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Linking Theory & Practice

Accreditation and certification in the non-profit sector: organizational and economic implications

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Abstract

The non-profit sector of the US economy is a special class of entities with an expansive array of organizations and activities dedicated to the common good and well-being of others. Even though this sector has constructed creative and forward thinking initiatives, obstacles remain which interfere with the accomplishment of significant achievements. In order to stay competitive, non-profit organizations are constantly assessing their current capacity to deliver unique needed services. Today, many umbrella associations of non-profits have implemented accreditation and certification programs intended to improve organizational contribution to member organizations. Throughout the sector, non-profit organizations are now seeking to become more ethical, accountable and credible in the eyes of stakeholders. Guided by institutional and agency theories, the research reported herein is designed to offer preliminary insights regarding the organizational and economic implications of pursuing accreditation. Technological enhancements in this context are also examined.

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Keywords: non-profit organizations; accreditation; accountability; institutional theory; agency theory

Introduction

Today, the non-profit sector is a special class of entities dedicated primarily to mobilizing others to fulfill many social and community needs. Non-profits include an expansive variety of organizations and their activities – churches, domestic abuse shelters, art museums, colleges and universities, healthcare organizations, day care centers, elderly service programs, after-school basketball leagues and environmental protection societies. Owing to accelerating social problems and economic challenges, what once could be handled through a combination of self-reliance, neighborliness and family ties, now requires a more structured response (Salamon, 1999). As a result, private and non-governmental institutions and organizations in the US have been designed to meet these challenges, serve the public, and enrich community life. Penn and Zalesne (2007: 231) assert in their book, *Microtrends*, that the non-profit sector is maturing and now taking on “social problems that used to belong to government with the kind of innovation and discipline that used to belong to business.”



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Many in the non-profit sector are seeking ways to become more advanced in their work, have greater appeal to donors and preserve the public trust by managing for accountability. Stakeholders, such as funders and donors, are interested in evidence of the effectiveness and efficiency achieved by incorporating the use of more for-profit business-like practices. At the same time, volunteer leaders and non-profit staff members are seeking ways to better define their impact and demonstrate their appropriate use of resources by implementing innovative management practices and accountability standards. Several beneficial tools are available to evaluate and measure institutional performance, including assessment exercises. While accreditation mechanisms have long been available, applied and even expected in industry (manufacturing and information technology), their application only recently has been found in non-profit organizations. The intent of these self-administered and externally peer-reviewed exercises is generalizable across sectors and is intended to help pinpoint areas for improvement, addition or change.

One of the most effective tools for non-profits to establish their differentiation on the basis of credibility and performance comes through a certification process. Today in the non-profit sector "certification" is a form of accreditation. The term "certification" has generally been associated with discussions relative to manufacturing quality standards (ISO 9000 Certification) whereby for-profit companies pursue certification to enhance their competitive position. Rao (1994) suggests that certification plays a critical role in generating legitimacy and favorable organizational reputations. The general emphasis is on quality and the pursuit of excellence in all aspects of business operations. On the other hand, "accreditation" is generally known as a process to scrutinize institutions and programs (Eaton, 2009). Accreditation, in some form, has been in existence in the US for more than 100 years, rising from concerns regarding public health and safety (Eaton, 2009). It adds value to society by assuring quality (just as in the case of "certification"), but also allows government the ability to determine responsible use of public funding and aids the private sector in decision making about financial and other types of support.

Accreditation typically demonstrates an organization's competency in a variety of important managerial and organizational domains that have become the established standards generated by members of that sector. It also assures that a

neutral, external party has reviewed the quality of the programs and processes of the organization and found these to be satisfactory. Examples of such third parties include professional societies, ratings agencies, auditors, government regulators, credentialing bodies and other industry specific quality assurance and improvement organizations. In both certification and accreditation, standards must be met in order to receive a "seal of approval." For clarity, the preferred term generally used throughout this paper is "accreditation."

The situation today: challenges and opportunities

In recent years, and particularly since 1990, the media and press have had adequate opportunity to regularly report about the non-profit organizations whose executives have been declared guilty of misdeeds. Covenant House and United Cancer Council both made news when accounts of loans to board members from secret funds and excessive fees paid to fundraising consultants surfaced as feature stories and television station investigations (Chisolm, 1995). William Aramony, former United Way of America president, is an example of such a scandal with his misuse of funds in 1992. The steady stream of bad press and shift in public trust continued throughout the 1990s with reports of similar activities at other large well-known organizations. Unfortunately, many Americans can recall the daily news stories regarding the mishandling of millions of dollars in donations after the 2001 terrorist attacks on the Pentagon and the World Trade Center.

A similar situation was repeated yet again in January 2010, after the earthquake in Haiti. One week after the catastrophic event, the American Red Cross raised millions of dollars through their "Text HAITI to 90999" campaign. Using their cell phones, thousands of Americans pledged a total of US\$9 million to Haitian relief agencies (Mollenkamp, 2010). Press releases immediately following the campaign indicated that it would be months before any of the pledged money would actually reach the people and organizations in the area, as the funds transmission process would not go into effect until the cell phone users paid their phone bills. The money would then be sent to a third party that aggregated the donations to send to another gatekeeper-type organization such as a foundation in the area. Finally, a fraction of the money was then handed over to agencies, such as the Red Cross and UNICEF, months after the \$10 donation had been



contributed. Meanwhile, the critical days after the quake, in which medical supplies, food and water were needed to save injured victims, had long passed.

Changing business conditions, financial challenges and new demands for service delivery require an examination of current business practices in non-profit organizations (Rojas, 2000). Efforts are needed to restore public trust in the overall effectiveness, efficiency and honorableness of the sector. Salamon (1999) and others have suggested that this will require a strengthening of the accountability mechanisms within the non-profit sector plus greater attention to the definition and measurement of non-profit organizations' results.

