

The Effect of Management Practices on Corporate Performance: An Empirical Study of Non-Governmental Organizations in the Middle East

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The objective of this paper is to provide a framework that relates non-government organization (NGO) internal management practice to corporate performance and to study the effect of senior management initiatives taken inside the organization on the overall performance of the entity. The internal initiatives addressed in this paper are (1) the time span of corporate strategy, (2) the NGO's internal management techniques and practice, (3) industrial, government relations, and image, (4) ability to navigate through the external environment with a market-driven philosophy, (5) human resource development, and (6) spirit and culture of volunteerism among staff and managers. NGO corporate performance is represented by outcomes developed in the paper, related to sustainability of the NGO, its volume of operations, the deliverability of its services, and the quality of its project products. We then validated our suggested theoretical framework through an empirical analysis of NGOs based in Lebanon and operating in the Middle East. Data was collected by means of a questionnaire developed from preliminary interviews with managers from a subset of 12 NGOs, followed by data collected from 115 NGOs. Empirical results show that NGO corporate performance is significantly and positively correlated with the time span of the strategic plan, industry and government relations, and senior management ability to maneuver in the external environment with market-driven philosophy. However, the internal management model and the human resource development plan were not found to be significant. This could be due to the structure of the projects that are funded through international donors.

The NGO Business Context

Most developing countries are showing an increased activity in NGOs as part of their economic rehabilitation, yet the civil society sector is still challenged by the lack of clear performance measurement criteria. The increased activity of NGOs is partially due to the fact that local governments in such economies are often ill equipped, and private sector firms are hesitant to invest and offer public goods and services. These factors led international organizations to channel their sponsored developmental projects through NGOs.

NGOs are under increasing pressures to become accountable against corporate performance measurement criteria. Theoretically, such measures should involve the volume of the NGO's operations, its capacity to attract funds, the quality of its human resources and its ability to execute projects under consideration, its administrative structure and management models. However, it is challenging to measure outcomes related to typical NGO project deliverables such as alleviating poverty, building capacity, improving literacy levels, protecting biodiversity, or decreasing mortality.

NGOs as a Major Part of Civil Society

Civil society is defined as "...the sphere of institutions, organizations and individuals located between the family, the state and the market, in which people associate voluntarily to advance common interests..." Civil society mainly involves the role of the government and the marketplace towards the citizens and the society they represent (Carlson, 2002). Civil society comprises two types of organizations; the mutual benefit organizations, and public benefit organizations (Holloway, 2001). Mutual benefit organizations include (1) labor-related organizations such as unions, professional and trade organizations, (2) political parties, (3) student associations, (4) ethnic organizations, and (5) recreational or cultural organizations. They are characterized by a two-way benefit system whereby members donate or contribute with the expectations of getting back collective benefits.

Organized labor, for example, aims at achieving bargaining power for its members. Such representation and interest protection concepts, along with their applications, go as far back as the late 1800s in that the bargaining power and advocacy for an individual's well-being is far smaller than that of employers with access to financial resources (Webb and Webb, 1987; Commons, 1934). With industrial organization throughout the 20th century, labor unions were initially considered beneficial to society as they institutionalized industrial conflict and offered a less costly solution than having each individual resolve his set of issues separately with his employers (Kerr et al. 1961). Typical provisions that one would expect civil society to address include the establishment and administration of socially acceptable labor-management agreements. Such agreements comprise rights and respective responsibilities, wage determination, job and income security, employee benefits plan, and fair treatment of special groups such as workers with disabilities, older workers, veterans, or those facing gender discrimination (Katz and Kochan, 1980).

This trend and perception started to change in the 1970s and 1980s as private sector entities exhibited resistance arguing that civil society could contribute to offering public goods rather than muffle competitive forces by tampering in unions-like relations (Kochan et al., 1986). Civil society started to take on missions of the second category mentioned earlier, namely those of public benefit organizations. Such organizations include public and private charitable bodies, civic organizations, development and welfare NGOs that actively participate in implementing developmental projects, advocacy and outreach, research and think-tanks, and national capacity building. Many of such developmental ideas were inspired from the private sector but required an impartial follow-up into implementation at a broad societal level (Arthur, 1994; Mirvis and Hall, 1994).

Civil society organizations went further into direct interventions to help develop people at an individual and professional level. Development and assessment centers came in vogue to provide counseling about salary levels, skill sets, attitude towards work and co-workers, and overall professional aptitude (Gaugler et al., 1987; Jone and Whitmore, 1995).

The form of a civil society institution is theoretically different from that of a private sector firm, but the boundaries separating these organizations are blurred and complex. Civil society, the private sector, and the public sector, all compete in the same space. Further, they all require a corporate strategy, an operation, and an organizational structure (Chalhoub, 2005).

External Environment of NGOs – Challenges and Opportunities

NGOs have specific characteristics and maneuver under specific pressures in their local and regional markets. According to the United Nations Development Programme, an NGO is “...any non-profit organization, group or institution that operates independently from Government and has primarily humanitarian, cooperative or developmental, rather than commercial objectives...” (UNDP, 1999). NGOs are increasingly preparing, designing and applying developmental strategies with their number growing in most developing economies (Shah, 2005).

Since the 1970s, NGOs in both developed and developing countries have been rapidly growing. Over 15 % of total international development aid, measured at around \$8 billion dollars, is channeled to beneficiary parties through NGOs (World Bank, 1995, 2000). As we see in our discussion above, NGOs strive and operate on certain environmental factors and face special challenges. These factors and challenges are discussed below.

1. Societal Tension. Several countries have been facing societal tension over the last few decades. This is especially true of countries in the Middle East. In the case of Lebanon, the civil war period (1975-1991) left government agencies and municipalities with little control over their intended functions. They were unable to perform their basic duties and responsibilities due to excessive political interferences. The tense situation called several local NGOs to take charge of providing essential services and humanitarian aid to the local population and help in the reconstruction and rehabilitation of the country (Arnaout, 1998).

2. Need for effective response to crises when traditional structures breakdown. In several countries where there is high dependence on the government to provide social services, support systems come under scrutiny as such economies become more exposed to market forces. The weakening or fall of such welfare systems pushes the local community to search for and establish ways to meet social and economic needs. This development partially triggers the rise of civil society organizations providing community services that the state is no longer able to provide (Asian Development Bank, 1999).

