

Ensuring Accountability and Measuring Performance

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Nonprofit organizations enjoy considerable autonomy in defining their missions, setting their own goals, and crafting their own strategies for achieving those goals. They are private organizations, but they are granted charters to serve purposes that society has deemed to be of public benefit. The organizations are exempt from taxation, and donors are permitted deductions for gifts made to charitable nonprofits to further those purposes. Tax exemption and the tax deductibility of gifts represent foregone government revenue and therefore are regarded by many as a form of tax subsidy; in other words, to some extent, nonprofits are working with the public's money. That gives society an interest in ensuring that they are *accountable* for their use of the resources entrusted to them and that those resources are indeed being directed toward the pursuit of their social missions. But what exactly is society entitled to expect?

The question is a little like asking, “What is a good student?” Does one qualify just by attending all classes, turning in papers on time, and showing up for exams—that is, by not breaking any of the rules of the course? Or is a good student someone who studies hard and seeks help from the professor when something is not clear—in other words, someone who shows exemplary student behavior? Does being a good student require earning good grades? Do grades accurately reflect what a student may have learned in a course, or is it possible that a better measure would be to compare what he or she knew at the beginning of a course with what he or she knew at the end, maybe basing the label of “good student” on some measure of “value added”? As we will see in this chapter, similar questions arise when we consider ideas such as the accountability, effectiveness, and performance of nonprofit organizations.

Defining and Ensuring Accountability

To be *accountable* essentially means being required to answer, to take responsibility, for one's actions. Perhaps the narrowest concept of accountability for a nonprofit would require merely following the law—for example, obeying the non-distribution requirement, avoiding conflicts of interest, treating staff without discrimination, and filing IRS reports as required. But that might seem to be a minimal standard to expect. Perhaps we might look for something more, not just following the law but also going beyond the requirements of law to follow best practices in

governing and managing the organization—in other words, doing the right things as well as not doing things that are wrong.

But does even a definition of accountability that expects nonprofits to do the right things really go far enough? For example, the board may meet regularly, the budget may be invariably balanced, the staff may be happy and motivated, and there may be a written strategic plan, but that does not ensure that clients are recovering, the symphony is achieving artistic excellence, or public attitudes on the environment are being changed. Thus, perhaps accountability needs to include more than just avoiding transgressions and exhibiting model behavior. It may need to encompass demonstrated effectiveness in achieving the purposes for which the nonprofit exists. That requires not only that the resources entrusted to the nonprofit not be misused, but also that they be used to maximum benefit in pursuing the organization's mission. As we will see, however, this component of accountability turns out to be the most complex, since there is not always consensus on how results should be measured, or even on how they should be defined.

The question of to whom nonprofits must account has long been asked—to clients, to donors, to the larger community, and/or to other stakeholders? It has gained more precise answers in recent years, as governments have increased their reporting requirements and a variety of other entities have cast the light of transparency on nonprofit behavior.

Concern about the accountability of nonprofit organizations has a long history. As early as 1918, the National Charities Information Bureau was created to educate the public about nonprofit organization behavior in order to reduce the incidence of charity fraud. But concern about accountability became heightened in the 1980s, 1990s, and 2000s. In 1992, the widely publicized misuse of United Way funds by the man who was then president, William Aramony, for which he was convicted and served jail time, shocked the nation. Again after September 11, 2001, accusations that some charity fund-raising appeals were misleading and questions about the use of the funds given to help victims of the terrorist attacks further undermined the public's confidence in the integrity of the sector. Controversies at the Nature Conservancy, American University, and other organizations in the mid-2000s captured the attention of the media as well as the U.S. Congress and further heightened concern about accountability in the nonprofit sector. The sector responded by developing voluntary principles for accountability, but the potential for additional legislation remained. The broader definition of accountability, including the requirement to produce results, also has become more pronounced with the growing impact of donors who view their giving as social investment and demand specific evidence of the impact of their support. For these reasons, the topics of accountability and performance are intrinsically linked today, and both are explored in this chapter.

Mechanisms for Accountability

There are three principal mechanisms by which nonprofits are held accountable: the *rule of law*, *self-regulation*, and *transparency*—that is, holding nonprofit behavior up in clear view for donors, the media, and others to see. Let's take a look at what is currently in place in these three arenas.

Requirements of Law

Chapters 3 and 4 covered some of the legal requirements facing nonprofits, so we need only review a few key points here. Nonprofits must comply with laws at both state and federal levels.

State governments grant nonprofits their charters, and state attorneys general and state courts have the authority to take action against law-breaking nonprofits. This can include the removal of board members who violate their fiduciary responsibilities and possibly even revoking of the organization's charter. Most states also have laws regulating the behavior of nonprofits in specific areas—for example, requiring that they be registered in order to solicit gifts from the general public.

At the federal level, regulation of nonprofits is carried out primarily by the IRS's Division on Tax-Exempt and Government Entities. The IRS has the authority to impose intermediate sanctions or to revoke an organization's tax exemption, eliminating its ability to raise tax-deductible gifts and subjecting it to the requirement to pay income taxes itself. Nonprofits that receive federal funds above certain amounts are also subject to additional rules with regard to their use of the federal dollars. Organizations with revenues greater than \$25,000 (except religious congregations) are required to file an annual Form 990, 990-EZ, or 990-PF with the IRS. As discussed in Chapter 4, beginning in 2009 (with filing of the Form 990 covering 2008), the IRS introduced a revised form that greatly expanded the information required. The revised 990 includes questions related to governance as well as finances and programs. (See Figure 4.1 for the Form 990, Part VI questions related to governance.) Since 2008, even small nonprofits that are not required to file Form 990 are required to electronically file Form 990-N, also known as the *e-Postcard*. It includes minimal information that essentially reflects the organization's existence, without the data encompassed by Form 990.

In 2002, as noted in Chapter 4, Congress passed the Sarbanes-Oxley Act, responding to corporate governance scandals. While Sarbanes-Oxley (or "SOX," as it is commonly called) pertains primarily to publicly traded corporations, two of its provisions—those regarding protection for whistle-blowers and destruction of documents—also apply to nonprofit organizations. Some states, including California, have passed legislation directed at nonprofits that essentially incorporates Sarbanes-Oxley-type requirements (Nonprofit Integrity Act, 2004). Many nonprofits have voluntarily adopted Sarbanes-Oxley provisions as a way to assure their donors that they are operating with high integrity, transparency, and sound governance. In addition, Form 990 implies that nonprofits should comply with some Sarbanes-Oxley practices, even if not required to do so by law.

Principles of good governance and ethical practice established by the Panel on the Nonprofit Sector, which we will discuss soon, also include many points consistent with Sarbanes-Oxley. These developments clearly have pushed the definition of accountability beyond just "do no wrong"; it now includes adherence to best practices in governance and ethical behavior. Using the "good student" we discussed at the beginning of the chapter as a metaphor, nonprofits are now expected to do more than just not be absent from class and miss paper deadlines; they are also expected to demonstrate that they have done their homework, have studied, and have engaged in other activities defined as "good student" behaviors.

The federal Pension Protection Act of 2006, as its title implies, is principally focused on the reform of pensions, but it also contains a variety of provisions that affect the nonprofit sector. They include, among others, changes in the law regarding charitable giving, tighter regulation of certain types of nonprofit organizations, greater communication between the IRS and state authorities regarding action taken against nonprofits, and the requirement that nonprofits with unrelated business income make public their Form 990-T (Johnson, 2006).

This text does not include a complete discussion of laws affecting nonprofit organizations. Moreover, regulations change frequently and the law may change at any time. The suggested readings at the end of this chapter include books that provide detailed discussion of the

nonprofit legal framework, and students will find the website of Independent Sector (www.independentsector.org) to be an excellent source of up-to-date information on new or pending legislation.

Self-Regulation: Standards and Accreditation

If the nonprofit sector would prefer not to be burdened by increased government regulation, then the alternative is to develop more effective mechanisms for self-regulation. In 2004, concern about nonprofit accountability prompted the Finance Committee of the U.S. Senate to hold hearings and consider proposals for significantly increased regulation of the nonprofit sector at the national level. At the committee's request, Independent Sector convened a Panel on the Nonprofit Sector to develop recommendations. The panel's report was presented to the Congress in June 2005; it suggested increased enforcement of existing state and federal law, increased reporting by nonprofits, and some additional legislation. But its emphasis was on the importance of maintaining the sector's independence and on its capacity for self-regulation (Independent Sector, 2005).

The Panel on the Nonprofit Sector's recommendations and 33 principles for good governance and ethical conduct were published in 2007 and are summarized in Table 6.1. The principles are organized into four broad areas: legal compliance and public disclosure, effective governance, strong financial oversight, and responsible fund-raising. Students will note that some of the principles are reflective of Sarbanes-Oxley requirements and the questions in Part VI of Form 990, which was discussed in Chapter 4.

There are a number of well-known standards of practice in addition to the Panel on the Nonprofit Sector's principles, some of which are the basis for *accreditation* of nonprofits by various authorities.

There is a long history of accreditation of educational and health care institutions. For example, schools and colleges are accredited through regional associations. Individual institutions engage in self-studies according to a process defined by the accrediting body and are evaluated through intensive visits by teams from peer institutions. Professional schools within universities have separate accrediting mechanisms; for example, law schools are accredited by the American Bar Association and business schools by the Association to Advance Collegiate Schools of Business. Health care organizations, including hospitals, nursing homes, health care networks, and other service providers, are accredited by the Joint Commission on Accreditation of Healthcare Organizations, itself a nonprofit organization.

Although educational accreditation is voluntary, accrediting bodies are recognized by the U.S. Department of Education, and accreditation is required in order to be eligible for certain government funds. Likewise, accreditation of health care organizations is voluntary, but the power of government creates a significant incentive, since status as an accredited health care provider is required in order to be eligible to receive certain government reimbursements, an essential source of revenue for many organizations.

In the broader nonprofit sector, the accreditation of organizations is a relatively recent concept, having its origins in the development of accountability standards and definitions of best practices by state associations of nonprofits and others. As one example, the Maryland Association of Nonprofit Organizations (2010) developed Standards for Excellence in nonprofit management that are well regarded and have become a model for other state associations across the country. The Maryland standards are based on 8 guiding principles and 55 standards related to these principles. The guiding principles are presented under the categories of mission and

TABLE 6.1 ■ Principles for Good Governance and Ethical Practice**Legal Compliance and Public Disclosure**

- (1) A charitable organization must comply with all applicable federal laws and regulations, as well as applicable laws and regulations of the states and the local jurisdictions in which it is based or operates. If the organization conducts programs outside the United States, it must also abide by applicable international laws, regulations, and conventions that are legally binding on the United States.
- (2) A charitable organization should have a formally adopted, written code of ethics with which all of its directors or trustees, staff, and volunteers are familiar and to which they adhere.
- (3) A charitable organization should adopt and implement policies and procedures to ensure that all conflicts of interest, or the appearance thereof, within the organization and the board are appropriately managed through disclosure, recusal, or other means.
- (4) A charitable organization should establish and implement policies and procedures that enable individuals to come forward with information on illegal practices or violations of organizational policies. This “whistle-blower” policy should specify that the organization will not retaliate against, and will protect the confidentiality of, individuals who make good-faith reports.
- (5) A charitable organization should establish and implement policies and procedures to protect and preserve the organization’s important documents and business records.
- (6) A charitable organization’s board should ensure that the organization has adequate plans to protect its assets—its property, financial and human resources, programmatic content and material, and its integrity and reputation—against damage or loss. The board should review regularly the organization’s need for general liability and directors’ and officers’ liability insurance, as well as take other actions necessary to mitigate risks.
- (7) A charitable organization should make information about its operations, including its governance, finances, programs, and activities, widely available to the public. Charitable organizations also should consider making information available on the methods they use to evaluate the outcomes of their work and sharing the results of those evaluations.

