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PubPol 671:

# Policy & Management in the Nonprofit Sector

Lecture 6:

Finish Mission, then Performance Evaluation

Neel Hajra

# Recent Articles of Note

- “Once-Robust Charity Sector Hit With Mergers, Closings,” Wall Street Journal, February 1, 2010
- “Colleges and Cities Square Off Over Tax Demands,” The Chronicle of Education, January 31, 2010

# Guest Lecturer

- Feb 17: Maya Enista, Executive Director, Mobilize.Org (which “acquired” Generation Engage)



**First Assignment Posted!**



# MISSION EXERCISE RESULTS

# The first rule of nonprofit management

- Consensus-based management can be hard 😊



# Spread the Arts

- “To provide opportunities for creative artistic expression for local youth to strengthen appreciation of the arts in the community.”

# Ann Arbor Inspired

- “To nurture the creation and appreciation of art among K-12 youth in Ann Arbor”

# Arts 4 Youth


- “Arts 4 youth believes that arts education and appreciation is integral to youth development. A4Y will foster arts appreciation within Ann Arbor’s elementary and middle school students through after-school and summer arts programs.”

# Ann Arbor Stars

- “Ann Arbor Stars seeks to engage and inspire art appreciation in Ann Arbor low-income middle school youth through an active theater arts experience”

# Basic Comparison

	Who	Where	What	Why
<b>Ann Arbor Stars</b>	Low income Middle school	Ann Arbor	Theater activities	Youth Art appreciation
<b>Spread the Arts</b>	"Youth"	"Local"	Creative artistic expression	Community art appreciation
<b>Ann Arbor Inspired</b>	K-12 youth	Ann Arbor	Unspecified	Youth art appreciation
<b>Arts 4 Youth</b>	K-8 youth	Ann Arbor	After-school and summer arts programs	Youth Development



# The Double Bottom Line (continued from last class)

# Mission vs. Finance

- Mission is ultimate goal, but fueled by finance
- Finding the balance is a constant challenge

Mission **DRAINS** resources  
Profit **ADDSTO** resources

# Managing Double Bottom Line

## Managing Mission

- Leadership
- Inspiration
- Wider range of variables

“THE PIED PIPER”

## Managing Finance

- Directive
- Control
- Narrower range of inputs

“THE GENERAL”

Strong nonprofit management demands **MORE** of managers than strong for-profit management!  
(but more permissive of weak management?)



# Sector Implications: Governance

- Frequent disconnects between board and staff
- This can result in disconnects between a nonprofit and the public



# Sector Implications: Capitalization/Funding

- Mission drains resources
- And yet: Mission is the goal!
- Partly explains:
  - Undercapitalization
  - Growing appeal of social enterprise

# Sector Implications: Competing with For-Profits

- Growing competition with for-profits for gov't contracts – mission focus can be a hindrance or a help
- “Efficiency” also a challenge since consensus is inherent in mission-driven enterprise

# Sector Implications: Regulation

- Reliance on mission/trust means heightened scrutiny, therefore higher cost of operations

# Closing Thoughts

- Mission is a fluid, evolving concept (sometimes achieved, sometimes outgrown)
- Growing favor for broader missions – retains flexibility, allows for more entrepreneurship
- Primacy of mission partly explains why nonprofits are often perceived as being inferior to for-profits;
- Mission is a key differentiator!



# Performance Measurement

# De Facto NP Universal Metric?

- Overhead (“G&A”)!
- Pro’s:
  - Universal, generally accepted measure of efficiency
- Con’s:
  - Doesn’t represent quality or mission, easy to “game”, discourages strong infrastructures

# Deceptively Simple

- Critical for proving value (but for whom?)
- Changing landscape
  - Heightened accountability
  - Sector blur



# Recent Stronger Emergence

- Reduction in nonprofit capital since burst of stock bubble (and now recession)
- Venture philanthropy concepts starting to trickle into nonprofit realm
- Continued influx of new faces from for-profit sector
- Higher scrutiny (e.g., senate, media, etc.)
- (Ed Skloot)

# For-Profit World Is Easier

- Everything funnels into profit
- Flexibility in activities and resource allocation
- “Corporate Social Responsibility” blurs this a bit – Gates speech at Davos in 2008!