3. Realization that other sectors cannot solve urgent or persistent social problems. Much of the attention is directed to policy-making to engage the government in solving societal problems, or at best to the private sector. But these two sectors are normally overloaded with other issues and therefore cannot attend to the urgent or persistent societal needs. Independently of how efficient they are, governments have their resources almost fully allocated to what would be termed as public goods or services as foreign

policy, matters of national security, world trade, and the like. Similarly, private sector firms are overloaded with their missions and are liable towards their shareholders and customers. We mention the Pakistani experience when the Government absorbed feudal mini-states into the Northern Areas Federal Administrative Zone, and transferred land titles from the rulers to their farmers. At the time, the government was not equipped with developmental policies, nor did it ensure a physical, economical, or social support for its citizens. Local Pakistani NGOs took on the mission; they covered an area of 74,200 km², around 1000 villages, touching over one million individual beneficiaries (Campos, Khan and Tessendorf, 2002).

4. Commonality of global developmental issues. Several issues are taking a global aspect and becoming a common denominator for several NGO target countries. Robbins (2002), who researched the global growth of NGOs over the last decade, identified five major drivers. These drivers are considered of a global nature and amplitude, and affecting NGOs regardless of their home country. First, the end of the Cold War and the changes in many political regimes was a focusing event that facilitated the introduction and free operation of NGOs. Second, fast growing technologies led to faster communication and the appearance of new global communities sharing common humanitarian goals and interests. Third, there was an increase in resources, professionalism and jobs available in the NGO sector. Fourth, the media built public awareness about global problems, including poverty, health, and education. The media was also used to entice activists on taking remedial actions. Fifth, changes in economic and political ideologies encouraged governments and aid organizations to provide more support and flexibility to NGOs (Robbins, 2002).

5. Ability to attract human resources. Cotter (1988) stresses the importance of attracting human resources suitable for NGO operations and discusses the difficulty in finding such rare breed. In fact, Cotter considers the ability of an NGO to attract and motivate human resources, acquire project funds, and reach as many disadvantaged people as possible as major performance measures. The argument related to the ability to attract and retain human resources as an indicator of NGO's credibility and tangible results is supported in literature. The Canadian International Development Agency (CIDA) stresses factors related to the ability of the NGO to deploy organizational resources, including personnel, skill sets, people process, and operating structures. CIDA goes further to emphasize the role of NGO human resources in strategic planning, service delivery, and job training (CIDA, 1996). Morgan and Qualman (1996) also acknowledge the attractiveness of the NGO to human resources as a performance measure, and emphasize the longevity of the NGO in relation to realizing sustainable project outcomes.

6. Ability to deploy good management practice. McNamara (1999) argued that overall corporate performance could be measured through internal management practices, external forces, and image building. The logic behind image building is that since NGO deliverables are public-spirited by nature, the perception of the public end-user is critical in judging whether or not the NGO is delivering upon its promise. Holloway (2001) focused on the support provided to the NGO by the legal, political, fiscal,

cultural environment, and the ability of the NGO's management to navigate through these external factors. But again these factors are directly influenced by the ability of the local government to provide an encouraging environment, and therefore, goes back to the traditional challenge faced in developing economies.

Donors have been facing a paradox in their developmental efforts in that institutional development programs in poorer countries were proven to be more difficult to implement than in developed countries. Although the results are mostly needed in poorer countries, the beneficiaries are unable to unlock the potential of the aid. At the same time, developed countries with a lower marginal benefit from development expenditures are able to capitalize on the financial resources allocated to their programs (De Capitani, 1994). The development of sound management techniques could help increase the impact in less developed countries.

7. Intangibility of results and challenge in performance measurement. Measuring NGO results is still a major challenge because they involve developmental projects that take a long time to mature and bear results. The importance and recognition of NGOs' deliverables to the end-user or beneficiary communities is still faced with a major problem: the lack of empirical results and analysis. A comparative project at Johns Hopkins University, estimated total operating expenditures by the nonprofit sector to be \$1.6 trillion in 2002, which is the size "... *the fifth biggest economy in the world*". The study covered charity schools and hospitals, which account for 57 percent of the expenditures, youth camps, professional associations, and different types of organizations such as aid and development NGOs like Oxfam (Farooq, 2005). Despite the size of this sector, a major issue that we face is that the impact of its projects and expenditures is below expectations. The expectations grow even larger in poor regions of beneficiary countries, yet it is observed that even fundamental needs such as access to potable water, electricity, and basic education are not yet fulfilled (Farouk, 2002). Many donors restructured their programs to better measure results, but the outcomes were still unsatisfactory. According to the World Bank, among 1170 projects studied between 1989 and 1992, 48% achieved partial institutional reforms while 23% showed insignificant progress. The study showed progress in telecommunications, industrial development and energy, while areas targeted by civil society organizations such as agriculture, health and education, were not as successful (World Bank 1993). The lack of tangible results and difficulty to restructure beg the question about NGO effectiveness.

Management Framework

As stated earlier, the objective of this paper is to present a theoretical framework that links internal management initiatives to corporate performance, and test it empirically in subsequent sections. The framework provides six major categories of initiatives driving corporate performance. These initiatives are considered as inputs into the corporate inner-workings and they include strategic plan longevity, management techniques, industry and government relations, market-driven processes, human resources, and the culture of volunteerism (Exhibit 1). Each initiative is described below.

