Creating Not-For-Profit Organizational Legitimacy During Periods of Economic Constraints and Diminishing Donor Resources

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Abstract

Escalating economic and social instability is a validation that the present domestic and global financial environments have created a significant strategic challenge for existing organizational models to compete optimally. Resultant of these discontinuities, and a requisite for organizational success, is the imperative that Not-For-Profit organizations provide current and future stakeholders with a sense of assurance in both its strategic leadership as well as its organizational legitimacy. Management's failure to discern the profound affects that donor resources have on an organizations success, and a failure to act judiciously to support donor endorsements, could lead to deleterious organizational performance from diminished donor resources. Therefore, it is the principal intent of this paper to elucidate for management the formulation, implementation, integration, and strategic value of a robust legitimization system. Such a system not only provides management with the acumen of identification of effective managerial capabilities and vibrant knowledge management technique necessary to satisfy stakeholders, but additionally, creates a competitive advantage.

Introduction

The discontinuous shifts on Wall Street have affected both the not-for-profit organizations as well as the for-profit firms with equal intensity resulting in diminished charitable support. This curtailment in charitable giving is directly correlated to the economy

and the for-profit firms adaptive financial repositioning to survive. Consequently, not-for-profit organizations, which inherently lack proper budgeting protocol and economic foresight, are financially besieged with as much as a 50% reduction from previous annual budgets. The *Chronicle of Philanthropy (2009)*, confirms this shift in a recent article which stated; *of 73 foundations surveyed in December regarding their 2009 grant giving plans, 39 percent expect to decrease the amount they contribute to charities this year.*

In addition to diminishing financial resources, donors now require not-for-profits to provide financial accountability, transparency, managerial efficiency, and an appearance of strategic aggressiveness similar to their counterparts in the for-profit industry. These additional legitimacy 'rules of the game' are morphing the historical inefficient not-for-profit firm into one that is increasingly entrepreneurial, a trait which until recently was attributed solely to the for-profit firms. The intent of this paper is to provide senior managers with a pragmatic application into the formulation and implementation essential to couple a robust knowledge management system and NFPs managerial capabilities necessary for creation of organizational legitimacy.

NFP Archetype

Historically, firms were seen distinctly either as 'for-profit' (FP) or 'not-for-profit' (NFP); the for-profit firms were viewed as internally efficient, externally entrepreneurial and aggressive, and having a single-mindedness of maximizing corporate profit. Conversely, not-for-profit organizations were viewed as internally bureaucratic, economically inefficient, and lacking inspiration; whose sole purpose was to provide some nebulous form of 'public service' with no intent of maximizing profit or drive to increase effectiveness. The not-for-profit organizations principle mandate is to 'create social value' for the benefit of society as a

whole. This is achieved by providing an intangible, altruistic service such as 'aiding the homeless' or 'animal rights protection'. Although NFPs appear to be an antithesis to the overall goals and objectives of the for-profit firms (Lettieri, Borga and Savoldelli, 2004) NFPs are affected and share the same performance criteria as the for-profits. Consequently, the impasse NFPs face is the task of compelling support from those potential stakeholders (donors) whose personal values align with the values provided by their cause. As with the for-profit firms, NFP stakeholders mandate legitimacy. Poor social performance or status quo managerial performance will have a deleterious effect on the NFP. As such, if donors perceive that the funds are misused from the manner in which they intended or perceive the NFP is inefficient or ineffective in its operations, support will be withdrawn and moved to the next cause. This is evidenced by recent hospital and nursing home closures, resultant of the NFPs managerial inefficiencies and inability to provide donors with a sense of organizational legitimacy.

Considering the profound effects that donors have on the organization success NFPs can ill afford to ignore donors' omnipotence as a driving force for success. Hence, those NFPs that validate managerial authenticity and organizational legitimacy to its donors can achieve a competitive advantage in their industry and increase the probability of satisfying the organizations mandate.

