

Performance Measurement in Non Profit Organization

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Abstract: *Unlike for profit organization focused on profitability, nonprofits are measured by their mission fulfillment. This often requires balancing financial deficits and surpluses based on Climate Sustainability, service needs and hence, long-term a vital focus for Non profit.*

Keywords: profit organization

I. INTRODUCTION

Unlike for profit organization focused on profitability, nonprofits are measured by their mission fulfillment. This often requires balancing financial deficits and surpluses based on Climate Sustainability, service needs and hence, long-term a vital focus for Non profit.

Many different have been used operation Sector nonprofit of the In terms and to describe definitions organisations neither private Sometimes Sector referred to the nor public to as the Sector. Some most frequently used are voluntary organization.

Non-governmental Organization [NGON]

Civil Society Organizations

Charitable Organization

Non-Profit Organizations

Even though they all are given similar meanings they emphasize different aspects and thereby it is of importance to clarify what definition is used. However, when presenting our theoretical background we are using a couple of these terms due to the fact that the Authors of an article use different terms, In different Articles.

What is Performance Measurement:-

Since the environment in which business operates is getting more and more complex Business systems are getting more complex as well. Financial performance measures are not longer sufficient. Many authors agree on that not only one type of measures but a range of measures, covering all different levels of the business, should be used. Different Indicators that can be measured are inputs, outputs, throughputs, outcomes and impact.

Some authors use other words to describe these indicators but it often coincides with one. Of those previously mentioned. These will be more thoroughly described when performance measurement in nonprofits are presented.

Private businesses strive for profit maximization, creating as much shareholder value as possible. To be able to show to their shareholders the value created, performance measurement serve as an important tool. Evidently, businesses and organizations are Under great pressure from external actors to perform optimally. However, there are also Internal reasons for implementing performance measurement. Franco-Santos et al. propose five categories of business performance measurement System roles.

The first category is named "Measure performance" and here the role of enabling businesses/organizations to monitor progress and evaluate performance is presented. Second category, "Strategy management", is performance measurement's Possible role in the planning process, when formulating and implementing strategy. Further its role in internal and external communication, which makes benchmarking possible, makes up a third category.

Performance measurement also can be used to influence behaviour. By rewarding and compensating certain behaviour organizations can manage relationships and control. Also it provides feedback, double-loop learning and thus enables performance improvement. Performance measurement system criteria:-

- Simple
- Clear purpose
- Provide fast feedback
- Cover both non-financial and financial measures/ internal and external aspects
- Relate to performance improvement
- Be directly related to the strategy
- Consist of long-term and short-term objectives
- Match organization's culture.

Definition and classification :-

In our problem definition the term civil society organizations is used. It is adopted from side, who defines civil society as “an arena, separate from the state, the market and the individual household, in which people organize themselves and act together in their common interests”. A more comprehensive definition of a nonprofit organization operating in civil society is provided by the Center for Civil Society Studies at Johns Hopkins University Institute for Policy Studies; the structural-operational definition.

To distinguish non profit organizations from business firms and public agencies they have set up five characteristics that should be applicable to non profit organizations. The organizations should be; organized (have meetings/activities on regular basis), private (separate from government but not excluding significant public support), self-governing, not returning profit to owners or directors and voluntary (participation and membership not compulsory). Moreover the institute has developed an international classification of nonprofit organizations (ICNPO), categorizing organizations by their primary activities.

- Culture and recreation
- Education and research.
- Health.
- Social Service.
- Environment.
- Development and housing.
- Civil and advocacy.
- Philanthropic intermediaries.
- International.
- Religions Congregation.
- Unions.
- Other.

When provided these categories it is noticeable that the concept covers a wide range of different organizations, like for example environmental groups, human rights organizations, unions, sport clubs among many others.