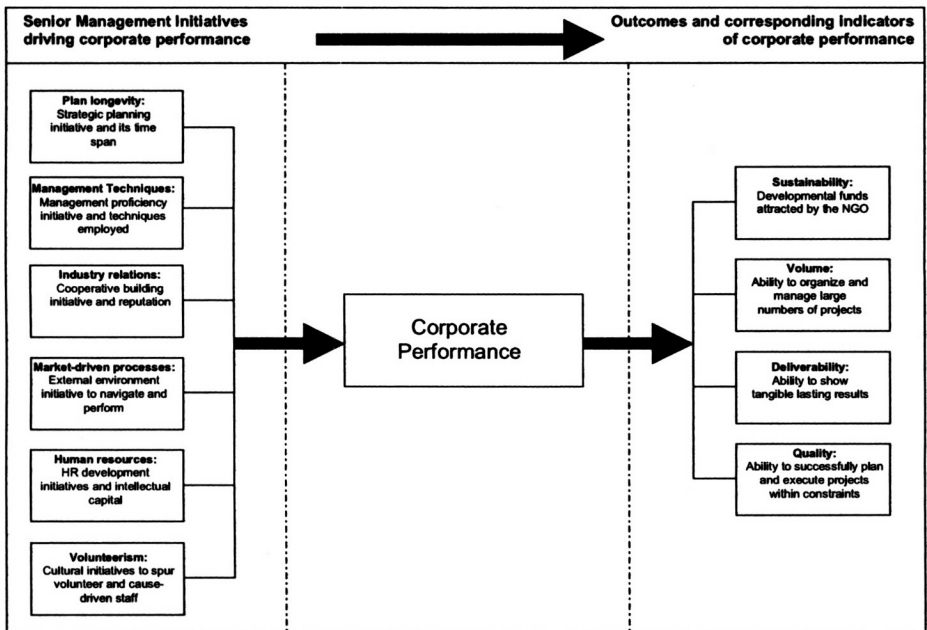
Strategic Plan Longevity

A key component in crafting corporate strategy is its ability to capture the vision, or the *raison d'être* of the organization. The time span covered in the NGO's strategy is important as it allows the development of collective learning in the organization. Although the effects in the external environment are important, what drives performance are the internal managerial activities that allow the organization to practice over an extended period of time how to excel in certain areas – hence developing strategic core competencies (Mintzberg and Waters, 1985). Several arguments related to volatility in certain regions of the world due to business and political risk are used by senior managers during interviews to justify the lack of longevity and clarity in their corporate strategy. But such explanations are paradoxical because strategy keeps the organization from losing direction. In fact, the more volatile and risky the environment, the more critical it is to develop long term strategy (Barringer and Bluedorn, 1999).

Management Techniques

A prerequisite to corporate success is the way its leaders apply management techniques, starting from within the organization (Collins, 1999). Such management techniques include mechanisms to ensure commitment, communication, quality management, benchmarking, process improvement, and measurement (Powell, 1995; Ohinata, 1994).

Exhibit 1. Framework linking senior management initiatives to NGO corporate performance.



NGOs have come a long way in establishing management techniques and rolling them out across their employees, staffers, and volunteers. However, we should keep in mind that the challenge is greater within NGOs where the workforce is typically driven by volunteers who fit their contribution within an otherwise heavy schedule at their place of full time employment.

Industry, Government Relations, and NGO Public Image

Similarly to private sector firms, yet with an additional need for reputation in their local, national, and regional communities, NGOs certainly require a great deal of industry relationship management. NGOs, especially the ones sharing missions that address issues that transcend national boundaries such as ecosystem preservation, the environment, and epidemics, build capacity and strive on their reputation (Bartlett and Ghoshal, 1998). Such an approach generates a very powerful learning and knowledge exchange process by allowing the transfer of resources across borders. At a national level, good relationships greatly facilitate for the NGO to reach its objectives especially when it is dealing with clients of multiple layers. For example, an environmental project funded by the Global Environmental Fund, monitored by UNDP, managed by the ministry of the environment, implemented with an NGO assisting the ministry as a first layer client, serves end-users in Southern Lebanon. Such a multi-stakeholder project would succeed only if the NGO under consideration knows how to develop and nurture relationships with the UNDP, the government, and the end-user.

Alertness about External Factors and Market-Driven Processes

Organizations need to continuously anticipate and adapt their strategy to shifting industry conditions. This also includes quantum changes in strategy. Such level of alertness can be better achieved if senior managers establish processes to make the organization market-driven (Abell, 1999). NGOs are no exception to this fundamental concept. Almost all donor organizations are overhauling their granting criteria by imposing preliminary studies to ensure that developmental projects meet end-user needs. Senior managers that embrace and apply this concept are more likely to succeed than the ones who do not.

Human Resource Development and Management

Attracting, developing, and utilizing human resources is an important part of senior management initiatives. This is particularly true of NGOs that are adopting a participative approach in crafting strategy with a critical role played by middle level employees rather than hog up strategy-making at the chief executive level (Floyd and Wooldridge, 1996). Nevertheless, involving human resources at all levels in NGOs may be highly mobilizing, but could at the same time cause lengthy and unwarranted debates among participants. In such instances, the role of senior executives becomes doubly-challenging in that they need to craftily balance a participative management style with a directive leadership style so that strategy is drafted on time and within acceptable levels of effort. In absence of a directive from senior managers, strategy-making could become too big a task for a delegated group of subordinates (Hout and Carter, 1995).

Volunteerism and Culture

The ability of the NGO to build a culture of devout staff and volunteers is considered of paramount importance to its performance. Volunteerism is directly related to cultural initiatives emanating from the individual's motives and passion for an idea. It also relates to the person's eagerness to see results in a cause that he or she deeply believes in. According to many researchers in strategy, such passion is what drives positive competition. Entrepreneurs are volunteers by excellence as they are willing to put upfront effort in an idea that they believe in knowing that financial returns are not guaranteed (Covin and Miles, 1999).

The five major components discussed above are what we expect senior managers in NGOs to adopt as initiatives in their strategic agendas. They serve as inputs into corporate performance. As for the outcomes that we recommend to be used as indicators of corporate performance, they include sustainability, volume, deliverability, and quality (Exhibit 1). These four outcomes are discussed further in the section on research methodology.

Application to NGOs in Lebanon

The Environment of NGOs in Lebanon

What makes the study in Lebanon interesting is that the NGO system goes back to over a century in history. These organizations are still subject to the **Ottoman Law on Associations, issued on the third of august 1909. Seventeen year later**, the Lebanese Constitution comprised several articles granting public freedoms, explicitly providing for the freedom of associations (Lebanese Constitution, 1926). To date, the 1909 Special Law on Associations constitutes the legal basis to create and operate associations in Lebanon (MOSA, UNDP and Friederich Ebert, 2004).

Lebanon is considered to be the most liberal among Middle Eastern countries in terms of laws and regulations in the private sector and civil society. This liberalism had a major impact during the Lebanese civil war, as it spurred NGOs to provide community services and almost replace the state. One of the symptoms of this replacement was the drastic increase in the number of registered NGOs from 1300 before 1980 to over 2300 after 1980. Further, foreign NGOs almost doubled during the same period (Awadi, 2000). In the early 1990s, as the civil war wined down, donors decreased their support to Lebanese NGOs expecting the State to take over again, and channeled funds through governmental agencies (IRIS, 2001). Ministries adopted projects funded by the World Bank and the European Union, while allocating an active role to civil society organizations in issues about the environment, human rights, transparency, and local governance. Government-NGO interaction also comprised the decentralization and training of municipalities to provide public service and local development (Kandil, 1998).

