CHAPTER SIXTEEN

USING PERFORMANCE METRICS TO ASSESS IMPACT

Stephanie Bell-Rose

Excerpted from Generating and Sustaining Nonprofit Earned Income published by Jossey Bass, copyright 2004. Edited by Sharon Oster et al. This material is used with the permission of John Wiley & Sons, Inc.

CHAPTER SIXTEEN

USING PERFORMANCE METRICS TO ASSESS IMPACT

Stephanie Bell-Rose

In recent years, as competition for resources in the nonprofit sector has intensified and as the nonprofit sector has grown more professional and strategic in its approach to social change, many organizations have sought to develop better ways to demonstrate the social and financial impacts of their programs.

In today's environment, funders, nonprofit managers, social entrepreneurs, and policymakers are all looking for impact and efficiency, as well as for double-bottom-line returns. Nonprofit organizations that are prepared to measure and demonstrate their own effectiveness will increasingly enjoy an enhanced ability to raise funds, communicate their values, and manage their own organizations.

The issue of performance assessment is fraught with difficulties, however. The nonprofit sector does not enjoy the relatively straightforward market signals that the for-profit sector enjoys. There are no generally accepted standards for capturing or enumerating social value that are analogous to the methods used by businesses in reporting profits or shareholder value. Nevertheless, extensive experimentation is carried out in this area as organizations work to improve their management ability and to develop systems and tools to evaluate impact. From the standpoint of society, the long-term goal of these changes is to increase both the effectiveness of individual social organizations and the quantity of resources available to the nonprofit sector as a whole.

Reasons to Measure Performance

For any organization, the most important reasons to measure performance are to improve effectiveness and to acquire information that will allow the organization to drive its agenda forward. If the motivation for doing evaluation remains outside an organization, the evaluation will have limited impact. To do performance assessment effectively, an organization must commit to adopting a culture of measurement, because acceptance must come from senior management, staff, funders, and board members alike.

It is one of the ironies in the nonprofit sector that while many organizations are already collecting performance measurement information and expending considerable resources preparing it for funders, they often fail to use it to inform their own management processes and marketing appeals. Many of the performance measurement tools that have been developed in recent years are designed to be useful for assessing impact, improving management, and communicating results to others. These tools can be extremely useful in helping nonprofit managers think through, in a step-by-step fashion, what they must accomplish in order to excel at their core mission.

Without a method of assessing impact, many organizations simply do not know if they are actually achieving their missions. They may be successful in some areas and less successful in others, but they may not know where, specifically, things are working well and where they are not. As a result, they may be missing opportunities to improve their programs.

Because not all funders have the same reporting requirements, nonprofit organizations may need to gather different kinds of information at different points in time and arrange it in different formats for different audiences. When thinking about instituting performance assessment systems, organizations should begin by evaluating how much time and energy they will need to spend gathering information. Additionally, they should test how well the data gathered actually serve internal information needs. In short, organizations ought to determine proactively the kinds of outcomes their assessments should measure.

Consider the example of Jumpstart, a national organization that recruits and trains college students to mentor preschoolers. One of Jumpstart's funders is Boston-based New Profit Inc., a high-engagement grantmaker that, in addition to providing scale-up capital, links its partner nonprofits with management consulting services and provides them with tools and training to do performance assessment. Through its association with New Profit, Jumpstart adopted a popular management and performance tool called the Balanced Scorecard, which was developed by Harvard Business School professor Robert Kaplan and David Norton, founder of the Balanced Scorecard Collaborative.[1]

The Balanced Scorecard is an analytic tool that New Profit believes can be applied to businesses, traditional nonprofits, and nonprofits running nonprofit enterprises. It is designed to provide an organization with timely feedback about both internal processes and external outcomes. The analysis breaks down an organization's activities and goals into several categories, such as social impact, finances, operations, growth, and learning and partnerships. Jumpstart's managers have found that the Balanced Scorecard has helped it to clarify goals and strategies, identify opportunities, and assess results. The process has been instrumental in spurring change within the organization, and the Scorecard itself has become a focal point for management discussions.

Jumpstart's mission is to prepare children aged three to five to succeed in elementary school. It seeks both to increase the number of children it works with and to improve the quality of its work with each child. To achieve these goals the organization needs to know what kinds of tutoring work best, how to recruit tutors cost-effectively, how to ensure that the tutors are having a measurable effect on the skill levels of the children, what each tutoring hour costs, and many other factors.

