

Running Head: PERFORMANCE MANAGEMENT

Performance Management in
Nonprofit Human Service Organizations

Mark Samples
MSW Mack Fellow
Mack Center on Nonprofit Management in the Human Services
School of Social Welfare
University of California, Berkeley

&

Michael J. Austin, PhD
Mack Professor of Nonprofit Management in the Human Services
School of Social Welfare
University of California, Berkeley

Abstract

The last two decades have seen an increased call (from government at all levels and private funders) for nonprofit human service organizations to use performance management in order to guide decision-making. This process requires an understanding of how performance is measured by a complex network of stakeholders, as well as what aspects of performance lead to successful financial performance, organizational effectiveness and program effectiveness. In this analysis, we discuss the historical development of performance measurement and engage in a review of academic literature that explores the ways in which measuring for stakeholder accountability relates to categories of performance that nonprofit managers can use to guide internal-decision making. We conclude with a brief overview of performance management implementation models and a discussion of the limitations of the use of performance management in human service nonprofits.

KEY WORDS: performance management, performance measurement, nonprofit organization, organizational effectiveness, stakeholder accountability

Performance Management in Nonprofit Human Service Organizations

Introduction

Human service nonprofit managers frequently evaluate the organization's performance through an informal monitoring of staff, programs, revenue and costs. Two questions often dominate this process: 1) "How well is our organization doing?" and 2) "How can we improve our effectiveness?" This process is shaped by external stakeholders (funders, policy-makers, foundations, etc.) and internal stakeholders (board members, staff, and clients). As Speckbacher (2003) explains:

[A]ll constituencies who make specific investments that are important for fulfilling the organization's mission are defined as stakeholders. However, the extent of the claims at stake and hence the need for protection typically varies among different stakeholders (p. 276).

This stakeholder balancing act has prompted the creation of performance evaluation tools, scorecards and dashboards, each providing nonprofit managers with step-by-step guides for managing competing stakeholder opinion. While performance management guides help with the day-to-day management practice, it is important to understand the bigger picture of performance measurement and how it relates to the larger environment of human service work.

Exploring the use of performance management as a decision-making tool in nonprofits requires an understanding of the difference between accountability and performance measures. Accountability measures are frequently related to the use of financial resources and used to assess defined objectives or requirements (Mullen, 2004; Hatry, 2002). As Hatry (2002) notes, "...the impetus for performance measurement has typically come from external funders seeking accountability, not from public managers themselves seeking the information to help them improve their programs" (p. 352). Performance measures focus on the outcomes of financial investments. Both are relevant for the long term sustainability and success of nonprofits.

The terms performance measurement and performance management complement each other, but are often confused in practice and in the literature (Hatry, 2002; McHargue 2003). Addressing the need for clarity, Speckbacher (2003) describes performance measurement as “a specific definition of the [organization’s] primary objectives and how to measure the achievement of these objectives” and performance management as “a specification of the processes that generate [organizational] performance and hence a specification of how management decisions can control [organizational] performance” (p. 268). Performance measurement can be used for internal decision making (performance management) in order to manage effectively. While this analysis focuses on performance management, the use of performance measurement for accountability purposes is important to an understanding of how nonprofits approach using such measurement for decision-making. It is clear that for nonprofits to successfully acquire external funding, maintain government contracts, retain competent staff and/or address the outcomes relevant to community stakeholders, they need to continuously improve their ability to measure results in order to make decisions that lead to long-term sustainability (Forbes (1998).

The inherent tension that exists between measuring performance for external accountability and doing the same for internal decision-making requires the special mapping of the knowledge base on performance management relevant to the nonprofit sector. This analysis begins with a brief history of the use of performance measurement in the public and nonprofit sectors and is followed by a description of the internal and external stakeholders involved in performance measurement for nonprofits. The analysis then focuses on the major categories of performance measurement as viewed by stakeholders and the different ways that the interests of external stakeholders overlap with the decision-making process of internal stakeholders. Finally,

we include some of the methods that human service nonprofits can use to engage in a process of performance management as well as some of the limitations that need to be addressed in order to successfully implement performance management systems.