Government agencies and the public-at-large have shown concern about the capability and capacity of non-profit organizations to maintain high levels of accountability. Appropriate state and federal government regulations, combined with self-regulation within the non-profit sector, allow non-profit organizations to maintain both accountability and expected public trust that exist within this sector (Louisiana Association of Nonprofit Organizations, 2003). These programs often include components that would train organizations to overcome the recently well-publicized problems emanating from some non-profit organizations, provide incentives to improve their operations and increase confidence and comfort for the public in their contributions to, and participation in, non-profit organizations (Bailis and Sokatch, 2006).

Confidence in non-profits by stakeholders is a challenging situation. The climate of shaken public trust in the non-profit sector, misbehavior of those entrusted with the leadership of these organizations, and recent government interest in some form of regulation, have created an opportunity for action. The adoption of standards for ethical and accountable behavior may provide the solution. The non-profit sector may also find that it is better to address the issues of accountability and credibility by developing effective means to *self-regulate*, rather than become subject to government regulation. Adopting a set of uniform standards and credible means for organizations to become accredited may be a viable self-regulation alternative.

What are the theoretical perspectives underlying the study of accreditation? What are the organizational and economic implications of pursuing accreditation initiatives? The purpose of this research is to provide a lens through which non-profit organizations may examine these implications. The effective

evaluation of these decisions is important on many levels within non-profit organizations. The information presented herein will offer some preliminary insights for executive directors and board members to facilitate their decisions regarding accreditation initiatives.

There are numerous current models where accreditation efforts may be effective in protecting the public trust and increasing donor confidence. Current trends indicate that the accreditation of non-profit organizations is gaining broader appeal within the sector. Education and healthcare institutions have long been self-regulating through accreditation. For instance, law schools are accredited by the American Bar Association, business schools by the Association to Advance Collegiate Schools of Business (AACSB) and healthcare organizations (including hospitals, nursing homes, healthcare networks and other service providers) by The Joint Commission on Accreditation of Healthcare Organizations (The Joint Commission) (Worth, 2009). This research will extend prior work by providing non-profit managers and other stakeholders with a better understanding about how organizational and economic decisions regarding accreditation may be more effectively evaluated.

Theoretical context

When considering conceptual issues about accreditation in the non-profit sector, two theories are proposed. First, agency theory offers insights into how incentives and risks are operationalized. Second, institutional theory explores the relationship between institutions and interested parties, examining the goals and intentions of those individuals involved in shaping and developing the organization. Although these theories differ in their application, they are used here to generalize about the social, organizational and economic relationships discussed in this paper.

Agency theory

A concept from agency theory holds that risk-sharing problems arise when cooperating parties have different attitudes toward risk (Eisenhardt, 1989a). Agency theory has been a cornerstone of organizational behavior research and seeks to address two main issues: (1) how conflict may arise between the principle (company) and its agents (managers); and (2) the difficulty and expense required to monitor the agent. Moreover, agency theory has been applied in a variety of settings, ranging from regulatory issues to individual-based



contracts seeking to explain impression management, lying and other expressions of self-interest (Jensen and Meckling, 1976; Pfeffer, 1981; Perrow, 1986).

The “contract” between donors and charities rests in the implicit agreement that charities will strive to funnel as much of the individual donor’s funds as possible to the cause the charity serves, which in turn suggests keeping overhead and administrative costs to a reasonable minimum. The agency problem emanates from the fact that donors have limited information about how funds are channeled and how much goes to “essential,” and thus “legitimate,” administrative costs. Non-profit managers can, therefore, raise their own compensation (and argue this is a legitimate, perhaps essential, administrative cost), which, in turn, lowers the benefits attributed to donors, all the while unbeknown to donors. Callen *et al.* (2003) find that the presence of major donors on non-profit boards tends to lower administrative expenses. In accordance with agency theory, information asymmetries are mitigated as donors themselves oversee non-profit operating budgets. Specifically, non-profit managers have greater/more accurate information on budget items, such as salaries and travel funds, and are thus in a position to conceal allocation of funds. As donors serve on boards and obtain more information on operations, the risk of fund misallocation is mitigated. This result shows that agency theory applies quite well to the non-profit context.

When making donation decisions, donors may have to assume the risk that funds will not be appropriated in sufficient amounts to aid the cause of their choice. Therefore, more risk-averse donors are less apt to donate. However, the presence of accrediting agencies shifts donor risk. As stated previously, these agencies can obtain more information on non-profit budgets, again reducing the risk of fund non-transparency and misallocation.

Accreditation, in this context, offers a type of “insurance” that donated funds are allocated appropriately; therefore, the aforementioned risk-averse donors are more likely to donate. The accrediting agency has assumed the costs of monitoring the non-profit and the associated risk that the non-profit is not efficiently allocating funds. This, of course, assumes that the accrediting agency is performing adequate due diligence. It is also assumed that the more vigilant the accrediting body is in detecting wrongdoing, the more trust

donors will place in organizations that have obtained accreditation.

The application of agency theory to large non-profit organizations is well documented in the literature. For example, Knox *et al.* (2001) touch on the ability of agency theory to explain variations in efficiency between for-profit and non-profit nursing home facilities. As noted, property rights and transference are often difficult to identify in non-profits. Consequently, there is a reduced propensity to bear risk because future benefits are difficult to quantify. Hence, accreditation may be interpreted as an intangible asset that can be valued and transferred. For-profit facilities will attempt to maximize profits and maintain high quality. Non-profits attempt to increase the nursing home’s prestige by increasing both quality and quantity of service.

Institutional theory

Institutional theory offers additional insight into why organizations may be interested in organizational assessment and accreditation programs. Early work on institutional theory was published by Meyer and Rowan nearly 30 years ago. Institutional theory defines organizations as “dramatic enactments of the rationalized myths pervading modern societies” (Meyer and Rowan, 1977: 346). Institutionalization is the process by which social procedures and processes “take on a rule-like” status. Institutional rules function as accepted myths that organizations adopt to gain legitimacy, garner resources, improve their stability and, thus, enhance their survival. In discussing the impact of institutional environments on organizations, Meyer and Rowan (1977: 349) contend that the use of external assessment criteria “can enable an organization to remain successful by social definition, buffering it from failure.” They state further that rationalized institutions create myths of formal structure that shape organizations. In adopting external assessment criteria, organizations become sensitive to, and employ external criteria of, worth. More recently, such criteria would be known as organizational assessment and accreditation programs.