# Challenges of Performance Measurement

# Double Bottom Line

- Mission bottom line a lot harder to measure compared to financials
- Services tend to be less tangible (i.e., less product-oriented)

# General vs. Specific

- Vague/General:
  - Politics
  - Goal displacement
- Specific:
  - “Tyranny of metrics”: Criteria supplant outcomes and purpose
- Consider impact on:
  - Innovation/flexibility
  - Accountability
  - Individual staff performance

# Multiple Stakeholders

- Mission Redux: Many stakeholders, each with different interpretation of mission AND performance outcomes
- Goals exist at multiple levels, sometimes hard to re-direct

# Value Judgments

- Choice of metrics reflects values of decision-makers
- Examples?
  - NEW Workshop Series

# External Factors

- Outcomes often driven by range of factors; organization is just one piece of the puzzle
- General result: Take credit for success, blame other factors for failure 😊



# Do Great Results Yield Great Rewards?

- Donors don't always see need
  - Doesn't always drive philanthropy
  - Tendency to not cross-compare
  - Confidence in data
  - Note – is this lower standard a derogatory stance by funders?
- Great fundraising sometimes trumps great performance (consider “ROI” in these cases!)
- Anecdote sometimes trumps great performance

# Institutional Pressure

- Jed Emerson:
  - “We do not use the gold standard [of [proven effectiveness]] to put pressure on our grantees...”
  - “...we reserve our largest investments for those who do reach proven effectiveness.”
- Jan Masaoka:
  - “The legitimate yearning [for measurement] often leads to trying to get results that are out of proportion to the investment.”

# Internal: Management Tool

- Metrics can be critical to good management
  - Short term: Results reflect performance
  - Long term: Shapes strategy and allocation of resources
- Metrics can also heavily influence staff performance review