Performance measurement in nonprofits :-

In previous chapters we have identified a need for for-profit organizations to measure performance. The attention is no longer put only on financial measures, such as profitability and stock-market measures, but other non-financial measures have entered the performance measurement arena as well. Nonprofits have less use of financial measures due to the fact that they do not endeavor to profit but since there are other aspects to measure nonprofits evidently are capable and have an interest in measuring performance. Medina-Borja and Triantis take it as far as saying that “the survivability of non-profit social service organizations are contingent upon their capability of measuring and evaluating performance”

The National Council for Voluntary Organizations has produced a number of studies on performance measurement in voluntary sector in U.K. In one of those studies Wainwright concludes that a wide range of tools to measure impact are available for voluntary organizations

Performance measurement systems from private sector have been adopted to fit nonprofit organizations, for example Kaplan has adopted the Balanced scorecard to better fit these kinds of organizations. However, one major difference

between nonprofits and for-profits is that nonprofits have goals and services which are more intangible and harder to define and thus measuring performance provides a greater challenge for nonprofit.

Even though nonprofits lack pressure from shareholders to show the value created by the organization there is a pressure to show how well they perform that derives from a wide range of stakeholders. Zimmermann and Stevens studied 149 nonprofit organizations in south Carolina and their findings show that the requirement from external stakeholders was the most frequent motivator and reason for measuring performance. Second most frequent motivator was in order to increase accountability and effectiveness. Performance measurement was also motivated as a mean to get more funding and to improve .

Another study, conducted by Sawhill and Williamson, also presents a number of reasons why nonprofits should measure performance. Nonprofits can use performance measurement to obtain control of local office efforts and to get the whole organization to work towards the same mission and goals. Managerial skills are needed in order to be able to incorporate these benefits. Moreover performance measurement can be used for other purposes such as to influence public attitudes. Sawhill and Williamson have noticed an emerging marketing trend which they suggest nonprofit organizations to take advantage of. Just by presenting results from performance measurement to stakeholders will serve as an effective marketing tool.

Evidently researchers have identified that there are reasons for implementing performance measurement even in nonprofits; the question now is what to measure? Performance indicators are inputs, outputs, throughputs, outcomes and impact. These indicators derive from the private sector but are applicable and used by nonprofits as well.

Inputs are defined as everything that is needed to carry out a mission or a certain project, such as staff, volunteers, physical capital, material, income etc. It is of great interest for nonprofits to optimize all inputs.

Output is defined as the quantity of work performed or delivered services. Examples of output measures are number of people attending workshops or training classes and numbers of shelters provided during a disaster. These measures are not directly related to the organization's mission.⁵⁹ Inputs and outputs are closely related since outputs are the amount of work performed and inputs are the amount of resources required for this work. The relationship between outputs and inputs measure organizational efficiency. Hence in order for the organization to be most efficient this relationship should be optimized.

Throughputs include both efficiency and effectiveness measures and are linked to the organizations' activities.⁶¹ The reason for measuring different activities and processes within the organization is to make it possible to evaluate organizational capacity. Moreover Sawhill and Williamson have identified several activities within nonprofits that are measured for evaluation purposes, such as financial activities and fundraising activities. Other throughput indicators observed in their study were operational efficiency and diversity of activities. Some organizations also measure time limited activities, for instance different measures on how well they perform during a disaster.

There is no clear distinction between output and throughput measures. Both can be linked to organizations' activities, efficiency and capacity. In order to be able to separate them throughputs could be described as outputs relative to inputs.

Outcomes are very closely related to the organization's mission. Measuring outcomes and evaluating effectiveness make it possible to see to what degree the organization achieve its mission and goals. Zimmerman and Stevens present numerous ways of measuring outcomes, for example measuring participant satisfaction or changing attitudes and behavior among participants. How well the organization has reduced homelessness after a disaster is another example.

As an alternative to measure outcomes several researchers suggest measuring impact on mission. Impact is defined as all, even unintended, changes that are the result of the organizations' activities. The measured impact can be long-term or short-term, as well as positive or negative.⁶⁸ In their study Sawhill and Williamson show that measuring impact on mission is difficult. As one anonymous nonprofit manager expressed; "Measuring mission success is like the Holy Grail for nonprofit – much sought after, but never found."