A new or more recent form of institutional theory, called neo-institutional theory, suggests that organizations with institutional beliefs may adopt practices, policies and institutional rules into their formal structure that are related to the activity of the organization (Powell and DiMaggio, 1991). Meyer and Rowan (1977) further contend that once

the institutional environment is established, organizations become isomorphic, or similar in form, in order to maintain legitimacy. Formal and structured organizations adopt these rules, clarify that these are proper and adequate to attain certain end results, and thus become important in enhancing their internal and external legitimacy. Importantly, the process of achieving legitimacy may require the use of financial or organizational resources.

DiMaggio and Powell (1983) add to this body of knowledge by suggesting that once organizations adopt rules and norms established as authoritative guidelines for social behavior, they become more homogeneous and become an “organizational field.” Organizations in the same field are then pushed, persuaded and encouraged to become similar to each other. DiMaggio and Powell (1983: 149) discuss the concept of isomorphism as “a constraining process that forces one unit in a population to resemble other units” and suggest that there are two types of units: competitive and institutional. Institutional isomorphism appears to apply best in the context of this research, as it relates to the situation where organizations compete for resources, customers’ political power and organizational legitimacy. This construct can be applied to general non-profit, higher education and healthcare settings, for example. Emerging are three forms of institutional isomorphism: coercive (stems from political influence, societal expectations and the problem of legitimacy); mimetic (responds to ambiguity and uncertainty in which organizations model themselves after other organizations perceived as legitimate); and normative (professionalism via formal education and professional associations). The examples of non-profit organizations that are elaborated upon in this paper primarily pertain, directly or indirectly, to each of these forms of institutional isomorphism.

Non-profit organizations may have many reasons to participate in a self-assessment or accreditation program. In their research on legitimacy manipulation, Ashforth and Gibbs (1990) suggest that organizations use both substantive and symbolic management to attain legitimacy. Substantive management signifies “real, material changes in organizational goals, structures, and processes or socially institutionalized practices,” while symbolic management entails change that “appear consistent with social values and expectations” (Ashforth and Gibbs, 1990: 180). It appears that given the current environment of decreased funding,

increased pressure for accountability, expanded competition and heightened emphasis on tangible results, there is greater uncertainty in the institutional environment. There is a need, particularly for non-profit organizations, to distinguish themselves in the eyes of their many stakeholders. Assessment programs are providing identified and effective means to achieve such differentiation (McKee *et al.*, 2005).

Accreditation applications in the non-profit sector

Accrediting bodies are highly regarded by the public, and therefore, recognition received from earning this distinction reflects positively on accredited programs or organizations. The value of gathering, analyzing and reporting information necessary to achieve accreditation standards is far-reaching. The internal benefits of upholding quality standards has ensured that the highest priority is given to the safety and quality of patient care in healthcare organizations and excellence in higher education, for example (Spath, 2007). Importantly, though, the efforts necessary to ensure successful attainment and ongoing maintenance of accreditation are costly and labor-intensive. Further, as noted by DiMaggio and Powell (1983), the normative pressure to conform to industry-wide standards established by an accrediting body, for example, is especially prevalent in professional organizations.

Drawing upon the work of other scholars, the authors made use of case examples in this paper to support the argument that accreditation does have an important influence on non-profit organizations. In particular, Yin (1981) suggests the case-comparison approach as a reasonable way to analyze information obtained from or observed in a number of similar situations. And although the current research did not involve in-depth case study analysis, the selection and inclusion of case examples allowed for the examination of relevant information from a number of related accreditation programs in a variety of non-profit settings. This examination revealed that common problems, concerns and phenomena do exist within specific contexts, which assisted in the identification of overall organizational and economic implications of accreditation in the non-profit sector.

This paper presents a case example where accreditation has been recently introduced into the non-profit sector, as well as other examples where somewhat longstanding industry expectations require such credentials. Eisenhardt (1989b)



provides support for how well such an approach can work when similar findings from each example are connected, particularly when these similarities are normally not associated with each other. The findings presented in this paper are based on a limited number of case examples. This work, nonetheless, builds on prior theoretical work supporting the use of cases as a research strategy. This research uses a framework whereby descriptions of recent events allow for broader exploration of research questions and theory elaboration (Eisenhardt and Graebner, 2007). The specific case examples in this paper were chosen to illustrate, in a real-world context, the different aspects of accreditation and the varied responses to the associated challenges. Such methodology adds depth to the knowledge and understanding of accreditation in the sector, as well as contributes research that is relevant to the non-profit community in general.

Focusing on the application of accreditation in the non-profit sector, the Standards for Excellence (SFX) program, the AACSB, the Southern Association of Colleges and Schools (SACS) and The Joint Commission are examined here. Some of the benefits and costs from achieving accreditation are presented in the text that follows.

Standards for Excellence

Several trends and challenges seem to have heightened the interest in, and importance of, self-regulation in the non-profit sector. Non-profit organizations are seeking to be more ethical, accountable and credible in the eyes of their many stakeholders. A growing number of organizations are serious about the creation of disciplined business plans, instituting rigorous metrics to measure program impact and developing ambitious program expansion.

Actions that will strengthen accountability are classified as external, internal and voluntary self-assessment programs. External approaches include tightened regulations, stricter laws, (local, state and federal) and accountability standards normally found in the for-profit sector. As many non-profit board members come from the for-profit sector, many of these traditional business tools effectively transfer to the non-profit organization. (Recognize, however, there are amplified differences in the philosophy, mission and structure of the two sectors.) Other alternatives beginning to be implemented by many groups are voluntary organizational accreditation and assessment programs. These programs are usually the efforts of umbrella

associations of non-profits that seek to strengthen accountability through the establishment of common standards for local members, oversee their work and use periodic assessment to determine their compliance with the standards (Holland, 2002). Such programs may already exist for organizations that are part of a national "parent"-type of organization (e.g., United Way of America) where assessment is required on a regular, ongoing basis to continue to affiliate with the national entity. However, those not affiliated or otherwise associated with another entity are also experiencing the pressure to engage in ongoing evaluation and performance review as a demonstration of their quality of service. Just as business schools, health-care organizations and others seek accreditation to differentiate and substantiate their programs or institutions, other non-profit organizations may also wish to obtain necessary certifications to seek external validation of their practices and processes (Trapnell, 2007). Agency theory (and specifically issues regarding information asymmetries) dictates that common standards not only signal program quality, but also provide donors with information applicable across a broad spectrum of non-profits.