History and Characteristics of Measuring for Performance

Performance measurement within nonprofits in the United States is significantly influenced by its evolution in the for-profit and public sectors. Newcomer (2008) summarizes this history (1970-present) and suggests that it began with California's push to see more accountability in local government programs. The primary players over four decades included: 1) major nonprofit sector organizations (e.g. the Robert Wood Johnson Foundation; the Urban Institute; Atlantic Philanthropies; the Lilly Endowment; the W.K. Kellogg Foundation; the Aspen Institute Nonprofit Sector Research Fund; and the United Way of America); 2) academic journals (e.g. *Evaluation and Program Planning*; *Evaluation Review*; *Nonprofit and Voluntary Sector Quarterly*; *Nonprofit Management and Leadership*; and *Voluntas*); and 3) federal policy and management (e.g. the 1993 Government Performance and Results Act that required all federal agencies to submit strategic plans, performance plans, and performance reports on all federal programs to Congress and the 2000-2008 initiative by the federal Office of Management and Budget to evaluate the effectiveness of 1/5 of federal programs every year using a 100 point Program Assessment Rating Tool).

Moravitz (2008) notes that efforts to require new information from public agencies have increased the momentum towards full performance measurement. For example, the Chief Financial Officers Act of 1990 mandated that CFOs of all the 23 major federal agencies use performance measurement in their annual audited financial statements to reflect the "results of operation." The Government Performance and Results Act of 1993 followed with: 1) an

emphasis on publicly available annual performance-related plans and goals (with target levels); 2) “multi-year strategic planning”; 3) “annual performance reporting, results, validation, and verification” (with comparison of actual and projected); and 4) an emphasis on linking “performance results to budgets.” This, in turn, was bolstered by the Federal Acquisition Streamlining Act of 1994 that “includes requirements that agencies establish cost, performance, and schedule goals for major acquisitions” with penalties and rewards (e.g. linkage with employee salaries if 90% success rates aren’t met) (p 365) and the Clinger-Cohen Act (1996) that required measures for technological improvement in federal agencies. Finally, the Management Agenda and Program Assessment Rating Tool (PART) of 2002 uses the evaluation and planning tools (created over the previous decade) to evaluate current programs for future funding justification. These federal policy changes have affected state and local governments, as the federal funding of various programs often requires the consolidation of local reporting and data collection in a way that integrates reporting systems at the state and local levels. (Moravitz, 2008). These changes have also impacted contracted services with local nonprofit service providers who also experience increasing pressure to measure performance (Poole, Nelson, Carnahan, Chepenik & Tubiak, 2000; Salamon, 2003).

In summary, the historical pressure to measure and manage performance in the nonprofit sector has come from: 1) contractual obligations in which public human service agencies that view contracts as public investments in nonprofits (Hatry, 1997; Poole, Nelson, Carnahan, Chepenik & Tubiak, 2000; Lindgren, 2001; McBeath & Meezan, 2006); 2) private foundations looking for a return on their investment in the form of financial and program accountability (Tassie, Murray, Cutt & Bragg, 1996; Easterling, 2000; Ritchie & Kolodinsky, 2003; Benjamin, 2008); and 3) nonprofit board members, often with private sector ties, looking increasingly for

metrics to assess service outcomes (Buckmaster, 1999; Newcomer, 2008). Given the growing trend in increased financial constraints reflected in the private and public sectors, there has been growing interest in the evaluation of the cost –effectiveness of programs and the use of tracking and analysis mechanisms that link outcome and impact assessments with planning. These evaluation tools reflect the “community level changes that are more likely to be understood as complex systems, rather than linear cause-and-effect relationships...” (Newcomer, 2008, p. 32).

External and Internal Performance Measurement

Despite the growing external influence of stakeholders on the performance measurement of nonprofits, it is still not clear who or what determines performance (Forbes, 1998; Buckmaster, 1999; De Lancer Julnes, 2008). For example, Moxham and Boaden (2007) point out that voluntary community organizations in the United Kingdom under service contracts with government are being held accountable to the public for their outcomes, often with externally-created performance targets (Woods and Grubnic, 2008). McCarthy (2007) analyzed the calls of stakeholders for increased financial transparency in the Archdiocese of Boston, following the reports of sexual abuse and fraud that elevated the importance of financial accountability as a performance measure within faith-based organizations. Zimmerman and Stevens (2006) found that in certain South Carolina nonprofits, performance measurement is quite often linked to competitive pressures for scarce financial resources.

