

Performance Measurements For Not-For-Profit Organisations

CA. Jyoti Singh

The author is a member of the Institute, working as Technical Officer with the ICAI. She can be reached at ca.jyoti@gmail.com

Pooja Mirchandani

The author is pursuing an MBA from Narsee Monjee Institute of Management Studies. She can be reached at pooja.mirchandani@gmail.com

***"Performance is the reality, forget everything else."
-Harold Green***

Not-For-Profit Organisations provide important services throughout the world. Since the mid-1970s, the NPO Sector in both developed and developing countries has experienced exponential growth. The World Bank defines NPOs as "private organisations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services or undertake community development." The term "Not-for-Profit Organisations" is thus very broad and encompasses many different types of organisations. It would, therefore, include Non-Governmental Organisations (NGOs), Voluntary Agencies, charitable trusts and institutions and any such organisations that do not distribute profits from their activities. The fundamental features of NPOs are: (1) they exist to fulfill a charitable purpose, (2) they function without the use of coercion (3) they operate without distributing profits to stakeholders, and (4) they exist without simple and clear lines of ownership and accountability (Keating and Frumkin, 2001). NPOs perform a variety of service and humanitarian functions,

bring citizen concerns to Government, advocate and monitor policies and encourage political participation through provision of information.

Need For Performance Measurement

One of the principal differences between Not-For-Profit Organisations and profit organisations is that they have different reasons for their existence. In oversimplified terms, it might be said that the ultimate objective of a commercial organisation is to realise net profits for its owners through the provision of some product or performance of some services wanted by other people, whereas the ultimate objective of a Not-For-Profit Organisation is to meet some socially desirable need of the community or its members. The basic difference that arises is that as there is no profit motive in the NPO sector, and thus no single indicator of performance comparable to business enterprise is bottom-line. In fact, it may be stated that the best indicators of the performance of a NPO are generally not measurable in rupee (currency) terms, though rupee is the language of financial reporting. It, thus, follows that it is more difficult to measure performance in a Not-For-Profit Organisation than in a for-profit organisation. Indeed the research shows that most NPOs are attempting results measurement of some type, but all are struggling with developing quantitative measures to track their work's impact on their mission (Forbes 1998).

The Independent Sector (IS) published in 1998 "Outcome Measurement in Non-

Profit Organisations: Current Practices and Recommendations” after surveying some NPOs and the key findings were:

- (i) Eighty-three per cent (83%) regularly collected and tabulated data on at least some outcomes related to results achieved.
- (ii) Forty-four per cent (44%) reported that they primarily used outcome data for program improvement.
- (iii) Thirty-six per cent (36%) used the outcome information for fundraising.
- (iv) Fifty-one per cent (51%) collected client satisfaction information from clients, indirect customers, or other stakeholders.
- (v) Fourteen per cent (14%) used trained observers to measure outcomes.
- (vi) Few organisations have been properly trained at implementing outcome measurement, analysing it, and then using the resulting information.
- (vii) The capacity to perform valid outcome measurement, especially for client follow-up, remains a major issue.

The voluntary sector or the social sector is undergoing a transformation which is happening because of both the need and pressure to create more strategic, accountable Not-For-Profit Organisations. There are several contributing factors to the new focus on performance measurement including tremendous growth in the number of NPOs and pressure from contributors, governments and clients to show that they are “making a difference”. This movement runs parallel (if not inextricably linked) to the growing importance of non-profits to demonstrate their effectiveness – not by showing efficiency in using funds, which should be a given – but by showing results. These influences have led many non-profits to undertake a process of embedding outcome measurement activities into program operations. In essence, the non-

profit community is evolving from efficiency focused to strategically driven. Most likely the effects of this movement will materialise over the next 10 years (Drayton, 2002).