In 1998, the Maryland Association of Non-profit Organizations launched the SFX program. This program was created to develop and test a self-regulation approach for the governance and operation of non-profit organizations, with the goal of becoming a model for well-managed and responsible governed non-profits (Bailis and Sokatch, 2006). In 2001, the Carnegie Corporation of New York (among others) provided funding for a national replication program. Georgia, Louisiana, North Carolina, Ohio and Pennsylvania participated in the pilot national replication program.

Currently, the SFX non-profit certification program exists in nearly 20 states where certification programs are administered by replication partners: (1) state association of non-profit organizations (e.g. Ohio Association of Non-profit Organizations); (2) community-based entities that brand the national version of the program (e.g. The Hub of West Virginia) for their exclusive use; (3) a small number of organizations that serve as distributors for the nationally branded materials (e.g. Delaware Association of Non-profits); and (4) one national religious group that has customized the materials to comply with the Code of Canon Law for the US Catholic Church (i.e., National Leadership Roundtable on Church Management). Replication partners have the option of offering the certification



seal program or offering just the standards code and educational programming component. Since 1998, there has been a steady increase in the number of states participating in the program at some level. There are now 12 replication partners.

A “seal of approval” is issued to any organization that meets a set of SFX standards after completing a rigorous review process. The lengthy application package is initially reviewed by Standards staff at the replication partner offices or at the national level. Following the initial staff review, the application package is sent to a peer review team consisting of individuals who have extensive experience in the non-profit sector. After each member of the team checks the application for adherence to the Standards requirements, the team convenes to discuss and present final recommendations about the application. A higher level Standards Committee ultimately decides whether to award the Seal of Excellence, a type of “Good Housekeeping Seal” of approval (Maryland Association of Nonprofit Organizations, 2010).

Currently, the Seal is awarded for 3 years and certified organizations pay a licensing fee during the second and third year of the licensing period. Organizations apply to be recertified after the initial 3 years and every 5 years thereafter. Fees vary by state and are determined by organization budget size. An organization that wishes to be accredited must pay an application fee for the evaluation procedure and a licensing fee. For example, in Maryland, the application fees range from \$600 for an organization with a budget less than \$500,000 to \$2300 for an organization with a budget at \$50,000,000 and higher. Licensing fees are structured in a similar fashion: \$200 per year for the smallest organization and \$650 for larger organizations.

The accreditation and “seal of approval” costs are not just monetary. These also require a substantial time investment on the part of the Executive Director and staff members. The staff’s efforts are reportedly 9–12 months in length, and are spent gathering information about the organization’s activities, management and finances as outlined as eight areas of interest by the SFX. The program focuses on several guiding principles: mission and program; governing body; conflict of interest; human resources (including volunteers and staff); financial and legal affairs; openness (or transparency) with the public; fundraising; and public affairs/public policy (including public education and public policy advocacy) (Louisiana Association

of Nonprofit Organizations, 2002). For each area, the Standards code requires non-profits to benchmark their current operations. The benchmarks are applicable to all non-profit organizations, regardless of size, scope, geographic location, funding source or mission. The SFX program encourages non-profit organizations to engage in ongoing evaluation and performance procedures and to adopt the SFX criteria as a demonstration of their quality of service. To date, 240 organizations have been certified in the US. Trend data indicate an increasing number of institutions are seeking the “seal of approval.” In the State of Maryland, for example, from 1999 to 2009 there has been a 35% increase in the number of new certifications and re-certifications awarded.

The recent surge of recognition for current seal holders has prompted discussions regarding the placement of the Seal of Excellence in online catalogues and in listings within in non-profit sector. Organizations, such as GuideStar and the New York-based Foundation Center, are considering the display of the Seal of Excellence as part of the organization’s profile in their online databases. Such efforts to support good governance in the sector will greatly improve and enhance the visibility for the general non-profit organization that has earned the Seal. More specific accrediting bodies exist for specialized areas within the non-profit sector.

AACSB and SACS

The AACSB International exists to provide the necessary framework for undergraduate and graduate business schools and accounting programs to prepare for and seek accreditation (AACSB; AACSB International, 2010a). This accrediting body, founded in 1916, grants accreditation to those that sufficiently meet the standards that are set forth. An increasing number of business schools are earning AACSB accreditation. In the early 1970s, only 153 business schools were accredited (Shawver, 1973), by 1997, 335 were accredited (Owen, 2008) and, by July 2010, a total of 596 had achieved this distinction (AACSB International, 2010b). Importantly, though, 596 business schools that have earned AACSB accreditation represent less than 5% of the world’s business schools (AACSB International, 2010b). Recently, Jerry Trapnell, executive vice president and chief accreditation officer of AACSB International, emphasized that the quest to earn AACSB accreditation is a challenging endeavor and long-term

commitment for business schools: "Schools must not only meet specific standards of excellence, but their deans, faculties and staffs must make a commitment to ongoing improvement to ensure that the institution will continue to deliver high quality education to students" (AACSB International, 2010b: 1). In light of the aforementioned uncertainties in the institutional environment, (decreased funding, increased pressures for accountability, expanded competition and heightened emphasis on tangible results) business schools, for example, are compelled to practice substantive or symbolic mimesis of other similar institutions that are perceived as being successful (Ashforth and Gibbs, 1990). Such practices highlight institutional isomorphism as described by DiMaggio and Powell (1983). An institution seeking AACSB accreditation is engaged in a substantive and symbolic means of acquiring or reinforcing legitimacy, as the AACSB has made a continual effort to gain and preserve its legitimacy (McKee *et al.*, 2005).