Effective Governance

- (8) A charitable organization must have a governing body that is responsible for reviewing and approving the organization’s mission and strategic direction, annual budget and key financial transactions, compensation practices and policies, and fiscal and governance policies.
- (9) The board of a charitable organization should meet regularly enough to conduct its business and fulfill its duties.
- (10) The board of a charitable organization should establish its own size and structure and review these periodically. The board should have enough members to allow for full deliberation and diversity of thinking on governance and other organizational matters. Except for very small organizations, this generally means that the board should have at least five members.
- (11) The board of a charitable organization should include members with the diverse background (including, but not limited to, ethnic, racial, and gender perspectives), experience, and organizational and financial skills necessary to advance the organization’s mission.
- (12) A substantial majority of the board of a public charity, usually meaning at least two-thirds of the members, should be independent. Independent members should not: (1) be compensated by the organization as employees or independent contractors; (2) have their compensation determined by individuals who are compensated by the organization; (3) receive, directly or indirectly, material financial benefits from the organization except as a member of the

(Continued)

TABLE 6.1 ■ (Continued)

charitable class served by the organization; or (4) be related to anyone described above (as a spouse, sibling, parent, or child), or reside with any person so described.

- (13) The board should hire, oversee, and annually evaluate the performance of the chief executive officer of the organization, and should conduct such an evaluation prior to any change in that officer's compensation, unless there is a multi-year contract in force or the change consists solely of routine adjustments for inflation or cost of living.
- (14) The board of a charitable organization that has paid staff should ensure that the positions of chief staff officer, board chair, and board treasurer are held by separate individuals. Organizations without paid staff should ensure that the positions of board chair and treasurer are held by separate individuals.
- (15) The board should establish an effective, systematic process for educating and communicating with board members to ensure that they are aware of their legal and ethical responsibilities, are knowledgeable about the programs and activities of the organization, and can carry out their oversight functions effectively.
- (16) Board members should evaluate their performance as a group and as individuals no less frequently than every three years, and should have clear procedures for removing board members who are unable to fulfill their responsibilities.
- (17) The board should establish clear policies and procedures setting the length of terms and the number of consecutive terms a board member may serve.
- (18) The board should review organizational and governing instruments no less frequently than every five years.
- (19) The board should establish and review regularly the organization's mission and goals and should evaluate, no less frequently than every five years, the organization's programs, goals, and activities to be sure they advance its mission and make prudent use of its resources.
- (20) Board members are generally expected to serve without compensation, other than reimbursement for expenses incurred to fulfill their board duties. A charitable organization that provides compensation to its board members should use appropriate comparability data to determine the amount to be paid; document the decision; and provide full disclosure to anyone, upon request, of the amount and rationale for the compensation.

Strong Financial Oversight

- (21) A charitable organization must keep complete, current, and accurate financial records. Its board should receive and review timely reports of the organization's financial activities and should have a qualified, independent financial expert audit or review these statements annually in a manner appropriate to the organization's size and scale of operations.
- (22) The board of a charitable organization must institute policies and procedures to ensure that the organization (and, if applicable, its subsidiaries) manages and invests its funds responsibly, in accordance with all legal requirements. The full board should review and approve the organization's annual budget and should monitor actual performance against the budget.
- (23) A charitable organization should not provide loans (or the equivalent, such as loan guarantees, purchasing or transferring ownership of a residence or office, or relieving a debt or lease obligation) to directors, officers, or trustees.
- (24) A charitable organization should spend a significant percentage of its annual budget on programs that pursue its mission. The budget should also provide sufficient resources for

effective administration of the organization, and, if it solicits contributions, for appropriate fund-raising activities.

- (25) A charitable organization should establish clear, written policies for paying or reimbursing expenses incurred by anyone conducting business or traveling on behalf of the organization, including the types of expenses that can be paid for or reimbursed and the documentation required. Such policies should require that travel on behalf of the organization is to be undertaken in a cost-effective manner.
- (26) A charitable organization should neither pay for nor reimburse travel expenditures for spouses, dependents, or others who are accompanying someone conducting business for the organization unless they, too, are conducting such business.

Responsible Fund-Raising

- (27) Solicitation materials and other communications addressed to donors and the public must clearly identify the organization and be accurate and truthful.
- (28) Contributions must be used for purposes consistent with the donor's intent, whether as described in the relevant solicitation materials or as specifically directed by the donor.
- (29) A charitable organization must provide donors with specific acknowledgments of charitable contributions, in accordance with IRS requirements, as well as information to facilitate the donors' compliance with tax law requirements.
- (30) A charitable organization should adopt clear policies, based on its specific exempt purpose, to determine whether accepting a gift would compromise its ethics, financial circumstances, program focus, or other interests.
- (31) A charitable organization should provide appropriate training and supervision of the people soliciting funds on its behalf to ensure that they understand their responsibilities and applicable federal, state, and local laws, and do not employ techniques that are coercive, intimidating, or intended to harass potential donors.
- (32) A charitable organization should not compensate internal or external fund-raisers based on a commission or a percentage of the amount raised.
- (33) A charitable organization should respect the privacy of individual donors and, except where disclosure is required by law, should not sell or otherwise make available the names and contact information of its donors without providing them an opportunity at least once a year to opt out of the use of their names.

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program, governing board, conflicts of interest, human resources (including both volunteers and staff), financial and legal accountability, openness (or transparency) and disclosure, fund-raising, and public affairs and public policy (including public education and public policy advocacy). The standards essentially describe recommended best practices—that is, a set of guides for behavior that reflect a consensus about how a well-managed and accountable nonprofit should operate.

Like other state associations, Maryland's offers a voluntary certification program to organizations that wish to demonstrate their adherence to its Standards for Excellence. Similar to the accreditation process in educational and health care institutions, the process requires that the

organization complete a lengthy application, pay a fee, and be approved by a team of trained peer reviewers. Organizations that successfully complete the process are entitled to use of a Standards for Excellence Seal, a kind of “Good Housekeeping Seal” of approval, in their solicitations and other materials (Maryland Association of Nonprofit Organizations, 2010).

Charity Watchdogs

Nonprofits may find it in their own best interest to voluntarily comply with some set of standards or codes of behavior and seek accreditation from a recognized organization. But there is an increasingly influential array of charity watchdog organizations that proactively examine nonprofit organizations, applying their own standards. They are not really examples of “self-regulation” because they undertake their evaluations with or without the cooperation of the organizations on which they focus. They are an important force in creating increased transparency, and they have influence because of the visibility they enjoy, but they are also often controversial.

For example, among the best known may be the ratings of colleges and universities and hospitals by popular magazines, notably *U.S. News & World Report*, which have been shown to influence students’ choices about where to attend college and patients’ decisions about where to receive medical care. Such ratings surely do not have the force of law, but they are powerful. A negative ranking poses a significant potential threat to an organization, since publicity may deter potential customers, chill giving, or even invite scrutiny from government. And yet, many educators and hospital administrators do not agree that the standards by which *U.S. News* determines its rankings are appropriate or indicative of quality.

One well-known charity rater that operates at the national level is the Better Business Bureau (BBB) Wise Giving Alliance. Formed in 2001 through a merger of the National Charities Information Bureau and the Better Business Bureau’s Philanthropic Advisory Service, the Wise Giving Alliance (hereafter, the Alliance) focuses its attention on the largest nonprofits in the United States. The BBB undertakes investigations of an organization based on complaints or inquiries from the public (in the long-established tradition of consumers reporting businesses to the BBB). While it does not rate organizations, it does report whether they meet or do not meet its various standards, which are available on its website (www.bbb.org/us/Wise-Giving).

Since the BBB has a long history and an established reputation as a watchdog that acts to protect consumers against unethical business practices, the Alliance standards for nonprofits are among the best known and most widely cited in the news media. For example, the Alliance made news in 2001 when it temporarily dropped the American Red Cross from its list of organizations meeting its standards, in the wake of controversy concerning the organization’s post-9/11 fund-raising. (Its approval was subsequently restored.) Beginning in 2003, the Alliance offered charities that meet its standards the use of a “BBB national charity seal” in their promotional and solicitation materials.

The BBB standards are based on best practices; that is, they prescribe what accountable nonprofits should *do* in the areas of governance and oversight, measuring effectiveness, finances, fund-raising, and informational material. They require that organizations have a mechanism for measuring results that involves the governing board, but it is important to note that they do not prescribe the *specific* standards that organizations must apply. The BBB standards require that organizations “have a board policy of assessing, no less than every two years, the organization’s performance and effectiveness and of determining future actions required to achieve its mission.” And the organization must submit “to [its] governing body, for its approval, a written report that outlines the results of the aforementioned performance and effectiveness assessment and recommendations

for future actions” (BBB Wise Giving Alliance, 2010). In other words, the BBB standards emphasize process and accountability, but they are not about setting specific standards of effectiveness or performance, aside from a couple of key financial ratios, which we will discuss below.

Many nonprofit organizations have accepted the idea of best practices, adhere to one or another of the recommended standards, and have sought some type of accreditation or certification. In a 2005 study by Salamon and Geller, 65 percent of organizations surveyed were participating in some type of best practice accreditation program and identified several benefits of doing so, including improved staff and board knowledge, improved accountability and governance, and enhanced staff attention to the organization’s mission (pp. 10–11). It may be that in addition to the potential threat of negative publicity, the widespread acceptance of voluntary standards reflects, as Light (2000) suggests, institutional theory at work. Enunciated standards become a part of the conventional wisdom of what constitutes ethical or sound practice and are increasingly adopted by organizations that seek recognition for being consistent with the norms of the subsector or profession within which they operate.

But the questions remain: Does doing the right things ensure that the organization is effective in accomplishing its mission? Or that it can be described as a high-performing organization? Is there some mechanism that automatically leads from best practices in governance and management to a successful nonprofit organization? Light (2000), and others, conclude that the connection is unclear:

Even if one could develop hard measures of finance, mission, record keeping, and operations, [funders of nonprofits] would be hard pressed to demonstrate a link between any single measure and overall organizational effectiveness. There is no evidence, for example, that having a merit pay system for staff is related to organizational effectiveness, or that holding six board meetings instead of three improves performance, or that adopting a strategic planning process is somehow going to improve outcomes. (p. 52)

Measuring Performance

If doing the right things does not guarantee that the organization is effective in achieving its mission, then we need some standards by which to evaluate results. But how should results be defined, and how should they be measured? Although the subject has been the focus of an intense national conversation in recent years, there is still no consensus answer or even a consistent vocabulary among experts in the field. Some use the terms *organizational effectiveness* and *organizational performance* synonymously. Others define performance as broader than effectiveness, with the latter measuring achievement against mission and the former encompassing “other concepts such as efficiency, productivity, or quality” (Baruch & Ramalho, 2006, p. 41). For example, let’s consider a nonprofit that meets the needs of clients. That could define an effective program and an effective organization. But if the organization loses money every year, the staff are miserable, and management is always just skirting the law, it would be hard to say it is high-performing as an organization. Being effective may be necessary to be high-performing, but it is not necessarily sufficient.