Organizational Legitimacy

Given that the rise of attention to public legitimacy and accountability is an increasing concern; a new paradigm now exists for the not-for-profit firms. It has become essential that its very existence confirms public legitimacy in order to receive current and future support from its stakeholders.

Concerns over accountability have driven several professional associations to issue guidelines to non-profit members outlining compliance such as adopting written conflict of interest, document retention, and whistleblower policies. These ongoing concerns clearly illuminate that NFP organizations are under greater scrutiny to be more accountable, transparent, efficient, and aggressive like their counterparts in the private sector. Thus, not-for-profit organizations are now becoming increasingly entrepreneurial, a trait that until recently was only attributed to the FP organizations.

The private sector also is under pressure to restrain from its prime directive of profit-seeking and to now conform to such social concerns as greenhouse gas emissions, pollution, carbon foot-printing, and global warming; areas that previously were of little concern to the traditional profit-seeking organizations. Consequently, the differences and the functions between the two organizations are no longer distinct.

As organizational theorists have reminded us, 'non-profits face normative pressures to adopt certain policies and practices in order to demonstrate their public legitimacy' (DiMaggio, Powell, 1983). This reflects the problems of legitimacy which many NFPs face, it is therefore critical that the NFPs corporate policy conform to and support 'best practice' guidelines in both its current operations and the firm's future strategic plan.

A robust Knowledge management system provides the firm with the forms of legitimacy that is expected by its stakeholders by creating a platform that enables;

➢ Lower costs by identifying low value, redundant, and poorly performing processes.
➢ Focus on Resource optimization and utilization.
➢ Knowledge asset optimization and competitive knowledge development.

- ➢ Achieve levels of competitive advantage through processes and quality.
- ➢ Enables the organization with the information for a proactive response to surpriseful environmental challenges.

Managerial Capabilities Defined

Until recently, the image of the FP management archetype by NFP management was less than complementary. NFPs considered themselves exempt from commercial influences and shareholder demands for profit maximization. At present, NFPs realize that 'good intentions' are no substitute for strong organizational leadership, accountability, performance, and sustainable results (Andreason, 2003; Drucker, 1989).

The competency of effective managers includes, but is not limited to, the following attributes: "problem solving skills, process identification, leadership attributes, management information, organizational structure, environmental surveillance, management system, management science" (Ansoff, 1979, 2007). These preceding attributes are evident within all levels of environmental turbulence and all managerial archetypes. However, the process to which these attributes are exercised by the managerial archetypes differs according to the level of turbulence within the environment. Due to the high turbulent environment that NFPs are encountering, especially in these economic times, a manager whose focus is more aligned with the entrepreneurial archetype, Ansoff refers to this manager as a "Creative Manager" mindset, is critical to the success of the organization.

Unterman and Davis (1984) support Ansoff's description of the competent NFP manager and add that it is also critical for managers to have 'conceptual abilities' and the ability to 'make a good impression',

illuminating the necessity for this skill for managers in the overworked social service sectors.

Within the context of this research, general managerial capabilities are defined as 'the ability of the general management to support the strategic behavior of a firm' (Ansoff, Antoniou, Lewis, 2004). Strategic behavior is the interrelationship of two key attributes (variables) that managers must possess; *competence*, which is the range of skills that a manager can bring to the organization and *motivation*, which includes vision, mentality, strategic aggressiveness, and risk propensity (Ansoff, Antoniou, Lewis, 2004).

Management During Severe Environmental Turbulence

Peter F. Drucker stated, "The future that has already happened is not within [the organization]; it is outside: a change in society, knowledge, culture, industry, or economic structure. Moreover it is a break in the pattern rather than a variation of it (Saxton 2005)". Drucker envisioned a global change in business practice directly correlated with technological advances. Thanks to an array of social changes, stakeholders now increasingly possess the capacity, interest, and opportunity to play a key role in decision making at the individual, organizational, and community levels alike (Ibid). The use of modern technology has made not-for-profits more efficient, but they still lack the ability to respond to rapid changes in economic environments, social-political environments, and business environments. The increase of information, change, and global integrations has created a growing propensity for participation, which in turn has changed prevailing nonprofit structures and management practices (Ibid). By offering a source of complete and transparent information, the internet is evolving into ubiquitous digital market for allocating and optimizing resources throughout the nonprofit sector (Ozcelik 2008). The diffusion of infor-

mation technology and utilization of the internet benefits not-for-profit organizations by increasing their efficiency and enabling them to reach and serve people without barriers of distance and national borders, decreasing traditional advantages of size and location in a global market (Ozcelik 2008; Ritche et. al 1999).