Around year 2000, it became apparent that rehabilitation would take longer than expected, and that the government was not ready to assume its basic functions. Local NGOs started to increase again, reaching 4073 organizations in 2002. These

organizations were funded primarily from international NGOs, governments and other donors to implement developmental projects and emergency programs (MOSA, UNDP and Friederich Ebert, 2004). Since the end of civil war, the non-profit sector in Lebanon gradually moved from emergency aid and charity work, to a more comprehensive role and holistic view of development. NGOs currently aim at becoming a base for growth, sustainable human development, promotion of partnerships, strengthening civil society and ensuring rights, freedoms and governance (Awdi, 2000).

Research Methodology

The empirical research methodology uses the structure presented in our theoretical framework. The objective of the empirical analysis is to test the framework using data collected from a sample of 115 NGOs in the Middle East. To seek insight in their performance, we started with a phase of exploratory research. We focused on NGOs based in Lebanon as they had the chance to practice in an open economy and a traditionally liberal political system. Although the region includes countries with various levels of GDP and different social and development status, we found that we can use the case in Lebanon to shed light on NGOs in the region and developing countries in general. The exploratory phase relied on focus interviews with senior managers in twelve NGOs out of 115. The second phase involved primary data collection across the sample using questionnaires. The sample uses a simple random selection and comprises NGOs from all regions in Lebanon, including the ones that operate across borders in the Middle East. The data was requested in such a way that if more than one senior manager per NGO is involved in responding, the NGO would submit back a unified response to the questionnaire, hence 115 responses – one per NGO.

NGOs in our sample, including the ones with regional coverage, have diverse activities including environmental concerns, education, poverty reduction, capacity-building, agriculture, gender issues, human rights, and childhood support. A focused specialty area could be used in future research to restrict the sample, but in our case, we chose to keep it diverse. The logic behind this decision in our sampling is that NGOs in the Middle East are at a different stage from NGOs in most western countries. Several NGOs in western countries adopt a focused mission, and a deeply developed single specialty. Such examples include a specific type of chemical waste management advocacy, a narrowly defined educational program for drug rehabilitation, or teenage pregnancy support.

Dependent Variables

The dependent variables are presented in the framework on the right hand side of the diagram in Exhibit 1. They comprise sustainability, volume, deliverability, and quality of services rendered.

To confirm our choice and the reliability of such dependent variables, we focused in the first phase on how to measure NGO corporate performance through outputs related to its stakeholders. This allowed us to better define common challenges and opportunities of NGOs operating in Lebanon. We grouped the most relevant factors to NGO performance

and actual results offered to the beneficiary parties. For example during focus interviews, member of NGOs often referred to items such as hard work, training, and commitment to the cause, as their measurement of results. These items alone are not results -- but rather inputs from volunteers or employees into the NGO's tasks that lead to results from the beneficiary perspective. To address corporate performance we needed to gauge outcomes from the organization's operation such as products and services for customers outside and inside the organization. Using that logic, we divided corporate performance into four dimensions as described below:

1. Organizational sustainability. This is an outcome that shows the ability of the NGO to survive and sustain its operations, staff, and adhesion to its mission. It is related to the NGO's success in qualifying for, attracting, and managing developmental funds from donors and international organizations. This outcome can be measured through NGO total budget in reference to the financial resources of the organization, including funds and grants received from shareholders and funding parties. Total Budget is considered as an outcome to performance. In other words, total budget is a proxy reflecting the ability of the organization to raise funds and operate a cash flow to serve the beneficiary instead of relying strictly on financial support from its owner(s). Thus, NGOs with increasing yearly budgets may indicate greater access to funds and grants, giving more credibility to the organization's work and inducing donors to provide more support. Over eighty percent of the NGO interviewees agreed that the ability to attract new budgets and their progression are signs of how active and successful the organization is and thus how well it is performing.

2. Volume. The second desirable outcome of performance is the level of activity planned and executed in the form of services. This can be measured by the number of projects, for example, that the NGO undertakes per year. We had to calibrate that variable based on the project objectives and set a minimum individual project size to 10,000 USD. A large number of annual projects means a good overall performance of the organization since it indicates its capacity to get further projects from donors, to expand its scope of work and number of activities and hence to raise its performance status.

3. Deliverability of Project Results. Total budget and number of projects as a snapshot into the NGOs life are not enough. An organization can have large budgets and several projects in a particular year, but we still need to test for the deliverability and sustainability of its project results. In developmental projects, it is very important to include the element of deliverables and their sustainability to capture the lasting effect of the support that the project is intended to provide. Sustainability of outcomes reflects the ability of the organization to benefit its customers not only in the short term but also after the formal end of the project. Deliverability of sustainable results reflects how effective is the project plan, its implementation, and its outreach in the target community. It is therefore a key component of NGO overall performance.

4. Achieving Objectives with Quality. The fourth measure of corporate performance is the ability to achieve the objectives according to quality expectations. Projects are

generally measured in terms of three major dimensions related to time or schedule, cost or project budget, and quality or technical specifications. This measure is important to ensure whether the performance of the organization meets the expected targets it has set beforehand. Achieving project targets on time, within the expected budget and most importantly according to the quality standards, is an indicator of how well the NGO manages its projects.

The dependent variable that we use is an equally weighted composite index made of the four components above. The logic behind choosing equally weighted composites of performance in our analysis is that all four elements are important in determining how the NGO is actually performing. International funding parties are increasingly relying on these criteria in reaching decisions to finance local NGOs.

Independent Variables

We then focused on identifying a set of independent variables. These variables were grouped in six categories representing senior management initiatives as described on the left hand side of the theoretical framework in Exhibit 1. They comprise the NGO's (1) adopted time horizon in crafting its corporate strategy, (2) internal management models and techniques, (3) industrial, government relations, and reputation, (4) ability to navigate through external environment using a market-driven philosophy, (5) human resource development initiatives, and (6) spirit and culture of volunteerism in the overall corporate performance. These independent variables are treated below as we describe our hypothesis set-up.

Research Questions and Structure

Q1. First research question related to strategic planning time horizon and learning (H1, H2). We study the relationship between global performance and the presence and length of a strategic plan for the NGO. We expect that NGOs that practice of planning and implementing business strategy perform better than the ones that do not, and those that adopt 5-year strategic plan perform better than the ones with a yearly basis strategic plan. The longer the NGO strategy time horizon the better the performance as long as it guides the organization in a way that it enables it to adapt to future changes in the environment in which it operates. Therefore we hypothesize:

H1: NGOs that set a long-term strategy perform better than ones with a short-term plan.