According to Speckbacher (2003) the modern stakeholder view of service evaluation portrays nonprofits as “a combination of mutually specialized assets and people” that are expected to provide some form of return on investment (p. 274). However, as Speckbacher points out, the contextual environment of nonprofits tends to be much more complex than that of the for-profit world because the investments in human capital are not returned in obviously

tangible benefits, causing human service organizations to negotiate with stakeholders over different desired outcomes (Behn, 2003; Moxham & Boaden, 2007).

The complexity of using stakeholder input as a measure for performance is further complicated by the weight each stakeholder holds within nonprofits. For example, Hatry (2002) noted the limitations of customer satisfaction as follows:

[C]ustomer satisfaction usually is not the major outcome sought by public programs. For example, for substance abuse treatment and employment programs, most officials will consider it considerably more important that clients' substance abuse declines and employment status improves than that the clients were pleased with the program assistance they received (p. 355)

Hatry's observation highlights the need for nonprofits (or public service organizations in general) to balance the requirements of some stakeholders over others. Establishing a model for performance management depends on how performance is defined in the nonprofit sector.

Measuring Internal Performance for Decision Making

As Speckbacher (2003) explains, "nonprofits are built around their mission, which is hardly measurable, and they serve a multitude of constituencies whose goals and needs may be quite heterogeneous" (p. 268). Thus, measuring outcomes to simply satisfy external stakeholders leaves out the internal dimension of performance management decision-making (Hatry, 2006).

Having already discussed who determines performance, we now turn a discussion of how internal and external perceptions of performance are translated into categories of internal organizational decision-making processes for nonprofits, keeping in mind that, in many cases, the categories themselves are tied to stakeholder perceptions of what should be measured. Internal performance-based decision-making can be classified into three major categories: 1) organizational effectiveness; 2) program effectiveness; and 3) financial performance.

Organizations that measure these factors are perceived to be in a better position to: 1) make adjustments in budget decisions (Joyce; 1997; Moravitz, 2008), 2) promote organizational learning and development (Buckmaster, 1999; Moynihan, 2005) and 3) maintain program focus (Poister, 2003; Kaplan, 2001).

Organizational Effectiveness

The concept of organizational effectiveness has various definitions. In many cases, organizational effectiveness is viewed as an overall measure of performance, including the effectiveness of, both, internal systems management and program impact (Poister, 2003). For the purposes of this analysis, organizational effectiveness requires a multi-layered measurement of internal organizational structures (that vary depending on the type of organization) and generally includes: 1) the efficient use of resources; 2) human resource management; and 3) strategic adaptation to changing environments. According to Sowa, Selden & Sandfort (2004) “management effectiveness” includes these three dimensions of organizational performance measurement and can be divided into both “objective” and “perceptual” measures of capacity and outcome. In their analysis, objective measures of capacity focus on the existence and use of: 1) formal mission statements, 2) strategic plans; 3) human resource systems; 4) independent financial audits; 5) and information technology systems, and objective outcomes take the form of hard measures of employee satisfaction, such as the employee turnover rate. Perceptual measures of both capacity and outcomes occur along the same parameters as the objective measures listed, but are based upon the perceptions of the internal management and staff of individual nonprofit agencies (see also Kaplan, 2001; Behn, 2003; Schalock & Bonham, 2003; Hall & Kennedy, 2008; Geer, Maher & Cole, 2008).

Using a similar approach, Kaplan (2001) focuses on “organizational performance,” which, he suggests, often fails to take into account investment in “intangible assets, such as the skills, motivation, and capabilities of its employees, customer acquisition and retention, innovative products and services, and information technology” (p. 357). The measurement of intangible results (assets, capacity, and outcomes) is also enhanced by measures of organizational learning, such as leadership development, internal information sharing and continuous organizational improvement (McHargue, 2003; Moynihan, 2005).

Another aspect of increasing organizational effectiveness relates to the existence and quality of collaborative partnerships among nonprofits (Hall & Kennedy, 2008). Collaborative partnerships are linked to program effectiveness and quality when organizations can begin to view their programs as part of a set of collective solutions to societal problems within a multiple-agency industry and multi-community phenomenon (Van Dooren, 2008). While not yet empirically proven to be a measure of nonprofit performance, measuring the degree in which nonprofits engage in strategic collaborative partnerships, when appropriate, to implement programming efficiently, provides an additional objective measurement that nonprofits can use to guide future decision-making (Hall & Kennedy, 2008).

