

Nonprofit Business Intelligence

How to Measure and Improve Nonprofit Performance

Abstract

For most practitioners in the nonprofit sector, measuring performance has been elusive—trapped in a vortex of idiosyncratic evaluators, enigmatic regressions, and incongruous logic models. Compounding this frustration is the powerful and ambient call of managers, boards and funders to account for and improve results. Classic program evaluation methods have failed to meet this call. As a result, nonprofit professionals are seeking more relevant and cost-effective ways to track and measure results.

Nonprofit organizations face three distinct business challenges in this regard: responding to stakeholder requests (market-based), meeting internal demands to maximize impact (mission-based) and using data for learning and improvement (management-based). These challenges are compounded by the pressure on nonprofits from a variety of funders to demonstrate results, who themselves are under renewed scrutiny to be accountable and to maximize the impact of their social investments.

To address these challenges, the sector needs better data about performance and results. A clear “numbers and narrative” link enables nonprofits tell the story of their effectiveness with better rigor and credibility. And better performance data can be applied internally to inform better decision making (i.e. to drive down operating costs or to improve employee retention). The capture and analysis of performance data about key nonprofit business processes is called *Nonprofit Business Intelligence* (“NBI”). Practitioners can use better intelligence to improve the results of all aspects of their work: budgeting (through results-based budgeting, resource allocation), strategic planning (through benchmarking, performance management), human resources (through incentive compensation, performance reviews) governance (through accountability, board engagement) fundraising (through impact reports, competitive positioning) knowledge management (through sharing best practices) and service delivery (outcomes analysis, constituent satisfaction).

DRAFT

But in order to achieve NBI, performance measurement must be introduced constructively within the nonprofit sector. This requires addressing head-on some of the major conceptual and practical obstacles to measurement. First, practitioners must overcome their understandable fear of measurement and evaluation itself and buy into the many benefits that result from strong measurement practices. Second, there must be a conceptual shift in the focus on measurement within the sector, from *proving* impact to *improving* performance. Third, practical steps must be taken to improve nonprofit capacity (to articulate outcomes and measures), create better tools (to track data) and develop common standards (to interpret and compare performance).

This paper is intended to *inform* nonprofit practitioners about the benefits of better data, *analyze* the trends and obstacles of the performance measurement movement within the sector, and *offer concrete solutions* to overcoming these obstacles. It is intended for those who manage and govern nonprofit organizations, as well as those who fund their work.

CONTENTS

Nonprofit Business Intelligence	1
How to Measure and Improve Nonprofit Performance	1
<u>INTRODUCTION.....</u>	<u>1</u>
<u>THE NEED TO KNOW.....</u>	<u>3</u>
<u>DEMOCRATIZING EVALUATION.....</u>	<u>7</u>
Capacity, Tools and Standards	10
<u>THE CAPACITY TO MEASURE.....</u>	<u>11</u>
<u>THE TOOLS TO MEASURE.....</u>	<u>13</u>
<u>THE STANDARDS TO MEASURE.....</u>	<u>16</u>
“UCOA” for Performance: The Strategic Impact Framework	17
Common Indicators of Performance	19
<u>CASE STUDY: EASTER SEALS.....</u>	<u>22</u>
<u>SIDEBAR: LESSONS LEARNED FROM GPRA.....</u>	<u>24</u>
<u>SUMMARY: THE WILL TO IMPROVE.....</u>	<u>26</u>

INTRODUCTION

Over the last fifty years, the nonprofit sector has been stuck in two dimensions: inputs and outputs. Raising money and spending money. Dollars get allocated and programs get operated, but no one really knows what happens in between, or worse yet, at the end...before the cycle renews. Philanthropy is indeed a black box. What's missing is that third dimension... Analytics. Business Intelligence. Performance Benchmarks. Insights into what works and what doesn't. For years, industry observers from McKinsey to MacArthur have called for it. Practitioners have bemoaned it. Donors have dreamed of it. But still yet, no centralized performance data exists. Why?

Data is the oxygen required to breathe meaning into analytics. Yet practitioners and funders remain starved for decent data: fishing for remnants of information in a stale pond of post-hoc data (academic evaluations, narrative annual reports, stylized anecdotes, social science research, print articles, IRS forms and fundraising metrics). Undergirding this situation is a data collection regime that is driven more by compliance than utility (i.e. financial audits, program evaluations, IRS forms, rating services and foundation final reports). Even the most common information, financial data, is mostly inaccurate¹ and not available in a format conducive to immediate portability or analysis. The upshot: the data that is being collected and made available within the sector is of limited value and cannot be easily aggregated, synthesized or distributed. Joel Orosz, Professor of Philanthropic Studies, Grand Valley State University, sums it up well: "The knowledge we have is scattered, fugitive and ephemeral. There is no easy way to get access to it or use it." The lack of analysis in the sector is startling. Analysis regulates the flow of information between resources and decisions. This analysis about the true *substance* of mission execution (as opposed to the *process* of mission execution, i.e. fundraising or financial data) is called nonprofit business intelligence.

Some progress towards better data *is* being made. With increasing frequency, practitioners and management consultants are developing outcomes handbooks, logic models, evaluation guides and assessment tools to help nonprofits evaluate themselves.² The Balanced Scorecard Collaborative, for example, created the *Balanced Scorecard for Nonprofit Organizations*, which can be used by organizations to develop a strategic focus and assess performance. The Drucker Foundation's *Self-Assessment Tool* helps organizations identify their mission, customers, customer values, results and formulate a plan. United Way of America's *Program Logic Model* helps nonprofits articulate program outcomes and inform evaluation. The Local Initiatives Support Corporation (LISC) created *CapMap*, which helps community development corporations evaluate their own capacity in such areas as financial management, board governance and technology. The Innovation Network (Innonet) offers an *Evaluation Workstation* that helps nonprofits draft an evaluation plan. And Venture Philanthropy Partners engaged McKinsey & Co to develop the *Organizational Capacity Assessment Tool*, which enables

¹ According to McKinsey and the Urban Institute recent report by the Inspector General of the U.S. Department of Treasury indicated that as much as 51% of the information in the Business Master File may be inaccurate (missing fields and inaccurate data entry). For more information, see www.qual990.org.

² See, for example, *Measuring the Impact of the Nonprofit Sector*, Patrice Flynn and Virginia Hodginson, eds, Kluwer Academic Press, 2001; "Measuring Program Outcomes: A Practical Approach, United Way of America, 1996; and "Why Measure Performance?" by Robert D. Behn, Harvard University, Kennedy School of Government, January 22, 2002.

nonprofits to assess their organizational capacity within seven different areas.

As these efforts mature, the vital but nuanced difference between collecting data and actually using it to inform decisions is becoming more pronounced. The sector's traditional foray into the third dimension, program evaluation, has been a failure. With its monocular focus on proving causation, program evaluation seeks answers to questions that are not relevant to daily practicing. Can you prove that this program was the only factor in influencing a particular result? Maybe, maybe not. But can you tell us how to improve our results? Now that, people care about.

The distinction between evaluation and performance measurement is becoming more pronounced. Evaluation techniques are used to analyze cause and effect, and are typically designed to assess how well a particular program works (i.e. the extent to which program participants experience the benefits or changes intended³). Performance measurement, on the other hand, is the systematic monitoring and reporting of an organization's results, particularly progress towards pre-established goals. Performance measures can be used to monitor *processes* (i.e. the type or level of activities), *outputs* (i.e. the direct products and services delivered) or *outcomes* (i.e. the results of those products and services).⁴ Performance measurement can be applied to programmatic as well as non-programmatic objectives: for example, measuring financial, management or community processes, outputs or outcomes.

Yet as expanded and more practitioner-friendly evaluation concepts begin to permeate the nonprofit sector, significant barriers to performance measurement remain. These barriers are both conceptual and practical. Conceptually, evaluation and performance measurement are still being conflated in the minds of nonprofit boards and managers. In addition, there is a widely shared perception among practitioners that evaluation principally benefits funders and is too complex, expensive and time consuming to justify (particularly when the shared perception involves a well-founded belief that the reports remain largely unread). On a practical level, the field lacks a common approach to measurement, nonprofits have a limited capacity to measure and no tools with which to collect and analyze data (these challenge are referred to in this paper as the lack of "standards, capacity and tools").