It is commonly known that organizations go through a learning curve and that human resources develop competences that allow them to increase efficiency and effectiveness. Whether for profit or non-profit, an experienced organization is expected to perform better than a new one since it has gained more experience in the field. Field work becomes even more relevant for NGOs since the bulk of their work revolve around developmental projects in which quality of implementation determines ultimate success in meeting its strategic objectives. As a result, it has been more exposed to the challenges the sector encounters and thus knows better the problems it might face and how to accommodate them. Therefore our second hypothesis is:

H2: An organization with more years of experience in the field achieves better results than one that is newly operating.

Q2. Second research question related to management techniques (H3, H4, and H5).

Whether an organization is performing effectively may greatly depend on how well it is managed. In this respect, we have separated the quality of management methodologies into three dimensions: scientific management, administrative management, and behavioral management. We expected that these components affect performance.

The *Scientific Management* model is at the roots of *time and motion* techniques and reflects how well you define the relationship between people and tasks. It involves systematically narrowing and standardizing the tasks among employees to achieve maximum efficiency. Most management approaches today in the categories of process design and orientation, knowledge management, specialization and division of labor, technology, and quality management systems derive from scientific management models. Our third hypothesis is therefore:

H3: An NGO that embraces and applies scientific management techniques performs better than one that does not.

Organizational performance also depends on internal administration – deriving from the *Administrative Management* model. We have defined the internal administration as a composite of presence of clear organizational structure, clarity of role and responsibilities, adequacy of the working conditions and the extent of employees' confidence in their superior's capabilities. Our fourth hypothesis is:

H4: An NGO that embraces and applies the administrative management model performs more effectively than one that does not.

Behavioral Management also affects performance, especially when it comes to interpersonal relationships among various stakeholders. It reflects the behavior of human resources vis-à-vis the organization. It is essential to test its effect on the performance of the organization. Behavioral management emphasizes employees' motivation and satisfaction, degree of alignment of employees' goals with those of the organization and the presence of good manager-employees communication. Our fifth hypothesis is:

H5: An NGO that applies the behavioral management model is better positioned for performance than one with none or weak behavioral management.

Q3. Third research question related to NGO's industry and government relations, image and reputation (H6, H7). One of the major dimensions of competition is brand identification, which in turn, is part of the NGO's overall reputation (Chalhoub 2006). Many organizations, and especially those working in the non-profit sector, use their reputation to compete and ultimately succeed in their business. They build on having a good reputation in order to get more projects and more funds so that they can achieve their goals. Furthermore, a good reputation enables the organization to be accepted by its customers and thus simplify and accelerate the implementation process of their projects. Our sixth hypothesis is:

H6: An NGO that possess positive industry and government relations, and overall reputation achieves organizational results more easily than one that does not.

NGOs by definition promote community development and therefore are naturally involved in the human development. Human development includes a wide variety of projects scope of work including education, health, environment, poverty reduction, childhood, youth, women empowerment, community development, rural development, agriculture, and the like. Such diversified involvement in the community requires diversification in multiple fields. This is particularly true of NGOs in Lebanon and several Middle Eastern countries because their activities need to unavoidably address a large set of community issues, as opposed to deeply specialized fields such as teenage pregnancy and abortion clinics in the USA.

Local NGOs' degree of specialization may vary according to these areas. Many prefer to specialize in one or few fields to enhance performance, while others expand their scope of work to cover all fields in an attempt to get all sorts of development projects and benefit many target groups. Several believe that an NGO operating in diversified fields makes itself more relevant to local communities in the Middle East than the one specializing in a single field. They argue that working in many fields allows the organization to have a wider outreach within the community especially that the region is at a more basic stage that requires breadth in community service rather than depth in expertise. NGO diversification in serving Middle Eastern communities is believed to give it a higher chance of relevance to local needs. Our seventh hypothesis is:

H7: An NGO that serves its community by coordinating across multiple fields performs better than one that specializes in a smaller number of fields.

Q4. Fourth research question related to market-driven philosophy and ability to navigate through external forces (H8, H9). NGOs operate and compete like any open-system organization interacting with its external environment. Many forces affect this interaction: political, economic, customers, competition and regulations. As these forces greatly affect the work and performance of NGOs, they need to be addressed and managed adequately, especially in the Middle East. For simplicity, we grouped these external forces into five categories and defined the external influence as a composite. The *political situation*, the *economic up- or down-turn*, the *competitive intensity*, the *customer's pressure* on the NGO, and the *extent of regulation* affecting NGO operation constitute these five categories.

The political situation is included because most NGOs, especially in Lebanon, are partially managed or even owned by political figures and thus their work is expected to be influenced by that person's political orientation. Furthermore, many indicators show that the political situation, notably the instability that Middle Eastern countries face, is greatly affecting not only NGOs but also the business and economic sectors. Whether the organization is affected positively or negatively by the political situation depends on the stand it takes toward the prevailing political party.

Economic forces are also included as they constitute a major driver of the operation of

most businesses. They are also interrelated with the political situation. In that respect, an organization's operation is expected to be negatively influenced by such economic swings that often represent instability in the country. Customer's pressure is important because it reflects the NGO's ability to cater to the needs of its stakeholders. The more customers have influence on the organization, the more it faces challenges to satisfy its customer base.

Regulatory forces may impede the overall NGO performance if they are not thoughtfully designed. Some international organizations and donors may impose strict conditions on local regulations prior to awarding their projects. To name a few examples, Middle Eastern countries are still grappling with policy making related to protection of intellectual property rights, labor laws related to age and gender, environmental impact, and the like. The absence of such local policies, often reduce the NGO's probability of winning the project. Our eighth hypothesis is:

H8: External Forces have a significant effect on NGO organizational performance

The ability of the NGO to work through the challenges of government and funding sources plays positively in achieving organizational results. According to the Ministry of Social Affairs and the UNDP, an effective partnership between the government and civil society is a prerequisite to success (MOSA, UNDP and Friederich Ebert, 2004). NGOs can benefit from such a partnership as it facilitates the execution and implementation of their work, and their relationships with international organizations are expected to have a great influence on their performance since they drive its ability to access budgets and survive. Our ninth hypothesis is:

H9: An NGO that can work through challenges of government and international organizations achieve better performance results than one that lacks such know-how.

Q5. Fifth research question related to human resources attraction and headcount (H10). Though it is naïve to think that the greater the number of staff, the better the performance of the organization, many managers suggest that the number of employees does influence performance positively. Most NGOs that we interviewed expressed their concern related to lack of human resources. When an NGO becomes understaffed, it faces tough choices related to the adoption of projects, or to the level of service quality. For this reason, most managers interviewed supported the hypothesis that the larger the headcount, the better off the NGO's performance in the long term. Our tenth hypothesis is:

H10: An NGO able to staff projects with a larger headcount performs better than one with a lesser headcount.