Jumpstart's staff contend that the Balanced Scorecard helps them, funders, and other stakeholders understand the drivers of the organization's mission and allows them to see their own work in the context of the whole. The process of completing the Balanced Scorecard's strategy map helps to ensure that information that is held in different people's heads in different areas of an organization will be committed to paper. This leads to greater understanding about how all the parts of the organization interact to fulfill the mission.

When Jumpstart has to balance considerations such as lowering the cost per tutor hour per child and increasing the impact per child, for example, the Balanced Scorecard does not provide easy answers about how to negotiate the trade-offs, but it does facilitate productive discussions among staff, board members, funders, and other stakeholders that allow the organization to make informed decisions. Many nonprofit enterprises face these kinds of trade-offs as they seek to maximize both social and financial returns.

This type of detailed performance information, whether it is used to guide internal processes, describe outcomes, or translate impacts into dollar figures, can be valuable for a social-purpose organization. Such information can inform management about how to improve the program, spot new opportunities, identify emerging problems, and communicate a program's values to a range of stakeholders, including the media, funders, staff, volunteers, clients, government agencies, and board members.

Challenges and Obstacles

Many nonprofits approach with trepidation the issue of measuring performance. There are structural reasons for this. Collecting and processing this kind of information requires organizational capacity, and funders have not always shown themselves to be willing to finance the creation of this capacity. In the short-term, performance measurement frequently entails taking resources away from other parts of the organization. Because of day-to-day pressures, ongoing resource constraints, and other unforeseen emergencies that inevitably arise, undertaking a process of systematic self-evaluation often falls to the bottom of the list of priorities.

Additionally, measuring performance is an inherently difficult and imprecise process. There are no standard methods to measure social value creation. When one considers that nonprofit organizations are involved in everything from environmental protection to health care to disability to the arts to economic development, it is easy to understand the difficulty. There are no universal bottom lines. Also, in addition to measuring impact, nonprofits can be assessed on the basis of the long-term importance of their strategy, their capacity to grow, and their political durability.

Indeed, one of the biggest problems is the difficulty of attributing an outcome to a particular cause. Many organizations work on issues that overlap. They may have no easy way to gauge their contribution to social change. Additionally, certain kinds of social value—such as short-term assistance and emergency services, prevention programs, advocacy, research, and so forth—are particularly difficult to assess.

There are also a variety of cultural factors that come into play. Some organizations are averse to adopting practices that seem too corporate in spirit. People working for social service organizations are not usually trained as social scientists or analysts. They have different skill sets and motivations for working in the nonprofit sector. They are often motivated by passion or a sense of mission and they may believe very strongly that their work is clearly making a difference so its importance shouldn't have to be justified.

In addition to the fact that few organizations collect performance information, those that do collect it frequently focus on *outputs*—the number of homeless people in their job-training workshops, for example—rather than on *outcomes,* or indications of impact—such as the number of clients who, after going through the trainings, landed jobs and moved out of poverty.

There is a natural tendency to measure what you are doing well. If an organization has full classrooms, it will report on the number of students it is serving.

It may not actually know how many of those students have landed jobs. In general, focusing on outcomes—indicators of genuine impact—will shift the emphasis from *activities* to *results,* from how a program operates to what it accomplishes.

Nonprofit Enterprise Considerations

For nonprofits, the task of assessing impact is similar whether the impact delivery mechanism is a nonprofit enterprise or a traditional program, although the costs associated with delivery may differ. For nonprofit enterprises, however, performance measurements are more important than they are for traditional nonprofits, simply because managers of nonprofit enterprises and their funders, or investors, generally are influenced by practices, experiences, and expectations in the private sector, where measurement of results is standard practice.

In the field of nonprofit enterprise, funders and managers need to know whether the nonprofit enterprise is generating revenues and profits and whether it is growing. They will also want to know whether the operation of the nonprofit enterprise is demonstrably providing cash to the parent organization and whether it is achieving a social impact that can be measured and, if possible, quantified—or at least described with clarity. Two primary areas of interest, therefore, are transparency and accountability in the use of funds and bottom-line results.

Nonprofit enterprises often need to implement systems that accurately capture the full costs and cash outlays involved in their work. This is necessary because it is impossible to gauge profitability without understanding the cost structure of an enterprise. Every nonprofit enterprise needs to know how much it really costs to provide its services (including hidden costs such as overhead and fundraising expenses that may be absorbed by the parent nonprofit). Otherwise, the enterprise team will have no basis for pricing, calculating profits, and planning for growth. Beyond considering the business's basic financial performance, managers of nonprofit enterprises generally have to think creatively about how to demonstrate, or enumerate, the social value that the business creates.