This paper addresses the growing demand for and by nonprofit organizations to demonstrate effectiveness and improve their performance. But rather than calling for more evaluation, or even more data, this paper makes the argument that practitioners must harness performance data as business intelligence in order to systematically improve results. Nonprofit Business Intelligence, or *NBI*, requires that performance data be used to inform everyday nonprofit business decisions such as those involved in program design, fundraising, strategic planning, program evaluation, resource allocation and organizational learning. Presented in two parts, this paper first discusses the market context and key dynamics driving the need for *NBI*, and then offers a practical approach to overcoming the barriers to

³ "Outcome Measurement: What and Why?," The United Way of America, Outcome Measurement Resource Network, www.unitedway.org

⁴ Performance Measurement and Evaluation :Definitions and Relationships, April 1998, GAO/GGD-98-26

THE NEED TO KNOW

measurement.

But why do practitioners really need better information? Three key drivers are motivating nonprofit managers to measure and report the results of their work: market, mission and management.

The Market Imperative. The nonprofit sector appears to be drafting behind the velocity of the Federal Government's progress on performance measurement. The latest measurement regime began in 1993 with the Government Performance and Results Act (GPRA), which requires federal agencies to report program results. Upon signing GPRA, President Clinton stated that its purpose was to: "...chart a course for every endeavor that we take the people's money for, see how well we are progressing, tell the public how we are doing, stop the things that don't work, and never stop improving the things that we think are worth investing in."⁵ It's a commitment that many who fund the work of nonprofits are also expecting from nonprofit leaders today.

Since GPRA, a veritable alphabet soup of performance measurement requirements has been simmering—including ROMA, Prop 10, PART, MFR, NPR...⁶ State and local governments have extended GPRA—now 32 states have adopted "Managing for Results" legislation.⁷ Nonprofit recipients of federal (and many state and local) contracts are becoming increasingly familiar with GPRA and its progeny. An OMB Watch survey of nonprofits in August 2000 found that 81.7% of nonprofit respondents had been subjected to performance measurement requirements by federal, state or local agencies, or by foundations, other private funders, or their own management/board.⁸

Recognition of the need for performance data in nonprofit reporting dates back to 1973, when the Trueblood Committee reported on the objectives of financial statements. That report stated that an objective of financial statements for governmental and not-for-profit organizations is to provide information for evaluating the effectiveness of the management of resources in achieving the organization's goals.⁹ In 1980, the Financial Accounting Standards Board published *Concepts Statement No. 4, Objectives of Financial Reporting by Nonbusiness Organizations*. In it, FASB called for financial reports to provide information about the *performance* of an organization during a period.¹⁰

⁵ As cited in "Serving the American Public: Best Practices in Performance Measurement," The National Performance Review, June 1997

⁶ California's Children and Families First Act of 1998 (Proposition 10); The Community Action Network's Results Oriented Management and Accountability; Office and Management and Budget's Program Assessment Rating Tool; Managing For Results legislation; the National Performance Review.

⁷ "Paths to Performance in State and Local Government," Maxwell School of Citizenship and Public Affairs, Syracuse University/Government Performance Project, 2002.

⁸ "Measuring the Measurers: A Nonprofit Assessment of the Government Performance and Results Act", OMB Watch, August 21, 2000, Chapter 3.

⁹ Adapted from GASB Concepts Statement No. 2, *Service Efforts and Accomplishments Reporting*, Government Accounting Standards Board, April 1994.

¹⁰ *FASB Concepts Statement No. 4, Objectives of Financial Reporting by Nonbusiness Organizations*, December 1980, Financial Accounting Standards Board, paragraph 47.

While the nonprofit sector itself lacks any formal regulatory scheme requiring performance-based reporting, some foundations are beginning to set their own standards. One prominent example is the William and Flora Hewlett Foundation, which is now requiring logic models from all prospective grantees. Others, like Cisco Foundation, the Woods Fund of Chicago and community foundations in Cincinnati, New Haven, Baton Rouge, Omaha and Marin, have started requiring performance data as part of a grantee's final report. Individual donors too are getting in the performance game—donor-centric rating services like BBB Wise Giving Alliance and Charity Navigator have been popping up like tulips in this season of inquiry. More and more, the competitive market for funding is requiring nonprofits to provide information on *how well* money was spent—not just where it was spent.

Increasing competition for limited funds is also driving practitioners to more convincingly demonstrate their organization's results. Evidence shows that the sector is relatively Darwinian: approximately 60% of all nonprofits disappear within ten years of their founding.¹¹ In addition, there is tremendous overlap in the sector. Consider these facts: there are over 900,000 active charities in the U.S.¹² Yet according to the National Center on Charitable Statistics, there are only 1,000 different types of nonprofit programs.¹³ That means that for every type of nonprofit program, there are on average 900 different organizations trying to solve the same problems. Case in point: there are over 72 different homeless shelters in the Bay Area alone!¹⁴ Add to the mix more or less overlapping geographies and missions and intense competition for funding from similar sources, and it becomes clear that the role of fundraising has fundamentally changed—from contacting funders to *convincing* funders (that one's organization is the most effective at addressing or solving a particular problem).

The Mission Imperative. The passion and drive of most nonprofit leaders to *deliver on the promise* of their organization's mission has created an increasing need to know how well they are doing. Inherent in every nonprofit's mission is the desire to make positive social change. Particularly as managers and program staff struggle with how to quantify, track and manage their missions, even the most abstract goals can become measurable. Indeed, in the same way that businesses leverage efficiencies to make more of a profit; nonprofits strive to make more of a difference (the nonprofit equivalent of the *profit margin* is the *performance margin*). Increasingly, nonprofit managers are being inspired to improve their own *performance margins*—not even by funders, constituents or board, but by the singular desire to execute on mission. This type of drive is characteristic of many devoted nonprofit professionals, who are engaged in their work because they are passionate about a cause or mission and want to find the most effective means to achieve those goals.

Often, it is the desire to learn and improve that internally motivates an organization to measure performance. For example, Easter Seals, Inc., an organization dedicated to

¹¹ "The U.S. Nonprofit Capital Market, Jed Emerson, NCCS Core Files 1990-2000, McKinsey Analysis

¹² According to IRS data

¹³ According to the Urban Institute-NCCS Nonprofit Program Classification System (www.nccs.urban.org)

¹⁴ "Winter of Their Discontent?: How the Nonprofit Climate is Changing," December 02, 2003, the Urban Institute, citing Les Silverman of McKinsey & Company

providing services to special needs children, launched its “Landscape for Excellence” initiative in 2002 to bring quality standards to all Easter Seals affiliates. This initiative was not required by a funder or a board mandate; rather it grew out of the organization’s desire deliver “is based on the belief that quality is an essential element that permeates an entire organization...the leadership, the management and the systems.”¹⁵ Easter Seals and organizations like it are recognizing that in order to succeed in their mission, the quality of service must be measured and improved.

The Management Imperative. An increasing number of managers are matriculating into the sector from business schools, management consulting firms and corporations. This trend is exemplified by the new *Bridgestar* initiative launched by Bain’s Bridgespan Group to help recruit business school students into nonprofit management careers. Indeed, a growing number of MBA programs training students on nonprofit management and facilitating their entry into the sector (Harvard, Stanford, Northwestern, Duke, University of California-Berkeley and many others offer such programs). And nonprofit managers themselves are raising the bar: expecting better performance from their programs, internal accountability from their teams and process excellence all throughout the organization. In fact, a recent survey of organizations who are measuring their program results found that 61% of the organizations surveyed were prompted to measure by professional staff and leadership.¹⁶

Today’s nonprofit managers are recognizing the value of capturing data more efficiently and using this information to improve results. The results are: better productivity, increased cost savings, lower HR turnover, improved staff morale, more innovation and better satisfied constituents. For example, the Enterprise Foundation is using performance measurement software to centralize, manage and report more than 150 different benchmarks to funders. And Public Radio International is using performance management in its syndication business better understand the process by which program sponsorships are marketed and sold.

