ANALYSIS OF ORGANISATIONAL PERFORMANCE OF NON-PROFIT INSTITUTIONS: THE CASE OF LIFELONG LEARNING INSTITUTIONS IN CROATIA*

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ABSTRACT

This paper discusses the organisational performance of non-profit institutions of lifelong learning and analyses factors constituting performance of non-profit institutions and educational institutions in particular, as well as the level and structure of performance of these institutions. The verification of the research goals is based on the review of literature, which identifies the specific factors of non-profit educational institutions. On the basis of previous research, a valid research instrument, used to measure performance of institutions of lifelong learning, was created. The level and structure of organisational performance of non-profit educational institutions and the verification of research goals are empirically analysed on a random sample of Croatian institutions. It is believed that the research results can assist managers of educational institutions in creating a strategy, leading to the better organisational performance.

Keywords: organisational performance, non-profit organisations, institutions of lifelong learning, Croatia

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1. THEORETICAL CONSIDERATIONS

1.1. Performance of non-profit organizations

Success in applying marketing (social) orientation by non-profit organizations creates certain benefits for the society as a whole (Sargeant et al., 2002, pp. 48-55). They are as easily measurable as in the profit sector, because non-profit organizations are not determined by financial returns, but rather by their mission.

As far as organizational performance is concerned, it is most appropriate to describe the effectiveness and efficiency of the organization (Sargeant et al., 2002, pp. 50-56). Effectiveness should be measured by a sort of complex measure, which establishes the extent to which the organization has fulfilled its mission, achieved specific goals, generated some funds, has made a reputation with leaders of other organizations (peer reputation), etc. (Forbes, 1998, pp. 183-196; Kara et al., 2004, pp. 59-72; Herman and Renz, 1998, pp. 23-25; Sargeant et al., 2002, pp. 49-56). In addition, a non-profit can achieve customer satisfaction, although it may not be a good indicator of the efficiency, if a part of the mission is an attempt to try to change the behaviour of the user. It may be added that effectiveness is always the matter of comparison with the past, or with other similar organizations.

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Efficiency characterizes the relationship between inputs and outputs, which reflects the amount of effort spent or damage involved. Efficiency achieved by non-profit organizations is difficult to measure. They are required by their stakeholders to direct their modest resources towards the desired result (Herman and Renz, 1998, pp. 24-25).

In addition to organizational performance, as a result of successful marketing orientation of institutions, mutuality and reciprocity are created (Sargeant et al., 2002, pp. 58-59). This refers primarily to those who donate to the organization (as they, usually, do not have direct benefit) and those who achieve direct benefits from the organization, i.e. take part in the mutual exchange of values, ideas, etc.

The issue of identifying and interpreting performance in organizations from public and non-profit sectors, including education, is particularly demanding, especially by taking into account an almost unanimous agreement about the necessity of introducing and maintaining effective systems of managing performance in such environments (Poister, 2003, pp. 3-21). However, financial indicators cannot be used as the sole measure of organizational effectiveness, but should rather be complemented by stakeholder satisfaction and other relevant measures, such as the outcome measure and reputation (Herman, 1990, pp. 293-306). According to Herman and Renz, organizational performance in non-profit organizations is multidimensional and consists of both financial and non-financial indicators (Herman and Renz, 1997, p. 185-206). It is suggested that these dimensions are separate variables (more than one component of the overall concept of performance), because they reflect different priorities of various stakeholders, as well as changing beliefs among stakeholder groups about what constitutes effectiveness in the non-profit sector (Cutt, 1996, pp. 45-67; Herman and Renz, 1997, pp. 185-206; Herman and Renz, 1999, pp. 107-126). Although some of the previously described methodological standpoints were later challenged by Sowa, Selden and Sandfort, there is an agreement on the need to develop a multi-dimensional approach to measuring non-profit performance which will integrate objective (based on data) and subjective (based on perception) measures of effectiveness (Sowa et al., 2004, pp. 711-728). However, the objective measurement of profit performance is difficult, if not impossible, due to the multiple and conflicting notions of effectiveness that arise in individual stakeholders (Herman and Renz, 1997, pp. 185-206). Therefore, one cannot deny that the effectiveness of non-profit/public organizations is a vague concept that depends on comparison with other (competing) organizations (Herman and Renz, 1999, pp. 107-126).