Program Effectiveness

Two of the most cited performance measures related to internal decision making are program effectiveness and organizational impact. These key ingredients of performance management are needed to address program improvement at the organizational or service level (Poister, 2003; Sowa, Selden & Sandfort, 2004; Mullen, 2004; Zimmerman & Stevens, 2006; Moxham & Boaden, 2007; Hall & Kennedy, 2008).

Objective measures of performance used for decision-making tend to focus on technology and theories of change that map and evaluate the sequence of programming in nonprofits from inputs and activities to outputs and outcomes (Poole, Nelson, Carnahan, Chepenik & Tubiak, 2000; Poister, 2003; Schalock & Bonham, 2003; Moxham & Boaden, 2007; Benjamin, 2008). Building upon the concepts of objective and perceptual measures of performance, described by Sowa, Selden and Sandfort (2004), Figure 1 illustrates: 1) the objective measures of performance used for decision-making that focus on technology and theories of change used and accepted by other organizations in the field; and 2) the perceptual measures of program effectiveness that are shaped predominately by stakeholders directly involved in nonprofit programming, such as clients and line staff.

[insert *Figure 1* here]

Mullen (2004) notes that program effectiveness is based on the measurement of generally agreed-upon outcomes of success such as: 1) outcomes, as defined when “measured in routine practice” (p. 83); 2) “quality,” as defined in comparison “to some standard of desirability” (p. 83); and 3) “effects,” based on a number of objective indicators that are generally recognized as measures of success by government agencies, political representatives and/or collaborative nonprofit partnerships (see also Hatry, 1997; Geer, Maher & Cole, 2008; Van Dooren, 2008; Whitaker, Altman-Sauer and Henderson, 2004; Rivenbark & Menter, 2006). However, even the most “objective” measures are based on value judgments made by contracting government agencies, foundations and/or community members. In essence, Forbes (1998) describes two basic approaches to organizational effectiveness, as it relates to program impact: 1) the goal-attainment approach, which “identify[ies] objective measures as more or less direct indicators of organizational effectiveness” (p. 186); and 2) the reputational approach, “which associates

effectiveness with the reported opinions of key persons, such as clients or service professional” (p. 184).

To complement the goal-oriented approach to program effectiveness, Hatry (2006) advocates for: 1) the use of existing administrative data (e.g. client wait times, number of client complaints or recidivism rates); 2) measures of client satisfaction, based on the use of customer surveys; and 3) the assessments of trained observers who rate program effectiveness using accepted scales of effectiveness or quality (Poister, 2003; Cairns, Harris, Hutchison & Tricker, 2005; Aristigueta, 2008; Van Dooren, 2008). In essence, standards can have a powerful influence on how nonprofits assess performance and make decisions.

Demonstrating the fluidity of the categories of internal performance-based decision-making, Hall & Kennedy (2008) explore how factors of organizational effectiveness can guide nonprofit organizations towards program effectiveness. In the findings from their survey of 591 community-based organizations (“CBOs”), they found that clarity of mission, board capacity, effective personnel management, use of strategic planning and fiscal health all had significant relationships with achieving program goals, and the clarity of mission had the strongest relationship.

Financial Performance

Within the context of performance management, financial performance is defined in terms of measures of financial accountability (Keating & Frumkin, 2003; Whitaker, Altman-Sauer & Henderson, 2004; McCarthy, 2007) and measures of financial efficiency (Ritchie & Kolodinsky, 2003; Frumkin & Kim, 2001). Financial performance represents a more traditional approach to performance management in nonprofits in which outputs tend to be the main focus (Moxham and Boaden, 2007) and where financial accountability is the primary measure of

success over the more complex input-outcome dynamics of nonprofit performance (Kloot & Martin, 2000; Speckbacher, 2003). Nevertheless, financial performance has been one of the key elements in measuring overall performance and evaluating effectiveness of nonprofits (Speckbacher, 2003; Ritchie & Kolodinsky, 2003; Sowa, Selden & Sandfort, 2004; McCarthy, 2007).