The current economic condition has had an effect on the not-for-profit management styles. With decreased charitable donations, managers have had to reassess and realign their operations to endure the economic crisis and focus on survival rather than growth. This managerial methodological shift is difficult given that most not-for-profit managers lack vision and experience dealing with economic turbulence, a systemic problem inherent of an industry whose foundational success principles are focused on the short term gains from donations, charities, and foundation, as opposed to long-term success strategies.

Extant literature from successful industry leaders makes a compelling case for the clear and explicit vision and mission statement of the organization, 'strategic clarity'. Such explicity generates fundraising and attracts and motivates staff and volunteers. Stid and Bradach (2009) suggest that instead of waiting for the environment to change, not-for-profits should be at the forefront of the cultural and economic shifts.

Achieving strategic clarity means answering, in very concrete terms, two questions that are core to a nonprofit's mission: ''What impact are we prepared to be held accountable for?'' and ''What do we need to do – and not do – in order to achieve this impact (Stid and Bradach 2009). Developing this clarity enables the organization to align its systems and structures around a common objective especially through times of environmental turbulence (Ibid). If the leadership of an organization can project their vision and mission to donors and show legitimacy through social tangible

profits then the organization is likely to survive the environmental crisis. The test of organizational management begins during times of uncertainty and turbulence.

The Transformational Organization

Transformational change is defined as the 'result of organizational structural paradigmic modalities becoming fundamentally and substantially altered'. Mission, strategy, leadership and organizational culture and climate are considered elements of structural modalities. Of which, organizational culture and organizational climate are most resistant to change due to its deep-seated beliefs, and values (Pellettiere, 2006). In these discontinuous times it has been the strategic necessity for NFPs to retrench, thus transforming the organization into a survival mentality.

Surviving however, does not necessarily mean "performing" (Barnett and Shore, 2008; Lawler and Worley 2006) as exampled by the recent governmental assistance package provided to American International Group (AIG). As these institutions seek federal assistance, they can no longer simply "survive" rather they must reconstruct not only the managerial capabilities and leadership, but must work to develop a new rapport among the international community.

In this turbulent economy, managerial capabilities and organizational leadership will be tested to see if organizations can sustain through the turbulent times or undergo corporate restructuring.

Central to the success of any program of change is an understanding of the likely repercussions of the transformational event (Adcroft, et al. 2008). The event itself can result from a senior manager hearing of a new concept in the industry, an unexpected result for the bottom line, the failure of a new product, a loss in

market share or the entrance of new competition. Like all strategies, transformation is a process, a collection of individual activities arranged into a sequence that has an inner logic from beginning to end. Adcroft suggest comprehending this models transformational process there are four points of analytical intervention;

1. The transformation event. Why the transformation happened and the intended result.
2. The transformation program. How transformation occurs, the key management decisions and activities through which change occurs.
3. The transformation outcome. The nature of the transformed organization that emerges from the first two stages.
4. The transformation myth. Not what happened, but how the transformation is interpreted and understood by both outsiders and insiders.

While the causes of these distressing results are, arguably, multi-faceted, one of the plausible antecedents to the failure of change could be that organizational managers have failed to understand fully what is necessary in guiding their organizations through a change initiative.

Proper planning of the implementation can help mitigate the likelihood of failure of change and also help prevent other undesirable consequences such as reduced employee morale, diminished commitment and increased cynicism (Gilmore et al., 1997; Kim and Mauborgne, 1993; Nutt, 1986; Schweiger and DeNisi, 1991) (Self and Schrader, 2008).