A more complex mission means more complex measurement, indicating that nonprofits perhaps need to simplify their missions to be capable to measure impact. Instead of trying to measure the impact of their mission nonprofits are better off identifying certain goals within their mission and put emphasis on measuring how well they achieve these identified goals. Zimmermann and Stevens agree with Sawhill and Williamson that there is a point by breaking up the mission into several objectives.

Performance measurement has been used in the business world since way back and much research in the area has already been done. Moreover there has been some research done on performance measurement in nonprofit organizations. Theories on why to measure performance and how performance should be measured are included since they will serve as the background when analyzing the experiences of performance measurement in the studied organizations. The Balanced Scorecard is described since it is the most well known performance measurement system among businesses and also because it very recently has been adapted to better fit the special conditions in which nonprofit organizations operate in. We also have included other frameworks. We know little about how frequently these frameworks are used but the reason for including them anyway is to provide some examples on how such frameworks could be designed.

In previous chapters we have identified a need for for-profit organizations to measure performance. The attention is no longer put only on financial measures, such as profitability and stock-market measures, but other non-financial measures have entered the performance measurement arena as well⁴⁹. Nonprofits have less use of financial measures due to the fact that they do not endeavor to profit but since there are other aspects to measure nonprofits evidently are capable and have an interest in measuring performance. Medina-Borja and Triantis take it as far as saying that “the survivability of non-profit social service organizations are contingent upon their capability of measuring and evaluating performance”

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These specific frameworks have been picked out either because they were brought up during interviews or because they occurred in more than one article. What is a nonprofit organization? What is the difference between a nonprofit and a for-profit organization? The answers to these questions have been included in theory since they probably will have an effect on decision making and the implementation and design of performance measurement. To avoid providing a one-sided picture on performance measurement and nonprofit organizations we have tried to include critical aspects as well.

Utilizing and Expanding Capacity: Success Factors for Nonprofits

Successful nonprofits adeptly mobilize their resources. Measures of capacity utilization and growth can include donor expansion, volunteer recruitment, and the pursuit of public sector and government funding.

Financially, nonprofits should monitor revenue growth in comparison to similar organizations, industry-segment program expense growth, and the working capital to expense ratio. Fundraising Effectiveness and Donor Dependency are also crucial financial capacity metrics.

Long-term Objectives and Strategic Planning for Nonprofits Unlike for-profit organizations focused on profitability, nonprofits are measured by their mission fulfillment. This often requires balancing financial deficits and surpluses based on service needs and economic climate. Hence, long-term sustainability is a vital focus for nonprofits.

Nonprofits should have strategic plans typically spanning three years, aligned with their mission and long-term objectives. Financial models should project combined surpluses over time and the establishment of reserves for lean periods. A common metric for long-term performance is the ratio of the organization's net unrestricted assets to annual expenses.

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Human Services Nonprofit Organizations

Human services nonprofit organizations provide essential services that the government should provide to people to better their lives within the community (Lecy & Van Slyke, 2012), either for a fee or for free. Grønbjerg (2001) outlines these human services nonprofit activities to include services such as care for the aged, minors, youth development, assistance for individuals with disabilities, support for addictions, and counseling services.

Others describe nonprofit human services also to include job training, child protection, foster care, residential treatment, home care, rehabilitation, and transitional housing (Smith, 2017). The directory of charities also outlines such services to include disaster recovery services, parks, and gardens maintenance, advocating for children and feeding the hungry. From the mid – '90s to date, the number of human services nonprofit organizations kept increasing in the United States (Smith, 2017). As such, human services nonprofits make up a considerable proportion of nonprofit organizations (Grønbjerg, 2001). As a result, people consider most nonprofits to provide general human services.

