td></td>
<td>Coercive</td>
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<tr>
<td><strong>Multiple constituencies and stakeholders</strong></td>
<td>Conceptualisations of performance may conflict, reflecting the diversity of the organisation’s goals, and objectives, and expectations of assorted external constituencies (Sawhill and Williamson, 2001).</td>
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<tr>
<td><strong>Less control over resources</strong></td>
<td>Funding may be conditional upon particular performance outcomes - particular for Government stakeholders, possibly for corporate sponsors/donors (Gray, Bebbington, and Collison, 2006).</td>
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<td><strong>(Absence of) competition for customers</strong></td>
<td>Views of performance may reflect funder requirements that how as well as what services are provided is an important aspect of NFP effectiveness (Stone, 1989).</td>
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<tr>
<td><strong>Use of collaborative structures/networks</strong></td>
<td>Funding obligations on what and how services are provided, which other agencies may be involved, and associated performance outcomes (Sowa, Selden and Sandfort, 2004).</td>
</tr>
<tr>
<td><strong>Distinctive culture</strong></td>
<td>Obligation to adopt particular performance measures, reflecting a particular view of performance (Herman and Renz, 1999).</td>
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organisational performance (and why), but contingency theory may be regarded as providing insights about how, this approach can be modified or adapted to accommodate sector-based contextual factors. for example, the existence of multiple and diverse stakeholders, each with their own expectations and requirements; a distinctive organisational culture; and supply and demand considerations, are major contextual variables identified in this paper that are argued to distinguish NFPs from commercial organisations. Kaplan (2001) demonstrates the adaptations made to the Balanced Scorecard that have resulted in its successful implementation in five NFP organisations. Baruch and Ramalho (2006) in analysing 149 scholarly publications published on the subject of organisational performance or effectiveness over a ten-year period, found overlapping common ground issues in how performance and effectiveness is measured in both sectors. These commonalities were found to relate to efficiency and/or productivity; growth and/or market share; customer orientation; and, quality. Baruch & Ramalho (2006) concluded that, the means by which these constructs were operationalised have varied between the sectors, reflecting the “multiplicity of research traditions that have been evolving almost independently, and an assortment of competing theoretical perspectives for the quest of the ‘one best way’ to identify or measure organisational performance in a NFP context” (Baruch and Ramalho, 2006, p. 40). Nevertheless, the conceptualisations displayed a high degree of similarity, pointing to a state of equifinality, in which equally effective approaches to conceptualising (and measuring) performance may potentially be achieved by organisations from different theoretical starting points, and along unique paths. The findings of Baruch & Ramalho (2006) provide some empirical support for the contention presented in this paper that competing theoretical frames of reference may not, and indeed, should not, be regarded prima facie, as mutually exclusive - at least from a practitioner standpoint. A similar position is adopted by Beck, et al., (2008) in a case study of a small NFP service organisation who advocate and outline the necessary contextual checks and balances that might accompany the specific tools and techniques imported to the NFP sector from the for-profit sector.

Conclusion

Drawing on the discourse presented in the management accounting and NFP literatures, this study contributes to the debate about how organisational performance might be viewed in a NFP context. This was done by comparing and contrasting organisational performance through the lenses of contingency and institutional theory. In so doing, it provides much needed insights into the extent to which these quite different theoretical perspectives may be adopted by both management accounting and NFP practitioners. These insights have implications for both theory and practice.

Implications for Theory

From a theoretical perspective, the adoption of both institutional and contingency lenses, to explain how organisational performance might be conceptualised within a NFP environment should not overly concern researchers. The adoption of more than a single theoretical perspective from which empirical findings may be interpreted and theoretical contentions evaluated, helps to avoid the danger of seeing phenomena as one would expect to see them (Marginson, 1999), and enables the development of more complete theoretical explanations which might provide insights into the phenomena observed (Modell, 2005).

Theoretical triangulation involving both institutional and contingency theory as lenses through which to view the conceptualisation of performance, suggests that contingent variables unique or perceived to be unique to NFPs can and should be incorporated within an institutional framework. If NFPs transplant conceptualisations of performance from the commercial sector, it should not prevent the integration and assimilation of distinctive features of NFPs within such conceptualisations.

\footnote{The equifinality thesis originated in General Systems Theory (von Bertalanffy, 1968), and suggests that similar outcomes might be achieved by very different causal paths (Doty, Glick, and Huber, 1993; Gresov and Drazin, 1997).}
Institutional theory may very well determine why performance is conceptualised in a particular way, but contingency theory may determine how such conceptualisations need to be modified and adapted, given the particular mission of the NFP. For example, as has been advanced, financial metrics are important to both sectors.

However, the relative emphasis or importance of profit in NFP organisations is often typically and understandably less than that of commercial organisations. Conversely, although the performance implications of strategy, marketing, and human resource management functions has led to broader multi-dimensional frameworks to conceptualising performance in a commercial context, the need to adopt a multi-dimensional approach to performance is well documented. Such multi-dimensional approaches are arguably of greater significance to NFPs, given the central importance of stakeholders and constituencies, their numerous and diverse goals and intangible to such organisations. As suggested at the commencement of this paper, the role of management accounting research in informing this debate, has to date, been limited. Practitioners certainly need to be clear about how organisational performance is defined, but management accounting academics can also make important contributions. If management accounting, “invariably focuses on how people, acting, either individually or in groups, react to management accounting information, or management accounting systems” (Atkinson and Shaffir, 1998, p. 42), then clearly there is a role for further empirical management accounting research investigating the efficacy of observed practice. Further research that develops, refines and tests theory (and a variety of theories) in order to explain how organisational performance within a NFP context might be better conceptualised is also likely to advance our understanding of the complex nature of organisational performance in this sector.

Implications for Practice

The contentions of this paper have three important implications for practitioners. First, the importance and value to NFPs of identifying exactly what constitutes ‘organisational performance or effectiveness’ is underlined. This involves a deliberate choice and serious consideration. It is also likely to require extensive consultation and ‘selling’ within the NFP as well as to key stakeholders. Second, though conceptualisations should be specific, they must also be flexible, especially in where particular conceptions of performance are mandatorily imposed upon NFPs by funders. Once formed, NFPs must be prepared to rework and amend such conceptualisations incrementally in response to what they perceive to be important factors differentiating their particular organisation from commercial organisations. Such potential contextual variables may very well include the range and diversity of stakeholders and constituencies who will require consultation, the distinctive culture of their organisation, and the market position, and in particular, how resources are acquired and allocated amongst competing ends. At times, even full-scale abandonment of these conceptualisations may be necessary. Third, for NFPs new to, or considering such an exercise, the importance of time horizons cannot be over-emphasised. Intangible and public service missions typically possess a longer gestation period in comparison with commercial organisations, and how well or poorly a NFP is performing is usually only seen in time. Persistence in definition, as much as specificity and flexibility is key to the realisation of realistic performance conceptualisations. Similar to most activities or processes, the quality is likely to improve the more it is done. NFPs new to determining what constitutes performance should expect initial efforts to be somewhat off the mark, and procedures should be put in place to ensure that ‘learning to define performance’ is accomplished as efficiently as is possible – whichever lens is used.

References


