

# Chapter 15

## The Relation between Contingency Factors and the Efficiency of NPOs

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### ABSTRACT

*There is growing concern regarding the enhancement of NPOs' efficiency as it is considered an excellent strategy to tackle the imbalance between greater social demand and the decrement of their resources, as well as the lack of credibility in the current best practices of the sector. Within a Colombian context, this paper sets out two main objectives. Firstly, an analysis of the efficiency of NPOs in reaching their social goals and, secondly an analysis of the influence of certain factors in NPOs' efficiency. The main findings indicate that, in general terms, Colombian NPOs should make a greater effort in the efficient management of their resources. Moreover, younger entities and those with a national scope are shown to be the most interested in improving their levels of efficiency.*

### INTRODUCTION

Nonprofit organizations (NPOs) comprise a sector of public interest due to the social, political and economic impact of their activities. In relation to their social impact, NPOs cover governmental social deficiencies (García-Mainar & Marcuello, 2007; Baur & Schmitz, 2012; Omona & Mukuy, 2013) and enhance corporate social responsibility (Laasonen et al., 2012). With respect to their political impact, they are one of the main agents that exert pressure in favour of democracy (Jordan, 2005). With regards

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to their economic impact, NPOs' contribution to Gross Domestic Product has increased, mainly through the number of employees (Salamon et al., 2012).

In general terms, their work is carried out thanks to the public and private funding that they receive and to the altruistic help of volunteers (Burger & Owens, 2010; Gugerty, 2010; Taylor & Doerfel, 2011). In this regard, it is worth mentioning that, with the economic crisis, they are assuming additional responsibilities, despite the increasing difficulty in fundraising (Clark, 2011). Hence, NPOs need to make visible the added value they provide to society in order to ensure their survival and maintenance.

Moreover, the corruption cases detected at an international level have brought into question the effectiveness of their programs, the efficiency in their organizational management, and the best practices of their organization's members (Gibelman & Gelman, 2001, Greenlee et al., 2007; Vázquez, 2011). Therefore, in addition to the economic crisis, these entities are also in a trust crisis which has provoked a serious distancing between NPOs and society (Pianta, 2013). Additionally, due to recent corruption scandals there is growing skepticism in the way in which these entities manage both the human and capital resources of the organization (Martín-Cruz, 2012). As the work of these entities is carried out thanks to the support that they receive from society, the efficiency of the sector is an issue that is acquiring more and more importance among NPO managers, board members, funders and regulatory bodies (Wei-Skillern & Silver, 2013). This term, efficiency, is defined as the rational use of resources in order to maximize benefits (García-Sánchez, 2010), however, focusing on the non-profit-making characteristic of the NPO sector, efficiency should not be perceived as the maximization of benefits but rather as the achievement of social goals (Epstein & McFarlan, 2011).

There are numerous reasons that indicate that the assessment of efficiency is certainly very desirable for NPOs. For a start, this evaluation can provide solutions for the lack of concern regarding the adequate management of long terms goals as well as addressing the need for fostering commitment to continuous improvement in the sector (Hernan-Gómez et al., 2009). Furthermore, NPOs should be more concerned with the improvement of their efficiency than other organizations as the majority of their resources are given selflessly, and thus, they have a greater responsibility to use them responsibly in order to show that they deserve such support as well as aiding them to increase the mobilization of people to their social cause (Wei-Skillern & Silver, 2013). In addition to this, as a consequence of the global economic crisis, there is a greater imbalance between the increase of social demands on NPOs and the significant decrease of resources needed to cope with such demands, crucially therefore, the sector needs to know to what extent they are being efficient and as a result, take action to improve in this aspect (Fioramonti & Thümmler, 2013). Finally, it should be highlighted that efficiency in the running of the organization is a leading factor for the implementation of a successful strategy in the professionalization of the sector (Meyer & Sisma, 2013).

Although NPOs are not immune to the need for management, the measurement of the performance of their social goals is considered difficult to quantify (Martínez & Guzmán, 2014). In this regard, Golden et al. (2012) manifest that the use of financial ratios can provide subjective and manipulable results. Epstein and McFarlan (2011) add that an adequate assessment of NPOs' efficiency involves obtaining financial and non-financial information about the resources (input) and the results (output) of the organization. Pertaining to the methodologies for the analysis of efficiency, Data Envelopment Analysis (DEA) is considered the most suitable to analyze organizations with non-profit making goals (Figueiredo de França et al., 2010). Subsequently, it has been used by the sector to analyze NPOs' efficiency in achieving their social objectives (Marcuello, 1999; Golden et al., 2012) and NPOs' efficiency in fundraising capacity (Marudas & Jacobs, 2007).

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