With regard to donors and community stakeholders, financial accountability focuses primarily on a nonprofit's reputation for fiscal transparency and honesty as reflected on the IRS 990 forms for organizations with over \$25,000 in annual revenue (Keating & Frumkin, 2003). In many cases, accountability is represented by the data on these IRS forms and/or the use of external independent auditors, operating standards, audit committees and board expertise (Whitaker, et al. 2004; Greenlee, Fischer, Gordon & Keating, 2007; Geer, Maher & Cole, 2008). An example of fiscal transparency can be found in the approach taken by the Archdiocese of Boston following the highly publicized Catholic Church sex scandals and controversies involving financial fraud in 2002 that led to a substantial decline in church membership (McCarthy, 2007). This crisis led to a plan reflecting significant financial transparency reporting to parishioners and resulting in performance increases as measured by positive media response and accolades from the National Leadership Roundtable on Church Management the Archdiocese of Boston (McCarthy, 2007).

In addition to fiscal transparency, financial efficiency relates to the amount of money needed to bring in revenues and access funding sources. Ritchie & Kolodinsky (2003), identify three categories of financial performance that foundations use to evaluate the financial efficiency of nonprofits: 1) fund raising efficiency (as measured by "total dollars raised relative to monies spent on the fundraising" and "direct public support divided by fundraising expenses" (p. 375));

2) fiscal performance (as measured by “the ratio of total contributions to total expenses” and “the ratio of total revenues to total expenses” (p. 376)); and 3) public support (as measured by “Total contributions divided by total revenue” and “direct public support divided by total assets” (p. 375). These three measures help to reduce the confusion in the nonprofit literature that “fails to support any financial measure as the definitive way to judge performance” (p. 376).

Another approach to assessing financial performance involves performance-based budgeting (Joyce, 1997), in which funding and spending are linked to their actual “goals, strategies, programs, resources, services, and results” (Moravitz, 2008, p. 362). Based on the experiences of government agencies that have faced growing pressure to demonstrate accountability for funding as a result of changes in national policies, Moravitz (2008) identified the following critical elements of performance-based budgeting: 1) create strategic plans linking missions with programs; 2) link strategic objectives to goals through a performance plan; 3) use the budget to support the performance plan and priorities based on the financial resources; and 4) assess progress against the plan periodically. This approach encourages nonprofits to move away from traditional line-item budgets to those that are truly linked to service outcomes that document their social impact (Melkers, 2003).

Implementing Performance Management

Having explored the external and internal factors that affect performance measures, it is also important to describe several implementation approaches that can be used for internal nonprofit decision making and planning. Such approaches need to consider key categories and questions for public managers to use in making management decisions (Behn, 2003). Figure 2 highlights a list of categories and questions from Behn’s (2003) analysis of performance measurement used by public managers, which have been adapted in this analysis for use by

nonprofits. It reveals a process of measuring performance for decision-making (grouped into the areas of financial performance, organizational effectiveness and program effectiveness) based on the strategic analysis and implementation of the categories of: impact evaluation; staff control; budgeting; stakeholder motivation; program promotion; celebration of successes; organizational learning; and organizational improvement. These categories provide the parameters for implementing models of performance management.

[insert *Figure 2* here]

While there are several performance management implementation models noted in the literature, only two multi-dimensional frameworks (the balanced scorecard and total quality management) have been selected for review based on their predominance.

The Balanced Scorecard

The most cited performance management tool for planning and decision making is the Balanced Scorecard approach developed by Kaplan and Norton (1992) and adapted for nonprofits by Kaplan in 2001 (Kloot & Martin, 2000; Speckbacher, 2003; Moxham & Boaden, 2007; Woods & Grubnic, 2008). Originally developed for use by for-profits to address the added value that firms produce beyond simple profit, it proposed a unified vision and strategy for viewing performance as a balance among the following four elements: 1) satisfying financial shareholders through a maximization of profits; 2) satisfying customers; 3) increasing organizational capacity; and 4) promoting professional and organizational growth. By adapting the stakeholder approach in the Balanced Scorecard model, Kaplan (2001) encourages nonprofits to identify the balance among the different factors of performance management beginning with the organization's mission. Kaplan's (2002, p361) framework is reproduced in Figure 3.

[insert *Figure 3* here]

As the framework reflects, organization mission replaces the for-profit element of satisfying financial shareholders, but includes the added dimension of satisfying financial donors. Kaplan's model highlights the process of balancing the needs of agency function, funder requirements and community needs.