Clearly, then, performance measurement can help nonprofit managers respond to a wide range of management challenges. Robert Behn of Harvard’s Kennedy School of Government has documented eight managerial purposes for measuring performance in public organizations: evaluate, control, budget, motivate, promote, celebrate, learn and improve.¹⁷ These can be adapted for use by nonprofit managers as follows:

Purpose	Performance Measurement Can Help Nonprofit Managers Answer
Evaluate	How well is my organization performing?
Control	How can I ensure my staff is doing the right thing?
Budget	On what programs, people or projects should my organization spend money?
Motivate	How can I motivate staff, managers, collaborators and stakeholders to do the

¹⁵ Foreword to Easter Seals Landscape for Excellence, May 2003

¹⁶ *Agency Experiences with Outcome Measurement*, United Way of America, Item Number 0196, January 2000, pg. 4

¹⁷ Adapted from *Why Measure Performance: Different Purposes Require Different Measures*, Robert D. Behn, January 22, 2002, prepared for the 22nd Annual Research Conference of the Association of Public Policy Analysis and Management, Seattle, November 2-4, 2000

	things necessary to improve performance?
Promote	How can I convince superiors, board members, constituents and stakeholders that my organization is doing a good job?
Celebrate	What accomplishments are worthy of the important organizational ritual of celebrating success?
Learn	What is working or not working?
Improve	What exactly should who do differently to improve performance?

Funder Demands. Several trends in the foundation marketplace help explain the motivation of nonprofits toward embracing performance measurement:

Funders are awarding record dollars to nonprofits. In 2002, \$30 billion was invested in the nonprofit sector by the nation's 62,000 grantmaking foundations.¹⁸ What is noteworthy, however is the fact that more money than ever is being invested in hard-to-measure general operating grants. Such grants now account for 19.7 percent of the total number of grants awarded, the largest share on record. In fact, the number of general support grant dollars has increased by a whopping 27.1 percent between 2000 and 2001.¹⁹ Many nonprofits see this as an encouraging trend, as more funders have recognized that the capacity to deliver vital programs and services is as important as the programs and services themselves. As a result, nonprofits are using organization-wide performance indicators to get funders comfortable with the concept of funding general operations.

Funders are seeking ways to better evaluate grant performance. Among the largest foundations in America, which have the greatest resources to evaluate grants, 40% of foundation leaders surveyed estimate that less than one-quarter of all their foundations' grants are evaluated.²⁰ The statistics bear this out: in 2001, large foundations spent about \$176 million on program evaluations, accounting for 1% of their total grant spending, and one-half of 1% of all grants.²¹ Board engagement is also a factor: only 20% of foundation CEOs report that their boards are "substantially involved" in assessing the foundation's social impact (compared to 76% of CEOs reporting that their boards are "substantially involved" in assessing the endowment investment performance of the foundation).²² Professional evaluators and foundation program staff have recognized the potential of participatory performance measurement (engaging grantees upfront in a negotiation to define the success of the grant) as a substitute for program evaluation. And foundation executives are recognizing the value of performance measurement systems and NBI reporting as a way to better engage boards in the substance of the foundation's work.

Funders are unable to learn from their grantmaking. According to one Harvard study: "it is

¹⁸ Renz and Lawrence, *Foundation Growth and Giving Estimates*, The Foundation Center, 2003

¹⁹ *Ibid.*

²⁰ The Center for Effective Philanthropy, *Indicators of Effectiveness: Understanding and Improving Foundation Performance*, 2002

²¹ The Foundation Center, *FC Stats 2001*

²² The Center for Effective Philanthropy, *Indicators of Effectiveness*, pg.6

DEMOCRATIZING EVALUATION

difficult to find an example of a foundation that keeps internal records tracking the success and failures of its grantmaking. Although organized boards may monitor the effectiveness of foundation giving, there is no uniform set of standards applied to activities, either within a foundation or across foundations, to determine success.”²³ Moreover, even if some are learning from their work, most funders do not share what they know: only 16% of foundations surveyed produced any reports on their work, and only 7.5% of foundations surveyed produced an annual report. ²⁴ Systematically tracking grantee performance results through NBI can enable funders to study comparative theories of change, learn from grant to grant and intervene real-time during the course of a grant before failures occur.

Funders are themselves being held increasingly accountable. As stewards of public (tax-exempt) funds, foundations, government and United Ways are drawing public scrutiny from a rolling wave of high profile public scandals, legislative activity and press coverage. Some funders such as community foundations and United Ways *have* to be accountable in order to attract and retain funding from donors, who are used to clear financial reporting and results from their for-profit investments. According to Carla Dearing, President & CEO of the Community Foundations of America: “In order to track and articulate their effectiveness, community foundations have to go to a more granular level, breaking data about grantee performance into manageable chunks that can be tracked and analyzed. Only by doing so will they be able to tell stories of community impact, and have the data needed to back up those claims.” ²⁵

In all, the lack of practical knowledge about performance is a real challenge for nonprofits, their boards and their funders. As the demand for better information grows more pressing every day, the question becomes: what can be done to overcome the practical barriers to measurement, *and how fast?*

The fact is, most nonprofit practitioners are managing programs that are creative responses to complex societal problems and dealing with society's most neglected citizens. The programs they implement in most cases are still in the developmental stage and not yet ready to be evaluated by the ‘so what’ lens of conventional evaluation methodologies. More useful would be an approach that helps them specify and learn about the effectiveness of the strategies underlying their programs and how it is working and why. This kind of information is more targeted to program improvement and learning for the next round of efforts. ²⁶

--Ricardo Millett, former Director of Evaluation, W.K. Kellogg Foundation

In 2001, the headline of the American Evaluation Association’s conference was *Mainstreaming Evaluation*. According to the conference planners, “mainstreaming” referred to the process of evaluation being an integral part of the everyday operations of an organization. “Instead of being put aside in the margins of an organization, evaluation is a

²³ Grossman, *Philanthropic Social Capital Markets*

²⁴ The Foundation Center, *Foundation Reporting 2002*

²⁵ *Agile Philanthropy: Understanding Foundation Effectiveness*, by Joel J. Orosz, Cynthia C. Phillips and Lisa Wyatt Knowlton, Grand Valley State University February 2003

²⁶ Author’s interview with Ricardo Millett, President, Woods Fund of Chicago, June 12, 2003

routine part of the work process if it has been mainstreamed. The role of evaluation in organizations, including community agencies, government agencies, schools, and businesses has been marginalized in most cases. How can we move evaluation from the margins to the mainstream?"²⁷ The question was insightful then, and has become even more relevant since.

The answer, however, is not more evaluation, or even better evaluation tools. The fact is, in order to obtain better data to *inform* practicing, the sector (nonprofits and funders) must give up its monocular focus on evaluation, and shift the emphasis of data collection from *proving* impact to improving performance. Performance measurement is not focused on trying to *prove* to a statistical certainty that a measure indicates a particular process outcome. Rather, performance measures are proxies—best guesses—for indicating the success of a particular process (i.e. a program, method or policy) in achieving a desired result. Measures can also indicate the productivity, efficiency, workload, timing and quality of core business processes such as fundraising, programs, management and community engagement.

In order to make performance measurement possible for nonprofits, practitioners must liberate it from the burkha of program evaluation. The fact is: the sector (nonprofits and funders) has an all or nothing approach to evaluating its work. Either no data is collected at all (recall that evaluation represents less than 1% of all major foundation grants), or an outside program evaluator is hired to conduct a formal analysis. Formal program evaluation usually involves a randomized impact study with a control group, with the purpose of demonstrating that a particular change in social conditions or behavior was statistically attributable to the organization's activities. The prevailing opinion in the sector seems to be "if you can't prove it, don't measure it."