It is also important to distinguish between *effectiveness* and *efficiency*. As Kelly (1998) explains it, efficiency is “a measure of the proportion of resources used to produce outputs or attain inputs–cost ratios,” whereas effectiveness “is measured by comparing the results achieved with the results sought.” As Kelly further observes, “Although efficiency may help an organization

be more effective, the two concepts are not interchangeable” (p. 428). Indeed, some argue that an emphasis on efficiency may in fact work against the effectiveness of organizations by discouraging investment in capacity, a topic that will be discussed in greater detail in Chapter 8.

Another important distinction is that between program effectiveness and the effectiveness of an organization. *Program evaluation* is a method that many nonprofits use to determine whether specific programs are effective in achieving their goals and objectives. A program “is a set of resources and activities directed toward one or more common goals, typically under the direction of a single manager or management team.” Program evaluation is “the systematic assessment of program results and, to the extent feasible, systematic assessment of the extent to which the program caused those results” (Newcomer, Hatry, & Wholey, 2004, p. xxxiii).

Organizational effectiveness looks at the broader question of whether the organization as a whole is effective in achieving its mission. Of course, for a small nonprofit with a single program, the distinction may not be very meaningful. For larger, more complex organizations with broad missions, however, the difference may be significant. For example, a university might have a very effective basketball team, one that frequently wins championships, but it may not be a very effective university overall.

Financial Ratios as Measures of Performance

In the business world, financial data and ratios are the principal ways to measure a company’s performance and strength. A company’s earnings, earnings per share, stock price, and the ratio of stock price to earnings (the P:E ratio) are important variables that investors consider. Some have applied a similar approach to nonprofit organizations. The advantages of using financial indicators are that the data are objective, readily available, and easily compared, across either the nonprofit sector or particular subsectors. But critics argue that they fail to account for the realities faced by many organizations, that they may be at best misleading, and that they are potentially destructive.

A 2004 study by the Urban Institute and Harvard’s Hauser Institute (Fremont-Smith & Cordes, 2004) looked at 10 monitoring organizations that use financial ratios and found a variety of measures being applied, including variations of the following:

- The ratio of program expenses to contributed income
- The ratio of fund-raising expenditures to private support received—that is, the cost of raising a dollar
- The percentage of total expenditures (or income received from contributions) applied to charitable programs or activities
- The percentage of total expenditures applied to fund-raising and administrative (overhead)
- Accumulated cash and asset reserves in relation to operating budget

Until 2010, one of the prominent charity raters, Charity Navigator, based its ratings exclusively on financial ratios. Its approach is summarized in Table 6.2. In response to widespread commentary on the limitations of such ratios, it was reported in late 2009 that Charity Navigator would review its methodology during 2010, with the intention of decreasing its emphasis on overhead costs and devising new methods of evaluating the results of programs (“Proving That Charity Works,” 2009). Any new methodology developed by Charity Navigator in 2010 was adopted too late to be incorporated in this text, so students should consult the organization’s website to see what resulted from the review. (www.charitynavigator.org).

Unlike the BBB Wise Giving Alliance, which rates nonprofits according to whether they meet or do not meet its standards, Charity Navigator ranks nonprofits using a system of “stars,” like those used by Morningstar to rank mutual fund performance. Under its 2010 approach, at least through mid-2010, Charity Navigator does not establish an absolute standard for program expenditures or fund-raising costs, but for the former, higher is better and for the latter, lower is better; that is, the higher the percentage spent on programs and the lower the percentage spent on fund-raising, the more stars the organization will receive. Charity Navigator evaluates organizations on the basis of “organizational efficiency” and “organizational capacity,” both defined in financial terms, using the indicators described in Table 6.2. The seven categories of indicators are combined to calculate an overall numerical rating, which Charity Navigator then compares with the ratings of all the charities it surveys, charities with similar missions, and organizations in the same peer group as the one being rated.

TABLE 6.2 ■ Charity Navigator Approach to Rating Organizations

Organizational Efficiency:

We assess four key indicators to determine how efficiently and responsibly a charity functions day to day.

1.	Program Expenses: Percent of total functional expenses spent on programs and services. (higher is better)
2.	Administrative Expenses: Percent of total functional expenses spent on management and general. (lower is better)
3.	Fundraising expenses: Percent of total functional expenses spent on fundraising. (lower is better)
4.	Fundraising efficiency: Amount a charity spends to raise \$1. (lower is better)

We combine the scores in these four categories to obtain an overall efficiency score. Based on the score, we assign a rating of between zero and four stars to each charity (four being the highest).

Organizational Capacity:

We assess three key indicators to determine how well a charity is positioned to sustain its programs over time.

5. & 6.	Primary Revenue Growth & Program Expenses Growth: Measures a charity’s average annual growth of primary revenue or program expenses over its three to five most recent fiscal years. (higher is better)
7.	Working Capital Ratio: Determines how long a charity could sustain its level of spending using only its net available assets, as reported on its most recently filed Form 990. (higher is better)

We combine the scores in these three categories to obtain an overall capacity score. We then assign a capacity rating of between zero and four stars (four being the highest).

Overall Rating:

We combine all seven categories to obtain an overall score. We use this rating to compare a charity to all charities in our sample, to charities pursuing similar missions, and to a small set of charities in its peer group. Please review Our Ratings Tables for more information on the scales we use to assign ratings and What Do Our Ratings Mean for a description of our star system.

Two of the variables most emphasized by those who use financial ratios to rate charities are the cost of fund-raising and the percentage of expenditures that go for overhead rather than for programs and services. As mentioned above, while the BBB standards do not in general emphasize financial ratios, they require that an organization's spending on fund-raising be no more than 35 percent of the funds raised. However, the BBB also permits an organization to offer a justification for higher ratios, an accommodation to individual realities that some raters do not make. The Maryland standards establish a 3:1 ratio for fund-raising costs (i.e., expenditures should be no more than about 33 percent of gift revenue), and they also permit some flexibility:

A nonprofit's fundraising costs should be reasonable over time. On average, over a five-year period, a nonprofit should realize revenue from fundraising and other development activities that are at least three times the amount spent on conducting them. Organizations whose fundraising ratio is less than 3:1 should demonstrate that they are making steady progress toward achieving this goal, or should be able to justify why a 3:1 ratio is not appropriate for their organization. (Maryland Association of Nonprofit Organizations, 2010)

The percentage of total expenditures directed toward program-related activities, rather than overhead or fund-raising, is viewed by some as a measure of an organization's efficiency in delivering its services. Too low a percentage may even be seen as a potential red flag, suggesting that management is deriving excessive compensation or other benefits from the organization or that fund-raising has replaced mission as the organization's highest priority. For example, the BBB standards require that at least 65 percent of expenditures be devoted to programs but, again, they allow that organizations not meeting that standard may provide an explanation.

Indeed, organizations that spend too much on overhead or fund-raising may be making inefficient use of donor funds or perhaps may be spending too lavishly on salaries and other overhead costs. Very high fund-raising costs may suggest the possibility of inefficiency, or even unethical or fraudulent behavior. But, critics argue, rating organizations based on their overhead and fund-raising costs may create perverse incentives. For example, this approach may simply encourage organizations to engage in creative accounting to allocate costs to programs rather than administration. Insisting on low fund-raising costs also may place young organizations at a disadvantage. They often need to invest substantial amounts in developing a database of regular donors that will ultimately produce continuing revenue at lower costs. Moreover, low fund-raising costs may not be realistic for an organization that advocates unpopular causes or lacks a constituency of major donors (Fremont-Smith & Cordes, 2004).

Others critics argue that "the fundraising efficiency standard is not a measure of efficiency at all. [Rather,] it documents the sunk costs associated with cultivating donors" (Hager & Flack, 2004, p. 3). In other words, looking at just this year's fund-raising costs ignores the substantial amounts that the organization may have spent in earlier years to develop relationships with donors who now make larger gifts, lowering the per-dollar cost of fund-raising today.

Still others argue that high program-spending ratios are not a measure of organizational effectiveness, and indeed, they may even work against building effective organizations by encouraging them to "value thrift over excellence." Trying to maintain a low ratio may cause an organization to invest too little in "good governance, planning, compliance and risk management, collection of data for service performance evaluations, and staff training" (Hager & Flack, 2004, p. 4).

Financial ratios do provide one perspective on the operations of an organization. However, despite their ease of use, they may not present the complete picture. While this approach has

gained visibility among many donors, leading thought in the field appears to be moving away from an emphasis on this method. In the view of some critics, “the undue emphasis on financial ratios diverts attention and resources from the development of more meaningful measures that address performance against mission and program objectives” (Hager & Flack, 2004, p. 4).

Measuring Against Peers

If simple financial measures applied to all nonprofit organizations are potentially misleading, perhaps a more accurate picture may be obtained from comparing data from organizations that are similar in their mission, size, location, and other characteristics. Comparing similar organizations is at the heart of benchmarking.

As Poister (2003) notes, the term *benchmarking* is often misused. Some organizations set goals for future years in their strategic plans and then measure their progress by looking at targets, which they call “benchmarks.” But in its proper definition, benchmarking involves comparisons among organizations, either at the macro (whole organization) or at the micro (program or function) level. Benchmarking involves collecting data from multiple organizations “in order to ‘peg’ the performance of a particular [organization] in relation to [those offering] comparable programs” (p. 238). For example, an organization might look at statistics on client outcomes across a group of organizations providing services to individuals with similar problems or compare its patterns of gift revenues with those of similar organizations. This macro approach, called *statistical benchmarking*, may be a useful technique in strategic planning and may help highlight strengths or weaknesses of the organization that require further analysis.

Another approach to benchmarking, what Poister (2003) calls *corporate benchmarking*, “compares the organization’s practices with those of others doing similar things but who are deemed to be the best at doing it” (Murray, 2004, p. 361). A technique adopted from business, this type of benchmarking requires identifying best practices—that is, the most effective or efficient methods of performing specific functions—and seeing how the subject organization compares with the best. It is thus not really a tool for evaluating the whole organization, although some assume that “a thorough program of benchmarking will ‘roll up’ to provide a good indicator of how well the organization is doing overall” (Murray, 2004, p. 361).

Christine Letts et al. (1999a), advocates of benchmarking, argue that it “bridges the gap between great ideas and great performance” (p. 86) and that the nonprofit culture of openness and sharing may make it a more feasible approach for them than for competitive businesses. However, like the use of financial ratios, benchmarking also has its critics. For one, it requires a larger investment of time and effort than comparing financial ratios, which are readily available from Form 990s. Second, there is no way to really know whether the practice being studied is related to an organization’s overall effectiveness. For example, how does the amount of time required to process the payroll relate to whether it is an effective organization? In addition, it is often difficult to identify the specific indicators on which the best practice is to be compared. For example, what number best indicates how many clients have “recovered” from an illness or addiction? It is also often tricky to identify which organizations can really be considered alike. For example, nonprofits in different cities may face very different funding environments and more or less favorable markets for volunteers and staff.

