IMPACT OF BUSINESS EDUCATION IN NGO CEOs

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Statement of the Problem

In 1990, Peter Drucker, the father of management, wrote the book: *Managing the Non-Profit Organization: Practices and Principles.* In the book, Drucker reflected on the concept of management for nonprofit organizations; for him, there was some difference between nonprofit and for-profit organizations; but he believed that the good management principles are universal.

Forty year ago, "management" was a very bad word in a non-profit organizations. It meant "business" to them, and the one thing they were not was a business. Indeed, most of them then believed that they did not need anything that might be called "management." After all, they did not have a "bottom line (P. xiv).

Twenty five years later after Drucker's words, the word "management" and the concept of managerialization still spark debate among nonprofit academics and practitioners. Drucker addressed the importance of focusing on the organizational mission, setting goals, defining the market, exploring marketing efforts, developing the leaders, and his coined concept of management for performance. Similar topics were addressed in the 2000 book written by Peter Brinkerhoff: *Mission-based Management: Leading your not-for-profit in the 21st Century.* Brinkerhoff specifically writes that the not-for-profit organization "is a mission based business, not a charity" (p. 1), and it should be managed as a business.

Currently, there are over 230 institutions in the United States offering over 420 nonprofit management programs (Mirabella, 2007), implying that the sector perceives an added value to the degree. With the increase in academic programs, it would be expected then to find alumni from nonprofit management degrees leading the most prominent nonprofit organizations.

Purpose and Significance

The purpose of the study is to identify if there is an incidence between having a CEO with a business academic degree and a perceived high organization effectiveness. If so, why did these organizations prefer hiring a person with a business administration background, and are the smaller organizations choosing people with a business background as their top executives?; if so, why?

The importance of the study is that it may help the nonprofit sector examine the competences desired on a high level executives, and may bring to their attention the professional path that the graduates of nonprofit management education are following. The scope of this paper includes a problem statement, a literature review, and research design and research method components. No analysis or results sections will be included in the article.

Literature and Background

Even though a search on Google Scholar with the term Nonprofit management education identifies over 300,000 results, a closer look to the dates show that in the topic was widely discussed in the early 2000s. After 2007, there are only a few articles addressing the current state of nonprofit management education. This study will continue building on the importance of addressing specific aspects of management in the nonprofit management programs.

Management Competences

The development of a nonprofit management field was the result of perceiving significant differences in the necessary competences to successfully manage a for-profit and a not-for-profit organization. The most salient differences among the two types of organization are: being service mission driven versus profit mission driven; the resource of funding based on grants and donations versus the sale of a product or service; the management of volunteers versus the

management of paid employees, and the different legal context of the organizations (O'Neill, 1998). However, according to Drucker and Brinkerhoff, managerial competences should be the same for the manager of any organization.

According to the Association to Advance Collegiate Schools of Business (AACSB), management education should develop specific competences to help business graduates meaningfully contribute towards their organizations. The AACSB is the organization devoted to the advancement of management education and accreditation in United States; the competences they foster in their accredited schools are:

- Technical skills (finance, operations, marketing)

- Ethics

- Social Responsibility

- Law and public policy knowledge

- Communication skills

- Leadership

- Critical thinking (AACSB, 2005)

In 1998, Indiana University at Bloomington collected data from three different groups of stakeholders to define the required competences of the nonprofit manager for their master academic program. The researchers interviewed nonprofit managers, faculty from nonprofit management, and students aspiring to work as managers in nonprofit organizations. Out of 32 knowledge skill areas, the most important competences were identified as:

- Leadership

- Ethics and values

- Long term planning

- Financial Management

- Conducting effective meetings

- Creativity

- Public relations

- Interpersonal skills (Tschirhart, 1998, p.70)

In the nonprofit sector there are three organizations that are devoted to advance nonprofit and philanthropy: The Nonprofit Leadership Alliance (NLA), the Network of Schools of Public Policy, Affairs and Administration (NASPAA), and the Nonprofit Academic Center Council (NACC). The NACC does not mention specific competences for the nonprofit manager, but it does list 17 areas that must be included in the curriculum of a nonprofit management program. The NLA fosters ten competencies among their program graduates; and NASPAA has guidelines and is also currently working on developing their list of desired competences (Doyle, 2013). In his working paper, Doyle (2013) groups the guidelines and competencies of these organizations and comes up with 9 areas:

- Communication and marketing skills

- Ethics and values

- Economics knowledge

- Financial skills

- International competency

- Governance

- Program development and evaluation

- Information technology

- Leadership and organizational behavior (Doyle, 2013)

When comparing the three lists of competences, there are four that are similar: leadership, financial management, ethics, and some communication skill. Are these competences different for a for-profit manager than for a non-profit manager? A deeper study of what each competence means for the business and nonprofit management should be performed.

Nonprofit Management Programs

The U.S. News & World ranks the top 25 nonprofit management programs. According to their website "in nonprofit management programs, students learn how fundraising, effective leadership and financial management can improve a nonprofit organization (U.S News & World Report, 2012). A review of the major course requirements in three of the top five universities show as requisites courses in management, financial accounting, financial management, and leadership. These four courses are also common in the major course requirements of the top five programs in master in business administration. Again, we see a repetition of the topics among the two different academic programs.

There are contradicting findings regarding the importance of a nonprofit management degree. Tschirhart's study in 1998 found that nonprofit managers rated the importance of having a nonprofit management degree the lowest out of eight choices, giving more importance to work and volunteer experience. In the same year, another study performed by Haas and Robinson (1998), found that 80% of over 200 respondents would value a degree in nonprofit management over any other master degree: master in in public administration, master in social work, and master in business administration (Fletcher, 2005).

Managerialization and Effectiveness

Managerialism is understood as the application of general knowledge and practices of management (Roberts, Jones & Frohling, 2005; Hvenmark, 2013). Not-for-profit organizations have been including common practices already established in for-profit organizations to attend to new funding pressures and complexities in the environment; however, managerial practices are not always welcome in nonprofit organizations; sometimes they are considered as diversionary from attaining the organization's mission (Roberts & Jones, 2005) and their reason of existence; however, the trend of NGOs becoming business-like will continue as the areas of operation of organizations diffuse. Roberts, Jones and Frohling (2005) identified four major elements of managerialism that were constantly mentioned on the NGO literature: accountability, organization definition, capacity building, and spatial strategies and discourses (Roberts, Jones & Frohling, 2005). These concepts may be related to Drucker's principles of management, and may be related to the desired competences of managers.

Organization effectiveness is accomplished by performing the activities through the value chain in the best and fastest possible manner; organizational effectiveness must not be confused with strategy, and while it is crucial for any organization's short term survival, effectiveness does not guarantee a sustainable advantage (Porter, 1996). NGOs should measure their success by how effectively and efficiently the needs of their constituencies are met (Kaplan, 2002) and by how ready the organization is to meet future demands. The fact that the financial variable is an objective in a for-profit seeking corporation, and a constraint on a non-for-profit organization does not mean that the frameworks that are already in place for corporations may not be applied to all types of organizations. Norton (2002) points out that efficiency is leader dependent in all organizations; Carman (2010) suggests that in-house talent may be more beneficial than initiatives that are worked with consultants from outside of the organization. Therefore, it could

be possible that a through business administration education an organizational leader may prove to be more beneficial than the attempt of non-business CEOs to bring in external consultants into the organization, or to attempt implementing business frameworks as quick-fixes, without fully understanding the business theory behind each framework.

Evaluation of nonprofit organizations

In the market for donations, funders have limited tools on how to evaluate the effectiveness of the non-for-profit organizations. In United States NGOs must annually submit Form 990 to the Internal Revenue Service (IRS); in this form, the organizations must clearly label the amount of money used in programs and the amount of money used for administrative purposes; from this information, it is possible to calculate the ratio of program expenses to total expenses. Even though this information is publicly available, the quantity of data makes it difficult for a funders to navigate through it in order to make an informed decision on where to place their funds. To solve this problem, three main rating agencies have come into existence: the American Institute of Philanthropy (AIP), the Better Business Bureau's Wise Giving Alliance, and Charity Navigator (Gordon, Knock, & Neely, 2009).