Knowledge Management Defined

While the concept of data as raw facts is easily understood, the confusion surrounding information and knowledge is pervasive. Analysts and users tend to confuse information management with knowledge management. Information management revolves around the

processing of data though spreadsheets, databases, application programs, etc. Most of the concepts revolve around explicit representations and codified objects. Knowledge management on the other hand is more intangible and less codified: the focus is on learning, intelligence, innovation, etc. Neither the technology nor the performance measures generated by knowledge management systems are primary; the focus is on the issues larger than the data and the information available. The security of that information is vital to the survival of the organization. Current definitions of knowledge management systems (KMS) are incomplete (Randeree 2006). They refer to a class of information systems applied to manage organizational knowledge; they are IT-based systems developed to support and enhance the organizational processes of knowledge creation, storage/retrieval, transfer, and application (Randeree 2006; Alavi and Leidner, 2001). At a minimum, KMS should provide the same security as data and information security systems.

Knowledge Management as a Legitimacy Tool

In any aspect of organizational or individual task performance, it is imperative to track whether the efforts are enabling the organization or the individual to achieve the underlying objectives (Becerra-Fernandez, Gonzalez, Sabherwal, 2004).

Greiner, et al. (2007), Davenport and Prusak (1998), state that; ''Knowledge is a fluid mix of framed experience, values, contextual information, and expert insight that provides a framework for evaluating and incorporating new experiences and information''. This argument implies that knowledge can only exist in the context of person and his beliefs and experience. Greiner, et al., 2007; Sveiby, 2000, extend this definition of knowledge to include the ability of persons to evaluate information and act efficiently.

The evaluation of information and subsequent decisions to act efficiently based on cognitive reasoning are elements of knowledge Management that can provide the value added (organizational legitimacy) to support the organizations mission and vision statement (Greiner, et al., 2007; O'Dell and Grayson, 1998). Greengard (1998) describes several steps a firm can undertake to establish a successful KM system beginning with leadership of the firm.

Given that strategy affects every corner of an organization and in order for knowledge management to be successful, the leadership of an organization must have a working consciousness of the concepts of KM and how the KM strategy is interconnected to the functional units within the firm. The second step in system implementation focuses on communication and the development of open information exchange programs within the organization. Such programs may be as simple as initiating cross-functional teams or Communities of Practice (CoPs). Defined as 'an organic and self-organized group of individuals who are dispersed geographically or organizationally but communicate regularly to discuss issues of mutual interest (Lave and Wagner, 1991). CoPs are not new and have been in existence ever since organizations realized that they could benefit from the sharing of knowledge, insights, and experiences with others. The processes specifically focus on facilitating the creation of knowledge at the individual and group level and selectively applying those that become associated with favorable outcomes. The processes of creating, categorizing, retrieving, abstracting, and adapting knowledge assets constitute the majority of day-to-day activities of a KM program (Sherif, 2006).

The resultant communication proliferation and exposure to new sources of information can provide employees with new avenues to critical knowledge that

can solve various problems throughout the organization.

Greengard (1998) further advises an organization to develop and implement the proper technological support for the information gathered to aid in dissemination, fostering knowledge management transfer.

The final step involves communicating the vision and mission of the organization with the NFP stakeholders. Elucidating the purpose and benefits gained from the implementation and integration of a robust KM system. With stakeholders support and a climate that nurtures and encourages the sharing of knowledge between its employees, gaining organizational legitimacy can be achieved.

NFPs can gain several benefits from implementing a KM System; Tactically, they can lessen the loss of intellectual capital from people leaving the company, reduce costs by decreasing and achieving economies of scale in obtaining information from external providers, reduce the redundancy of knowledge-based activities, increase productivity by making knowledge available more quickly and easily, and increase employee satisfaction by enabling greater personal development and empowerment (Halawai, McCarthy, and Aronson 2006). KM encompasses competence building, knowledge dissemination in all classes of organizational structures and across company borders in addition to knowledge codification in documents, processes or systems.