Importantly, preparations for initial accreditation and continued maintenance thereafter require the use of an extensive amount of resources. A study of Canadian higher education deans revealed that accreditation costs may be as high as \$100,000 (McKee *et al.*, 2005). Efforts to achieve business school accreditation often necessitate changes in programs, facilities and staffing (Heriot *et al.*, 2009). Standard 10, for example, specifically addresses faculty qualifications, focusing on the need for faculty resources to be of high quality and consistent with the school's mission. Thus, a sufficient number of academically and professionally qualified faculty members are required to satisfy the elements of this standard (AACSB International, 2009). In an exploratory study of the costs of initial AACSB accreditation, Heriot *et al.* (2009) found that some schools spend anywhere from \$2500 to \$15,000 on faculty recruitment costs alone, while costs associated with the hiring of qualified faculty ranged from \$142,250 to \$800,000. Other costs may be associated with consultant fees, attending conferences/workshops, membership fees, AACSB peer review team visits, professional development activities, and technological upgrades and acquisitions (Heriot *et al.*, 2009).

A closer examination of AACSB standards indicates the importance of technological investments. Thus, the need to remain technologically current and relevant is woven through many of the 21 strategic management, participant and assurance

of learning standards (AACSB International, 2010a). More specifically, Standard 5 requires the development of financial strategies to ensure that necessary resources are in place to support achievement of the school's mission. These resources include the need for sufficient technological systems, hardware and support for students and faculty. In the case of faculty, appropriate computer systems and data analysis software are needed to support the fulfillment of intellectual contributions requirements and professional development activities. Students must also have access to modern technologies and, thus, pedagogical hardware and software acquisitions are equally important in achieving this standard (AACSB International, 2010a). Purchasing the necessary technologies and ensuring that faculty members are trained to effectively utilize such technology for teaching and research purposes often require substantial investments of money and time. Furthermore, information technology personnel are needed to manage and maintain the systems. Continuous technical support and attention are critical to the success of any system implementation (Whitten and Bentley, 2008).

The seven assurance of learning standards published by the AACSB are designed to ensure that college-wide learning goals are being met and will ultimately produce and promote program and curriculum improvements (AACSB International, 2010a). The proper documentation of course-embedded assessment processes, outcomes and action plans throughout each assessment cycle requires extensive organization and structure. Although not directly mandated, many institutions have acquired accreditation/assessment software to manage and store the massive amounts of data required and to more efficiently prepare reports that are necessary for peer review teams.

Similarly, institution-wide accrediting bodies for higher education such as the SACS Commission on Colleges, for example, have a similar purpose but on a grander scale. This regional accrediting organization is the prominent accrediting body for institutions of higher education in the 11 southern US states. Earning accreditation is essentially an indication that the university's mission is suitable, the necessary resources and programs are in place to support and sustain this mission, learning objectives reflect the core components of the mission, and that learning objectives are suitable for the degrees offered by the institution (Southern Association of Colleges and Schools Commission on Colleges, 2010).

The standards set forth by SACS Commission on Colleges require the aggregation of an extensive amount of institutional data. The requirement to conduct in-depth analyses of this vast amount of information warrants the purchase of a database management system that is designed to sustain such efforts. Thus, institutional effectiveness software is rapidly becoming a necessity as the standards, data-gathering, and reporting requirements for accrediting bodies at the college and university level continue to evolve and expand. The costs of these systems vary widely but the current annual cost of one such system amounts to \$1 per student for an institution with a student body consisting of approximately 16,000 students.

The Joint Commission

Healthcare expenditures currently comprise about 15% of US Gross Domestic Product with a potential increase to 20% by 2020 (Phelps, 2010). This, coupled with recent healthcare reform legislation, may suggest accreditation issues will continue to be particularly acute in this sector of the US economy. US healthcare institutions have long been exposed to the professional norms that are established by powerful and credible organizations such as the American Medical Association (Ruef and Scott, 1998) and The Joint Commission. The latter provides standards of excellence that organizations must adhere to when seeking accreditation in the healthcare industry. The Joint Commission establishes and promotes industry-wide standards and, by doing so, serves to legitimize the qualities of the subject organization (Scott, 1987). This organization exists to ensure continuous improvement in healthcare, with a strong focus on safety, effectiveness, excellence and value. The standards of this accrediting body specifically focus on establishing performance expectations across a variety of important functional areas including, for example, patient rights and infection control (The Joint Commission, 2009). As the constructs of institutional theory suggest, such standards are essential and helpful in establishing and maintaining the legitimacy necessary to increase public trust. Healthcare organizations seeking accreditation by this body must ensure compliance with The Joint Commission standards in preparation for an unannounced full survey. After a thorough review of applicable processes, operational procedures and outcomes, determinations regarding standards compliance and accreditation decisions are made by the survey team (The Joint Commission, 2010a).

The results of such surveys are significant to the healthcare organizations undergoing the evaluations and to the public, as a favorable assessment is indicative of quality, legitimacy and conformity to carefully constructed and long-established professional standards (Ruef and Scott, 1998). An increasing number of healthcare organizations are earning this distinction. Specifically, 15,178 organizations were accredited by The Joint Commission in 2008, with a total of 16,207 accredited in 2009. More recent records show that over 17,000 healthcare organizations and programs are accredited by The Joint Commission in the US (The Joint Commission, 2010b).

The potential costs associated with data-gathering and performance measurement requirements can become a financial burden to healthcare institutions seeking accreditation; these are attributed to the stringent standards of The Joint Commission. Many healthcare institutions have sought and continue to seek information system solutions and other systematic methods to make this process less cumbersome (Spath, 2007). Performance measurement activities are central in assessing whether or not standards are being sufficiently met and, importantly, in ensuring the quality of patient care in terms of outcomes, processes and efficiencies (The Joint Commission, 2008). A study conducted by Rockwell *et al.* (1993) found that the costs of planning for and undergoing a Joint Commission survey process amounted to approximately \$325,000 for the University of California Los Angeles Neuropsychiatric Hospital in 1989. This amount represented approximately one percent of the healthcare institution's operating budget for that particular year (Rockwell *et al.*, 1993).