Indeed, proving actual causation may be overrated. First, it may not even be technically possible.²⁸ For example, in the mid-1990s the State of California conducted a series of randomized impact, multi-year demonstration studies in welfare-to-work. A control group (of recipients that didn't participate in the welfare program) was studied in comparison to a group that did participate. The study demonstrated, to a statistical certainty, that over a period of years, participants in the new program had greater success in obtaining sustainable employment than those who did not participate. In other words, the study proved that under a particular set of conditions, for a particular population of people, at a particular time, a particular program showed results. Can these results be replicated under a different set of conditions, for a different population of people, at a different time? The answer is anyone's guess. The fact is, the majority of program evaluations offer great insight, but little *predictive* value (except maybe how many more filing cabinets will be required to store them).

And even if it were possible to prove causation, that may not really be what funders want. Most funders invest in proven theories of change, not experimental ones. What they're really

²⁷ "Defining Concepts for the Presidential Strand on Mainstreaming Evaluation," by Dr. Jack Barnette, College of Public Health, University of Iowa, <http://www.eval.org/eval2001/Theme.htm>

²⁸ See technical issues in impact measurement in "Philanthropy and Outcomes: Dilemmas in the Quest for Accountability," by Gary Walker and Jean Baldwin Grossman, April 1999, Public/Private Ventures.

looking for is not to re-prove what works, but to see whether the intervention succeeded in executing its strategy. Funders have focused more on evaluation as a way to substantiate the credit they take for their investment successes. This tendency of funders to self-justify explains why the majority of funding is skewed towards programs (they are discrete and measurable) and away from general operating support (more difficult to measure). On the other hand, in a for-profit context, no investor would put \$100,000 into Microsoft and actually expect to determine which *font* on Microsoft Word® was created with their investment! All that a reasonable investor would expect is to be able to determine whether the investment was a good one—whether the company was a high performing firm and achieved its goals for the year (one of which is increasing shareholder value). The same logic applies to investments in nonprofit work—a good investment is an investment in a high performing organization that executes against its goals.

So what does all this mean to the nonprofit professional? First, nonprofits must take control of their own fate by learning how to measure their success. The ability to articulate, track and report performance is essential to fundraising in this new environment. There is no more compelling fundraising tool than being able to *convince* funders that an organization is the most effective at solving a particular problem. It is also critical to more efficiently manage funder expectations. One frequent complaint of nonprofit development officers is that there are too many different funders asking them to measure too many different things. In most cases, measurement requirements are created in a vacuum—often, if the nonprofit organization cannot clearly demonstrate how it measures success, the funder will make up its own measures for the organization. Most nonprofits know their work better than any other organization or individual ever will. But nonprofit leaders too often defer to funders on measurement because they haven't done the homework themselves. This has resulted in a somewhat inefficient arrangement whereby investors artificially create performance metrics with imperfect information rather than depending on the people who must actually deliver the results to define how they measure success. Putting performance measurement capabilities into the hands of nonprofits offers them the ability to articulate and track their own goals and then work collaboratively with funders to produce information that is mutually valuable.

Second, practitioners should use performance measurement to improve the impact of their work. Evaluating for the sake of being evaluated is about compliance. Filing the classic three-to-thirty page final report. It offers little practical value for informing practice or improving impact. However, evaluation for the sake of *improvement* is about better business intelligence. Managing for results. Tracking better data to calibrate, measure and improve key nonprofit processes. Performance management can ultimately increase organizational effectiveness and improve service outcomes. Says Marty Campbell, Director of Evaluation for the James Irvine Foundation: “We want to see that they [grantees] are acting on the evaluation information, that they are internalizing it, and that they're using it to inform program strategy or implementation.”²⁹ Funders, in turn, can make much better use of performance data to better inform their funding strategies and to disseminate significant new learning to the field.

²⁹ Grand Valley State report on Foundation Effectiveness.

Capacity, Tools and Standards

Overcoming the conceptual and cultural barriers to performance measurement is clearly the first step. The next step is overcoming the practical barriers to performance measurement. Currently, nonprofits face three main challenges:

1. no capacity to articulate and measure performance
2. no tools to track and report performance data
3. no standards to inform and interpret measurement

Over the past five years, practitioners have been grappling with these factors at a higher level. Strategic issues such as accountability, effectiveness, transparency and analytics have been the focal point. In fact, these issues are actually perpetuated by the lack of performance data. Better data informs, and indeed, makes possible the resolution of these issues.

- **Accountability:** means better reporting. With information about how funds were spent, not just where they were spent, nonprofit leaders can offer more reliable, more relevant and more timely information on actual results.
- **Effectiveness:** means better results. So the data supports not just how funds were spent, but *how well* they were spent. With better data, organizations can demonstrate how they did or didn't deliver on the promise of a grant (or mission), and what they have learned that can inform future strategy or effectiveness. This learning cycle for nonprofits and funders will both empower organizations, the nonprofit community more effective at competing for investment dollars, and the funding community more effective at strategic investment for results..
- **Transparency:** means better communication. The key to better communication is in the ability to provide executives, board members, funders and managers with on-demand access to why, how and how well funds were spent. Generating meaningful performance data about the organization and its programs is a vital element of NBI.
- **Analytics:** means better decision making. In order for nonprofit managers and funders to more efficiently allocate resources and deliver results, decisions need to be informed by key performance indicators on a real-time basis. This knowledge dramatically enhances the agility of decision makers to steer precious resources to the areas of maximum impact.

Developing capacity, tools and standards will enable nonprofits to implement performance measurement and enjoy the benefits of better intelligence. The results stand to benefit the entire sector. Imagine a more *transparent* Guidestar with performance data to offer donors a

THE CAPACITY TO MEASURE

more complete and accurate, 360 degree view of an organization. Imagine a more *effective* Grantmakers for Effective Organizations with funders able to share knowledge about what works based on actual results. Imagine a more *accountable* National Committee on Responsive Philanthropy that can actually track how grant dollars were spent and with what results. And imagine more *analytical* software products that offer nonprofit managers real-time, performance-based feedback on their work that informs and helps improve all that they do.

All this is possible, but the road to get there requires time, hard-work and reasonable short-term expectations. Overcoming the hurdles of capacity, tools and standards will also require the resources of funders, the commitment of practitioners and the attention of thought leaders. And funders in particular will have to make those investments with the sober realization that it may take several years for meaningful data and information to become available, but that the upfront investment in building this capacity may yield one of the highest social returns on investment the sector has ever seen.

[As a sector] we are really heavily underinvested in the infrastructure of collecting information—at the organizational level and then at the more systems level in terms of beginning to understand what kind of performance is reasonable and possible. What does high performance look like and where are the opportunities to improve performance?

--Mike Allison, Director, Consulting and Research, Compasspoint Nonprofit Services

Most nonprofit practitioners lack the skills or capacity to articulate and measure their own performance. In particular, many nonprofit managers and program directors are not well-trained on logic models, spread too thin to even think about tracking what they are doing, and have no money to hire consultants or purchase tools. Indeed, only 2.2% of foundation grants were designated to improve the grantees' performance.³⁰ It makes one wonder what the other 97.8% was trying to accomplish... At the same time, the incapacity to carefully measure is also shared by most funders, many of whom lack the very same skills, tools and incentives.

So what practical steps can be taken to build nonprofit and funder capacity to measure?

Step 1: Build the Buzz about Performance

Performance measurement should be introduced for what it is: a tool to help organizations manage better and improve results. Many practitioners in the sector fear performance

³⁰ Mark Kramer and Michael Porter, "Philanthropy's New Agenda: Creating Value," Harvard Business Review, November-December 1999, pg. 128.

measurement because it is difficult, but frankly, many more fear it because it is potentially harmful. A common concern voiced by nonprofits is that funders will penalize them if they perform poorly, or make unfair comparisons between organizations. This concern was mirrored in the strong backlash from practitioners against the implications of McKinsey's article in May 2003 Harvard Business Review on "The Nonprofit Sector's \$100Bn Opportunity". The fact is, that while someday greater scrutiny may be appropriate, in the near-term, organizations endeavoring to measure must be supported, celebrated and encouraged.