The performance of educational institutions, therefore, is socially created by different stakeholders that perceive the social role of these institutions in changing (or even competitive) ways. Also, it seems that the measures of effectiveness are more related to organizational systems and factors close to management (Callen and Fulk, pp. 48-65). It seems that the effectiveness of many non-profit organizations is strongly mediated by organizational and management-related factors. The development of appropriate organizational and management systems, as a result of orientation towards stakeholders (or stakeholder demands) should, therefore, increase the organizational effectiveness as well.

The non-profit sector organizations maintain relationships with many different stakeholders, although users and donors are often singled out as the most important ones. They are often given different importance, depending on the type of the non-profit activity, and the managerial perception related to the mission and goals of the organization. For example, a "typical" hypothetical institution of lifelong learning can consider actual users, potential users, economic sector, teaching staff, relevant ministry, and the Croatian Employment Service as equally relevant.

Such an organization could be considered effective, if it meets the stakeholders' (pre)defined objectives (as defined in the "classical" theory of management) (Buble, 2006, p. 5). Nevertheless, more recent studies (Balser and McClusky, 2005, p. 310) emphasize management of relationships with stakeholders as the basis of organizational effectiveness, especially with regard to their dependence on donors in achieving their mission.

Stakeholders present a source of uncertainty for an institution, because they generally require resources and create the legitimacy of organizational activities. These relationships are not necessarily predictable, which requires that they are continuously monitored and managed. Stakeholders define their relationship with the organization by how they meet their expectations and how they are treated (Balser and McClusky, 2005, p. 296). Actions and responses from organizations can be problematic, especially when multiple stakeholder groups have varying and sometimes conflicting expectations of the organization. Stakeholders may want something that the organization cannot provide, or believes that it should not provide.

At the core of responsibilities and responses is the recognition that the role of an organization is not only responding to its environment. In fact, it can be proactive in deciding to achieve a balance between responding to its stakeholders and its own capabilities and resources, and awareness of the appropriate action (Balser and McClusky, 2005, p. 297). If it is difficult to assess the fulfilment of the mission of a certain organization, it does not seem possible to compare the degree of fulfilment among various types of non-profit organizations (Herman and Renz, 1998, p. 24). For example, an organization was not successful in implementing its mission to prevent, reduce, and ultimately stop the abuse of women, if the reports of abuse showed no reduction. So, it is difficult to determine the achievement of an organization and its positive effects on the community, because they tend to be vague and ambiguous.

1.2. Performance of educational institutions

It is difficult to use market mechanisms (e.g. profit) for determining the performance of educational institutions and the economic value of the educational input and output. Furthermore, there is no general agreement on what the input and output of the educational process is (Doherty, 2005). The output of education can generally be categorized in terms of teaching, research, and service, but it is exceptionally difficult to find the right measure for those dimensions. Furthermore, most indicators share the ambiguity one finds in the measurements of educational performance (for example, high performance of an "elite" educational institution may be, in some cases, attributed more to a high level of entry qualifications then to the efficiency of teaching). Therefore, it is difficult to define the interaction among various inputs and outputs. Generally, it is considered that education contributes to the economy through competent individuals. Inputs and outputs can generally be categorized in the following manner:

- Input is the qualification of a future student before applying for a higher level of education.
- The output of the education process are competences created during the education process (directly created by an educational institution) and other skills

relevant for the labour market (indirectly influenced by an educational institution).

One of the main issues for institutions for lifelong education is the creation of competences and skills required by the labour market. Therefore, competences of human capital created during education, as well as the relationships among such competences are goals of institutions of lifelong education.

Thus, the source of funds might be classified as an input to the educational processes, while everything that uses such sources is classified as output. For example, in a study on relative efficiencies of Australian universities, academic and non-academic staff are treated as inputs, while the number of registered and graduated students as well as research production are defined as outputs (Avkiran, 2005, pp. 57-80). Furthermore, in the case of high education, some authors define the efficiency of research and teaching separately and mutually at the level of a department (Beasley, 1995, pp. 441-452). On the other hand, in the study on the best ranked MBA programs in the USA, Colbert, Levary and Shaner focus only on teaching and defining relative efficiency of teaching (Colbert et al., 2000, pp. 656-669). One of the examples of defining performance in education is a study of performance of high education institutions, which includes various awards and evaluation of research, quoted in recognized research journals (Aghion, 2008, p. 24). The example for measuring performance in the US schools included different standardized measures (tests), such as the percentage of students who passed a standardized test. It is, generally, taken in various classes and is specified as a way of evaluating the quality of education and transferring responsibility for performance to schools. This group of information also contains other measures of performance, including the rate of attending class (the average daily percentage of students in school) and the rate of dropping out of school (the percentage of attendants who dropped out or did not re-register (Smith and Larmier, 2004, pp. 728-736).