Benchmarking is a useful tool, but perhaps more for examining specific program or administrative functions than for evaluating the effectiveness or performance of an organization. Moreover, since the selection of peer organizations is often complicated by local factors,

benchmarking may be better used as a tool for learning than for evaluating. If used (or perceived) as a technique for evaluating the performance of specific departments or staff, it also may come to be manipulated; that is, individuals may try to game the system by selecting peer organizations with which they think they may have the most favorable comparisons.

Measuring Against Mission (Outcomes)

Financial ratios and benchmark data may provide some insights into a nonprofit's performance, but mission is the heart of the matter. It is the very purpose for which a nonprofit exists. Thus, the most important indicators of effectiveness should be related to its success in accomplishing that mission. As Brian Gallagher, president of the United Way of America, expressed it in 2005,

Financial accountability is just table stakes. You *have* to get that right first. But, ultimately, the American public should hold our sector accountable for delivering on our missions. . . . We should be asked to report concrete results that are tied directly to our missions, not just the level of activity we produce. (n.p., italics original)

The outcomes approach to measuring program effectiveness has gained wide acceptance, in part through the efforts of the United Way of America, which applies it in evaluating its supported organizations. It also has been adopted by many foundations and government agencies for measuring their grantees' effectiveness.

The United Way outcomes model is illustrated in Table 6.3, which highlights the key variables: inputs, activities, outputs, and outcomes. *Inputs* are the resources dedicated to the program, including money, staff, volunteers, facilities, equipment, and supplies, as well as the constraints imposed by the external environment. *Activities* are what the program does—for example, tutoring children, feeding the homeless, or providing job training. *Outputs* are the direct products of the activities and are often relatively easy things to measure—for example, the number of children tutored, the number of homeless fed, and the number of individuals trained in employment skills. But measuring outputs does not make the connection to the program's goals, which are generally to change in some way the individuals it serves and to make a lasting difference in their lives. *Outcomes* are the changes that occur in the individuals as a result of their participation in the program—for example, new knowledge, expanded job skills, or a better position in life.

Outcomes may be measured immediately after the individual completes the program (initial outcomes); after a longer period has elapsed, say a few years (intermediate outcomes); and after an even longer period of time (long-term outcomes). Thus, it may be found that students who participate in an after-school tutoring program improve their grades, but are they still succeeding academically 2 years later? Do they go on to complete college in larger numbers than students who do not participate in the program? Are they more likely to be employed a decade after their participation in the program? Obviously, measuring outcomes over the longer term can require considerable effort and expense, perhaps involving the tracking of former clients and follow-up surveys. That can be difficult for organizations that serve clients who are highly mobile and difficult to reach—for example, homeless people.

But measuring outcomes is not quite the same as evaluating programs. In other words, it is one thing to establish that outcomes have occurred, but evaluating the program requires determining that these outcomes were in fact caused by the program (Kopczynski & Pritchard, 2004). That requires developing a sound and plausible *logic model*—that is, a theoretical explanation

TABLE 6.3 ■ United Way Program Outcome Model

Inputs	Activities	Outputs	Outcomes
Resources dedicated to or consumed by the program, e.g., money, staff and staff time, volunteers and volunteer time, facilities, equipment, and supplies Constraints on the program, e.g., laws regulations, funders' requirements	What the program does with the inputs to fulfill its mission, e.g., feed and shelter homeless families, provide job training, educate the public about signs of child abuse, counsel pregnant women, create mentoring relationships for youth	The direct products of program activities, e.g., number of classes taught, number of counseling sessions conducted, number of educational materials distributed, number of hours of service delivered, number of participants served	Benefits for participants during and after program activities, e.g., new knowledge, increased skills, changed attitudes or values, modified behavior, improved condition, altered status

Source: United Way of America (1996).

of the links all the way through the process from inputs to outcomes. Figure 6.1 on page 149 depicts the logic model of a program offering tutoring to at-risk teens. It shows how the organization believes the process works. To justify using school graduation rates as an outcome measure for its program, the organization would need to explain how the mentoring experience *causes* students to complete their homework and attend school more regularly and how homework and attendance affect graduation rates. Otherwise, the rate of students' graduation from high school cannot be a useful indicator of the tutoring program's outcome. One obvious problem in developing such logic models is how to identify the external influences that can cause the outcome in addition to the activities associated with the program. This becomes more of an issue the higher up in the model one ascends. For example, students' grades and graduation rates may be positively affected by the tutoring program, but they also could be affected—either positively or negatively—by students' experiences at home or in the community where they live (Poister, 2003).

One obstacle to measuring outcomes is the loftiness and vagueness of many mission statements. For example, the mission of one organization serving the needs of older people is to enable them “to live with dignity and independence.” One educational institution includes as a part of its mission “fostering a love of learning.” But how are the outcomes of “dignity” or “love of learning” to be defined or measured? And if they are defined and measured and found to exist, how can the organization be sure that its programs are indeed what created them? In other words, what is the organization's *impact* on the measured changes, since there are many factors that influence the lives of older people and students? Sometimes it is necessary to identify more easily obtained intermediate indicators that the logic model suggests may be proxies for the outcomes desired.

An instructive example is provided by the experience of The Nature Conservancy (TNC) in the 1990s. TNC was struggling with the question of how to measure its performance against its ambitious mission, “to preserve the plants, animals, and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive.” For 50 years, it had measured its success by looking at two figures that were readily available, the amount of money it raised and the quantity of land this money enabled it to protect—what became known as “bucks and acres.” But these two measures really reflected the *means* TNC was using, not the *ends* it was committed to achieving. They were inputs, but not outcomes. If the mission was ultimately to preserve biodiversity on Earth, how could TNC be sure that the means it was

employing—the acquisition of money and land—was indeed having an impact on the achievement of that purpose (Sawhill & Williamson, 2001)?

Possibly a better measure of TNC's effectiveness in achieving its mission might have been to count the number of species existing on the planet each year—to measure biodiversity. That would be an outcome. But even if it were practical to take an annual global inventory, the number continues to decline every year, despite TNC's efforts, for reasons way beyond TNC's control. The impact of its programs is small compared with all the other forces affecting the survival of species on Earth. Indeed, using that figure as an indicator of effectiveness in achieving the mission would doom TNC's performance to be assessed as a continual failure because that figure inevitably declines. Moreover, it would be meaningless as a measure of the outcomes of TNC's own efforts.

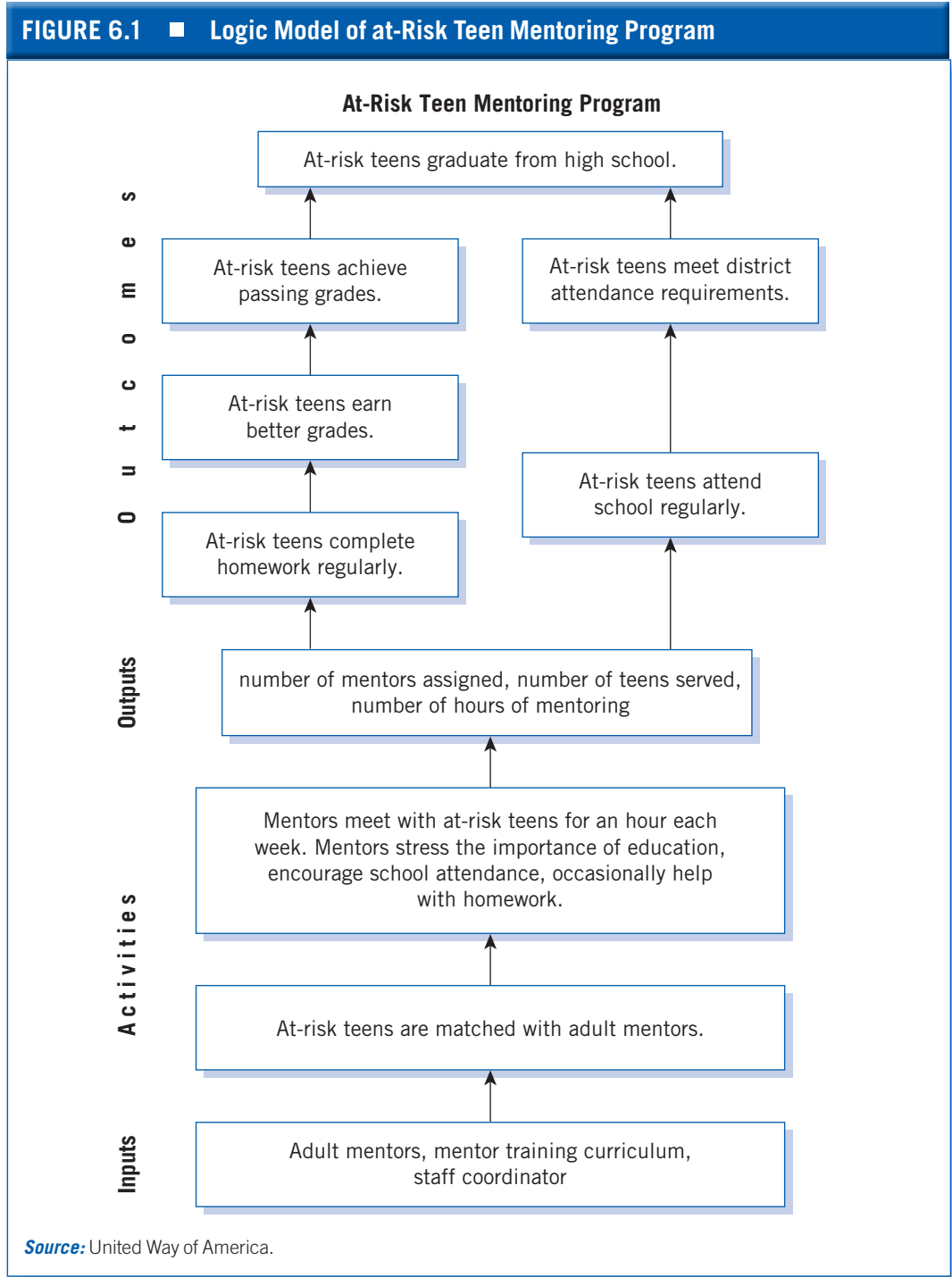
After considering the problem, TNC adopted a family of measures, including the number of species existing on land it *controls*. Easier to count than all the species on the entire planet, and more reflective of TNC's own efforts, this intermediate number could provide a realistic and feasible proxy for the organization's impact on the Earth's overall biodiversity. This approach thus requires developing

micro-level goals that, if achieved, would *imply* success on a grander scale; indicators of goal achievement that can be measured with a feasible level of effort, and that arguably are affected by the organization's efforts rather than other extraneous and uncontrollable factors. (Sawhill & Williamson, 2001, p. 23, italics original)

The challenge is greater for some organizations than for others. Let's consider an organization with the simple mission of "providing a hot meal every day to homeless people." It is perhaps hard to improve on a simple count of the number of meals served—and perhaps a measure of the food's temperature—as a way to measure effectiveness in delivering that straightforward and uncomplicated mission. Those are outputs, not outcomes, but they may be all the organization really needs to know. But take a more complicated mission, say that of the American Cancer Society: "Eliminating cancer as a major health problem by preventing cancer, saving lives, and diminishing suffering from cancer, through research, education, advocacy, and service" (www.cancer.org). Unfortunately, many variables affect the incidence of cancer and cancer death rates—individuals' lifestyles, environmental factors, and the availability of medical care, among others. Just measuring the national cancer rates, whether they are found to be increasing or declining, would not tell the American Cancer Society much about the effectiveness or ineffectiveness of its efforts. But research has demonstrated that screening and educational programs are effective in reducing cancer incidence and mortality; thus, the American Cancer Society can make a sound theoretical link between the effectiveness of its screening and educational programs, which can be more easily evaluated, and achievement of its larger mission, the prevention and eventual elimination of cancer (Sawhill & Williamson, 2001). Obviously, however, the validity of any micro-level indicator as a measure of effectiveness toward achievement of a broader mission depends on the soundness of the *logic model* behind it—that is, the chain of theoretical reasoning that explains exactly how the organization's efforts led to the desired larger result.