At the same time, thought leaders must continue to highlight the importance of this issue. Rather than the usual jargon of effectiveness, accountability and transparency, researchers and commentators should discuss more meaningful and practically useful concepts, such as benchmarking, performance measurement, outcomes analysis and continuous improvement. Trade magazines, conference circuits, training guides, chat rooms and listservs all provide ready forums for such conversation. What's needed is consistent, affirmative leadership that will put the sector on notice that the focus on performance is not a fad but a critical next step in the evolution of the sector's work. The high-profile accountability initiative launched by the Community Foundations of America last year is a testament to how visibility can precipitate action. Already, 8 of the top 25 community foundations have adopted CFA's accountability agenda.³¹

Step 2: Create the Infrastructure to Measure

One of the biggest challenges is the limited skill of practitioners to *articulate* measures for their work. A variety of approaches can be used to help strengthen this capacity. The emphasis on logic models and other assessment tools by many funders, management support organizations and academic outlets has been one particularly valuable means of empowering nonprofits to measure. Nonetheless, redressing this issue requires a significant, enduring investment in training, support, education and human resources. The investment must come in several forms: financial support, intellectual capital and patience.

Some noteworthy efforts to increase organizational capacity to measure are already underway. Funding organizations like the United Way and Community Foundations of America provide free training to grantees on outcomes-based performance measurement. And according to the Alliance for Nonprofit Management, 107 management support organizations ("MSOs") around the U.S. offer training and workshops on evaluation or performance measurement. One such MSO is Seedco, a New York-based financial and technical assistance provider that offers "Performance Measurement and Management" workshops to community-based organizations. National organizations like LISC and YMCA have also invested significant resources to train affiliated organizations on measuring the results of their work. Universities too are getting in the game, with such titans as Harvard Business School and Kellogg School of Management offering executive education courses specifically on nonprofit performance measurement.

³¹ Community Foundations of America

THE TOOLS TO MEASURE

The sector also needs more investment in “how to” learning. Books, articles, training manuals and other learning tools need to be developed to support the growing number of consultants, trainers and instructors teaching nonprofit performance. Here too, progress is underway. The Urban Institute’s series on *Outcome Management for Nonprofits* is a great example of easy to use, practitioner-oriented tools. So is the Amherst H. Wilder Foundation’s *Practical Nonprofit Guides* series.

Step 3: Just Start Measuring Something

Organizations should start tracking their own results internally, independent of a funder mandate. Developing their own set of reasons to measure is important too, be it benchmarking, internal accountability, growth, process excellence, cost savings, or just a genuine desire to do better. Managers at the Enterprise Foundation (a nonprofit), Living Cities/NCDI, Easter Seals and Public Radio International have all initiated benchmarking or performance measurement internally.

Garbage in doesn’t necessarily equal garbage out. On some level, practitioners need to overcome the cold splash of imperfect data and just jump in. Even if the data is not 100% accurate, it can still be valuable (recall that the IRS does not require Form 990s to be audited either). Efforts at the Community Foundations of America and United Way have demonstrated that just the *process* of collecting performance data actually improves practice. Business practice supports this conclusion.³² In one United Way survey, respondents agreed that *implementing* measurement was helpful, particularly in the areas of communicating program results (88%), focusing staff effort on common goals and purposes (88%), clarifying the purpose of the program (86%), identifying effective practices (84%), and successfully competing for resources/funding (83%). In addition, there was agreement on its helpfulness in enhancing record-keeping systems (80%), and improving the service delivery of the program (76%).³³

Few tools exist to measure, track and report performance in the nonprofit sector. On some level, this can be blamed not only on low demand (as a result of limited capacity and standards), but also, on the fact that commercial software providers have not kept up with the market. For the

³² “A long time ago, the organization theorist Mason Haire said ‘What gets measured gets done.’ He argued the simple act of putting a measure on something is tantamount to getting it done. It focuses management attention on that area.”—excerpted from *In Search of Excellence*, by Thomas J. Peters and Robert H. Waterman, Jr., Warner Books, 1982, pg. 268

³³ “Agency Experiences with Outcome Measurement,” United Way of America, 2000

last 30 years, commercial providers to the nonprofit sector have been relatively inert: locked in a two-step dance between and accounting software products. Most of the software that has been developed is one dimensional—storing static information in rigid silos that cannot be integrated. In addition, the near-monopoly status of several large providers to the market has slowed down innovation, crowded-out competition and kept costs astronomically high. As a result, practitioners seeking to use technology to track other mission-critical functions, such program results, performance measures and benchmarks have had to choose between generic business database, custom-designed solutions or pricey, boutique software firms.

But as business imperatives and funder-driven priorities have evolved, demand is rising within the sector for more analytical databases that can track unstructured, non-financial data. These systems can offer powerful advantages to both practitioners and funders:

Nonprofits	Funders
Track outcomes and key indicators	Track grantee effectiveness
Consolidate reporting to funders	Store longitudinal data on grant performance
Report on performance trends and impact	Report on impact and foundation initiatives
Learn and improve across the organization	Learn and improve across grants
Benchmark internal performance	Benchmark and compare grantee performance

As the market demand grows, practitioners (as potential customers) should engage with software developers to influence the functionality, usability and affordability of these tools. There is precedent for such engagement: the Community Foundations of America has been working with MicroEdge to develop improvements to its grants management software and nonprofit CPAs and trainers worked with Intuit to integrate the Unified Chart of Accounts into QuickBooks®.

Step 1: Push Beyond Outcome-Only Tools

Most of the performance measurement tools offered to nonprofits today are outcome tracking tools. Rooted in the program evaluation world, these tools offer practitioners and evaluators a database for setting up logic models and tracking program outcomes. Outcomes software was primarily developed for human service agencies to track the progress of their clients. As a result, many of these systems also offer integrated case management functionality to track client data. Some of these systems can be repurposed for performance measurement and reporting, although many are too human-services focused to be broadly applicable.

New tools should be based on dynamic frameworks like the Balanced Scorecard or the Strategic Impact Framework (discussed in the following section) that help practitioners monitor the performance of their work. Performance tracking software can be deployed for use by nonprofits and foundations. Nonprofits can use these tools to track and report on grant results, internally manage results at the departmental or affiliate-level, learn across the organization and benchmark progress over time. Foundations can use these tools to track the “back-end” of the grantmaking

cycle, which is often neglected by program officers focused on getting grants out the door. Foundations, which are themselves nonprofit organizations, can also use these tools to track their own internal performance in such areas as internal management, community engagement, financial management and strategic initiatives.

The next generation of measurement systems must go beyond tracking program outcomes and deliver true nonprofit business intelligence. These systems should can handle a panoply of indicators, and offer users the ability to track results for projects, initiatives, financial activities as well as programs. Traditional business intelligence (“BI”) applications “enable real-time, interactive access, analysis and manipulation of mission-critical corporate information.”³⁴ These applications allow executives, managers, analysts and other knowledge workers to access and leverage vast amounts of information to analyze relationships and understand trends that, ultimately, support business decisions.³⁵ *NBI* should offer similar capabilities, combining an understanding of nonprofit business processes and measurement methodology with traditional BI functions such as decision support, multi-tiered data, dashboards and powerful analytics.

Step 2: Develop Robust Applications Not Just Technology

Next generation tools must be more than just customized databases. Many organizations have developed home-grown systems, built on Microsoft Access® or SQL databases. Others have hired expensive database architects or software development shops to create customized systems. Neither of these solutions are the right long-term approach for bringing these tools into the sector. What organizations need are *productized* applications—modular platform-based systems that have been pre-designed for use in the sector. These vertical (i.e. designed for a particular industry) applications offer the most economical and sustainable solution for specialized software of this nature. Economical because many organizations can use the same application, which keeps costs low. And sustainable, because a platform is continually being developed and improved by, benefiting all users.

The following graph indicates the general trend comparing cost and complexity of nonprofit database projects. The curve denotes the relationship of cost to overall sophistication, with the shaded areas marking the general boundaries for the different options. Note that costs escalate at a much higher rate than sophistication. Vertical applications developed by commercial providers to the nonprofit market offer the optimal result.