As part of the accreditation process, hospitals are required to gather and submit data to The Joint Commission for a specified number of core measures established as part of its ORYX initiative. ORYX is The Joint Commission's performance measurement and improvement initiative, first implemented in 1997 (The Joint Commission, 2010c). According to Anderson and Sinclair (2006), it can take up to 90 monthly hours and \$100,000 yearly to gather data for only three of the core measures as set forth by The Joint Commission.

Additional time and costs are associated with the analysis of this data. Thus, there are potentially large costs associated with automated data-collection efforts, the adoption of a performance management system that is designed to handle



the complexities inherent in extracting and aggregating the data necessary to meet the Joint Commission reporting requirements, and the purchase of supporting hardware. In addition, the technical training necessary to properly utilize the technology and the hiring of information technology (hereafter, IT) personnel to support and maintain the system(s) also require a significant allocation of resources. These and other costs pertaining to the accreditation process and maintenance of accreditation efforts can potentially pose a formidable financial challenge for healthcare organizations. On the other hand, the efficiencies that result from such acquisitions may outweigh the costs in the long run.

Discussion

The selected case examples illustrate the application of some elements of agency and institutional theories to accreditation in the non-profit sector. As agency theory addresses issues involving risk and transference of risk, educational institutions, healthcare providers and other non-profits that seek private donations are able to offer some form of accreditation as evidence of having higher credibility and lower risk in comparison with those who have not earned accreditation. Essentially, non-profits with accreditation can lower the “cost” or “price” of donations. In the eyes of potential donors, one of the costs of donating is the risk that funds will not be acceptably allocated to the cause the non-profit serves. By lowering this price (cost of uncertainty) non-profits can obtain more donations, which is akin to stores lowering prices to move more merchandise and bring in more revenue.

Furthermore, the attainment of accreditation may be interpreted as assurance that the agents (non-profit managers) are acting in good faith and in the best interest of the principles’ intentions (donors). For instance, donors to institutions of higher education need not be concerned with the potential misallocation of funds to exorbitantly high overhead and away from (perhaps) a scholarship; the accrediting body will now, through periodic inspections, certify that the institution is adequately serving student needs. The risk of donating is essentially shifted to the accrediting body (e.g., SACS). Moreover, donors need not be concerned with developing the metrics to judge whether a non-profit is acceptably allocating funds as the accrediting body will assume that function. As noted above, information asymmetries

(a salient facet of agency theory) may exist as non-profit managers may be able to cover-up fund misallocation. However, a primary benefit of accreditation, in the context of this facet of agency theory, is that this may serve as “assurance” that funds are being optimally channeled to the non-profit’s cause; therefore a consequence of information asymmetries is mitigated by the advent of accreditation.

Concepts from institutional theory, such as legitimacy, appropriateness and the incorporation of practices, procedures and/or institutional rules into the formal structure of organizations, are also on the agenda forefront for non-profit board members, hospital trustees and university administrations. In order to survive in these changing and volatile times, organizations must maintain some sense of conformity. Hence, the authors see the formal structure of healthcare facilities, educational institutions and many non-profit organizations as a reflection of the “rational myths” that Meyer and Rowan discussed in 1977. These factors in the external environment have an impact on the activities within organizations. The observed movements in areas such as coordination, control, efficiency and effectiveness provide evidence of such impact. Institutional theory centers on embracing norms and putting forth the belief that over time similar organizations will behave in like manner. This is not dissimilar to the SFX program, AACSB accreditation, The Joint Commission standards or those of other programs that establish a set of national standards for a specific constituency or group of stakeholders.

Strategies have been developed that are thought to be effective in environments (hospitals/healthcare clinics, universities, non-profit organizations) that already have extensive, broad and detailed institutional beliefs about effective organizational practices. For instance, actions such as changing the formal structure of an organization to reflect the externally legitimate elements (e.g., using a certain vocabulary or language, creating similar organizational charts, adopting certain external criteria of worth such as prizes, community awards and recognitions, accreditation certificates) highlight the impact of operating in an institutionalized environment. In the end, accreditation activities are seen as prescriptions that provide the appropriate means to pursue various purposes. This preliminary research supports the notion that these activities seek to provide the legitimacy organizations need to thrive and survive.

Implications

Accrediting bodies have long been in existence. The AACSB and The Joint Commission are two groups that have been around since the early part of the 20th century. Although the core mission of these accrediting bodies has mostly remained the same, SFX, quality assurance techniques, methods of data gathering and reporting requirements have been, and will continue to be, modified to reflect changing times and current practices.

The SFX non-profit certification program is fairly new, having only been in existence since 1998. Other rating and certification programs have also recently come into being as a variety of stakeholders seek information that can assist them in decisions related to support for the non-profit organization. Management literature supports that quality improvement programs have taken a variety of forms over the years, (e.g. benchmarking, total quality management, just-in-time and ISO 9000 Certification) (Mallak *et al.*, 1997). Non-profit organizations are now seeking to adopt such programs as a means to improve their competitive position and enhance their ability to compete for a variety of resources.

Accreditation trends

Several trends seem to be consistent across accrediting bodies within the areas of higher education, healthcare and the general non-profit sector. Elements of institutional and agency theories allow for some speculation and theorizing about how these accreditation trends may evolve over time.

First, any organization wishing to pursue accreditation must weigh the costs and benefits of embarking on such an initiative. This analysis presents some preliminary guidance for decision makers. As DiMaggio (1988) notes, challenges arise as a result of present and continued intervention by external parties. As indicated earlier, these challenges can be in the form of (1) increased costs due to the inherent need for technological efficiencies and systems that can store, maintain and analyze relevant data; and/or (2) increased time commitment requirements because of the training that may be associated with the installation of new systems and general preparations involved in the accreditation process. Nonetheless, with a focus on institutional norms and isomorphism, an increasing number of institutions are taking the necessary steps to meet accreditation standards set forth by their respective accrediting bodies. Expectations are that this trend will continue as the changes in

relationships, boundaries and governance structures of organizations all impact the current business environment for non-profit entities. These, and other elements of institutional theory, are shaping the organizations of the future. Interestingly, Casile and Davis-Blake (2002) studied the impact of institutional factors and how private and public organizations respond to changes in AACSB accreditation standards. Results indicated that public institutions were more likely to pursue AACSB accreditation if the Dean of the business school came from an accredited program and/or if accreditation was a central focus of the college or university. Thus, Casile and Davis-Blake (2002) indicate that the responsiveness to new or modified standards is indicative of the legitimacy of these institutional norms. This is consistent with the aforementioned discussion of institutional theory and its application to AACSB accreditation. Formal organizations will continue to arise and expand on the basis of adopting certain rationalized institutional rules. Furthermore, as agency theory implies, organizations will continue to seek accreditation as an avenue to reallocate risk away from donors in the hopes of obtaining more donations.