The American Institute of Philanthropy (Charity Watch), divides the organizations by the market they serve, and awards the letter grades from A+ to F. Charity Watch uses financial statements, tax forms, and annual reports to evaluate the organization. Their end results of their evaluation include: program percentage, which includes the percent of total expenses spent on each organization's program; and the cost to raise $100 (Charity Watch, 2015). The Better Business Bureau's Wise Giving Alliance (give.org) evaluates charities based on their standards of charitable accountability; charities must submit their name for accreditation (Better Business Bureau's Wise Giving Alliance, 2015)

Charity Navigator evaluates organizations based on their financial health, and their accountability and transparency; the ratings are awarded on a four star system. Charity Navigator only evaluates organizations that meet all of the following specific criteria: Organization must file the Form 990 and have tax-exempt status to the IRS, must have a revenue of over $1,000,000 in the recent fiscal year, must depend on individual givers, must have completed at least seven Forms 990, and must be based in the United States. In 2013, Charity Navigator started including a third dimension to its evaluation: results reporting. Results reporting will include elements such as: alignment of mission, measures of results, validators, constituent voice, and published evaluation report. While the data is collected for all 10,000 organization, the current system will not change. Charity Navigator expects to complete their transition in 2017 (Charity Navigator, 2015).

Research Design

In this section I will attempt to connect the research question to a pertinent empirical research, including the data that will be collected, as well as the method for collecting and analyzing the data (van Wyk, 2014).

Statement of the research problem (unit of analysis and research objectives)

The purpose of the study is to identify if there is an incidence between having a CEO with a business academic degree and a perceived high organization effectiveness. If so, why did these organizations prefer hiring a person with a business administration background, and are smaller not-for-profit organizations choosing people with a business background as their top executives? If so, why?

Unit of Analysis. These questions requires the limitation of the terms regarding CEO, business academic degree, and effectiveness. The unit of analysis in the study refers to the highest

hierarchically ranked person in the not for profit organization. Many organizations may refer to this person as the chief executive officer (CEO), president, or general manager. A business academic degree refers to the academic degree in business administration sciences, such as: business administration, management, accounting, finance, international business, marketing, or economics; the degree may be a bachelor degree or a master degree; associates degrees and certifications will not be considered. Finally, effectiveness will be measured according to financial health, accountability and transparency, as measured by Charity Navigator. The study will work under the premise that all organizations, regardless of their objective, should adequately manage the scarce resources it hold and work towards a maximization of the results, now and in the future (Goldratt, 1992). A non-governmental organization that is not capable of managing scarce resources, is not sustainable, and should not be considered as effective, regardless of its objective.

Research Objectives. The research objectives of this study are:

1. To identify the incidence of having a high ranked organization and having a CEO with formal education in business administration.

2. If there is a high incidence, to understand why these organizations hired a business administration graduate over a nonprofit management graduate.

3. To identify if smaller not-for-profit organizations (between $500,000 and $1,000,00 in revenue) are hiring people with a business administration degree, or with a nonprofit management degree.

Logic of the research

In order to adequately answer the research question the collected data must inform about the organization effectiveness, and the organization's management staff. Among the different

ranking agencies, Charity Navigator has an identifiable methodology on how it ranks the

organization, and has a track record of fifteen years. One of the disadvantages of Charity

Navigator is that it only measures the effectiveness of organizations that have a yearly revenue of

$1,000,000; therefore, all of the medium, small and micro organizations are left out of their

scope of work. An important implication of the size of organizations used by Charity Navigator,

is that the professionalization of these big organizations have most likely led them to hire

professional managers with business degrees.

Data sources

The suggested data for the study will be collected from:

- Charity Navigator list of 10 charities with the most consecutive 4-star ratings

- Convenience sample of the organizations listed in Charity Navigator 4-star ratings

- Convenience sample of smaller not-for-profit organizations, with revenue between $500,000 and $1,000,000.

Research Methods

The research will use qualitative methods. The study will identify the organizations with

highest consecutive ranking from Charity Navigator, which are not in the education or health

sector. Then the CEOs of each of this organizations will be identified, and through the internet

or by contacting the organizations, the academic background will be identified. At the same time

a sample of smaller nonprofit organizations (with revenue of less than $1,000,000, and more than

$500,000) will be contacted, as well as some of the organizations that appear on the Charity

Navigator list, in order to inquire about their hiring practices towards nonprofit management

alumni. On a second part of the study several nonprofit management programs will be contacted

to inquire about their number of alumni and alumni´s job placement.