Sowa, Selden & Sandfort's review (2004) of multidimensional models of organizational effectiveness highlights ways in which models, such as the balance scorecard need to be operationalized in order to effectively address all aspects of performance management. For example, they suggest that public education can be evaluated at the student (schoolroom), site (school) and organizational level in order to lessen errors in measuring performance caused by extrapolating measurements at one level into analysis of another. Similarly the researchers propose that nonprofit systems need to be evaluated at various hierarchical levels, unique to the organization and its programming focus, so that those in organizational leadership roles can weigh or balance an accurate analysis of performance at each level, using both "perceptive" and "objective" measures created by the organization engaging in the process.

In a similar way, Mullen (2004) proposes a multi-dimensional framework for use in human service organizations that considers: 1) intervention at the individual, program or population level (referred to as "system"), 2) a geographical dimension from the local to global level, and 3) an evaluation of outcomes based on efficacy, efficiency, effectiveness, externally graded quality, equity and purpose. In his emphasis on effectiveness Mullen uses industry-defined outcome indicators related to quality of life, and, in addressing purpose, he discusses using performance measurement for large scale research involving policy issues or small scale research for internal program improvement. In essence, there is a need to understand the interests

of stakeholders in order to assess the appropriateness of multi-dimensional models for evaluation organizational performance.

Total Quality Management

The concepts of total quality management (TQM) are frequently cited in the literature related to performance management implementation in both public service organizations and nonprofits (e.g. Vinzant & Vinzant, 1996; Schalock & Bonham, 2003; Cairns, Harris, Hutchison & Tricker, 2005). Also derived from the private sector, TQM is a technique that encourages organizations to engage in continuous improvement in the quality of services based on: 1) the satisfaction of the client or consumer; 2) a constant review of all aspects of the organization; 3) measurement of the integration of the organization into the surrounding environment; and 4) documenting the inherent quality of services delivered (Thijs & Staes, 2008). TQM is related to the balanced scorecard approach in that both focus on similar ideas that are operationalized in different ways.

Emphasis on quality of service delivery (via client satisfaction or efficiency measures that are altered to include quality standards) serves as the most important aspect of the multi-dimensional aspects of TQM (Martin & Kettner, 1996). According to the concepts of TQM, measuring quality in relation to the client or customer (using client satisfaction as one measure, but also measuring client outcome standards and internal measures) results in increases in other aspects of performance management such as organizational effectiveness (Boyne & Walker, 2002). Schalock and Bonham (2003), discussing quality assurance for public and private human service health organizations, describe the complexity of such quality measurement, explaining that measuring for performance occurs at the client level through customer service surveys, at the organizational level through an outcome evaluation of logic models based on quality assurance,

and at the contextual level through the gradual creation of industry-wide performance standards developed in coordination with external regulators.

Performance standards within the TQM process are often demonstrated through the creation of industry-wide benchmarks against which organizational leadership or legitimizing bodies may evaluate individual organizational performance (Vinzant & Vinzant, 1996, Cairns, Harris, Hutchison & Tricker, 2005). For example, Europe's use of the Common Assessment Framework as a form of TQM is based on assessment using commonly accepted criteria in the region (Thijs & Staes, 2008). Similarly, Maryland's creation of multiple benchmarking standards for nonprofits working with developmental disabilities is based on input from a private watchdog group, a public regulating body (the Developmental Disabilities Administration) and a suggested framework for management from State government (Schalock and Bonham, 2003). Such approaches serve as regulatory or accountability methods for evaluating performance and provide models for nonprofits to use in order to evaluate their own performance and make internal organizational adjustments.

The Limitations of Nonprofit Performance Management Implementation

In implementing performance measurement for decision-making, nonprofits need to consider the issues that arise when adapting systems originally designed for use in the public or for-profit sectors. As Ospina, Diaz and O'Sullivan (2002) point out, "Traditional definitions of accountability prescribe standards for disclosure of information (usually financial) and minimum standards of behavior (adherence to regulations), but these definitions do not provide managers or stakeholders with a measure of how well an organization is achieving its mission and goals or the consequences of poor performance or organizational failure" (p. 8). Limits to using performance management often include: 1) the realization that outcome measurement does not

provide a causal relationship between what the organization does and the outcomes of clients, and 2) the inability of the measures to fully address the needs of stakeholders or capture the complexity of the issues faced by an organization (de Lancer Julnes, 2008).