It must be emphasized, however, that the outcomes model does not necessarily incorporate other important aspects of organizational *performance*. For example, it is possible to conceive of an organization that is delivering effective programs but whose sustainability as an organization over the long run is imperiled by financial imbalances. It could also be possible to achieve

positive program outcomes, but at a very high cost; in other words, the organization could be very inefficient. Moreover, measuring program outcomes does not tell us anything about the organization's ability to learn and adapt to change.



Common Indicators

As mentioned above, measuring the performance of nonprofit organizations has gained more attention, but the proliferation of approaches has proved frustrating to many. Some have cited the complexity of academic approaches and the demands on staff time and attention to compile and analyze data. Some have questioned to what extent the data compiled are actually used in the operation of many organizations. And some scholars have even concluded that systemically measuring impact in the nonprofit sector is impossible (Lamkin et al., 2006). And yet, demands for performance data are unlikely to abate.

To address this need, in 2004 the Urban Institute and the Center for What Works undertook a project to identify a common set of outcomes and outcomes indicators that nonprofits could use to inform practice and that could be practical to implement. The project's team identified 14 separate program areas regarding their missions, the outcomes they sought, and potential outcomes indicators for tracking progress toward those program areas' missions.

The first step was development of an outcome sequencing chart, essentially a logic model, to explain how outcomes would ultimately lead organizations in each area to fulfill their missions. The chart was then applied to 14 program areas, including adult education and family literacy, advocacy, affordable housing, assisted living, business assistance, community organizing, emergency shelter, employment training, health risk reduction, performing arts, prisoner reentry, transitional housing, youth mentoring, and youth tutoring. In addition, the project's 2006 report included a generic "nonprofit taxonomy of outcomes" as a guide for organizations in program areas in which specific indicators had not yet been developed. As an example, Figure 6.2 includes the outcome sequence chart and common outcome indicators for programs in the field of affordable housing.

The 2006 report issued by the Urban Institute and its partner, the Center for What Works, included several caveats, including acknowledgment that further research would be needed to test and revise the core indicators for the 14 areas, add indicators for additional program areas, and develop a common framework for general guidance. In addition, at that time, the project had not developed specific organization-centered outcome indicators; in other words, the framework did not yet extend to the broader questions of organizational performance ("Building a Common Outcome Framework to Measure Nonprofit Performance," 2006). Students should consult the websites of the Urban Institute and the Center for What Works for updated information on further project work.

Balanced Scorecard

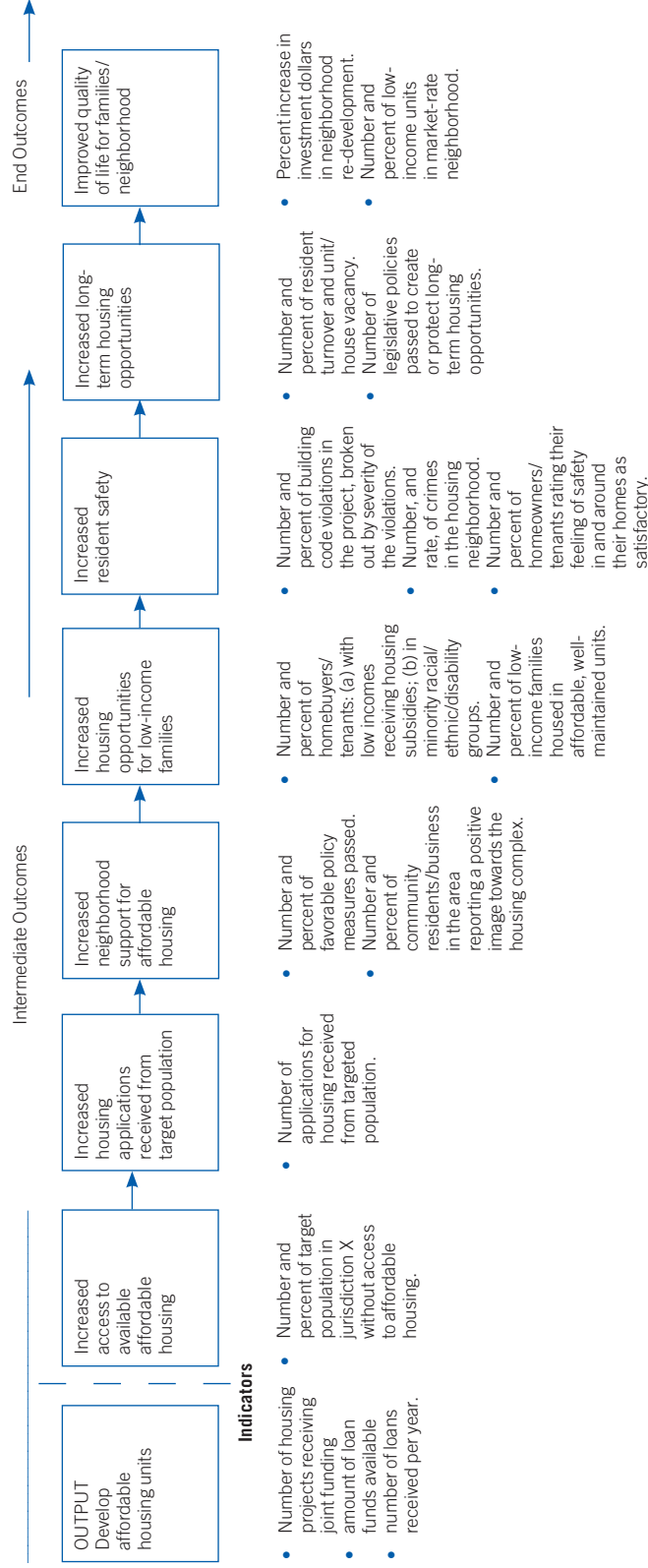
Financial ratios may be an indication of organizational performance, but they do not measure whether the organization's mission has been achieved. Outcomes measure effectiveness against mission, but may not provide insight on broader organizational performance. Benchmarking may be useful as a learning tool, but has shortcomings as a method of evaluating performance, as discussed above. The *balanced scorecard*, and variations on the concept, has been adopted by some nonprofit organizations as a tool for monitoring indicators across various dimensions. Like other models, it has its strengths and weaknesses.

The balanced scorecard is a concept developed by Kaplan and Norton (1992) as a way for businesses to obtain, as the term suggests, a balanced perspective on performance by combining financial data with other considerations. It has since been adopted by many nonprofit organizations and government agencies as a way to combine financial ratios and other data in

FIGURE 6.2 ■ Affordable Housing Program Description

For Community Development Corporations and nonprofit housing organizations, to improve the quality of families and communities, by helping to develop, produce, and manage low-cost affordable housing in safe neighborhoods including rental units and home ownership programs. This program area does not include support services. Organizations providing support services may refer to other applicable program areas, such as employment training, adult education, youth tutoring and youth mentoring, and prisoner reentry.

Outcomes Sequence Chart



Satisfaction with program services is an outcome that occurs within almost every program area, yet does not necessarily have a sequential placement. The indicators may include the following: Number of homeowners/tenants satisfied with application process and other processes in obtaining affordable housing, satisfaction with conditions and maintenance of housing units, number of complaints received and satisfactorily resolved.

Source: Candidate Outcome Indicators: *Affordable Housing Program*. Urban Institute website (http://www.urban.org/center/met/projects/upload/Affordable_Housing.pdf).

measuring organizational performance. The balanced scorecard looks at an organization from four perspectives:

1. *The financial perspective*, including financial performance indicators
2. *The customer or client perspective*, including measures of customer satisfaction
3. *The internal business perspective*, including measures of operational efficiency and quality
4. *The innovation and learning perspective*, including measures of the organization's ability to adapt to changes in the environment (Murray, 2004, p. 359)

Paton (2003) offers a variation of the balanced scorecard designed specifically for nonprofits, which he calls the *dashboard*. His model seeks to answer two fundamental questions: Does it work? In other words, “do the different activities, services, and programs achieve broadly the results intended?” (pp. 139–140). And is the organization well run? Paton notes that there may be a relationship between how well run an organization is and the effectiveness of the programs it delivers, but that the two are separate matters and both need to be measured in order to obtain a complete picture of the organization's performance:

A valuable and innovative service may be provided by an organization that is inefficiently administered, or even by one whose funds are being discretely embezzled; and a well-administered organization with excellent morale may be delivering high-quality programs to clients whose needs are slight compared to those of the client group originally envisaged. (p. 140)

Paton's (2003) dashboard thus looks at the organization from five perspectives, encompassing short-term, medium-term, and long-term measures:

1. *Current results*: Monthly checking against key targets—for example, a summary of achievements, a finance report, a marketing report
2. *Underlying performance*: Annual reviews of the appropriateness and cost-effectiveness of programs and support functions—for example, service outcomes, business outcomes, and external comparisons
3. *Risks*: Monitoring of the ways the organization may be put in jeopardy—for example, by a liquidity crisis, legal or procedural noncompliance, or a breakdown in key relationships
4. *Assets and capabilities*: Annual reviews of capacity to deliver future performance—for example, physical and financial assets, external reputation and relationships, expertise and process knowledge
5. *Change projects*: Regular reports on projects intended to bring about improvements in the organization that the board and the CEO are supervising directly (p. 142)

Many nonprofit organizations use a dashboard to provide an overview of performance to executives and the governing board. It often includes key variables and graphics displays on a single page that provides a comprehensive snapshot of the organization at a point in time, change compared to previous periods, and progress toward goals. The dashboard often summarizes key indicators with regard to both program outcomes and financials.

The balanced scorecard also has its critics. For example, Meyer (2002) notes that the balanced scorecard really measures very different things—for example, financial results and customer

satisfaction, numbers that must be looked at alongside each other rather than combined. It does not provide a single measure of an organization's performance. He suggests instead the idea of identifying correlations between measures. For example, do good financial results always go along with customer satisfaction? If so, there is no need to measure customer satisfaction directly, since it can be assumed from the financial results. Using this approach, he offers what he calls *activity-based profitability analysis* as a simpler alternative to balanced scorecard approaches.