³⁴ Cherry Tree & Co., *Business Intelligence—The Missing Link*, July 2000

³⁵ Cherry Tree & Co., *Business Intelligence—The Missing Link*, July 2000

THE STANDARDS TO MEASURE

As the market for performance measurement applications matures, larger vertical software companies in the nonprofit space will look to get in the game. This will stimulate innovation, improve the quality of offerings and normalize prices. In addition, it will have a powerful “validating” effect—telegraphing to the broader market that performance measurement has a place next to accounting and fundraising as a mission-critical business tool.

Step 3: Ensure Tools are Workflow-Positive

But well-designed, affordable technology will only go so far if it’s not hard-wired into the workflow of an organization. Performance measurement and *NBI* applications need to be integrated into the business processes of organizations to save time, provide decision support and streamline reporting. In the nonprofit context, it means integrating accounting, fundraising, project management and reporting through *NBI* applications, so that funding requirements and other benchmarks can be tracked, budgeted, analyzed and reported on a real-time basis. *NBI* makes possible performance-based budgeting, benchmarking, employee performance reviews, accountability, competitive positioning, sharing best practices, outcomes analysis and other process-driven improvements. For funders, *NBI* means linking grant proposals, grants management, evaluation and final reports together to build results-based decision making into the grantmaking process.

Because *NBI* and performance measurement are going to introduce new business processes to many adopting organizations, these tools must be perceived not just as another reporting burden—but rather as time-saving and productivity-enhancing management systems that increase the quality of information to key decision makers.

There have been many efforts to set performance standards, or at least standardize approaches to measuring nonprofit performance. These include watchdog groups (e.g. BBB-Wise Giving Alliance, Charity Navigator and Philanthropix), funders, (e.g. United Way and Community Foundations of America), national umbrella groups (e.g. YMCA, Easter Seals and Big Brothers Big Sisters of America, and various research centers and consulting firms (e.g. Bridgspan, McKinsey and the Center for Effective Philanthropy).

These efforts range from constructive to destructive to plain futile. The most constructive efforts have been the ones that engage practitioners in setting realistic measures and benchmarks for performance. The most destructive efforts are those that seek to randomly assign measures of performance to areas of nonprofit work that are easy to measure but devoid of any analytical value. For example, it is inconceivable that a funder will be able to make better investment decisions by judging the amount an organization spends on fundraising as a percentage of its budget.³⁶ Such efforts are largely focused on advising donors, and to that extent, only work as negative screens—identifying potential bad apples. Other efforts have created elaborate analytical frameworks that no one uses in practice. Efforts to standardize performance data should also be distinguished from analytics, which are methodologies or constructs retrofitted around data to draw conclusions based on value judgments. These include: the Balanced Scorecard-Nonprofit Edition, Social Return on Investment, United Way Logic Model and various nonprofit rating systems.

But the bottom line is this: there is no proper standard-setting body. The only way to arrive at a commonly accepted set of performance standards is for practitioners to develop and “commonly use” them. To do so, practitioners must be empowered with the capacity, tools and *framework* to measure. These capabilities enable the data to start flowing in a planful, structured way so that it can be studied, aggregated and analyzed.

“UCOA” for Performance: The Strategic Impact Framework

This will not have been the first time a common framework for measurement has been successfully developed for the sector. In 2001, researchers Russy D. Sumariwalla and Wilson C. Levis published a book entitled Unified Financial Reporting System for Not-for-Profit Organizations. In it, they promulgated a common nonprofit chart of accounts (tied to the IRS Form 990) that is now being used by thousands of tax-exempt organizations nationally to track and report their finances. To a certain extent, UCOA has been successful in smoothing out the minor wrinkles of difference in nonprofit financial reporting. As one advocate points out: “When we make our information more commonly understood it will have more meaning and we will be better able to act on it.”³⁷

A similar approach can be taken to articulating a common measurement framework or “chart of measures.” While accounting practice is fairly evolved, measurement is still in its infancy. What that means is that the common framework will begin in a more skeletal fashion and flesh itself out as measurement practice evolves. But at this point, we certainly know enough to put a basic standards framework in place.

A measurement framework must comprehend four key components of nonprofit performance:

³⁶ In fact, an organization might have spent a lot on fundraising in a particular year due to an endowment campaign, which could make it even *more* attractive to funders by decreasing reliance on grant dollars.

³⁷ “Initiative for a Unified Chart of Accounts: An Attempt to Define our own Terms,” the *Nonprofit Quarterly*, 2000, Volume 8, Issue 1, citing Flo Green of the California Association of Nonprofits.

management effectiveness, financial sustainability, program performance and community engagement (referred to as the “Strategic Impact Framework”). Most researchers and practitioners still think of performance strictly in programmatic terms. For example, the United Way of America’s popular logic model is based only around program outcomes. So are most of the publications on outcomes and measurement put out by the Urban Institute, GEO, Independent Sector and federal agencies like GAO and OMB. But, in point of fact, performance (and impact) is much broader than just program performance. Take the example of Pipevine, a nonprofit organization that handled transactions for online donations. The organization’s program performance (i.e. its donation processing technology services) worked fine. However, Pipevine’s deficient accounting and fiscal management put the organization and its customers at risk, ultimately forcing it to shut its doors. This led some to refer to Pipevine as the “Enron of nonprofits.”³⁸

The Strategic Impact Framework can be used to define measures and report results within the four principle performance areas of an organization. It can also provide a more robust, 360 degree view of an organization, measuring its effectiveness (ability to meet goals and fulfill mission).



**The Strategic Impact Framework™:
A comprehensive approach to performance**

Organizational Capacity	<u>Financial</u> Sustainability	<u>Community</u> Engagement	Program Performance
--------------------------------	--	------------------------------------	----------------------------

³⁸ “Nonprofit admits spending charities’ money: Donation processor’s accounting problems at least 2 years old,” Todd Wallack, The Chronicle of Philanthropy, June 5, 2003.

<ul style="list-style-type: none"> • Management capacity (depth, breadth, sustainability, history) • Strategic planning • Resource allocations • Organization infrastructure, processes, and tools (technology, HR, admin) 	<ul style="list-style-type: none"> • Historical, current and future financial position • Allocation of financial resources • Financial management processes and tools • Diversity of revenue streams 	<ul style="list-style-type: none"> • Board composition • Volunteer resources • Strategic partnerships • Visibility/ Accessibility • Donor involvement 	<ul style="list-style-type: none"> • Programs • Demographic and geographic service profile • Program resource allocations • Program operation processes and tools • Client impact
--	--	--	--

And because performance indicators must correspond to key business processes, a common framework must broadly encompass all operations of a typical nonprofit organization. Standard organizational functions or departments generally fit into these categories:

The Strategic Impact Framework™: Alignment with Organizational Structures

Management Effectiveness	Financial Sustainability	Community Engagement	Program Performance
<ul style="list-style-type: none"> • Administration • Management • HR • Technology • Marketing/PR 	<ul style="list-style-type: none"> • Finance/ Accounting • Fundraising • Resource development 	<ul style="list-style-type: none"> • Board development • Volunteer management • Community outreach 	<ul style="list-style-type: none"> • Program Services

Common Indicators of Performance

In addition to a proper framework for measurement, standards require common performance indicators. Standards are best accomplished empirically, by identifying standard

outcomes and measures to help improve the capacity of nonprofit managers to collect, analyze and utilize data to inform practice. This can be done in several key steps:

Step 1: Conduct a Scan

There are literally thousands of outcome indicators used across hundreds of different types of social interventions. Many of these data points have bubbled up through practice, yet still indicators continue to be developed ad hoc because there are no monitoring or centralized data collection efforts. Relevant outcomes and measures data can be compiled from sources such as national accreditation and umbrella organizations, management support organizations, community foundations and various government sources, as well as information on indicators from subsector-specific sources.

Several efforts are already tracking performance data in practice. These include: the Community Foundations of America/Impact Manager, Roberts Enterprise Development Fund/OASIS, McKinsey's Nonprofit Practice, Bridgespan, the National Center on Charitable Statistics, and the Balanced Scorecard Collaborative. Ongoing analysis of IRS Form 990 financial information reported by charities can also inform the identification of outcomes and indicators in the non-programmatic areas.