Authors who study effectiveness and school improvement, such as Sammons (1999), clearly recognize the importance of leadership in this process. The effects of leadership result in the perception of the overall school performance observed, in relation to the degree to which an organization meets and balances the needs and desires of the fundamental stakeholders (Herman and Renz, 1999, pp. 107-126). It is therefore necessary to emphasize the management of educational institutions not only as an administrative process, but also as a form of a socially responsible activity, which is linked both to organizational performance of schools as well as to more widely defined social interests (Heck and Hallinger, 2005, pp. 229-244).

In their measurements of strategic marketing and performances of educational institutions, Hammond, Harmon and Webster have used the measurement of an educational institution performance for the last year and the comparison with the main competitor(s) in the same period (Hammond et al., 2007, p. 436-459). In another study, Caruana et al., used the subjective measurement of the educational performance during the last five years as well as the subjective comparison with other educational institutions in acquiring financial funds in the last five years (Caruana et al., 1998, pp. 55-70). Similar approaches to performance measurement in education were used in other studies, as well (see, e.g. Harmon et al., 2003, pp. 241-250; Webster et al., 2005, pp. 377-382). Furthermore, when measuring marketing orientation and its impact on the performance, it should be taken into account that educational and non-profit organizations develop different levels and orientations of marketing orientation towards different stakeholders (Kara et al., 2004, pp. 59-72). The very results related to the relationship between marketing orientation and performance may vary, depending on the type of measurements of performance being used (Voss and Voss, 2003, pp. 67-83). This is why Chan and Chau suggested that the performance of non-profit organizations can be measured on the basis of the capability of the organization to attract funds or donors of financial means (Chan and Chau, 1998, pp. 15-28).

In non-profit sector in general, as well as in education, evaluation of many activities demands a “mild judgment”, which cannot be offered by strict measurements. The main reason for such a situation is the fact that it is difficult to identify suitable measurements for a sector such as education. How can the contribution of the education system to the intellectual capital of the nation be evaluated? Each of the subjective and objective measurements has its own values, but taking into account the impracticality of objective measurements, this study uses the subjective measurements of performances (Mihanović, 2010).

For a variety of reasons, such as a somewhat unordered situation in the industry of lifelong education in Croatia, the typical institutions of lifelong learning offer a variety of programs: from primary education to higher education. Because of general difficulties in measuring objective performance in the non-profit sector, this study uses a combination of standard subjective measurements (Mihanović, 2010).

Furthermore, in literature on non-profit organizations there is no general agreement regarding specific dimensions or measures, which should be used in determining the effect of the management process or non-profit performances (Ritchie and Kolodinsky, 2003, pp. 367-383). Thus, performance of institutions of lifelong learning in this study was primarily operationalised by using three dimensions, originally proposed by Herman, (1990, pp. 293-306): satisfaction of the user, procurement of funds, and peer reputation. These dimensions have been widely accepted as criteria for organizational efficiency in the non-profit sector, which was also confirmed by Sargeant et al., (2002, pp. 48-55). Furthermore, Forbes in the conceptualization and measurements of efficiency of non-profit organizations states one or some combinations of three main approaches: achieving the goal, the source of the system that emphasizes the procurement of funds for the organization, or the reputation approach. They connect the efficiency with usual evaluations of key actors, such as users, other stakeholders or service professionals (Forbes, 1998, pp. 183-202).

The satisfaction of users is generally recognized as a performance goal, regardless of a sector to which the organization belongs. In the non-profit sector, it is related to the capability of an organization to adapt, address or fulfil the expectations of its users. Collecting funds is also recognized, not only as a key non-profit goal but also as a goal that receives significance as the government's financing decreases and the competition grows within the sector. The reputation among colleagues is related to the manner in which that organization is seen by other organizations, the people who make decisions and stakeholders that work inside the sector or communicate with it directly, rather than how an organization is perceived by the public (Herman, 1990, pp. 293-306).