A number of the finalists from the 2002–03 Partnership on Nonprofit Venture's National Business Plan Competition for Nonprofit Organizations included social return on investment (SROI) assessments in their business plans. For example, the Centre for Women of Tampa, Florida, created a nonprofit enterprise called Ramps & Retrofits, which hires low-income women to build home wheelchair ramps for elderly people. The Centre for Women calculates SROI by adding its gross profits from Ramps & Retrofits to estimates of the amount of money the government saves through reductions of public assistance to the Centre's employees and through reductions in nursing home costs made possible by allowing elderly residents to remain living in their homes longer than would otherwise be possible.[2]

The Rochester Rehabilitation Center's nonprofit enterprise, Parrett Paper, provides employment to disabled people who manufacture greeting cards. Parrett Paper calculates SROI by adding up the wages its employees receive and the associated cost reductions in outpatient mental health care services. The latter represents about 80 percent of Parrett Paper's SROI calculations, or about $13,800 per participant per year.[3]

In the nonprofit enterprise sphere, managers are often faced with tough decisions about how to balance competing needs between the nonprofit enterprise and the pursuit of the mission. If a nonprofit organization seeks to reach ten thousand people with a particular service through a nonprofit enterprise, the organization may face a fundamental question: Should it reach out to the easiest-to-serve clients (with the lowest cost per individual)? Or should it reach out to the most needy clients (with the highest cost per individual)? The former strategy may prove more profitable, but the latter may produce higher social returns based on some subjective or quantifiable assessment of the value of the services to this particular customer segment. To make these kinds of decisions responsibly, organizations need good data about both financial costs and social impact assessments.

Consider the example of Rubicon Enterprises, a nonprofit organization that runs a number of nonprofit enterprises, including a bakery and a landscaping business in the San Francisco Bay Area. Rubicon Enterprises provides employment, vocational rehabilitation, and training to low-income workers, many of whom were formerly homeless.[4]

One of the difficulties that Rubicon Enterprises ran into several years ago was meeting the information needs of its funders. The organization was devoting extensive human resources to collect information for funders and for government agencies, yet the information was not maintained in a format that could be readily analyzed. To compound the problem, each funder typically requested an individualized report. As a result, there was a great deal of redundancy of effort. Moreover, the whole process didn't even serve the informational needs of Rubicon.

Seeking a solution, Rubicon Enterprises decided to restructure its information-gathering system so that data would be captured more efficiently and would both feed the needs of its programs and satisfy the needs of funders and regulators. Rubicon found a supportive funding partner in the Roberts Enterprise Development Fund and the Surdna Foundation, both of which recognized the value of performance information and also sought to develop systems to evaluate social impacts for its other programs. The result was an outcome measurement system that Rubicon developed called CICERO (Consumer Information Collection, Entry and

Reporting for Organizations), which became the basis for the Roberts Enterprise Development Fund's OASIS (Ongoing Assessment of Social ImpactS) system.

Unlike a for-profit enterprise, Rubicon Enterprises absorbs the additional costs associated with helping homeless people make the transition into stable employment situations. These additional costs are part of the price tag for creating the social value that Rubicon seeks in addition to profits. Rubicon therefore decided to measure, in addition to its normal financial performance, the value of such things as providing employment to a homeless person through its bakery (a nonprofit enterprise) and the value of helping a client find housing through its more traditional social service arm.

In each case, the challenges of assessing the social impact were similar. The key questions were, What happened to the client? How important was the change? And what level of resources was devoted to accomplish it? This information was deemed crucial in enabling Rubicon to evaluate the effectiveness of its social change model.

Today Rubicon has developed a variety of techniques to measure changes in the quality of life of its clients by looking at factors such as income, wage progression, job advancement, substance abuse, housing stability, economic self-sufficiency, and other indicators. The organization is able to estimate how many people it has helped to make the transition out of homelessness, and how much this saves public systems in terms of reduced costs associated with hospitalization, incarceration, housing needs, and public assistance.

This information is not just for funders. It is widely shared across the organization in order to fine-tune programs, diagnose problems, and identify new opportunities. At the same time, if a foundation or government agency requests information about services or impacts, the information is readily available in the formats that Rubicon has deemed most useful and sensible for its own purposes.

In developing CICERO, Rubicon had the benefit of a supportive and enthusiastic funder. It was therefore able to invest considerable resources in building the organizational capacity to implement its performance measurement system. Other organizations seeking to pursue similar strategies should consider engaging their funders early in the process—before their funders approach them—to propose similar co-development partnerships.