Next, with a focus on operational, procedural and reporting efficiencies, many accrediting bodies are mandating the use of technology in some manner. The AACSB strives to ensure that business education reflects the challenging issues that organizations face in the modern world. This accrediting body recognizes that technological trends in the development of products and the creation and enhancement of existing processes should be an integral part of business education (AACSB International, 2010a). It is necessary for both students and teachers to have access to modern technologies in order to satisfy many of the standards set forth by the AACSB. Furthermore, those healthcare organizations wishing to achieve accreditation by The Joint Commission must be aware of the technological requirements necessary to support data analysis and the use of a performance management system. Central to institutional theory is the notion that actors need legitimacy to survive, and specifically the legitimacy of rationalized formal structures and policies. Such a conforming influence leads the organization to seek certain legitimate elements in order to increase their probability of survival. Elements such as the application of technology have emerged as standards in organizations today. Certain institutional efforts blend technology with marketing and



other business functions. Reinforcing these norms is likely to encourage the greater use of technology (Chatterjee *et al.*, 2002).

In the general non-profit sector, organizations such as the Better Business Bureau, the Charities Review Council and Charity Navigator, have developed tools to evaluate organizations. In 2010, Charity Navigator redesigned their rating system to go beyond financial performance and examine measures of accountability, transparency, effectiveness and results. These private efforts are in tandem with a redesign in 2008 of the IRS Form 990, the tax return for non-profit organizations and other exempt groups from taxes under Section 501(c) (3) of the U.S. tax code. The Form 990 changes were viewed by many as an effort to target best practices and support good governance in the non-profit sector under the auspices of the federal government. These efforts create opportunities for non-profit capacity building and generate more widespread interest in, and support for, ethics and responsibility in non-profit management. The sector-wide implications associated with such efforts will allow the non-profit community to further define itself based on operational sound policies and procedures, rather than being defined by the detrimental acts of a few.

Finally, in the past decade, accrediting bodies began to extend the focus beyond *input* measures and processes to greater emphasis on *outcomes*. Assessment of student learning outcomes, for example, has become an integral part of the AACSB and SACS accreditation requirements. Educational goals are developed, performance expectations decided and learning outcomes measured as part of this assessment exercise. The results and findings are then used as a basis for enhancing student learning. This trend is also evident in the general non-profit sector as many funders (private foundations and corporate) are now requiring detailed assessment reports on outcomes that are directly linked to program funding for client services. As agency theory suggests, this is undertaken to assure (inform) donors that non-profit managers are acting in the best interest of the non-profit's designated clients.

Cost/benefit implications

Knowledge of accreditation in general and, more specifically, related expenditures, needs to be adequately considered. Non-profits face the classic opportunity cost issue. As accreditation becomes a higher priority, labor, capital and other resources

must be devoted to obtaining and maintaining the accreditation. This means a shift of some resources away from the core mission of the non-profit such as providing shelter to the homeless. To obtain and increase donations, a tradeoff is involved: (1) non-profits devote resources to the accreditation process (assuming, as mentioned above, that accreditation leads to greater donations); and (2) the preceding scenario necessitates substituting resources away from the core mission of the non-profit, which could, in turn, lead to reduced donations. Non-profits should seek to minimize this trade-off and justify to donors the necessity of the reallocation.

From an economic cost/benefit perspective, a non-profit should seek an "optimal mix" of the two activities, that is, engage in accreditation activities, as well as activities related to the core mission so as to maximize donations. The *marginal benefit* of accreditation should equal the *marginal cost* of the resources devoted to the accreditation process. A potentially significant portion of this *marginal cost* is the opportunity cost of the resources channeled to accreditation. This opportunity cost would be represented by the reduction in services of the non-profit such as providing homeless persons food, clothing and shelter. In other words, non-profits would apply resources to accreditation but would seek to minimize the costs of this endeavor, specifically the opportunity cost as measured by the reduction of services the non-profit provides.

The scope of accreditation exercises may vary; however, all stakeholders have an interest in the outcome of the accreditation activities. Some results are easily captured, while others are more challenging. Whereas revising an organization's mission statement may be accomplished at a board meeting, the measurement of productivity and efficiency in non-profit organizations is often quite difficult. Economic efficiency is defined as producing the most possible output at the lowest possible total cost (Thomas and Maurice, 2009). The "output" of a non-profit may be defined, for example, as the number of homeless people sheltered. Productivity would be linked to this as follows: the maximum amount of funds allocated directly to sheltering homeless people indicates the non-profit is operating at maximum productivity. As it succeeds in sheltering the most homeless possible, the non-profit has achieved some degree of economic efficiency. Allocative efficiency, defined as producing an optimal amount of a good/service and allocating it to consumers that value them the most (Thomas and Maurice, 2009),

can be achieved. Thus, the marginal benefit (e.g., feeding the homeless) is essentially equal to the marginal cost. In the process, productive and allocative efficiency may be achieved.

Importantly, productivity and costs are greatly affected in terms of the amount of resources and prices of those resources devoted to compliance. Given that non-profits are service intensive and, therefore, more labor intensive, particular attention should be paid to worker training and the number of labor hours needed to ensure compliance. In fact, labor allocation issues are particularly acute. Non-profits pursuing accreditation must decide: (1) if the labor involved will be done "in-house" or contracted to outside consultants; and, (2) if done "in-house," will senior staff or those at lower levels perform the work. While senior staff may be more qualified to handle accreditation issues, the opportunity cost of their labor is likely to be greater. Donations and other work activities of the non-profit may suffer greatly if senior staff time is allocated away from these activities and towards accreditation work.