The Strategic Imperative of Information Coupling

Unlike for-profits, NFPs are challenged with a unique set of complications- those of limited capacity and resources. In order to compete on parity, NFPs must develop superior skills to account for the disparity in economies of scope, scale, resource limitations, and critical mass.

One viable solution that is within the financial scope of NFPs and will assist in closing this 'size gap,' is the development of a robust information coupling system that integrates all units within the firm on a common level.

A robust system of information coupling provides unison to the firm employees creating a common language and vocabulary (Nahapiet, Ghoshal, 1998; Grant, 1996b). Additionally, information coupling enables NFP managers to reduce decision making times as well as reducing internal competition for resources, skills, and funding, and limits external environmental strategic surprises (Grant, 1996a).

It is therefore crucial for NFP managers to implant and promote a robust communications exchange network coupling all of the firm's functional units with each other. This coupling of knowledge will provide the NFP management teams with vital Knowledge Management (KM) processes, including information discovery, capture, sharing, and application.

Furthermore, the implementation of a robust KM system linking the functional units, systems, structure, and capacity of management, blends and integrates the entire organizations contributions and concerns.

This 'combined action potential' is defined by Ansoff, Declerck, and Hayes (1976) as the *organization's capabilities* and is essential for NFP management in formulating the firm's strategy and when responding to an environmental discontinuity.

Conclusions

Given the fact that organizational assets are diminishing during these recessionary times, NFPs must focus on prominence of discourse and professionalism by the development of both 'knowledge assets' and

managerial capabilities and the retention and application of such to create organizational legitimacy. Such competencies will provide the organization with the assets requisite in achieving their strategic vision during times of change.

The creation of a robust system that protects organizational knowledge will impact the quality of the NFPs service output to customers as well as having a positive effect on the perception of the organizational responsibility to its stakeholders as well as adjust during times of environment turbulence.

The challenge facing NFPs is to embrace the verity that Knowledge Management is not only an asset for use to improve operational techniques, which have proven to increased organizational efficiency and effectiveness, but also as an asset for use in all levels of organizational functionality and strategic change. It is this adoption and acceptance of this holistic view of organizational Knowledge Management, once thought too difficult to value and manage, that tests NFPs.

These challenges and constraints are magnified for NFP organizations that lack the resource strength of global firms and their capability to create knowledge. NFPs must work to instill Knowledge Management systems within its corporate culture in order to overcome their size constraints and in an effort to take full advantage of the opportunities that KM Systems provide in establishing organizational legitimacy.

Summary

As the preceding pages have shown, success for NFPs in this discontinuous environment requires donor perception of organizational legitimacy. For those organizations that can create perceived legitimacy, a competitive advantage is then created. The following

four summary points illuminate the areas of concentration to achieve legitimacy:

1. Strategic evolution – NFP managers must have a mindset change replacing the more traditional method based on the extrapolative method of strategic formulation. Managers must remember that the future is not guaranteed and is not necessarily an improvement over the past successes.

2. Capabilities evolution – NFPs must continually evolve their organizational capabilities to account for the increased demands from the environment. This includes but is not limited to: evolution of the organizations culture, management, structure, systems, and power structure.

3. Information coupling evolution – As previously stated, due to size, NFPs are resource constrained. Hence, the implementation and execution of a robust Knowledge Management System that specifically cross-couples functional unit's *is imperative*. Information coupling supports transfer of knowledge and vital information, providing NFP managers with a tool to close the size advantage disparity gap.

4. Managerial evolution – The managerial mindset of NFP managers *must* be creative, risk-taking, visionary, and entrepreneurial nature in order to match the turbulent environmental discontinuities facing today's firms. Senior management must have the goal of only aligning its management team with those individuals whose goals, mentality, leadership, problem solving skills, and knowledge, create the best 'managerial competencies fit' to match the firm's environmental conditions.

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