Q6. Sixth research question related to volunteerism and culture (H11). NGOs make a clear distinction between full time employees, earning a fixed salary within the NGO, and those working on a volunteer basis. Several NGO managers speculate that a large ratio of volunteers to total human resource headcount may yield undesirable results. Their rationale is that volunteers have many other concerns to attend to as they typically

offer to the NGO service hours outside their main commitment such as a full time job in the private sector. But at the same time, it is common that NGOs depend on volunteers to accomplish their work.

Volunteerism is directly linked to the culture of NGOs. But managers fear that a great number of volunteers, relatively to the number of full timers, could lead to instability because volunteers may not be steady-handedly committed to the organization and its goals. An NGO manager provided a point of view "... our volunteers have a great contribution in a given time span, they perform tasks to feel that they are serving a good cause, but they often don't stick too long nor fully commit to the spirit of the organization..".

Another issue with temps and volunteers is that they may seriously lack adequate skills. In fact, several interviewees indicated that people accept to work as volunteers in order to gain good training from organizations. Nevertheless, due to shortage of staff, many NGOs assign volunteers to perform tasks even before they acquire enough training. This may alternatively constitute a deficiency in the overall performance. Our eleventh hypothesis is:

H11: An NGO with a larger ratio of volunteers (to total staff) does not perform as well as an NGO with a lesser ratio of volunteers.

Data Collection Instruments

Primary data was collected in two phases; the first one was exploratory and used focus interviews, and the second used questionnaires. The respondents rated each component in their organization in relation to the theoretical framework in Exhibit 1. As mentioned earlier, the overall NGO performance was defined as an index made of four components related to sustainability of operations and budget, volume through total number of projects, deliverability of sustainable results, and quality of planning and execution in achieving intended developmental goals. We used eleven independent variables, X_1 through X_{11} , used in eleven hypotheses, H_1 through H_{11} , and grouped to address our six main research questions discussed above, Q_1 through Q_6 . The first research question Q_1 is addressed through hypotheses H_1 and H_2 ; Q_2 through H_3 , H_4 , and H_5 ; Q_3 through H_6 and H_7 ; Q_4 through H_8 and H_9 ; Q_5 through H_{10} ; and Q_6 through H_{11} .

In formulating the relationships above, we used our previous research, and the twelve dimensions of competition, specifically, the ones that relate to specialization, brand identification, service and relationship with government (Chalhoub, 2005, 2006). In addition, we applied the modified environmental scan model that emphasizes the effect of internal and external forces on the organization. Variables were measured using Likert scale and a five-point category scale.

Statistical Analysis and Results

A multiple regression analysis was performed using SPSS to study the relationship between the eleven independent variables on the dependent variable - overall NGO performance. The results are presented in Exhibit 2, and the regression equation

$Y = \sum \beta_i X_i$ is shown below:

Regression equation:

$$Y = 0.195X_1 + 0.213X_2 + 0.087X_3 - 0.174X_4 + 0.03X_5 + 0.271X_6 + 0.097X_7 - 0.269X_8 + 0.492X_9 + 0.085X_{10} - 0.070X_{11}$$

Where:

	<u>Initiative</u>	<u>Question Addressed</u>
X_1 : Length of the organization's strategic plan	Strategy Longevity	Q1
X_2 : Learning curve; years of practice in the field	Strategy Longevity	Q1
X_3 : Understand/apply Scientific Management Models	Management Technique	Q2
X_4 : Understand/apply Administrative Management Models	Management Technique	Q2
X_5 : Understand/apply Behavioral Management Models	Management Technique	Q2
X_6 : Image/reputation of organization	Industry/Community	Q3
X_7 : Community Relation; diversification/number of service lines	Industry/Community	Q3
X_8 : Intensity of external forces	Market-Driven	Q4
X_9 : Understand/work with external stakeholders	Market-Driven	Q4
X_{10} : Human resource attraction/Headcount	Human Resources	Q5
X_{11} : Volunteerism; Culture/Ratio of volunteers	Volunteerism/Culture	Q6

Three questions were used to gather the respondent's input on each independent variable above. For example, to measure X_2 , respondents had to answer about their number of years of field practice, their progress on a learning curve in terms of planning, and their level of involvement in implementation and tracking results. To measure X_5 , we asked about managers' understanding of behavioral models, their approach to "show by example" through explicit behaviors in front of subordinates and among colleagues, and the level of comfort from an interpersonal perspective. To measure X_7 , the respondents had to rate the extent to which the NGO involves the community in planning, how well it listens to and gets feedback from the community that it serves in relation to types of multiple services offered, and input on satisfaction about the relevance of the final outcome from such services.

The mathematical computations show that 89% of the variation in overall performance is explained by the variation in the independent variables under study. An F-value of 33.067, which is greater than $F_{critical}$, shows that the estimated functional relationship is not due to chance or random variation.

Hypothesis H1 which suggests that an organization with a multi-year strategy performs better than the one with no or short-term plan, is supported ($\beta=0.195$, $t= 3.224$, $p<0.05$). An overall long-term strategy needs to be crafted to simulate the organization's direction and assess performance accordingly. As seen above, Lebanese NGOs passed through unstable stages and had to reshape their scope and targets. Although their scope of work is often determined by the international organizations and funding sources, NGOs are expected to have the strategic expertise to survive and excel – and this requires a long term strategy. As for the details of how they develop their strategy, it is left to the NGO's leadership, culture, size, and environment complexity. An organization with multi-year operating program performs better than the one with a one year plan. This

Exhibit 2. Results of the statistical analysis.**Model Summary**

Model	R	R square	Adjusted R square	Std. Error of the estimate
1	0.962 ^a	0.926	0.898	0.49

^a. Predictors: (Constant), Ratio of volunteers, years of practice, External Forces, length of strategic plan, Headcount, Number of Fields, Reputation, Behavioral Management, External Relations, Scientific Management, Administrative Management.

ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	88.454	11	8.041		
Residual	7.052	29	0.243	33.067	0.000 ^a
Total	95.506	40			

^a. Predictors: (Constant), Ratio of volunteers, years of practice, External Forces, length of strategic plan, Headcount, Number of Fields, Reputation, Behavioral Management, External Relations, Scientific Management, Administrative Management.