However, there are several other nonprofit organizations in art and culture, horticulture, entertainment and sport, health, just to mention a few. Others have noted that the field of human services nonprofit is vast and even blurry in that most of the activities that are now labeled as human services were considered social services (Grønbjerg, 2001). Grønbjerg (2001) argued that the transitions from social service to human services stem from the 'negative' undertone the former represents. Take, for example, providing counseling for people with mental issues that could fall under health services.

Smith (2017) noted attention to human services performance measurement is mainly attributed to the advent of new public management and the role they play in society in the welfare state human services nonprofit organizations have been chosen for this research because human services nonprofit organizations, for the most part, receive financial assistance from the government (state, local, and federal), foundations, and other donors (Grønbjerg, 2001; Smith, 2017) which is critical for this research. Other characteristics of human services nonprofit include their classification as a 501 © 3. According to Smith (2017), human services nonprofit organizations are grappling with competition for financial support from the government because of increased service providers in the nonprofit sector and the for-profit sector. Nonprofit organizations and specifically human services nonprofit organizations are tasked to be value and

mission driven due mainly to the essential services they provide to the public. Now that I have introduced the need for this study, I will provide the research questions, objectives, and significance of the research.

Nonprofit organizations significantly contribute to society by offering services that for-profit organizations might overlook. They span a broad spectrum, from charity-focused to member-based groups. Increasingly, nonprofits use performance measurement systems to gauge their progress toward mission fulfillment. A blend of mission-related and financial performance metrics allows nonprofits to gauge their effectiveness in serving their communities. Here, we discuss three critical areas for measuring nonprofit performance.

Measuring Activity Effectiveness in Nonprofits

Efficient operation is crucial for a nonprofit. Operational efficiency measurements should align with the mission and measure the effectiveness of implemented programs. Key metrics to consider include staff productivity, effectiveness, retention, and donation loyalty and increase. Further, nonprofits should scrutinize standard financial performance categories such as Program Efficiency, Administrative Efficiency, Operational Sustainability, and Fundraising Efficiency.

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The Importance of Strategic Planning and Performance Metrics in Non-Profits Strategic planning and understanding key performance metrics isn't just a recommendation for nonprofits; it's an absolute necessity. Performance metrics act as the barometer of a non-profit's effectiveness and efficiency. They allow non-profits to build and evaluate their strategy by making data-driven decisions, optimizing resource allocation, and demonstrating their impact to stakeholders – vital components for sustainable operation and growth.

Effectively managing these aspects creates a robust foundation that allows non-profits not only to survive but thrive in their missions. It ensures they remain steadfast in fulfilling their mandates, creating a positive impact on the communities they serve.

What is financial management for nonprofits?

Nonprofit organizations play a vital role in addressing social, environmental, and cultural challenges. However, achieving their mission and goals requires financial stability and sustainability.

As nonprofit organizations strive to achieve their missions and goals, it is important to maintain financial stability and sustainability. Measuring financial health is essential to ensuring that the organization has the necessary resources to continue providing programs and services to its beneficiaries.

Analyze Financial Statements.

The first step in measuring financial health is to analyze the nonprofit's financial statements, including the balance sheet, income statement, and cash flow statement. These statements provide an overview of the organization's financial activities, including revenue, expenses, assets, and liabilities.

By analyzing these statements, you can determine the nonprofit's financial position, identify any areas of concern, and plan for the future.

Evaluate Revenue Sources

Nonprofits rely on various sources of revenue, such as donations, grants, and program fees. To measure financial health, it is important to evaluate these revenue sources and assess their sustainability.

Is the nonprofit heavily reliant on one source of funding? Are there any trends in revenue sources that are cause for concern? By evaluating revenue sources, you can identify any risks to the organization's financial stability and plan accordingly.

Assess Expenses

To maintain financial health, nonprofits must manage their expenses effectively. It is important to assess the nonprofit's expenses to determine if they are aligned with its mission and priorities. Are there any areas where expenses could be reduced without compromising the organization's programs and services?