When all the previously described theoretical factors, including previous experience in empirical research in the non-profit and the educational sector, are considered, the study included the following measures (items) related to the educational performance of lifelong learning institutions (Mihanović, 2010):

- Customer satisfaction (degree to which the institutional programs, activities, and services are in accordance with the user needs and preferences; degree of user satisfaction with the type and quality of programs, activities and services provided by institutions; degree of user satisfaction with the price charged for services rendered; satisfaction of participants/beneficiaries regarding the availability of free programs, activities and services that institutions provide);

- Resources (amount of funding received from the state; amount of funding received from local and local/regional government; amount of funding received directly from students and employers; size of the annual operational budget of the organization; number of employees paid from the budget of the organization);
- Reputation (peer reputation with managers of other educational institutions related to programs, activities and services; ability to raise funds; the ability to engage trained and quality staff; ability to accomplish its mission; reputation of institutions in the wider community):
- Realization of goals and missions in comparison with other competitive institutions;
- Commitment of employees to lifelong learning institutions;
- Cooperation of employees and departments within such an institution;
- Growth of the institutions (ratio on the educational "market") in comparison to other competitive institutions.

The pressures of responsibility towards the public enlarge the problem of measuring performance in non-profit organizations. Too often, that pressure makes the management look for that which is measurable, rather than what is important in terms of achieving the mission and the relevant goals. Out of those reasons, it has been proposed that it is better to evaluate non-profit organizations towards the level of achieving both short-term and long-term goals (Andreasen and Kotler, 2007, pp. 26).

In addition, the effectiveness of non-profit organizations is still the question of comparison with the past or others. Thus, educational institutions were asked to indicate their activities over the past five years, as to address the orientation towards competition (Herman and Renz, 1999, pp. 107-126). In this way, the recommendation by Caruana et al. (1998, pp. 55-70) has been also addressed, as they measured performance in funding over the five year period. Measuring the growth performance during a five year period is also in accordance with the idea that market orientation is a form of investment that has a long-lasting effect (Greenley, 1995, pp. 1-13).

2. METHODOLOGY OF THE EMPIRICAL RESEARCH

The paper used secondary and primary data sources. In conducting the secondary research, available relevant literature in the field of performance of non-profit and educational organizations was consulted, along with studies in non-profit marketing, management, and stakeholder orientation. In addition, in-depth interviews with relevant experts were conducted, so as to identify the fundamental constructs to be included into the research instrument. The empirical population of this study is composed of leaders (managers) of Croatian institutions of lifelong learning. In the empirical part of the study, a representative sample was used to collect the primary data, by using the specially designed questionnaire. It was based both on the theoretical findings and results of exploratory research (expert interviews).

In order to verify the theoretical model, the primary survey covered all the institutions of adult education in Croatia (183 of them) (Mihanović, 2010), as they are specialized and primarily engaged in lifelong learning. Managers of these institutions were considered as the most appropriate actors for collection of survey information, because they have access to the relevant information. They have a close relationship with their stakeholders and are often the recipients of regular feedback on satisfaction with the programs and employees. At the same time, they have a wide view that is necessary for providing the required information on the activities and culture of the entire organization. Collecting such information from secondary sources was not considered a viable alternative, because such data are often incomplete and, if they are available, they are always at least 12 months old. In addition, Pearce et al. demonstrated that subjective data are a reliable means of measuring performance in the profit sector (Pearce et al., 1987, pp. 125-134).

3. RESEARCH RESULTS

3.1. Performance of Croatian institutions of lifelong learning

As indicated in the previous part of the study, the overall performance of institutions of lifelong learning consists of four components: satisfaction of participants; financing (resources), reputation, other factors (employee commitment, co-operation of employees and departments, achieving the goals and mission, growth of the institution). The level of performance was measured by Likert, on a one to five scale. In determining the average level of performance, each component and overall level of performance made a simple calculation of the arithmetic mean because the deviation was the same. In determining the overall level of performance for institutions of lifelong education in Croatia, performance value for each of the four components was first calculated. Based on the analysis of means, the following values for each component of performance measured during the period of five years were found: satisfaction of participants (3.59) finance (2.95), reputation (3.63), other factors of performance (3.44) (see Figure 3.1). The values of degree of performance of lifelong learning institutions (on a scale 1 to 5) were in the range of 2.95 to 3.63, with an average value of 3.0, which represents a neutral value (i.e., scores above 3.0 indicate increasing, while results below 3.0 show decreasing performance). The overall level of performance was 3.40.

Figure 3.1 shows that the highest performance of institutions of lifelong learning is achieved in components related to reputation and user (student) satisfaction. The lowest level of performance (below the medianlimit of 3.00) is related to funding, which is the only declining component of performance for Croatian institutions during the previous five-year long period.