Social Return on Investment

The concept of the double bottom line has been mentioned earlier in this text. It refers to the need for nonprofit managers to look to both their organization's financial performance as well as the social impact of its programs. In 1996, the Roberts Enterprise Foundation (now known simply as REDF), a venture philanthropy fund based in San Francisco, pioneered the concept of *social return on investment* (SROI) as a way to put a dollar figure on—that is, to monetize—the social value created by nonprofits. The idea was to add social return to financial return in order to generate a single number—in dollars—that could be used as an indicator of the organization's performance and value.

As a venture philanthropy fund, REDF approaches giving as a form of investing in a select group of nonprofits, called its portfolio organizations. And, like other investors, REDF seeks to measure the return on its investments. Financial return is easy to understand: If you invest \$100,000 and receive \$10,000 in income, that's a return of 10%. But how do we measure the less tangible social benefits created by a nonprofit's programs? SROI provides a method for measuring those social benefits in dollar terms so that they can be compared with expenditures to produce a single number as simple to understand as the rate of return on a philanthropic investment.

REDF's SROI methodology evolved from *cost-benefit analysis*, a technique drawn from applied economics and most often used to evaluate government programs. As Kee (2004) explains it,

Cost-benefit analysis attempts to assess a program or project by determining whether societal welfare has or will increase (in the aggregate more people are better off) because of the program or project. Cost-benefit analysis can provide information on the full costs of the program and weigh those costs against the *dollar value of the benefits* [italics added]. The analyst can then calculate the net benefits (or costs) of the program or project, examine the . . . ratio of benefits to costs, determine the rate of return on the original investment, and compare the program's benefits and costs with those of other programs or proposed alternatives. (p. 524)

The advantage of this approach is that it produces a ratio that can be used to compare programs against programs. But putting a dollar value on social benefits—that is, monetizing them—can be a challenge. As an example, let's consider a program that offers job training, helping people move from welfare to work. The benefits may include the new income taxes paid by the people who become employed, savings through lower welfare costs, less need for homeless shelters, and perhaps savings in the cost of policing as fewer people are on the streets. These benefits can be given a dollar value and summed to find the SROI in the nonprofit's job-training programs. But that does not include, for example, the very real benefits of reduced fear and social tension resulting from the decrease in crime. Though real, they are hard to measure, especially in dollar terms. Moreover, costs are incurred to support the program today, but many of the benefits may not be realized until far into the future. For example, one

benefit of an after-school tutoring program that helps young people complete high school may be their higher wages after graduation. That is, at least theoretically, easily stated in dollar terms. But increased education also may lead to healthier and happier lives through their lifetimes, although this is hard to capture and harder to monetize (Kee, 2004).

Although SROI has been adopted by a number of organizations, especially social enterprises that worked with REDF and other venture philanthropy funds, REDF no longer uses SROI exclusively as its measure of an organization's social performance. A 2008 report by Javits acknowledges the shortcomings of the model:

- The SROI analysis process is resource intensive;
- Engaging the practitioner is essential and time-consuming;
- Metrics are important, but metrics aren't everything;
- SROI is a good tool, but SROI isn't everything. (n.p.)

Javits (2008) goes on to say,

One of the primary flaws was that the model was built on, and had the tendency to focus attention upon, cost savings to society, while it did not adequately incorporate many of the ways that social enterprise employment improved peoples' lives. For example, while social return could and did measure the dollar value of reduced time in prison or jail, we were not able to incorporate factors that we were unable to quantify, such as improved family relationships or mental health status. (n.p.)

REDF has moved to a system it calls Ongoing Assessment of Social Impacts (OASIS), which continuously collects and analyzes data on a range of key indicators of performance. It is, in essence, a balanced scorecard approach. Its website (www.redf.org) is rich with literature and tools related to performance measurement.

Blended Value

The emerging concept of blended value builds on the idea of social return on investment by adding a third component—impact on the environment. With the increasing focus by nonprofits on financial results and the growing corporate concern about social responsibility, many observers note a blurring of the nonprofit and for-profit sectors; in other words, they argue that nonprofits and business firms are becoming more alike and that it should therefore be possible to define some common measures of performance that could be applied to *all* organizations *across the sectors*, including nonprofit, for-profit, and hybrid enterprises. Blended value is advanced as the answer. Simply defined,

Value is what gets created when investors invest and organizations act to pursue their mission. Traditionally, we have thought of value as being either economic (and created by for-profit companies) or social (and created by nonprofit or non-governmental organizations). What the Blended Value Proposition states is that all organizations, whether for-profit or not, create value that consists of economic, social and environmental value components—and that investors (whether market-rate, charitable or some mix of the two) simultaneously generate all three forms of value through providing capital to organizations.

The outcome of all this activity is value creation and that value is itself non-divisible and, therefore, a blend of these three elements. (Blended Value, 2006, n.p.)

Baruch and Ramalho (2006) analyzed a variety of scholarly articles, some reporting research on nonprofits and others reporting on for-profits. They found some common ground in the measures that those various studies used to measure organizational effectiveness. However, as they observed, “all measures seemed to correspond to broadly diffused concepts” (p. 58). In other words, organizations in different sectors can be compared using similar measurements, but only at a very high level and in very general terms. Corporations and nonprofits do have characteristics in common, since both are organizations, but limiting the study of effectiveness to their common characteristics may require a level of generalization that is simply not informative. For example, both dogs and cats might be evaluated by their effectiveness in winning their owners’ hearts, as well as eating, drinking, and sleeping. But none of these qualities would be related to their effectiveness in catching mice or guarding a junkyard, tasks for which cats and dogs are generally superior, respectively.

In the past, corporations have worked to maximize *economic* value, while nonprofits have tried to maximize *social* value—that is, to increase SROI. However, the blended value theorists say, value should be thought about as having three components: economic value, social value, and environmental value (Blended Value, 2006). Both companies and nonprofits should be measured by how much of all three they create—in total. Thus, companies may create considerable economic value, but through socially responsible behavior they may also create some social value. For example, companies earn profits for their owners but also create jobs for the less well-off. Nonprofits may score high as creators of social value and lower than companies in creating economic value, but many now operate revenue-generating enterprises, and they may also earn profits and contribute to the economies of their communities. Both companies and nonprofits may affect the environment, in positive or negative ways. In other words, the blended value advocates call for “breaking down the silos” and developing a single measure to evaluate for-profits and nonprofits in terms of the total benefits, or value, that they create (Blended Value, 2006).

Although the use of blended value to measure organizational performance across the nonprofit and business sectors is intellectually intriguing, there are several challenges to its wider acceptance. For one, there are some critics who challenge the very concept of corporate social responsibility, one of the silos across which blended value measures would be built (Doane, 2005). There are strong incentives for corporations to maximize financial returns, including the ratings of financial analysts and the pressure of shareholders seeking to maximize the financial returns on their investments. And, of course, there remain the inherent difficulties of defining and measuring social impact in both sectors.

However, work continues on innovative concepts similar to blended value and on the idea that social enterprises might be valued and receive investments much like for-profit companies. In 2008, the Rockefeller Foundation awarded a grant of \$500,000 to develop a *social stock market* to be based in London. “The market would allow investors to trade shares in projects that seek to preserve the environment, such as clean technology, and that promote health care, aid for the poor, or other social goals” (“Rockefeller Foundation Gives \$500,000,” 2008).

Performance Measurement: The Continuing Debate

Management inherently involves the strategic allocation of resources to achieve and improve results. A complete disregard for results achieved as a result of resources expended would be not only irresponsible and unacceptable to those who provide those resources, but it would also

be, by definition, *nonmanagement*. However, nonprofit managers are confronted with sorting through an array of options and selecting the measures and methods that will meet both their own need for useful management information as well as the expectations of funders, watchdogs, and regulators. There continues to be a debate both about the appropriate methods to be applied and the emphasis that should be given to efforts to measure results.

One concern that some express is the wide array of proposed standards and methods and the lack of a vocabulary or process that is universally accepted or stable. As Baruch and Ramalho (2006) note, this leaves nonprofit practitioners and scholars vulnerable to “fads with doubtful empirical and theoretical foundations presenting themselves as simple recipes” (p. 59). Another concern is the amount of time and effort devoted to measuring effectiveness and whether indeed the effectiveness of organizations with limited capacity may be compromised by the effort required to compile, analyze, and report data. Some argue that nonprofits could eventually reach a condition of analysis paralysis, consumed with measurement to the preclusion of action. A more philosophical concern is expressed by Paton (2003), who sees a risk of developing “disconnected managerialism,” a situation “where modern discourse and methods are conspicuous (and may even play well externally), but they do not impact the main work, except as noise and a burden” (p. 161). In other words, if nonprofit managers work to the numbers, there is the risk that the numbers will gain more importance than the vital work their organizations are committed to performing. That is, too much emphasis on measuring performance could create a “Dilbert world,” in which the passion and commitment of the professional staff and volunteers are replaced by caution, even skepticism, which might undermine the nonprofit culture and its traditional strengths.

Writing in the *Chronicle of Philanthropy*, Kennard King (2006) raises similar concerns about the risks to nonprofit values in an excessive focus on performance:

When Americans want to preserve and promote values other than making a buck, they come together in nonprofit organizations. When they want to solve problems they see in society, they come together in nonprofit organizations. When they aspire to make the world a better place, they come together in nonprofit organizations. And that points to the real danger of the overzealous application of outcomes thinking: By undermining the value of our aspirations, we take away the purpose and meaning of the work of nonprofit organizations. (p. 63)

In a 2010 column written for VPP News, the online letter of Venture Philanthropy Partners, VPP founder Mario Morino also expresses concerns. Identifying himself as someone who has been “strident” in advocating the importance of outcomes and assessments in the past, Morino (2010) now is worried that

the vast majority of funders and nonprofits are achieving, at best, marginal benefit from their efforts to implement outcomes thinking. Granted, there has been some truly meaningful progress. Select hospitals like the Cleveland Clinic and Mayo Clinic have made great strides in assessing their outcomes and being transparent about their performance. And the Edna McConnell Clark Foundation and a few others have keenly focused on the challenge of social outcomes and have dealt with them well. Yet many other efforts may end up misdirecting, even wasting, precious time and financial resources. In some extreme situations, well-intentioned efforts may actually risk producing adverse effects on nonprofits and those they serve. (n.p.)

Morino (2010) does not oppose performance measurement, but he calls for more appreciation of “soft outcomes”—for example, a holistic approach to services and the impact that nonprofits may have on community building. To clarify, he writes,

The point is this: When public or private funders establish performance metrics and then tie significant rewards or consequences to their achievement, organizations and people will migrate to the behaviors that will allow them to meet their defined targets. If the metrics are appropriate and closely tied to mission, this is a good thing. But if the metrics are overly simplistic and unmoored from mission, then organizations will go racing in the wrong direction. To paraphrase Yogi Berra, they’ll get lost, but they’ll be making good time. (n.p.)