By assessing expenses, you can identify opportunities to improve efficiency and reduce costs.

Review Budget

The budget is a critical tool for managing financial resources and measuring financial health. To measure financial health, it is important to review the nonprofit's budget and compare actual financial performance to the budget.

Are there any significant variances between the actual results and the budget? If so, why? By reviewing the budget, you can identify areas where the nonprofit needs to adjust its spending and plan for the future.

Analyze Financial Ratios

Financial ratios provide a useful tool for assessing nonprofit financial health. Common financial ratios include liquidity ratios, such as the current ratio and quick ratio, which assess the organization's ability to meet its short-term financial obligations.

Other ratios include efficiency ratios, such as the program expense ratio, which measures the percentage of total expenses allocated to program activities.

By analyzing financial ratios, you can assess the nonprofit's financial performance and identify areas for improvement.

Compare Performance Over Time

To measure financial health, it is important to assess the nonprofit's financial performance over several years. This will help you determine if the organization's financial health is improving or declining over time.

Comparing performance over time, you can identify trends and patterns that can inform financial planning and decision-making.

Benchmark Against Peers

Comparing the nonprofit's financial performance to that of other organizations in the same field can provide valuable insights into its financial health. Benchmarking allows nonprofits to identify areas where they are performing well and areas where they need to improve.

Monitor Cash Flow

Cash flow is essential for nonprofit organizations to maintain financial stability and sustainability. Monitoring cash flow can help nonprofits identify any cash shortages or surpluses and plan accordingly.

By managing cash flow effectively, nonprofits can ensure that they have the resources they need to operate and fulfill their mission.

Conduct Scenario Planning

Nonprofit organizations operate in a complex and uncertain environment. Conducting scenario planning can help nonprofits prepare for unexpected events that could impact their financial health.

By developing contingency plans and assessing the financial impact of various scenarios, nonprofits can mitigate risks and maintain financial stability.

Engage in Transparent Financial Reporting.

Nonprofit organizations have a responsibility to be transparent and accountable to their stakeholders, including donors, board members, and the community. Engaging in transparent financial reporting can build trust and confidence in the organization and help to attract funding and support.

Nonprofits should provide clear and concise financial information that is accessible to stakeholders and follows best practices for nonprofit financial reporting.

By analyzing financial statements, evaluating revenue sources, assessing expenses, reviewing the budget, analyzing financial ratios, and comparing performance over time, nonprofits can gain a comprehensive understanding of their financial health and plan for the future accordingly.

Key performance indicators (KPIs) are the metrics that tell you how well your nonprofit organization is operating and whether you are hitting your goals. Knowing which nonprofit KPIs matter most and which your organization should be tracking can help you measure your organization's progress more effectively.

Here we've highlighted 26 nonprofit key performance indicators that you should pay attention to, how you can track them, and what they mean to your organization. They're separated into categories that match the departments present at most nonprofits, so you can share them with your team and focus on the ones that matter most to you.

II. CONCLUSION

For nonprofit organizations to be sustainable and able to carry out their missions, measuring their financial health is

Fundraising KPIs for nonprofits

1. Gifts secured
2. Donation growth
3. Average gift size
4. Average gift size growth
5. Pledge fulfillment percentage
6. Fundraising return on investment (ROI)
7. Cost per dollar raised (CPDR)
8. Online gift percentage
9. Percentage of contributions matches through corporate philanthropy

Donor retention KPIs for nonprofits

10. Donor retention rate
11. Donor growth (year-over-year)
12. Recurring gift percentage
13. Donor churn
14. Donor lifetime value (LTV)
15. Giving capacity
16. Conversion rate

Email marketing nonprofit KPIs

17. Open rate
18. Click through rate (CTR)
19. Email conversion rate
20. Opt-out rate
21. Outreach rate

Nonprofit KPIs for social media

22. Amplification rate

23. Applause rate

24. Social media conversion rate

25. Landing page conversion rate

26. Fundraiser participation rate