For non-profits it may come to a simple cost/benefit comparison. Meeting the standards and complying with regulations will indeed raise general and administrative costs. However, if maintaining the accreditation leads to an even greater increase in donations (benefit), then the non-profit will be better off, much the same as when a for-profit firm enjoys greater profits. In essence, the benefits would seem to outweigh the costs. In accordance with agency theory, donors benefit due to the greater assurance that funds are properly managed, which should lead to even greater donations. *For donors*, an apparent benefit is the reduction in the risk (of fund misappropriation) obtained via accreditation. This is especially true when major donors do not serve on boards or committees of a non-profit (see Callen *et al.*, 2003).

In addition to the labor involved in the accreditation process, there are other incurred costs, such as expenses for plant and equipment, computer software and hardware, utilities and other factors of production. Historically, non-profit organizations have lagged behind with respect to technological acquisitions and adoptions (Corder, 2001). The reasons for this lag, and subsequent inadequacies in terms of IT capacity, range from an overall hesitancy to embrace technology (Corder, 2001) to issues of resource availability (Heckler and Saxton, 2007). Regardless, as revealed in the aforementioned discussion of higher education and

healthcare, many non-profits wishing to embark on accreditation initiatives will have to plan for technological transformations involving upgrades to IT infrastructure and a greater understanding of IT utilization. Importantly, these costs, though explicit, are under the umbrella of opportunity cost in that these resources could be focused toward the mission of the non-profit instead of accreditation.

When non-profit organizations embark on such initiatives, it is important to be aware of the potentially massive expenditures that extend far beyond initial registration or application fees. The analysis provided herein offers preliminary considerations for those non-profit organizations that wish to pursue accreditation. When accrediting bodies formulate standards and regulations in which non-profits must adhere, the organization is faced with compliance issues. The greater the regulations imposed or that must be overcome, the higher the compliance costs. Therefore, funds and other resources that could be allocated toward the non-profit's cause, necessarily decrease. These points of consideration should be taken into account when determining whether or not it is cost-beneficial to seek accreditation.

Academic implications

This paper has addressed general economic issues that surround accreditation and discussed four specific cases. When the data is available, other researchers may wish to conduct an empirical analysis to ascertain if, for instance, organizations that obtain accreditation actually enjoy higher donations and/or are more successful in achieving the organization's objectives. While controlling for factors such as institution size and mission (e.g. education, indigent assistance), as well as other relevant variables, one could examine via a probabilistic regression model, whether non-profits that are accredited have a greater/lesser probability of receiving higher donations. From an empirical perspective, answering this question could buttress (or rebut) the argument that non-profits benefit from accreditation.

Furthermore, how do the pressures of institutional isomorphism impact or offset the potential advantages of pursuing and earning accreditation? Is it always beneficial to succumb to such pressures or can the pursuit of accreditation lead to unintended outcomes or less than substantial gains for the institution? These are notions presented by McKee *et al.* (2005) in their study of AACSB accreditation in Canadian business schools. Future research may do



well to address this in more of a quantitative fashion and to include a further exploration into a more precise decision-making framework for organizations that wish to pursue accreditation.

Future research may also wish to incorporate the use of qualitative methods to further explore the impact of accreditation on the non-profit sector. For example, an in-depth case study analysis involving several non-profit organizations, selected using a purposive sampling method, may provide additional insights and specificities concerning the organizational implications of accreditation initiatives. Notably, theoretical and analytical benefits can be realized through the use of multiple case designs (Eisenhardt, 1991; Yin, 2003). Furthermore, the collection of data for this case study research could be obtained from a variety of primary and secondary sources, using various methodologies. For example, interviews may be used as a primary investigative method of choice, as it is important to gather information from both donors and charity administrators. The use of multiple methods to collect data from each of the organizations involved would be beneficial because it provides a more concrete foundation for the development of theories, enhances rigor and increases the internal validity of the study (Denzin, 1984; Pandit, 1996). Eisenhardt (1989b: 538) argues "the triangulation made possible by multiple data collection methods provides stronger substantiation of constructs and hypotheses." Importantly, the authors of this paper believe the issues discussed in this study provide a sound basis for other academicians that wish to further analyze the impact of accreditation on institutions.

Conclusion

Non-profit organizations add to the quality of life in communities across America. However, non-profits are now operating in a challenging environment and, for many, facing uncertainty about their future. There exists misunderstanding and, thus, a lack of basic knowledge regarding non-profit governance and operations. Supported by institutional theory, non-profit organizations may seek accreditation to acquire legitimacy and, therefore,

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gain greater donations. Furthermore, agency theory is applicable as it highlights that there is an information asymmetry in non-profits and that donors are largely unaware of how a non-profit's contributions are dispersed. Accreditation is designed to alleviate, at least somewhat, this asymmetry and encourage greater donations. To be successful, non-profits must earn the trust of their constituency and must depend on generous contributions from many sources, year after year, integrating low administrative costs with high quality programs. In response to these challenges, accountability and the use of best practices in non-profit management are at the forefront of discussions among leaders of non-profit organizations. Further knowledge is needed concerning whether accreditation and assessment programs can really assist non-profit organizations to become more accountable and effective.

This research contributes to the extant literature on the efficacy of external voluntary accreditation in the non-profit sector. As many states are assessing the feasibility and logistical requirements of instituting accreditation processes in the non-profit sector, this study stimulates important inquiry relative to the motivations, benefits and economic implications regarding the pursuit of accreditation.

The resulting insights and knowledge may be employed to aid non-profit organizations, large and small, in making intelligent choices about participating in accreditation and assessment programs. These may also serve as a guide for researchers in further exploration of self-assessment efforts within non-profit organizations. This paper also contributes substantially to practitioner knowledge in everyday practice, serves to guide and direct institutional decisions, and provides a source of current and timely research findings for policymakers as the debate on non-profit accreditation continues.

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