Future economic success of NPOs depend not only on the quality of its social and economic activities, but also on communicating their performance to the multiple and diverse stakeholders. The Performance Prism developed by Cranefield School of Management (formerly at University of Cambridge) states that the focus of any organisation whether for-profit or not-for-profit should be on stakeholder satisfaction and stakeholder contribution. It should find relevant answers to five basic questions in order to assess its performance objectively:

1. Stakeholder Satisfaction – who are the key stakeholders and what do they want and need?
2. Strategies – what strategies do we have to put in place to satisfy the wants and needs of these key stakeholders?
3. Processes – what critical processes do we require if we are to execute these strategies?
4. Capabilities – what capabilities do we need to operate and enhance these processes?
5. Stakeholder Contribution – what contributions do we require from our stakeholders if we are to maintain and develop these capabilities?

A Not-For-Profit with a commitment to measuring results is in a unique position to pull ahead of the pack and capitalise on the advantages. The primary objective of not-for-profits performance assessment is to determine how well an organisation is fulfilling its mission. If such an assessment is not possible then public trust in NPOs is bound to be lost. Thus, NPOs must choose performance benchmarks appropriate to their mission and objective

that can be highlighted in the annual report informing potential donors and others how they are accomplishing their missions.

Measurement Tools

A number of performance measurement tools have been developed and according to the evaluation approach they employ: (a) program logic models (b) participatory models, and (c) balanced scorecard. In general, program logic models are recommended to help organisations recognise the relationship between aspects of their programs and results, participatory models are used to build evaluation capacity and balanced scorecard manuals are used to generate information on program contributions to an organisation's overall effectiveness. The choice of resources and tools for evaluating non-profit sector activities depends on the nature of the organisation. The major factors, which are required to be considered, are:

- (a) What to measure?
- (b) How to measure? (what are the technical methods for getting the information)
- (c) Finding benchmarks or industry norms for comparison with other organisations.
- (d) Understanding why the results are the way they are (i.e., poor design of the program, inept staff, poor management, external conditions, etc.).

CRITERIA FOR GOOD PERFORMANCE MEASURES	
Good Performance Measures should be	
<ul style="list-style-type: none"> ● Meaningful ● Responsibility-linked ● Organisationally acceptable ● Customer focused ● Balanced ● Timely 	<ul style="list-style-type: none"> ● Credible ● Costeffective ● Compatible ● Comparable ● Simple
<p>Source: University of Arizona Library (www.library.arizona.edu)</p>	

Anthony and Young (1999) have suggested three categories of measures: (a) social indicators,

(b) results measures, and (c) process measures.

A social indicator is a broad measure of output that reflects the impact of an organisation's work on society at large. Unfortunately, in almost all cases external forces other than those of the organisation affect such measures. They are useful in strategic planning to guide management's decisions about the overall directions the organisation should take. Because of this, they are often stated in broad terms (e.g. "The expectations of healthy life free from any serious disease").

A results measure is a measure related to an organisation's objectives. It relates to an organisation's success in attaining its goals. For example, organisations rendering services to a class of clients, such as alcoholics, may measure output in terms of results for the whole class or a target group.

A process measure (or a productivity measure) relates to an activity carried on by the organisation. Process measures like, number of livestock inspected in a week, the number of vaccinations done in a week, etc., are useful in the measurement of current, short-run performance. They measure efficiency but not effectiveness.

The Balanced Scorecard was developed around 1990s for the Profit Organisations by Kaplan and Norton (1992, 1996). This tool was built to better measure performance and long-term value creation and it has been adapted and fairly widely used in non-profits also. It is a concept that complements financial measures with non-financial measures to measure and monitor the organisation's ability to build up both tangible and intangible assets like, the skills and capabilities of its employees, customer acquisition and retention, innovative services, products and information technology. These are divided into four perspectives: financial, the client, the internal process and learning growth. They are connected by cause and effect relationships that reflect the organisation's strategy. Some

people believe that the opportunity to use the Balanced Scorecard approach in non-profits is even greater than in for-profits because of its focus on long-term value creation.