Performance Evaluation: A Growing Field

Performance measurement is gathering momentum. The nonprofit sector can now draw on an interesting body of work that has accumulated over the past twenty-five years in the field of nonprofit performance evaluation. Some of this work involves the creation of management and measurement tools to track operational processes to assess the capacity development of organizations. Some of it involves the creation of tools to quantify (not necessarily in dollars) social value creation through the use of *metrics*—numerical proxies that correlate with the achievement of desired outcomes. Some of the work involves methods of monetizing impact—generally asserting a dollar-value contribution to society in the form of revenues or cost reductions of social services or financial resources. (The latter has been done most often in vocational training, workforce development, microcredit, and environmental auditing.) Some of these tools and processes require considerably more resources than others to implement.

A number of organizations have done work in this area and can serve as starting points for research. They include Acumen Fund, Coastal Enterprises, Columbia Business School's Research Initiative on Social Entrepreneurship (RISE), Community Wealth Ventures, Independent Sector, New Profit Inc., Public Private Ventures, Roberts Enterprise Development Fund, Venture Philanthropy Partners, and the United Way.[5]

In the field of microcredit, Global Partnerships has studied and analyzed a range of capacity-building and assessment tools.[6] In the field of nonprofit enterprise, one new resource is the Methods Catalog of Social Impact Assessment Tools, created by the Double Bottom Line Project and commissioned by the Rockefeller Foundation. The project has evaluated a range of social-impact assessment tools for early-stage social-purpose businesses and nonprofit revenue-generating organizations—also called double-bottom-line ventures. The Methods Catalog describes various approaches and tools used to assess social impact for double-bottom-line ventures, offering criteria for comparison and guidance regarding their use. It is available at Columbia Business School's RISE project Web site (http://www.riseproject.org).

The challenge in developing metrics is to blend the best techniques of social science evaluation with the results orientation that is being demanded increasingly by funders and social investors and by social entrepreneurs for their own organizations. To date, much of the work—particularly beyond employment programs—remains experimental. Where numerical tools are used to gauge social return, the results tend to be applicable to specific fields of activity and highly sensitive to the assumptions made in the calculations.

Performance Evaluation and Theory of Change

How should organizations begin to think about creating metrics? One helpful process is to set forth the internal (often unspoken) logic that informs the organization's activities and mission. The process demands that an organization think through all the steps that must occur for its mission to be accomplished, while identifying along the way the assumptions and rationale that underlie each step. It is often easier to assess the intermediate steps on the way to outcomes than to assess the outcomes themselves, particularly if the change occurs over the long term. An organization that goes through this process of articulating its so-called theory of change may find it easier to identify the kinds of progress measurements that make sense.

A job-training program, for example, may be predicated on the assumption that helping to create employment stability is one of the most powerful ways to help people become self-sufficient. Therefore, an indicator of success would be the number or percentage of people who find jobs and remain employed for a given period after the program. The organization may also calculate the estimated cost of delivering its services and compare those costs to the benefits, or look to identify the factors that correlate with success. It may discover that certain factors are frequently associated with success, such as whether a client has earned a high-school equivalency degree or received mental health care. These intermediate indicators can be tracked and used to understand other impacts.

In the case of Jumpstart, everything the organization measures is directly related to the specific items on its strategy map, which are all aligned with Jumpstart's core mission to ensure that young children are prepared to succeed in elementary school. The organization tracks items such as the number of children served by tutors, the assessment gains made by each of the children, the systemwide cost per tutor hour, the retention of core members, the number of quality interactions with governmental agencies, the number of national features about Jumpstart in the media, the number of new university partners, and the percentage of revenues received from government sources.

Many nonprofits have the capacity to develop measurement tools to serve their missions. These tools can help identify bottlenecks, hidden opportunities, or mistaken assumptions. They can be helpful to managers who seek to improve programs, motivate staff, and create a shared vision of the organization's mission.

A Brief Comparison with the Private Sector

Given that private-sector businesses have more experience measuring their performance than do nonprofits, it is worth briefly considering the difference between the two sectors with regard to this challenge. Much of the attraction of the private sector comes from the fact that businesses typically know clearly when they are succeeding and when they are failing. A successful business can measure its performance, gauge itself against competitors, and make necessary adjustments based on information gathered as part of its daily operations.

But performance measurement in business is not as simple as this description implies. There are many indicators of success in business—some are short-term, some are long-term; some focus on finances, some on organizational quality, some on management effectiveness, and some on market strength. Indeed, too much of a focus on certain kinds of performance measurement—say, market share or short-term profits—can cause a company to lose sight of other measurements, such as employee satisfaction or new-product development.