Regarding the difficulty of proving causality, Hatry (2002, 2006) notes the inherent difficulty in proving the link between the resources nonprofits provide and the outcomes that are measured by internal and external stakeholders. Moxham & Boaden, (2007) expand on this view by noting that proving input-impact causality is difficult for nonprofits that are plagued by the complexity of proving such impact and the length of time needed to demonstrate such impact (a much more complex process than in for-profit environments). Joyce (1997) also observed that performance budgeting has similar difficulties in terms of proving “results” that justify future expenditures, as it is more feasible for nonprofits to link financial inputs to output activities than to linking such inputs with outcomes.

Balancing Measurement and Stakeholder Complexity

Hatry (2006) identifies the following key elements for balancing the demands inherent in the process of measuring performance and those involved in implementing performance management decision-making: 1) assuring a high level of support from internal and external stakeholders of the organization; 2) waiting for particular moments of programming stability; and 3) assuring some basic technological knowledge in the organization for data collection. In addition, Forbes (1998) calls for an “emergent approach” to organizational effectiveness in which nonprofit managers view performance management as a balancing act that focuses on: 1) understanding the limits of measuring effectiveness; 2) a way to placate stakeholders of power such as funders, governmental bodies and board members; and 3) a continuous process of

improving performance measurement in order to improve the organization and learn from the experience.

It is important to note the weight of each stakeholder group in developing performance standards. In many cases this may depend on the type of nonprofit. For example, nonprofit organizations under contract with large government may use quality control benchmarks, established by local, state or national government agencies, to measure performance. Local community-based organizations may seek to balance performance measurements by local community members and partner organizations with the requirements of funders. Nonprofit managers often attempt to weigh the investments of “key stakeholders”. As Kaplan (2001) noted in his example of the United Way of Southwestern New England (where management leadership came to the realization that being donor-focused held more weight than being community focused) it is essential for nonprofit leaders to facilitate an internal organizational dialogue to identify strategic ways to balance performance management with the perceptions of these many stakeholders (Kaplan, 2001).

There is growing concern that nonprofits have become preoccupied with meeting the needs of stakeholders occupying positions of high financial and political hierarchical authority (e.g. funders and legitimizing organizations) at the expense of clients and communities as a result of the power such bodies have to enforce top-down accountability on nonprofits (Edwards & Hulme, 1995; Uphoff, 1995; Ebrahim, 2002, 2005). The lack of inclusion of input from all stakeholders in nonprofits can limit the use of performance management and create barriers to generating support from those stakeholders (Behn, 2002). Hatry (2002) expands upon this idea by suggesting that “public officials need to recognize the need for performance partnerships

where outcomes, outcome measurement procedures, and outcome targets are jointly established by and are the responsibility of multiple organizations and sectors” (p. 355).

The consequences of failing to include the insights and contributions of all stakeholders can threaten an organization’s sustainability and growth. For example, Kaplan (2001) identifies two separate cases in which transitions in organizational leadership essentially derailed efforts to implement a balanced scorecard approach to performance management because board member buy-in for the process was not strong enough to influence recruitment and selection of new leaders.

Using Logic Models to Address the Limits of Performance Management

The development and use of logic models, inextricably linked to program evaluation, is a concrete method for addressing some of the barriers to using performance measurement for organizational decision-making in nonprofits (McLaughlin & Jordan, 1999; Poole, Nelson, Carnahan, Chepenik & Tubiak, 2000; Poister, 2003; Schalock & Bonham, 2003; Hatry, 2006). Logic models can be viewed as a way to operationalize a nonprofit’s theory of change, defined as the hypothesized societal impact of the organization’s interventions (Kettner, Moroney & Martin, 2008; Knowlton & Phillips, 2009). Logic models that are created by human service agencies, steeped in a desire to change and/or impact social wellbeing, are designed to address a societal problem or assessed need using a process that involves stakeholders (Poister, 2003; Savaya & Waysman, 2005). The core elements of logic modeling for human service programs rest upon the linking of planned intervention strategies (consisting of human, financial, technological and organizational resources) with predicted results (the outputs and outcomes of organizational investment) (Savaya & Waysman, 2005; Knowlton & Phillips, 2009). Within

performance management, the main goal of logic models centers on evaluating outcomes over outputs (Poister, 2003).