# Approaches to Performance Measurement

# Internal vs. External Control

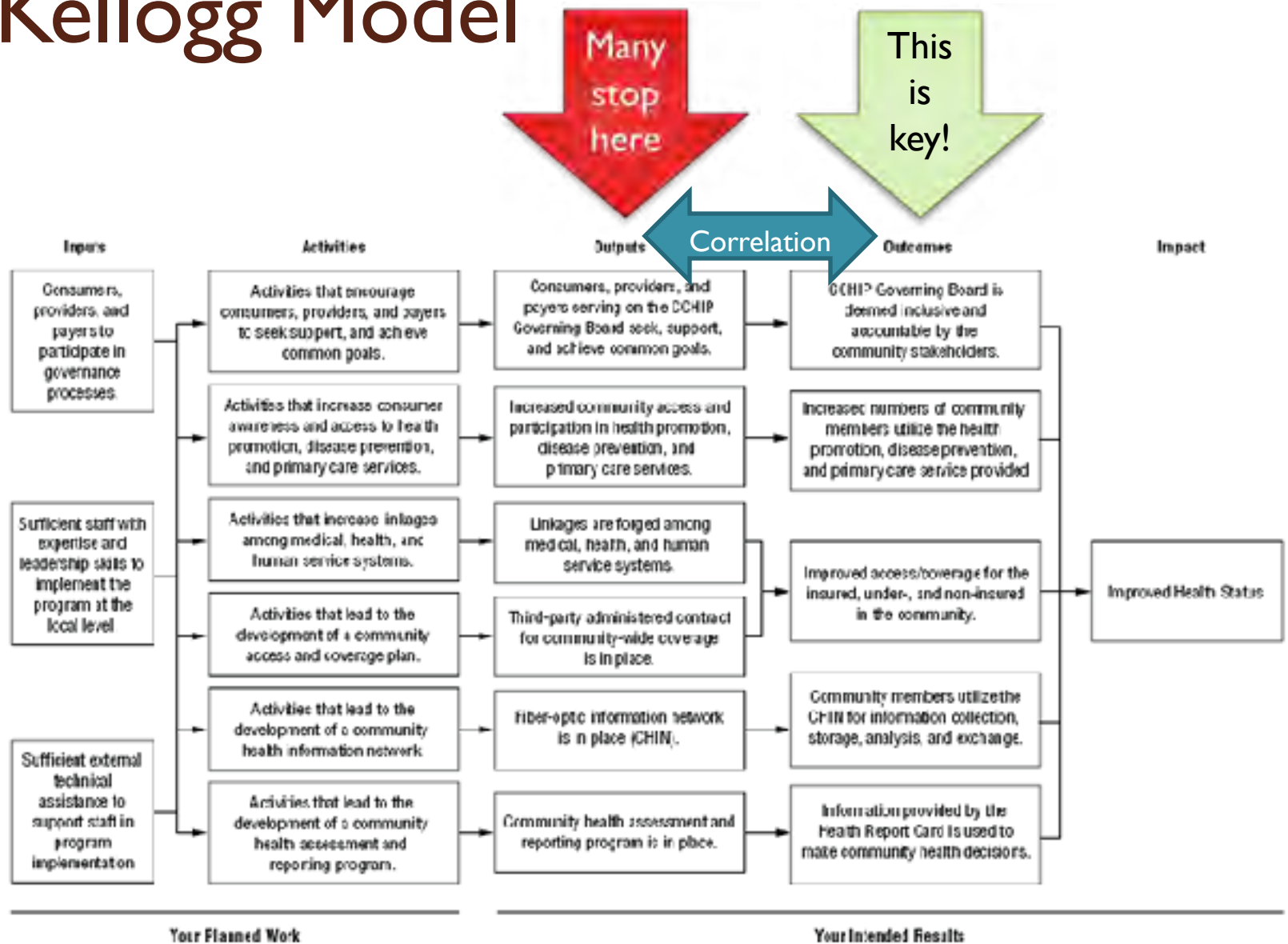
## **Internal: Measure What Org Does**

- Easier and more affordable process
- More tangible results
- Easier to demonstrate achievement

## **External: Measure Whole Picture**

- Better Demonstration of Impact
- More nuanced view of 'ecosystem'