In practice, gauging the performance of a business is as much art as science. When valuing a company, for example, in addition to considering the financials, investors and rating agencies typically take into account many subjective variables, such as the effectiveness of the management, the value of proprietary information or expertise, the trustworthiness of the financial reports, the ability to cope with new competition, the ability to form partnerships with other firms, the capacity to develop and promote staff, the potential to grow the market, and so forth.

Even with the heavy reliance on financial data in the business world and the generally accepted standards with which these data are analyzed, there is still a great deal of judgment that comes into play. In this regard, the challenge of evaluating the performance of a nonprofit organization bears similarity to the challenge of accurately evaluating a business.

From the standpoint of performance, significant differences between the business sector and the nonprofit sector have to do with who pays for products and services and how resources are allocated by markets. In the for-profit world, customers pay for the services they want. Payment is a self-affirming activity. If people are willing to pay for a product or service, it is a strong indication that they receive value from that product or service. (The reverse does not necessarily apply. People are often reluctant to pay for goods that confer value to all of society.)

In the nonprofit arena, the person who uses a service is often not the person who pays for it. Sometimes society pays for the service. It is necessary therefore to develop another mechanism to evaluate the value of services, particularly with respect to the costs associated with the delivery of those services.

The Connection Between Performance Assessment and Capital Allocation

The business sector enjoys financial markets that offer fast and consistent feedback. Despite imperfections and the possibility of deception, in general money flows toward high-growth, high-profit companies. Capital markets, which represent the outcome of centuries of industry building in the for-profit sector, have the beneficial effect of both lowering the cost of capital for effective companies and redeploying resources quickly, thus accelerating innovation and market adaptation.

By contrast, it can take decades for a market leader in the nonprofit sector to achieve anything approaching the level of growth that a top-performing business can achieve in a few years. This is because in the nonprofit world the best-performing organizations do not necessarily attract the most funding.

Conclusion

It is critical to approach performance measurement with imagination and a sense of openness. A rigid approach that seeks to mimic the private sector will likely prove discouraging and potentially damaging.

It is difficult to compare organizations that have different missions and different cost structures (far more difficult than making comparisons in the financial world). The nonprofit sector will never have a bottom line as universal as profit. Even so, the focus on performance measurement and assessment remains a fundamental step toward building a platform by which resources in the nonprofit sector can be more rationally allocated—a step closer to a time when the best-performing organizations can indeed "capture" the benefits of their performance and innovation.

It is worth considering the following:

- The most important reason for measuring performance should be to improve services and effectiveness.
- A useful frame of comparison for any organization is the organization's stated performance goals.
- Organizations seeking to engage in systemic performance measurement should commit to it at all levels.
- To get working, the process may require outside assistance at the outset and a long period of experimentation. Initially it may be more important to gather information than to set hard targets.
- It is helpful to work with a funding partner who supports the process and is willing to finance the capacity build-up.
- It is important to share practices, ideas, lessons, and if possible resources with other organizations pursuing similar goals in order to accelerate the learning process within the sector.

As more nonprofit organizations get better at measuring what they are doing—looking at their own goals and evaluating their own success at meeting those goals—it may be possible to begin developing a framework in which one can speak of industry standards and frames of comparison. Today, however, there is an opportunity to increase the efficiency—and impact—of the nonprofit sector by developing improved systems to align performance and rewards.

Notes

1. Kaplan, R. S., and Norton, D. P. *The Balanced Scorecard: Translating Strategy into Action*. Cambridge, Mass.: Harvard Business School Press, 1996.
2. Business plan submitted to the Yale School of Management–The Goldman Sachs Foundation Partnership on Nonprofit Ventures' First National Business Plan Competition for Nonprofit Organizations, April 2003.
3. Business plan submitted to the Yale School of Management–The Goldman Sachs Foundation Partnership on Nonprofit Ventures' First National Business Plan Competition for Nonprofit Organizations, April 2003.
4. See http://www.rubiconpgms.org/pages/bizEnterprises.html.
5. See http://www.acumenfund.org/; http://www.ceimaine.org/; http://www.riseproject.org/index.html; http://www.communitywealth.org/; http://www.independentsector.org/; http://www.newprofit.com/; http://www.ppv.org/; http://www.redf.org; http://www.venturephilanthropypartners.org/; and http://national.unitedway.org/outcomes/library/pgmomres.cfm.
6. See http://www.globalpartnerships.org/.