^b. Dependent Variable: Overall Performance

Coefficients^a

Model		Unstandardize Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1 (Constant)		-1.05E-02	.722		-.015	.988
Length of strategic plan	Q1	.177	.055	.195	3.224	.003
Learning curve	Q1	2.262E-02	.008	.213	2.754	.010
Scientific Management	Q2	.190	.204	.087	.931	.360
Administrative Management	Q2	-.295	.176	-.174	-1.672	.105
Behavioral Management	Q2	7.523E-02	.231	.030	.326	.747
Industry relations, reputation	Q3	.253	.083	.271	3.044	.005
Community service diversification	Q3	7.218E-02	.053	.097	1.349	.188
External threats and forces	Q4	-.666	.162	-.269	-4.108	.000
Market-driven, External Relations	Q4	.881	.165	.492	5.331	.000
Human Resources, Headcount	Q5	.399	.300	.085	1.327	.195
Ratio of Volunteers, Culture	Q6	-1.20E-03	.001	-.070	-1.187	.245

^a. Dependent Variable: Overall Performance

may be explained by the fact that a strategic plan should be specific enough to clearly define the purpose and directions of the organizations but broad enough to be flexible and accommodate rapid changes affecting its external environment. In this context, a program set for a longer period of time, may be more general yet more adaptive to change, especially that organizations are increasingly required to be more flexible in order to survive.

Hypothesis H2 is also supported confirming that the NGO's learning curve is indeed valuable and that an NGO that is older in field service achieves better results than the one that is newly operating ($\beta = 0.213$, $t = 2.754$, $p < 0.05$). This result counters the claim that young NGOs are better designed with avant-garde tools and techniques. Throughout the years, the NGO becomes more aware about the market, its key players, and stakeholders. In addition, it gets to know its internal resources and how to allocate them efficiently. Being older in the field may give the organization more credibility and confidence towards its stakeholders, notably its donors, leading to getting more funds and increasing budgets. Field knowledge induces the organization to be more adept in winning, planning, and executing projects in parallel.

Hypothesis H3 which states that an organization that uses scientific management models performs better than the one that does not, is not supported ($\beta = 0.087$, $t = 0.931$, $p > 0.05$). Furthermore, **H4** ($\beta = -0.174$, $t = -1.672$, $p > 0.05$) and **H5** ($\beta = 0.03$, $t = 0.326$, $p > 0.05$) that are respectively concerned with administrative management and behavioral management models were also rejected. Contrary to what we expected, internal management of NGOs, whether scientific, administrative or behavioral, seems to have a statistically insignificant relationship with overall organizational performance – at least in our studied sample. When we inquired further seeking to explain this result, we related to the fact that NGOs in the region often do not have structured and “bureaucratic” management systems. On the contrary, they consider that it is more attractive to give the resources enough flexibility to perform and act according to the situation's requirements. Moreover, as the work of NGOs is centered on the human aspects (UNDP & AFESD, 2002), and since people are different in nature, they require different set-ups in order to deal with various situations. According to managers interviewed, their organizations cannot abide by a strict management system to all its employees, especially that such organizations often display various types of employees (full timers, part-timers and volunteers). Nevertheless, the author identifies as the most probable cause for the lack of insignificance being that NGO interviewees often did not go through formal education or training or various management theories as they mostly came from various fields.

Hypothesis H6 which states that an NGO that possesses positive industrial and government relations and overall reputation achieves organizational results more easily than the one that does not ($\beta = 0.271$, $t = 3.044$, $p < 0.05$). Such characteristics may incite not only funding sources to collaborate with the organization but also internal employees to feel part of a well-reputable organization. This may in turn increase its overall budget and its total undertaken projects, which results in better performance. A positive reputation gives the organization more credibility and reliability. As the

organization attains a certain level of reputation within the market, it strives to maintain it and thus pays better attention to the quality of its end results. Since its projects are usually related to human development, they need to be sustainable in order to succeed and be recognized.

Hypothesis H7 which states that an organization operating in several fields performs more than the one that focuses only in one or few fields, the results were not significant ($\beta = 0.097$, $t = 1.349$, $p > 0.05$). The hypothesis is thus rejected. The results can be explained by the fact that sometimes it is essential for the organization to focus on one or few fields, specialize in them in order to excel and gain competitive advantage. Specialization may empower the organization and help it deliver tangible results more effectively and efficiently than the organization that chooses to work on a broader scope of work. Operating in different fields simultaneously may scatter the effort of the NGO, and weaken its credibility, if not controlled adequately.

Hypothesis H8 which states that external forces negatively affect NGO performance, is supported ($\beta = -0.269$, $t = -4.108$, $p < 0.05$). As discussed earlier, by nature of their work, NGOs are strongly influenced by their external political and business environment. This becomes even more accentuated in Lebanon as it passed through different political phases with a state of relative turmoil. Many Lebanese and Middle Eastern NGOs are owned by political figures. Changes in the country affect the position of such political figures and their sphere of influence. In this context, the organization might be perceived and assessed according to its political affiliation, greatly affecting its performance as some may collaborate while others may not.

External factors related to customers also affect organizational performance. As the NGO reaches more customers and spreads at a national or regional level, it exposes itself to a large variety of mentalities and predispositions, and it becomes harder to fulfill its promised results. For instance, local villagers in a given region may be reluctant to respond to outsiders and not collaborate. In that regard, an expansion strategy as a growth engine could backfire and weaken performance.

External factors related to regulation also have an effect on NGO performance. For instance, the lax Lebanese policies that allow the fast establishment of NGOs led to a boom in their numbers, including organizations that did not have adequate resources and skills to achieve development goals. At the same time, NGOs that do not meet the international requirements to undertake developmental projects struggle and eventually fail. That was the case of many local NGOs in the last decade.

Hypothesis H9 which states that NGOs led by managers who are savvy in maneuvering through international and governmental challenges achieve better performance results than the ones that are not, is supported ($\beta = 0.492$, $t = 5.331$, $p < 0.05$). Know-how in dealing with local regulators as well as funding sources eases the entire NGO value chain, including the financial inflow to the organization. Such know-how enhances NGO relations with the government, contributes to collaboration, and speeds up the implementation of its projects. NGOs that succeed in engaging local governments

within an organized system or developmental program, it makes it easier to reach the wider community and respond to end-user needs – especially in situations where the government is unable to do so. With this philosophy in mind, the NGO acts as a complement and not substitute to the government.

Hypothesis H10 states that an NGO that attracts a critical mass in human resources, translated into larger headcount performs better than the one that does not. However results were not significant and the hypothesis is thus rejected ($\beta = 0.085$, $t = 1.327$, $p > 0.05$). An organization may have a large number of staff members and yet may not reach its expected goals while another, with fewer staffers may achieve better outcomes. This factor is rather related to how the organization allocates its human resources. We also considered the fact that NGOs favor talented staff with good experience and educational background over headcount. This is explained by the fact that NGOs typically address sensitive and modern subjects that require of their members educational sophistication, adaptability to inconsistencies, and awareness of the latest developments in their respective fields of intervention.