The pioneering efforts in deriving performance measures from strategy and mission of NPOs have been made by Kaplan in 2001. He found that this tool helps organisations achieve focus and alignment, and to ultimately bring strategy to their life. He explicitly defined the role for strategy in a non-profit balanced scorecard and stated the following:

- (i) Strategy and performance measurement should focus on what output and outcomes of the organisation intends to achieve, not what programs and initiatives are being implemented.
- (ii) The organisation should focus its limited resources on a limited set of objectives and constituents.
- (iii) The start of any performance measurement system has to be a clear strategy statement. By quantifying and measuring the strategy, organisations reduce and even eliminate ambiguity and confusion about objectives and methods.
- (iv) Further, Kaplan adapted the original balanced scorecard framework to NPOs.

Adapting Balanced Scorecard Framework to NPOs

The Balanced Scorecard enables NPOs to bridge the gap between ambiguous goals and day-to-day operations. It creates a process, which encourages strategic focus by shifting the organisation's focus from programs to the outcomes the programs were designed to accomplish.

CCAF/FCVI (also known as effectiveness reporting/12 attributes of effectiveness) was designed in Canada in 1987. The 12 attributes provide an eclectic, comprehensive definition of the concept of effectiveness, reflecting the various stakeholders' values and providing a broad set of standards for what information should be included in performance reports. The 12 attributes include:

- (a) Management Direction: the extent to which programmatic objectives are clearly stated and understood.
- (b) Relevance: the extent to which the program continues to make sense with respect to the problems or conditions to which it was intended to respond.
- (c) Appropriateness: the extent to which the design of the program and the level of effort are logical in relation to programmatic objectives.

(d) Achievement of Intended Results: the extent to which the goals and objectives of the program have been achieved.

(e) Acceptance: the extent to which the stakeholders for whom the program is designed judge it to be satisfactory.



- (f) Secondary Impacts: the extent to which significant consequences, either intended or unintended, have occurred.
- (g) Costs and Productivity: the relationship between costs, inputs and outputs.
- (h) Responsiveness: the capacity of the program organisation to adapt to changes in such factors as markets, competition, available funding and technology.
- (i) Financial Results: accounting for revenues and expenditures, and for assets and liabilities.
- (j) Working Environment: the extent to which the program organisation provides an appropriate work environment for its staff.
- (k) Protection of Assets: the extent to which the various assets entrusted to the program organisation is safeguarded.
- (l) Monitoring and Reporting: The extent, to which key matters pertaining to performance and organisational strength are identified, reported and monitored.

A gratifying consequence to the organisations using consultative approach was that the reports were useful to them for internal governance and management control, as well as for external accountability and communications.

Another system is "Oregon Benchmark Planning System" under which the non-profit organisations measure their performance using both quantitative and qualitative data. They emphasise results and measure outcomes where possible. Where not possible, benchmark measures inputs and activities. Specifically, they developed a set of 259 benchmarks that track progress towards their brand strategic goals. Historical data is used to establish a baseline for each benchmark and to set an appropriate target for the future. The success depends on the

ability of management and the infrastructure to aggregate and 'roll up' outcome data from the program level to report effectively and meaningfully. This planning system has been recognised nationally in the U.S.A and has won several prestigious awards for organisational performance evaluation.

Conclusion

Regular performance measurement in the not-for-profit world is a relatively recent activity, and most organisations performing it are just becoming comfortable enough to use the outcome information to improve the programs and to help build support for other activities such as, marketing and fundraising (Morley, 2002). The results of performance measurement are not only useful in gaining additional funds but can also be used in improving impact of the programs run by the not-for-profit organisation, changing program design or operations, planning future programs, promoting the program to potential clients and improving outreach and public relations. A research study made by Sawhill and Williamson in 2001 concluded in their article "Mission Impossible? Measuring success in non-profit organisations" on four important lessons learned about performance measurement in the not-for-profit sector, which are:

- (i) measuring mission depends on measurable goals,
- (ii) keep measures simple and easy to communicate,
- (iii) measures are marketable,
- (iv) And manage with measures.

Assessing, analysing, measuring and reporting are part of the civic duty of the Not-For-Profit Organisations. The development of a performance measurement framework is feasible and essential to both management and boards for internal governance and management control as well as external reporting and fund-raising. □