Failure to measure performance is the antithesis of managing and is unacceptable in the environment in which nonprofit organizations exist today. However, practical good sense is required. It may be, as Paton (2003) suggests, that the appropriate position for nonprofit managers is a middle ground between ignoring the need for measuring effectiveness and making it the purpose of the organization. “In considerable measure they are obligated to support measurement and performance improvement—to object can easily appear self-serving and irrational.” On the other hand, “they are fully entitled to have misgivings” (p. 164).

Managers may be tempted, and encouraged by their boards and funders, to embrace the performance jargon and techniques of the day. However, in doing so, they may run the risks we already have identified—distraction from the work of the organization and the potential dissatisfaction of their staffs. But, as Paton (2003) notes,

the alternative—to be negative and distrusting toward performance measurement [altogether]—would be a betrayal of management’s role and responsibilities. Indeed, it can easily become so, slipping into a cynical, overly political attitude, in which the gulf between professional stance and private belief grows steadily wider and more uncomfortable. (p. 165)

The middle position, which Paton (2003) finds to be the “proper one,” is to be “realistic about the range of possibilities,”

to engage constructively with measurement while being very alert to its limitations and misuse, and to approach the performance agenda positively while also being fully aware that every valid and useful method can also become an occasion for goal displacement by being pursued inappropriately or excessively. (p. 165)

Chapter Summary

There is an increasing demand that nonprofit organizations be accountable—that is, responsible for their actions. For some, this has a narrow meaning of following legal and ethical requirements; others include the requirement that nonprofits follow recommended best practices in governance and management. A still broader definition includes the responsibility to demonstrate that the organization is achieving results, that the resources entrusted to it are used not only ethically and legally but also efficiently and effectively.

Accountability is enforced by state and federal laws, but the nonprofit sector also has established methods for self-regulation. These include standards of best practice and programs through which nonprofits can gain accreditation or certification indicating their adherence to such standards. Charity watchdogs and raters, private organizations that evaluate nonprofits according to their own standards, also have influence because of the visibility their ratings command. Transparency, that is, the easy public availability of Form 990 and other sources of data, also has enabled donors to become a force for accountability.

It is necessary to distinguish among program effectiveness, organizational effectiveness, and organizational performance. Effectiveness relates to achieving the mission, but performance is a broader concept that also includes financial results and other variables related to the overall organization. In evaluating effectiveness and performance, some emphasize financial ratios, including the percentage of expenditures devoted to programs rather than overall management and fund-raising. But it is important to distinguish efficiency from effectiveness, with the latter related to accomplishment of the mission rather than merely minimizing costs. Some argue that an undue emphasis on efficiency could undermine effectiveness, by causing organizations not to invest in capacity.

Among other approaches to evaluating performance is benchmarking, which compares organizations with others with similar characteristics, but this may be a technique better suited to learning than to evaluation. An influential approach that is advocated by the United Way and many funders, is outcome measurement. This approach requires developing a logic model that links inputs to activities, to outputs, and to outcomes, the latter representing changes in the people who are served by the program. Outcomes may be measured immediately following completion of the program, over an intermediate term, or over the long term. Long-term measurement may be difficult and costly. The Urban Institute and the Center for What Works have developed common indicators for nonprofits working in specific fields as well as universal core indicators that might apply to all nonprofit organizations. The balanced scorecard seeks to integrate internal, external, and program variables to provide a comprehensive picture of an organization's performance. Many organizations using a balanced scorecard approach prepare a dashboard, a simple and often graphic portrayal of key variables that is used to monitor and communicate performance. Some venture philanthropists and scholars have adopted the tools of cost–benefit analysis and social return of investment (SROI) to measure social impact. Others have developed concepts of blended value, incorporating financial, social, and environmental impacts, which they would apply to both nonprofit and for-profit entities.

All methods of measuring nonprofit performance offer advantages as well as disadvantages. There is a continuing debate about the best methods to use and the appropriate emphasis to give to measurement. Nonprofit managers must be committed to performance measurement but should not become overly focused on it to the detriment of delivering their mission's programs.

KEY TERMS AND CONCEPTS

accountability

accreditation

activity-based profitability model

balanced scorecard

blended value

charity raters

common indicators

corporate benchmarking

cost–benefit analysis

dashboard

effectiveness

efficiency

<i>e-Postcard</i>	<i>outcomes</i>	<i>Sarbanes-Oxley Act</i>
<i>Form 990</i>	<i>outputs</i>	<i>social return on investment (SROI)</i>
<i>inputs</i>	<i>Pension Protection Act of 2006</i>	<i>statistical benchmarking</i>
<i>logic model</i>	<i>performance</i>	

CASE 6.1 The Nature Conservancy

The Nature Conservancy (TNC) is one of the nation's largest nonprofit organizations. Founded in 1951, by 2004 it controlled more than \$3 billion in assets and employed 3,200 staff in 528 offices located in every U.S. state and 30 other nations (Ottaway & Stephens, 2003).

According to its website, TNC's mission is "to preserve the plants, animals, and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive." TNC purchases land itself, which it then preserves, and also operates a Conservation Buyer Program, which enables private individuals to purchase land, subject to conservation easements. By accepting an easement on the property, the buyer agrees to permanent limits on the scale and type of development that will be allowed, thus preserving at least a portion of the property in its natural condition. The program is consistent with TNC's philosophy of "compatible development," that is, the idea that some conservation is better than none and that through this practical approach, TNC can leverage the resources of private individuals and companies to accomplish more conservation than it could working by itself.

Under the Conservation Buyer Program, TNC buys land, then obtains the conservation easements. Because they limit what can be done with the land, the easements reduce its market value. TNC then sells the land to the private buyer at the reduced price, and the buyer makes a gift to TNC for the difference.

In 2003, a series of three articles in *The Washington Post* written by Joe Stephens and David B. Ottaway (2003b, 2003c) leveled serious criticisms against TNC and its practices. The articles raised a number of issues, including TNC's relationship with corporations, the consistency of some of its entrepreneurial activities with its mission, and compensation and loans made to employees. The Conservation Buyer Program received some of the strongest criticism.

The *Post* articles noted that conservation buyers had included individuals who were donors or active volunteer leaders of the organization, who appeared to have had an inside track on purchasing property. Property purchased by conservation buyers included beautiful wooded sites, on which some buyers were able to build homes despite the environmental easements. The authors suggested that while the transactions may have been legal, many of the owners gained valuable land for a discounted price and a deductible gift without really having to alter their plans for the land. As the *Post* authors describe one of the transactions,

On New York's Shelter Island, the Nature Conservancy three years ago bought an undeveloped, 10-acre tract overlooking its Mashomack Preserve, an oasis of hardwoods and tidal pools located just a stone's skip from the exclusive Hamptons. Cost to the charity: \$2.1 million.

Seven weeks after, it resold the land, with some development restrictions to [a former chair of the TNC regional chapter] and his wife. Cost to the [buyers]: \$500,000. (Stephens & Ottaway, 2003c, p. A01)

(Continued)

(Continued)

Like other conservation buyers, the couple in this transaction then made a \$1.6 million gift to TNC, enabling it to recoup what it paid for the land. The donors received a tax deduction for the gift. The *Post* authors cite tax experts who disagree on whether such deductions were legal, with a key issue being whether the donors had received a quid pro quo for the gift (Stephens & Ottaway, 2003c). TNC assured the *Post* authors that the gifts were not tied to the land transactions, but the authors interviewed some donors who said they believed that they were.

TNC's president at the time, Steve McCormick, issued a sharp response to the series of articles within a week of their publication. He claimed that the articles had "painted a distorted picture" with its accusations and, while defending the Conservation Buyer Program, announced that TNC would immediately suspend all new conservation buyer transactions (S. McCormick, 2003; Stephens & Ottaway, 2003d).

Following a yearlong review of its policies and practices, including the assistance of an outside panel, TNC announced in 2005 a wide range of changes, including restructuring of the TNC board, adoption of a number of principles from the Sarbanes-Oxley Act, a strengthened audit function, and new conflict-of-interest policies. With regard to the Conservation Buyer Program, the following new policies were implemented among others (TNC, 2005b):

- Transactions will no longer be undertaken with related parties (generally board members or employees), although such transactions are not prohibited by law.
- Transactions with major donors will be undertaken only following advance review against TNC's strengthened conflict-of-interest policies.
- The land will need to fall within a priority conservation site, established by scientists.
- The land will be offered for sale in a manner that provides an "open and equitable purchase opportunity to all potentially interested parties."
- TNC will obtain independent appraisals to ensure that it receives fair value for the land sold.
- When a gift is solicited in connection with a land sale, TNC "must document that fact and provide the buyer with a statement of the link between the gift and the sale."
- TNC will obtain community input on future use of the land.

The Washington Post series focused attention not only on the Conservation Buyer Program but also on a range of TNC policies and practices. During the following year, while TNC was developing its own strengthened policies, the Finance Committee of the U.S. Senate conducted its own investigation and released a report in 2005 that was critical of a number of TNC's practices, some of which already had been addressed in TNC's own reforms. The Senate Committee's review of TNC coincided with its consideration of broader legislation regulating the nonprofit sector and influenced its thinking about wider reforms (TNC, 2005a).

By 2006, the TNC website featured the Better Business Bureau Wise Giving Alliance seal, certifying full compliance with its standards, and the positive ratings TNC received from Charity Navigator, the American Institute of Philanthropy, and other watchdog organizations.

In an analysis of *The Washington Post* series on TNC, the scholars Max Stephenson Jr. and Elisabeth Chaves (2006) state that the authors used a rhetorical style that "strongly directs the reader toward specific conclusions through inference and implication" (p. 350). Stephenson and Chaves conclude that the series influenced the policies of the organization and the public policy debate on nonprofit accountability. They also provide an interesting perspective on TNC's response to the communication issues presented by the publication of the *Post* articles.

CASE 6.2 Youth Villages

Youth Villages was founded in Memphis in 1986 through the merger of two campuses that provided residential treatment to emotionally and behaviorally troubled young people. In subsequent years, the organization has expanded, eventually opening offices in 11 states and the District of Columbia. As it grew, Youth Villages also expanded its programs beyond residential treatment to include intensive in-home services, treatment foster care, adoption services, community-based services, transitional living services, family-based care for children with developmental disabilities, and specialized crisis services. Over 30,000 children have been served in the past 20 years (Youth Villages, 2010).

The founder of Youth Villages, Patrick Lawler, explains, “In the early years, we thought we were in the business of raising other people’s kids. But many kids were not doing well after they left us” (Levine, 2006). That led Lawler and his associates to implement new models, including the multisystemic therapy model (called “MST”), developed by Scott Henggeler of the University of South Carolina. MST is a holistic approach that encompasses the children’s families as well as the children themselves. MST is now used in 30 states and 10 countries (Levine, 2006).

By offering a continuum of services, Youth Villages aims to help children overcome their challenges and live at home. If a child must receive help beyond his or her own home, residential treatment is provided in the least restrictive setting for the shortest amount of time possible, with transition to a group home or foster home if necessary before returning home. The adoption program helps to find permanent homes in cases where it is not possible for children to return to their birth families (Youth Villages, 2010).