Step 2: Tease Out Common Indicators

Standard performance indicators can be articulated to provide guidance and a commonly accepted performance vocabulary for practitioners. Common indicators for financial sustainability, management effectiveness and community engagement are fairly straightforward. For example, a quick scan of commonly used financial indicators suggests measuring the diversification of revenue sources, % of earned income, donor renewals, revenue growth, positive operating income, etc. Common indicators used to gauge management effectiveness include: board meeting attendance, HR turnover rates, % of board members as donors, employee satisfaction rates, technology competency ratings, etc.

The real challenge has been in trying to standardize program metrics. The argument is that every program is different, so how can it be possible to use any common measures? While it is indeed true that each program engages in a different set of activities (i.e. every organization has a distinct theory of change), the answer to the puzzle lies in looking at the sector through a different lens. Rather than looking at the sector vertically, i.e. by program type, we must look at the sector horizontally, across programs, to identify and highlight common outcomes.

Irrespective of program type or theory of intervention, many organizations are striving for similar outcomes. Attaching measures to these common "meta-outcomes", rather than common programs, opens up the possibility of cross-comparison and learning. These meta-outcomes typically include changes in knowledge, attitudes, behavior, and status or

condition, and assessment of various quality of service characteristics. For example, at first glance, a job training program and an arts education program are totally different programs suggesting totally different outcomes and measures. Upon closer examination, however, it can be determined that both programs share a common outcome: “improving a skill” (one in the arts, the other in basic job readiness). And there are commonly accepted performance measures to track skill development (i.e. pre/post test scores, cost per person trained, graduation rates, matriculation rates, etc.)

[Sidebar: The Woods Fund]

Recently the Woods Fund of Chicago, a family foundation led by Ricardo Millett, conducted in a learning experiment with a cohort of grantees engaged in different programmatic activities (e.g. advocacy, education and housing). Each organization was asked to complete a logic model. Not surprisingly, each organization’s activities and goals were articulated differently. Then, the groups were invited to a “Peer Learning” session that focused on sharing common, “horizontal” outcomes rather than “vertical” program activities. What Woods found was incredibly revealing—all organizations found that they were pursuing the same set of common outcomes:

- Increased visibility/awareness re: issue X
- Effecting policy change re: issue X
- Engaging constituents & beneficiaries and participation re: issue X
- Increased resources for issue X
- Educated constituents re: issue X
- Improved condition/ quality of life in community X
- Influencing stakeholders (of X process)

The cohort went on to discuss common measures and best practices for their shared outcomes.

[End Sidebar]

Step 3: Develop a Taxonomy

CASE STUDY: EASTER SEALS

Taxonomies have been developed to organize information about many aspects of the sector: common organization types (National Taxonomy of Exempt Entities), common accounting practices (Generally Accepted Accounting Principles), common expense categories (Unified Chart of Accounts) and common program types (Nonprofit Program Classifications). A taxonomy of common outcomes (and related performance measures) can be developed to track and organize “meta-level” measures for program, management, financial and community outcomes. This taxonomy should be cross-tabulated with nonprofit program classifications and entity types. Clearly, this will need to be designed as an elastic construct—one that can stretch to accommodate new types of activities, operations and programs.

Step 4: Ground-Truth It

Validation, refinement and expert review is critical to the success of any common performance measurement system. Pilot tests can be conducted to verify the appropriateness and relevance of the various indicators, working with practitioners, funders and trade associations. The pilot project will need to include a geographically representative sample of participants that agree to use the prototype taxonomy to help articulate outcome indicators. Pilot participants will need to assess the relevance of the sample indicators and funders and nonprofits would be asked to report on the usefulness of the data collected. Additionally, feedback can be gathered through focus group meetings and individual interviews with service organizations and funders, where appropriate.

Step 5: Refine and Populate

Any taxonomy will need to be refined and updated based on practice and real-world usability. As measurement becomes more accepted by practitioners, more data will percolate up. At the same time, performance tracking tools can be populated with the taxonomy to help normalize measurement (similar to how accounting systems such as QuickBooks® are now shipping with the UCOA built-in to the software). This will encourage widespread use along a common format, and ultimately pave the way for sector-level benchmarking.

Easter Seals, Inc., a national nonprofit organization whose 91 affiliates provide services to children and adults with disabilities and their families, is a great illustration of nonprofit business intelligence in action. Spurred by an unflagging dedication to quality and strong leadership, in 1999, Easter Seals made an organization-wide commitment to quality. Below is an excerpt from the Easter Seals Quality Charter:

NATIONAL HEADQUARTERS QUALITY TEAM CHARTER

What is the purpose of this project? What is the desired result?

The purpose of the National Headquarters Quality Team is to develop recommendations to the Easter Seals national headquarters executive department for a Comprehensive Quality Improvement Plan (Quality Plan), that when implemented will (1) help improve organizational performance practices, capabilities and results, (2) facilitate communication and sharing of best practices information among departments, and (3) serve as a working tool for understanding and managing performance and for guiding planning and opportunities for learning. The desired result is to deliver an ever-improving value to Easter Seals affiliates by improving the overall effectiveness and capability of the national office.

How does this project fit with Easter Seals' mission, vision, and key goals?

- Quality is a key component of Easter Seals mission, vision, and key goals. The National Headquarters Quality Team provides a representative group of headquarters department staff to ensure that the quality journey continues to be measured, reported, recognized, highlighted, and rewarded appropriately.
- Easter Seals Vision for 2005 states that Easter Seals will be recognized throughout the world for the quality of its services by all people touched by the organization.

What background information explains the need for this project? Why do this?

- The national headquarters management team 10/26/01- report recommends the development of a National Headquarters Quality Team.
- It is an Easter Seals interdepartmental goal to achieve excellence by incorporating quality improvement and practices into all aspects of Easter Seals nationwide.
- Easter Seals national office departmental goals include quality.

What risks are inherent with this project?

- Easter Seals National Headquarters Quality Team's strategies may appear to be too much of add-on instead of an inherent practice.
- Quality might be seen as a stand-alone project rather than something that should be integrated into everyday practice.
- Ambiguity of responsibility and accountability of reporting.
- Lack of success or follow through undermines the organization's ability and willingness to achieve the highest level of quality.
- Lack of resources (monetary, human, etc), to make organizational changes.
- Team members may not have adequate time to devote to an essentially volunteer project.
- Lack of organization wide (NHQ) understanding, acceptance, support, and buy-in.
- Issues of individual and departmental confidentiality.
- Difficulty with defining measurable concepts of quality that everyone can agree upon.
- All HQ departments are not represented on the team.

But the real driver for collecting and utilizing benchmark performance data was the affiliates. The Easter Seals Leadership Association (ESLA), ably led by Donna Davidson of North Georgia, is a group of leading affiliate CEOs. It was ESLA that pushed for benchmarks. Some affiliates were growing at too rapid a pace; some not rapidly enough. And the affiliate CEOs wanted to know what works so they could manage better and *improve*. What were the benchmarks for IT spending? What's the benchmark for hiring a full-time HR director? What's the benchmark for

**SIDEBAR:
LESSONS
LEARNED FROM
GPRA**

board participation rates? What's the average cost per child served in an Easter Seals program? So ESLA launched a formal benchmarking initiative to: "identify critical pathways and success factors that enhance the growth of Easter Seals affiliates' programs and services."

Here's a glimpse of what they came up with:

While it is only the beginning for Easter Seals, it is emblematic of how one of the nation's oldest and most venerated nonprofit institutions is taking dramatic steps to implement performance measurement methods to streamline and improve its operations. And it's working. At its national conference in Denver this spring, Easter Seals affiliates compared performance metrics, debated different benchmarks and exchanged best practice information.