Hypothesis H11 which states that an NGO with a large ratio of volunteers does not perform as well as an organization with a lower ratio of volunteers, is also rejected as results are not significant ($\beta = -0.07$, $t = -1.187$, $p > 0.05$). We studied that particular item as we suspected that an NGO should not rely heavily on volunteers because they do not fall under the normal reporting lines and managerial control, especially if their interests diverge from those of the organization. Further, volunteers are more likely to have a full time job in a field completely different from that of the NGO. However, since the volunteer is typically driven by a cause, his high level of interest may counterbalance the fact that the person is not fully employed by the NGO. Exhibit 3 provides a summary of the empirical results and shows the correspondence between the senior management initiatives under consideration, the hypotheses tested in relation to each initiative, and its relationship with NGO corporate performance.

Conclusions and Recommendations

The role of NGOs is becoming more visible in serving communities in developing economies. Our research analyzed the effect NGO senior management initiatives on the overall NGO corporate performance. The set of senior management initiatives that we focused on are related to strategic planning, internal management models and techniques, industry and government relations and reputation, interaction with the external environment, and human resource management. The results show that performance is especially influenced by the presence and length of a strategy, learning curve, quality of relationship with stakeholders and reputation, external forces influencing the organization, along with its relation with the government and the international organizations.

NGOs that plan strategically over a longer time span achieve higher performance than the ones that adopt a piecemeal reactive task execution approach. Years of field experience was also found to be positively and significantly correlated with better

performance. This is expected as most works of NGOs require field execution and implementation among beneficiaries. The models that we would normally expect senior managers to use in their organizations, namely deriving from scientific, administrative, and behavioral management theories respectively, were not found significant. This is partially due to the fact that basic principles from the aforementioned models are applied by experienced managers but without necessarily calling them by their technical name.

Exhibit 3.

Results of statistical analysis showing the relationship between NGO senior management initiatives and overall NGO corporate performance.

Senior Management Initiative	Result	Relationship with corporate performance & recommendations
Strategic planning time horizon and learning	$\beta 1$: sig, + ; $\beta 2$: sig, +	Initiative is important in influencing corporate performance as it is positively and significantly correlated. Senior management must develop the initiative of multi-year strategy and involve various layers of management for learning purposes
Management Techniques	$\beta 3$: insig; $\beta 4$: insig; $\beta 5$: insig	Not significant in the current sample. Could be due to the complexity of the management theories behind such techniques. Recommend further investigation as to how to incorporate management techniques in NGOs a simple and practical manner.
Industry/Government relations, community image	$\beta 6$: sig, +; $\beta 7$: insig	Initiatives that nurture industry and government relations are significantly and positively related to corporate performance. But NGO diversification in many fields to get closer to community is insignificant with respect to corporate performance. Explore deep NGO specialization in future research.
Market-Driven Philosophy, ability to navigate	$\beta 8$: sig, - ; $\beta 9$: sig, +	Political forces are significant and negatively correlated with corporate performance; therefore recommend that senior management develop savvy in shielding the NGO from political tension. The ability to navigate with a market driven mentality is significantly and positively correlated with corporate performance.
Human Resources Attraction and Headcount	$\beta 10$: insig	Human resource attraction and headcount is insignificant with respect to corporate performance. Deserves further research.
Volunteerism and Culture	$\beta 11$: insig	Volunteerism culture and ratios of volunteers to non-volunteers insignificant. Deserves further research.

Further, projects funded and awarded by international organizations to the local NGO are handed over to the NGO for execution with their built-in frameworks, as planned and prescribed by the funding source. This leaves little room for local managers to maneuver using such management models, but rather require them to simply follow a tight process and project scope dictated by the funding source.

Overall image and reputation in the market were found, as expected, to play an important role in overall performance. They are positively and significantly correlated with NGO corporate performance. But on the other hand, it was found that variety in the fields of intervention and the breadth of the NGO's involvement were not positively related to performance. This leads to favor the performance of NGOs with specifically and narrowly defined missions. Specialization is becoming a prerequisite to NGO corporate success as developmental fields are becoming more complex and competition is on the rise.

External forces related to economic swings, political maneuvers and regulation were found to affect NGO performance negatively. Clearly these external forces pose a challenge to senior managers in NGOs. Among the external forces that affect the organizational performance, the political ownership and manipulation of NGOs constitute a major concern that need to be addressed thoroughly. Many politicians who own such organizations use them for personal purposes; either to build up an individual reputation and image, or for financial benefits. We found that there is a positive and significant correlation between the NGO's relationship with the government and international organizations on one hand, and the NGO's overall corporate performance on the other hand. This result is intuitive in that a positive relationship with the local government facilitates both planning and implementation.

Total headcount in an NGO was not found significant. We also tested to see whether the ratio of volunteers to total staff affect performance and we found it insignificant as well. This is partially due to increased control of the funding sources over project requirements by providing specific terms of reference for each position and ensuring that the person is selected for a specific position in the NGO. That position is generally illustrated with a detailed job description and a set of activities and responsibilities, schedule, and expected deliverables.

It is noteworthy pointing out that research on NGOs in Lebanon and the Middle East clearly faces limitations. First, there is a lack of a consistently updated database for NGOs. This led us to collect data from many different sources including Ministry of Social Affairs, Ministry of Interior, United Nations Development Programme (UNDP), and the European Commission. Second, even when a particular NGO is identified and included in the study, it may be reluctant to provide the researcher with information about its financial situation. Third, Lebanese NGOs still operate according to an outdated legal mechanism because they are still legislated based on the Ottoman law of 1909. Within such legislative framework, they often work with no control, accountability nor transparency and it becomes difficult to assess their performance. We recommend

that the legislative aspects be studied in a future research to help develop an updated legislation. Fourthly, it became apparent throughout the data collection phase that the coordination and cooperation among NGOs, or between them and the government or the international organizations, could benefit from process improvements. A coordination process needs to be designed along with a supporting database for NGO activity to help prioritize, authorize, and facilitate activities while avoiding duplication.

All things considered, NGOs are still playing a significant role in improving the status of the region at the economic, social and cultural levels, as they are in more direct contact with the citizens and their needs. Results-orientation has become a prerequisite for the NGO's continuity especially that developed countries and their international organizations are getting increasingly involved in the regional development by channeling their projects and funds through the civil society sector.

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