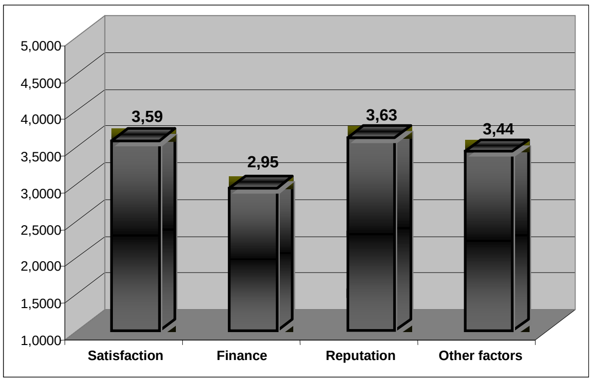

Figure 3.1. The average level of performance for Croatian lifelong learning institutions

Source: Research results

In order to analyse the difference between the average values of the four performance components, the analysis of variances (ANOVA) was conducted. The results (see Table 3.1) demonstrate the existence of a statistically significant difference in the level of performance of all four components.

Table 3.1. ANOVA according to four components of performance

Source of Variation	SS	df	MS	F	P-value
Between Groups	26.63363889	3	8.87788	14.05517	0.000000011
Within Groups	224.8656667	356	0.631645		
Total	251.4993056	359			

Source: Research results

3.2. Analysis of performance drivers for Croatian institutions of lifelong learning

Table 3.2 shows the average level of performance as measured in the last five years by four dimensions of performance. However, it is especially interesting to single out a range of drivers (factors) which influence the creation of differences between organizations.

Within the dimension of the performance in securing financing (fundraising), it can be seen that the first and second items used in the survey have values of 2.22 and 2.42. These two items are related to the amount of funding received from the state, as well as local and regional government, which demonstrates that the amount of funding from these sources declined in the past five years. The third, fourth and fifth item are related to the amount of funds received directly from students and employers, size of the annual operational budget of the institution, and number of paid employees. When viewed according to those three items, performance in the last five years increased, while the most significant increase in the amount of funding was received directly from students and employers.

By observing the satisfaction of the participants as a performance component, the largest increase noticed in performance measured in the last five years was related to the satisfaction of participants/beneficiaries of programs, activities, and services provided by lifelong learning institutions. The smallest increase in performance was recorded in the degree of satisfaction of participants/ beneficiaries regarding the availability of free programs, activities and services. Such a result is logical, given the decline in funding from the state.

By observing reputation as a performance component, the largest increase in performance measured in the past five years was registered in the level of peer reputation for attracting and engaging high quality staff. The smallest increase in performance was achieved in peer reputation related to the ability to raise financial funds. By observing the components of other performance factors, it was found that there is no significant difference among them (see Table 3.2):

Table 3.2. The average level of performance by components and by factors

Questions that describe every factor	Satisfaction	Finance	Reputation	Other factors
Item 1	3.67	2.22	3.67	3.38
Item 2	4.12	2.41	3.37	3.42
Item 3	3.77	3.41	3.88	3.49
Item 4	3.27	3.32	3.57	3.47
Item 5	3.13	3.37	3.67	-

Source: Research results

4. CONCLUSION

The results of this study indicate that the overall performance of institutions of lifelong learning consists of four components: satisfaction of their users (students); financing (resources), peer reputation, and other factors (employee commitment, collaboration of employees and departments, achieving goals and missions, growth of the institution). The results show that the institutions of lifelong learning in Croatia are most successful in achieving a high level of peer reputation and user (student) satisfaction. The lowest level of performance (below the mid-point of 3.00 on the Likert measurement scale) is related to funding (fundraising). This is also the only performance dimension for Croatian institutions of lifelong education which is in decline during the last five years. A statistically significant difference was found in the level of performance of four components: satisfaction, finance, reputation, and other factors. The most important statistical difference is the negative one, occurring mostly in financing.

By observing user (student) satisfaction, the largest increase in performance measured in the last five years was related to the satisfaction with the programs, activities, and services, regularly provided by lifelong learning institutions. The smallest increase in performance was recorded in the degree of satisfaction with the availability of free programs, activities, and services, which is logical, given the decline in funding from the state (and other donors), during the economic crisis.

By observing peer reputation, the largest increase in performance measured in the past five years was related to peer reputation to attract and develop high quality staff. The smallest increase in performance was achieved in peer reputation related to the ability to raise funds. By observing the components of other performance factors, it was found that there was no significant difference among different items included into the survey. Authors hope that the presented research results can be helpful for managers of lifelong learning institutions in the region in creating strategies, which can then lead to better organizational performance.

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