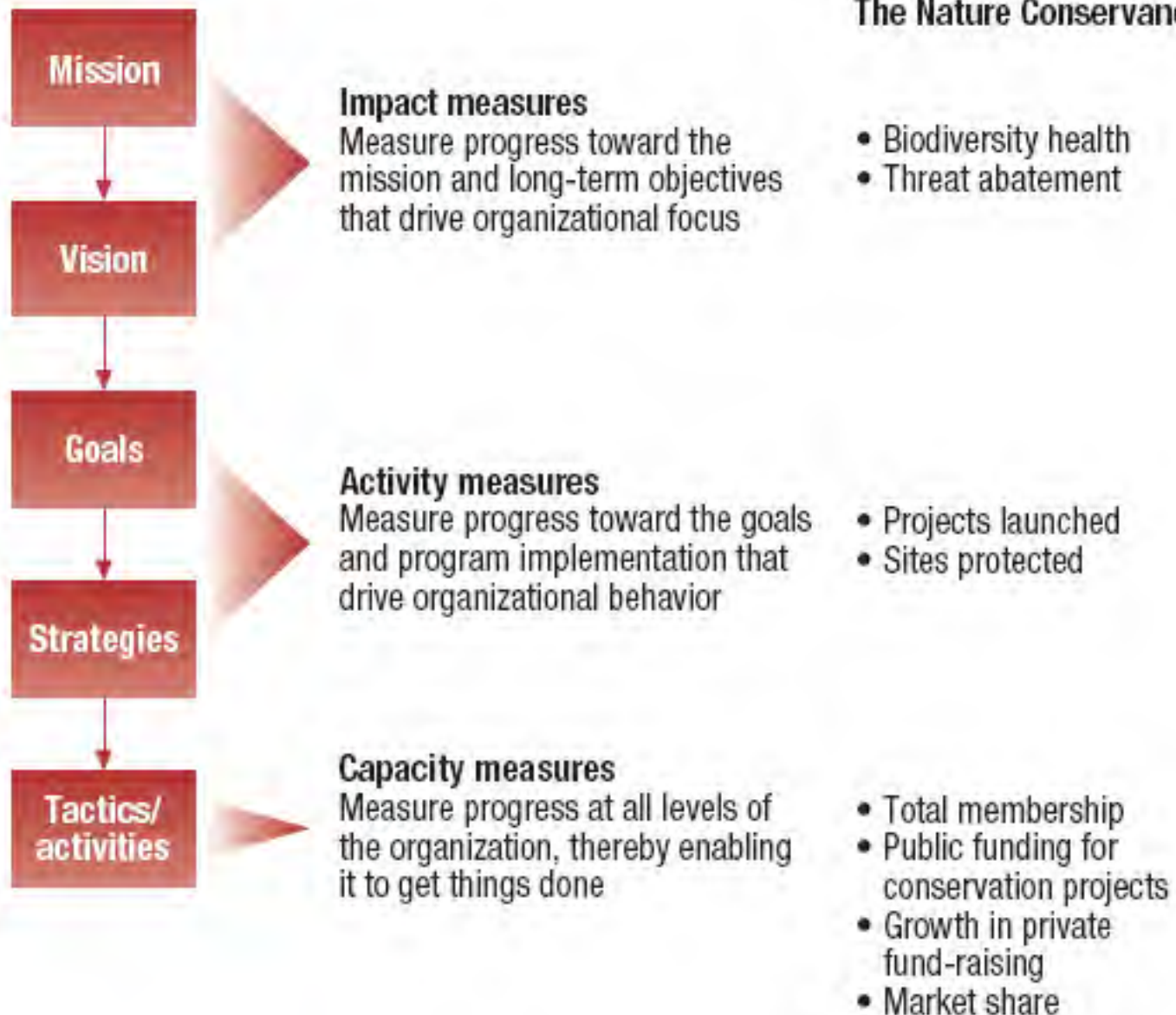
# Kellogg Model



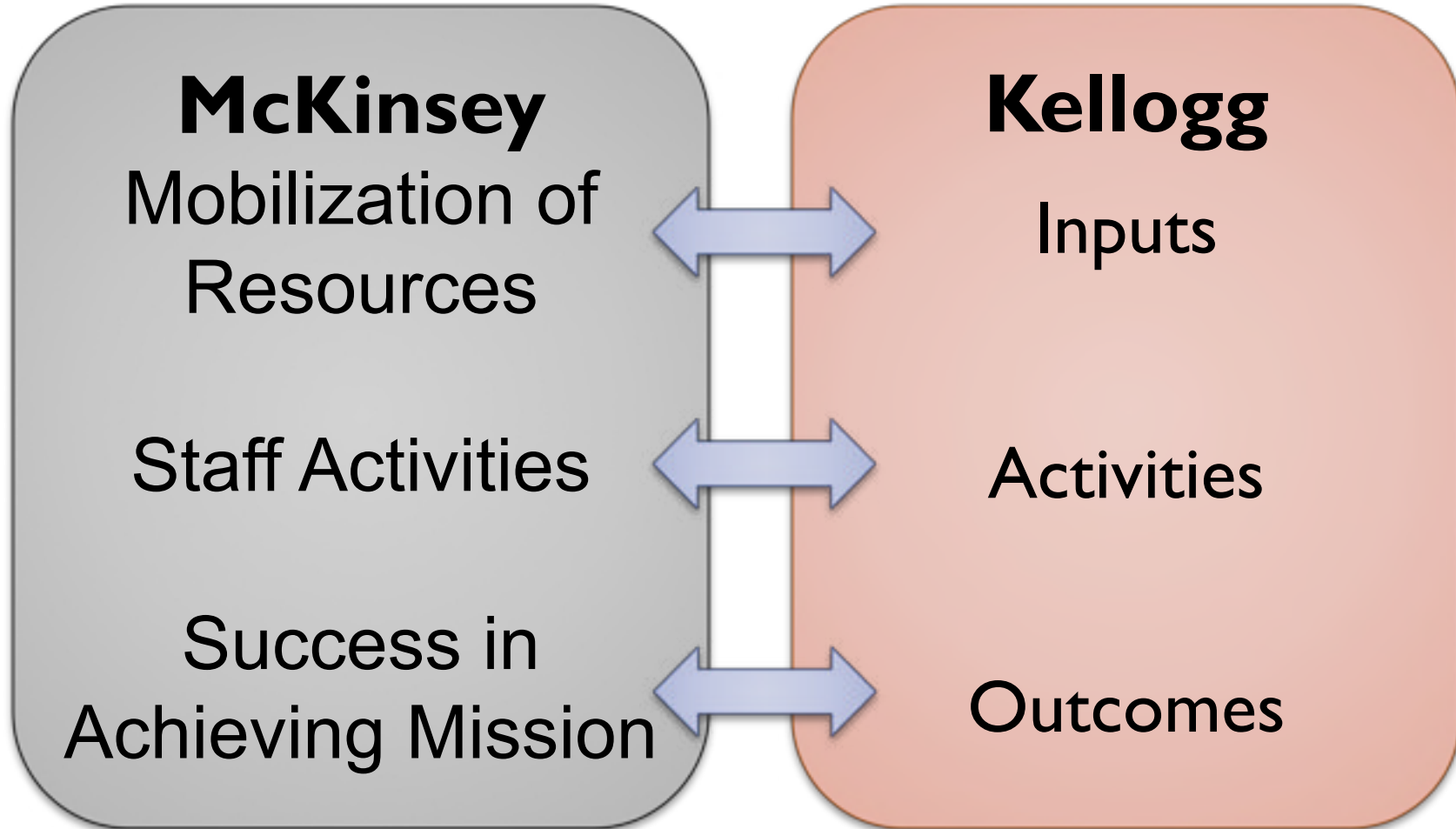
# McKinsey Model

Source: John Sawhill and David Williamson, Measuring What Matters in Nonprofits, The McKinsey Quarterly, 2001

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# Model Themes





# Another Framework:

- Organizational Survival (Kanter & Summers)

# Good to Great Model

- Focus of second half of lecture



# Accountability and Policy

# Should we strive for a universal framework?

- Diversity of sector doesn't lend itself to monolithic approach
- Can result in a “race to the bottom” (performing to the metrics, not to impact)
- But what this mean about a rational capital market for nonprofits?
- And what about the sector's overall accountability?

# Response to Scrutiny?

- Good performance measurement can alleviate hyper- and micro-scrutiny
- Can force organizations to live up to promises
- But what about measures as values – different people interpret differently

# Charity Evaluation Services

- **CharityNavigator**: Relies mostly on financial data from nonprofit tax returns.
- **BBB Wise Giving Alliance**: Evaluations of charities based on a set of best practice standards.
- **Givewell**: Independent charity evaluator that performs more comprehensive assessments.
- **American Institute of Philanthropy**: Annual list of national charities graded on an A – F scale.



# Masaoka

## THE EFFECTIVENESS TRAP

- “With a broader view of effectiveness as a process as well as an outcome, we can pursue broader ambitious goals that take years to evolve.”

# Cunningham & Ricks

## WHY MEASURE?



- “Donors do not see a need for performance measurement”
- “Donors do not have time for performance measurement”
- “Donors do not have confidence in performance measurement”
- “Donors do not want to see nonprofit resources dedicated to performance measurement”
- “Donors look to institutional funders...”



# Kanter & Summers

## DOING WELL WHILE DOING GOOD

- “The ideal performance assessment system in a nonprofit organization would acknowledge the existence of multiple constituencies and build measures around all of them...”



Caruso

# CAN FOUNDATIONS TAKE THE LONG VIEW AGAIN?

- “Each of three reports conclude that general operating support yielded better results for foundations and grantees alike, particularly as larger grants are offered over a longer period.”