This is also not the first time performance measurement has been introduced into a new sector. In 1993 the Federal Government launched the National Performance Review (or "NPR"), Al Gore's inter-agency initiative to streamline the way government works. NPR was also the eleventh federal reform effort in the twentieth century.³⁹ But what made it work? Indeed, how was it possible that, after a 30-year decline, public trust in the Federal Government had nearly doubled within a four-year period to 40 percent?⁴⁰

NPR recognized that rather than a compliance function, performance measurement could be a *catalyst* for change. For increasing morale among government employees (by telling them whether they're succeeding). For better managing bureaucracy (by giving managers the information they need to continuously improve). And for increasing government accountability to the public (by providing regular information to the government's

³⁹ A Brief History of Vice President Al Gore's National Partnership for Reinventing Government During the Administration of President Bill Clinton 1993-2001, by John Kamensky, January 12, 2001 <http://govinfo.library.unt.edu/npr/whoweare/historyofnpr.html>

⁴⁰ Ibid, Appenedix F, based on a University of Michigan study in 1998 on public trust in government.

stakeholders).⁴¹ In fact, when NPR began, President Clinton told government agencies to begin measuring their performance and benchmarking themselves against the best private businesses.⁴² At the same time, performance measurement became a formal part of the way agencies were run with the passage of GPRA.

Lessons Learned. A report issued by NPR in 1997 studied the progress of institutionalizing GPRA in public agencies. The findings are prescient for nonprofits and funders navigating the road to performance measurement in the nonprofit sector:

1. Leadership is critical in designing and deploying effective performance measurement and management systems. Clear, consistent, and visible involvement by senior executives and managers is a necessary part of successful performance measurement and management systems. Senior leadership should be actively involved in both the creation and implementation of its organization's systems. In several public and private organizations studied, the chief executive officer not only personally articulated the mission, vision, and goals to various levels within the organization, but was also involved in the dissemination of both performance expectations and results throughout the organization.

2. A conceptual framework is needed for the performance measurement and management system. Every organization needs a clear and cohesive performance measurement framework that is understood by all levels of the organization and that supports objectives and the collection of results. Some of the benchmarking partners used a balanced set of measures methodology to organize measures and align them with their overall organizational goals and objectives. The majority had a uniform and well-understood structure setting forth how the process worked and a clear calendar of events for what was expected from each organizational level and when.

3. Effective internal and external communications are the keys to successful performance measurement. Effective communication with employees, process owners, customers, and stakeholders is vital to the successful development and deployment of performance measurement and management systems. It is the customers and stakeholders of an organization, whether public or private, who will ultimately judge how well it has achieved its goals and objectives. And it is those within the organization entrusted with and expected to achieve performance goals and targets who must clearly understand how success is defined and what their role is in achieving that success. Both organization outsiders and insiders need to be part of the development and deployment of performance measurement systems.

4. Accountability for results must be clearly assigned and well-understood. High-performance organizations clearly identify what it takes to determine success and make sure that all managers and employees understand what they were responsible for in achieving organizational goals. Accountability is typically a key success factor, but one with multiple dimensions and multiple applications.

5. Performance measurement systems must provide intelligence for decisionmakers, not just compile data. Performance measures should be limited to those that relate to strategic organizational goals and objectives, and that provide timely, relevant, and concise information for use by decisionmakers at all levels to assess progress toward achieving predetermined goals. These measures should produce information on the efficiency with which resources are transformed into goods and services, on how well results compare to a program's intended purpose, and on the effectiveness of organizational activities and operations in terms of their specific contributions to program objectives. Many of our partners cautioned against repeating their initial mistake: collecting data simply because the data were available to be collected, or because having large amounts of data "looked good." Instead, organizations should choose performance measures that can help

⁴¹ Common Sense Government, by Vice President Al Gore, Random House, 1995, pg. 130

⁴² Ibid.

SUMMARY: THE WILL TO IMPROVE

describe organizational performance, direction, and accomplishments; and then aggressively use these to improve products and services for customers and stakeholders.

6. Compensation, rewards, and recognition should be linked to performance measurements. Most partners link performance evaluations and rewards to specific measures of success; they tie financial and nonfinancial incentives directly to performance. Such a linkage sends a clear and unambiguous message to the organization as to what's important.

7. Performance measurement systems should be positive, not punitive. The most successful performance measurement systems are not "gotcha" systems, but learning systems that help the organization identify what works and what does not so as to continue with and improve on what is working and repair or replace what is not working. Performance measurement is a tool that lets the organization track progress and direction toward strategic goals and objectives.

8. Results and progress toward program commitments should be openly shared with employees, customers, and stakeholders. While sensitive competitive financial and market share information generally must be protected, performance measurement system information should be openly and widely shared with an organization's employees, customers, stakeholders, vendors, and suppliers. Many of our partners maintained information on their performance objectives and specific progress toward these objectives on their organizations' Internet and intranet sites for real-time access by various levels of management, teams, and sometimes individuals. Most used periodic reports, newsletters, electronic broadcasts, or other visual media to set forth their objectives and accomplishments.⁴³

A trickle-down effect is beginning. An OMB Watch study in September of 2000 entitled *Measuring the Measurers: A Nonprofit Assessment of the Government Performance and Results Act* found that while there was only a modest awareness of GPRA itself, "nonprofit organizations showed a relatively high level of awareness of performance measurement activity more generally, including efforts emanating from state and local governments and private funders."⁴⁴

Nonprofit Business Intelligence holds great promise for practitioners. It also has implications for all stakeholders in the nonprofit sector: boards, constituents, volunteers and funders. Performance measurement, and the data and analytics it offers, will enable nonprofit managers to make better decisions, better allocate resources, improve operational and programmatic performance and more effectively compete for funding. Seizing this opportunity requires that practitioners have the capacity, tools and standards to make better performance possible.

But despite all of these powerful advantages, real-life experience makes one thing clear: the mandate to measure must come from within—from the managers and boards who run nonprofit organizations. Absent the will to improve, and the courage to take on the difficult conceptual and cultural challenges involved in doing so, we will be sewing the seeds of performance measurement in stony soil. In attempting to implement a performance management system at one of America's largest corporations, Unilever, the "financial change leader" Steve Morlidge, derived an insightful formula about the "will to improve": The formula states that in order for change to take place, the current dissatisfaction "D", multiplied by the vision for where the organization needs to go "V" and

⁴³ "Serving the American Public: Best Practices in Performance Measurement," The National Performance Review, June 1997

⁴⁴ "Measuring the Measurers: A Nonprofit Assessment of the Government Performance and Results Act", OMB Watch, August 21, 2000, Executive Summary.

a clear roadmap of steps necessary to make change “S” must be greater than the resistance to change “R”. $(D*V*S) > R$.⁴⁵ Morlidge’s conclusion was that change can be driven from either side of the equation: lowering the resistance to change can lead to success just as leveraging the dissatisfaction, future vision and knowledge of first steps. To take hold in the nonprofits sector, we must work the equation from both sides: articulating the vision of a better sector while providing incentives to mitigate resistance.

The promise of true nonprofit business intelligence is within our reach—leading organizations across America like Easter Seals are taking action to improve their capacity to measure, and funders are supporting them wholeheartedly. And stakeholders, too, have a role. Advocates for performance measurement must take care to introduce these concepts in way that improve the lives of nonprofit managers—in the form of improved program results, decreased reporting burdens, better employee satisfaction and increased stakeholder accountability. The perception of measurement as a hostile weapon to “make nonprofits more efficient” perpetuated by rating agencies, uninformed business observers and some at-large critics is counterproductive and dangerous.⁴⁶ At the same time, stakeholders must be more than just cheerleaders: they must proactively reinforce the inherent will of the sector to improve by making better capacity, tools and standards possible.

⁴⁵ “Successful Performance Management Systems” *Intelligent Enterprise Magazine*, April 18, 2003

⁴⁶ Case in point: “Time for Charities to Face the Facts: Efficiency Matters,” by Trent Stamp and Kyle Waide of *Charity Navigator*, June 1, 2003 stating: “We must demand that they [nonprofits] do more with our dollars—not more with less, but more with more. We must compel them to accept that efficiency matters. They refuse to learn this lesson on their own.”