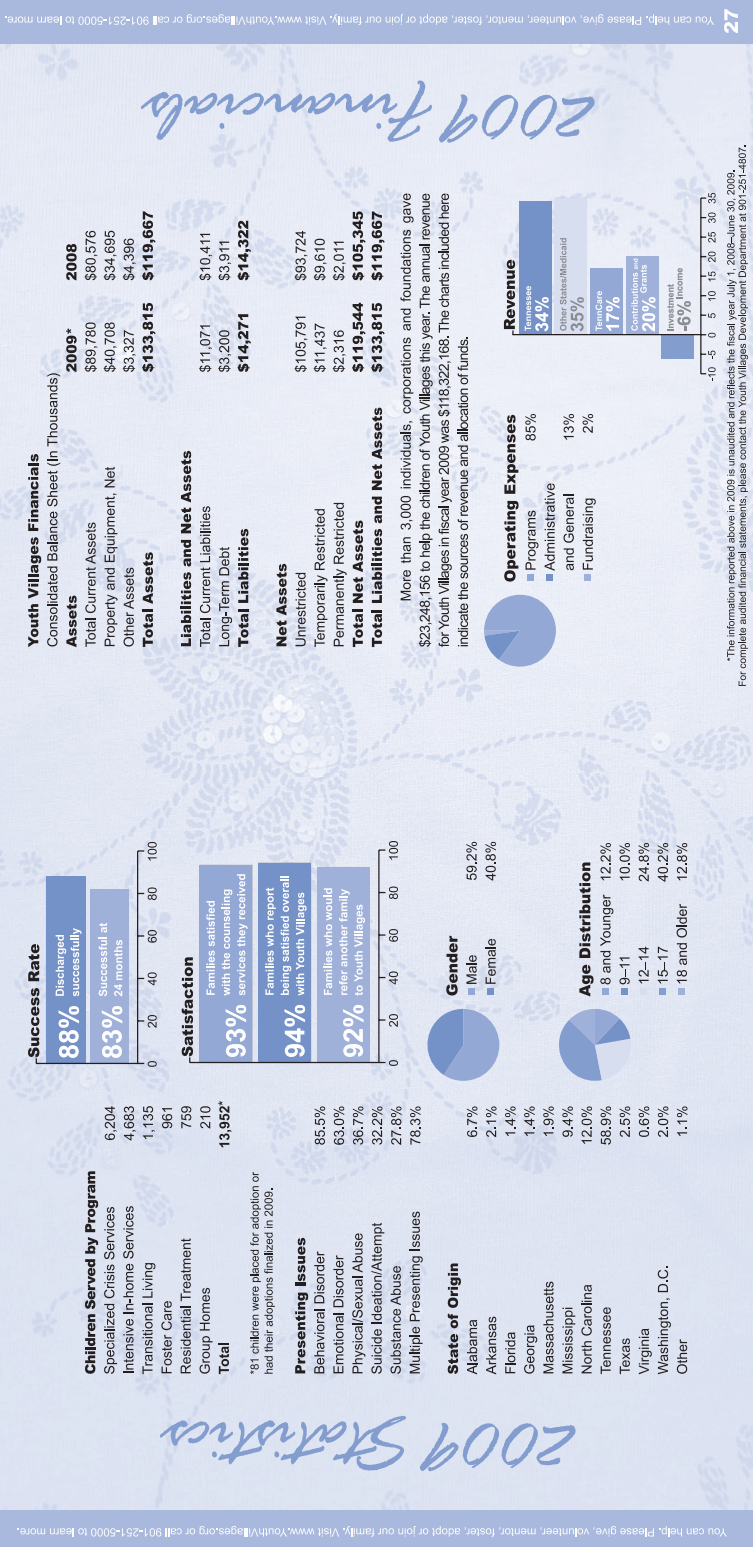
Youth Villages’ model is based on extensive research. The organization established its own research department in 1994, which collects and analyzes data from all youth who have participated in Youth Villages programs for at least 60 days. The youth are tracked at 6, 12, and 24 months post-discharge, and Youth Villages has amassed one of the largest outcome datasets in the country. In addition, the organization has formed research partnerships with 15 colleges and universities to study its data and refine its outcome evaluation process. The findings of research are used to improve Youth Villages’ programs and improve outcomes for young people (Youth Villages, 2010).

Youth Villages’ results are summarized by the Edna McConnell Clark Foundation, which since 2004 has invested more than \$21 million in the organization:

Since 1994, 82% of youth served have remained home successfully two years after discharge. A remarkable 83% have had no trouble with the law, and 82% are either still in school, have graduated, or are getting their GED at 24 months post discharge. Just 13% had been placed at any point in highly restrictive residential treatment centers, psychiatric hospitals, or juvenile facilities. Compared with traditional child-welfare services, Youth Villages’ in-home program offers a 38% lower average monthly cost, a 71% shorter average length of stay, and a long-term success rate twice the national average (80% vs. 40%). Furthermore, Washington State Institute for Public Policy estimated that utilizing MST rather than traditional services saves taxpayers from \$31,000 to \$130,000 per participant. (Edna McConnell Clark Foundation, 2010, n.p.)

In addition to its program successes, Youth Villages has operated with business principles and financial soundness. Beginning in 2007, the Edna McConnell Clark Foundation launched a Growth Capital Aggregation Pilot (GCAP) program with three of its grantee organizations, including Youth Villages, to help them grow, achieve financial sustainability, and serve more children. In 2008, the foundation awarded \$39 million to the program, which was matched with \$81 million from co-investors (other donors) and members of the organizations’ boards. The organizations are permitted to draw down funds for growth capital only if they achieve agreed-upon performance milestones, which include securing reliable, renewable funding (Edna McConnell Clark Foundation, 2010). In 2009, when he announced creation of a \$50-million Social Innovation Fund, President Obama cited Youth Villages as an example of a results-oriented nonprofit that the fund is intended to help expand (Lee, 2009). Figure 6.3 shows Youth Villages’ dashboard for 2009, which includes both program and financial data.

FIGURE 6.3 ■ Youth Villages Dashboard



Source: Success in Black and White: Youth Villages 2009 Program Report (2010). Used with permission by Youth Villages.

QUESTIONS FOR DISCUSSION

1. Are the issues and questions raised in the TNC case related to the concepts of accountability, effectiveness, or organizational performance? To which of those terms is this case most relevant?
2. How does the TNC case relate to the Panel on the Nonprofit Sector's principles?
3. How are the concepts of effectiveness, efficiency, and organizational performance reflected in the Youth Villages case?
4. Which of the approaches to measurement discussed in this chapter are illustrated in the case of Youth Villages?
5. If Youth Villages was to apply the social return on investment (SROI) approach, what would be some of the cost savings to society that might be calculated (i.e., the benefits in dollar terms)?
6. Below are excerpts from the mission statements of three nonprofit organizations in the field of education. Based on these statements, what metrics would you use to measure their effectiveness? Could all three use common indicators, or would the indicators need to be different based on their distinctive missions?
 - The SEED Foundation is a national nonprofit that partners with urban communities to provide innovative educational opportunities that prepare underserved students for success in college and beyond.
 - The District of Columbia College Success Foundation is a nonprofit organization created in 2006 to expand the pipeline of low-income and underrepresented students who complete a baccalaureate degree by providing students the educational and financial incentives, mentoring, and other supports necessary to gain admission to the colleges and universities of their choice.
 - College Summit is a national nonprofit organization that partners with schools and districts to strengthen college-going culture and increase college enrollment rates, so that all students graduate career- and college-ready.

SUGGESTIONS FOR FURTHER READING

Books

- Niven, P. R. (2008). *Balanced scorecard: Step-by-step for government and nonprofit agencies*. Hoboken, NJ: Wiley.
- Paton, R. (2003). *Managing and measuring social enterprises*. Thousand Oaks, CA: Sage.
- Poister, T. H. (2003). *Measuring performance in public and nonprofit organizations*. San Francisco: Jossey-Bass.
- Wang, X. (2009). *Performance analysis for public and nonprofit organizations*. Sudbury, MA: Jones & Bartlett Publishers.
- Wholey, J. S., Hatry, H. P., & Newcomer, K. E. (Eds.). (2004). *Handbook of practical program evaluation* (2nd ed.). San Francisco: Jossey-Bass.

Websites

Balanced Scorecard Institute, <http://www.balancedscorecard.org/>

BBB Wise Giving Alliance, <http://www.give.org/>

Blended Value, <http://www.blendedvalue.org/>

The Center for What Works, <http://www.whatworks.org/>

Charity Navigator, <http://www.charitynavigator.org/>

Guidestar, <http://www.guidestar.org/>

Maryland Association of Nonprofit Organizations, <http://www.marylandnonprofits.org/>

REDF, <http://www.redf.org/>

United Way, <http://www.unitedway.org/outcomes/>

Urban Institute, <http://www.urbaninstitute.org/>

Chapter Outline

Understanding Strategy

Strategic Planning and Strategic Management

The Strategic Planning Process

Planning to Plan

Defining Mission, Values, and Vision

Assessing the Situation

Identifying Strategic Issues

Setting Goals

Strategies

Objectives

Writing the Strategic Plan

Developing an Operational Plan

Identifying Strategic Issues and Developing Strategies

Portfolio Analysis

MacMillan's Strategies Matrix

The Strategic Planning Debate

Chapter Summary

Key Terms and Concepts

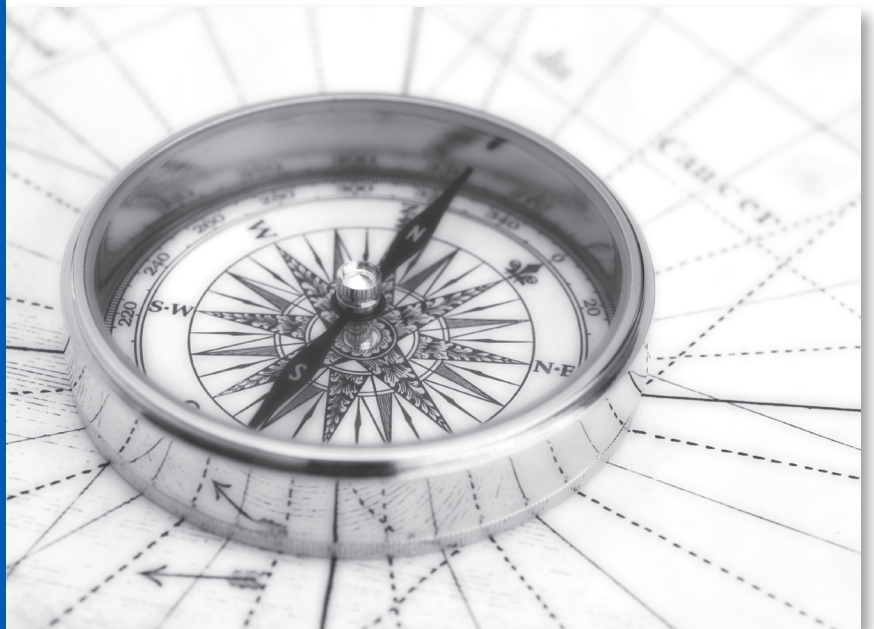
Case 7.1. New Hope Housing Strategic Plan 2007–2012

Questions for Discussion

Suggestions for Further Reading

Books

chapter 7



Strategic planning begins with where the organization is, defines some new place where it wants to be, and develops a plan to get there, all in the context of its mission and values and the realities of the environment in which it operates.

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