Population and Sample

The population of this study consists of all the non-profit organizations in the United States. The sample consists of the organizations that appear on the list provided by the website Charity Navigator: 10 Charities with the Most Consecutive 4-Star ratings that are not related to the health or education sector, during February, March and April of 2015. A second sample comes from a convenience sample of 10 smaller nonprofit organizations, with revenue between $500,000 and $1,000,000).

Instruments and Measures

The data will be collected from the Charity Navigator website, and its list 10 Charities with the Most Consecutive 4-Star ratings. Charity Navigator only evaluates US based organizations that have been granted tax-exempt status under section 501(c)(3) of the Internal Revenue code and that file a 990 form for at least seven years, and that have total yearly revenue of more than $1,000,000 (Charity Navigator, 2015).

Charity Navigator attempts to assess the financial efficiency and capacity of the organization based on seven areas. These performance metrics are then compared among similar organizations, and a converted score is assigned.

- Program expenses

- Administrative expenses

- Fundraising expenses

- Fundraising efficiency

- Primary revenue growth

- Program expenses growth

- Working capital ratio

Working capital is calculated by Charity Navigator by dividing the net assets by the organization's total expenses. This ratio aims to determine for how long an organization could sustain itself using the available assets. In finance, the working capital ratio is calculated by dividing the current assets by the current liabilities. The higher the working capital ratio the better the financial health of the organization. This study will use the Charity Navigator definition of working capital.

Analysis

For each of the ten organizations, the study will identify the CEO or Manager of the organization, and it will list their academic information (See Table 1). The different academic backgrounds will be listed as expressed on the website or communication with the organization. In the Research Design section, the details of what will be considered as a business academic degree are explained.

Table 1

Leaders of the organizations listed by Charity Navigator´s 4-star consecutive ratings, which are not in the education or health sector.

Organization	CEO or President	Board Leader
Compassion International	Santiago Jimmy Mellado	Karen Wesolowski
The Children's Aid Society	Phoebe Boyer	Mark M. Edmiston
PAWS Chicago	Sue Davis	Paula Fasseas
Institute for Justice	William H. Mellor	David Kennedy
American Kidney Fund	LaVarne A. Burton	John P. Butler

Energy Outreach Colorado	Skip Arnold	Joel Johnson
Goodwill Southern California	Craig Smith	David A. Lusk
National Education for Assistance Dog Services	Gerry DeRoche	Beverly Stewart
Harlem Children's Zone	Anne Williams-Isom	Stanley Druckenmiller

On a second part of the research an interview would be conducted with the representative of some these organizations to better understand why the board of directors preferred to hired a person with a business academic degree, rather than a nonprofit management degree. Also, other interviews will be conducted with 10 smaller organizations, with revenue between $500,000 and $1,000,000 to research what academic background does their presidents have; and if it is a business administration background, then inquire about the reasons for their preference.

Challenges and Limitations

The limitations of the study are the following:

1. The findings of this study will not be generalizable in the traditional scientific sense.

2. The organizations were chosen by the amount of total revenues, and no other variable was examined.

3. The study will have to visit the organizations website and contact the organization to find out about the academic background of the CEO; this information might not always be available nor facilitated by the organizations, particularly when it comes to their hiring practices.

4. Another limitation of the study is that the study will only be using the lists of the months of Feburary, March and April 2015 published by Charity Navigator; other sources should be incorporated to strengthen the findings of the study.

5. The study will initially look only into the business academic degree of the CEO; the study will not consider years of experience, level of the degree (undergraduate or graduate), or years at the current organization.

6. Lastly, since the study is not addressing the academic background of the Board of Directors' members, nor the academic background of the most prominent managers at the organizations, the study may be placing a higher degree influence on the CEOs, than what they actually have. Furthermore, because Charity Navigator focuses only on large organizations and its rating method is heavily based on the financial performance of the organization, it is likely that this organizations would have a CEO with a business academic degree.

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