The use of logic models provides concrete ways to address the limitations to performance management. For example, more detailed project evaluations can be used to test specific objectives against measured outcomes. By making the organization's theory of change visible to all stakeholders and understanding that the stakeholder environment is a key factor that shapes internal-decision making and the interpretation of evaluation results, logic models can also be used to create consensus on what to measure and how results can be interpreted (Poister, 2003; Schalock & Bonham, 2003). McLaughlin and Jordan (1999) point out that the use of logic models allows organizations to document the "logical argument for how and why the program is addressing a specific customer need and how measurement and evaluation will assess and improve program effectiveness" (p. 65). Logic models evolve through monitoring, and therefore allow for stakeholder buy-in through feedback that is analyzed and managed by organizational leadership (Shalock and Bonham, 2003).

Conclusion and Implications

To date, performance measurement in human service nonprofits has focused on the old adage, "what gets measured, gets done." The decision of what to measure traditionally has come in the form of top-down accountability, often outweighing bottom-up accountability reflected by community stakeholders and clients (Edwards & Hulme, 1995; Uphoff, 1995; Ebrahim, 2002, 2005). However, as nonprofit managers make the transition to performance management, they seek to make decisions that: 1) balance multiple stakeholder perspectives and accountability measures; and 2) allow organizations to retain their creativity and autonomy. Hatry (2002)

summarizes the task facing nonprofit performance management by proposing that nonprofits should:

Identify the *specific outcomes* sought, the *associated indicators* against which progress will be measured, and the latest available data on the current *values for each of these indicators* (to provide a baseline for later determining feasible out-year targets and for subsequently measuring progress)...*Posit the future environment* within which the service is expected to operate, including likely problems and obstacles. Identify *alternative ways to achieve the desired outcomes*, including any needed changes in legislation and policies. *Estimate each alternative's cost, feasibility, and potential effect* on the outcomes-in the future environment. Select a recommended alternative along with the outcome indicators. *Link all these elements* to the annual plan and forthcoming budgets. (Emphasis added, p. 353).

Figure 4 illustrates the transition to nonprofit performance management through the use of a decision-making grid that uses the two dimensions of stakeholder perspective and accountability along with the actors that influence decision-making within each of the four sectors. The boundaries of these four sectors demonstrate the fluidity of the actors placed within them, suggesting that the placements are not completely rigid. For example, some nonprofit board members are also often members of the community or even clients of the organization. Although not physically represented on the grid, the actual categories of performance management decision-making (organizational effectiveness, program effectiveness and financial performance) are implied in that they are meant to be understood by the nonprofit manager as points to be plotted on the grid. The act of plotting the points (decision-making) is based upon an ongoing, strategic assessment of the environment and context in which the nonprofit finds itself, factors that are always in flux. This “flux” is demonstrated by the dotted circle of Figure 4, which represents a track along which the center axis of the grid flows depending on environmental factors affecting the way in which a nonprofit may evaluate its performance. For example, nonprofit managers may find themselves measuring the performance of a particular

program weighted more towards the external and top-down opinion of a funder under one set of contextual circumstances (e.g. during times of financial uncertainty when securing basic revenue is key to the survival of the organization) or more towards the external and bottom-up opinions of clients under different circumstances (e.g. during strategic planning when nonprofit leadership is trying to set new short- to –medium range goals based on the organization’s mission and/or client input).

[insert *Figure 4* here]

While the old adage of “what gets measured gets done” still holds, performance management reveals that what gets measured depends on the understanding and balance of multiple perspectives. What gets done depends upon the autonomy and creativity of nonprofit leadership to constantly interpret these contextual and environmental factors and create innovative ways to adjust decisions based upon them. Implementation models (e.g. balanced scorecard and TQM) and planning tools, (e.g. logic models) provide human service nonprofit managers with templates to engage in this process.

Current literature continues to reflect a struggle between the development of performance measures and the use of such measures for internal decision-making in human service nonprofits. While a framework for measuring performance (heavily shaped by the need to balance internal and external stakeholder input) has emerged, the implementation of performance-based decision-making by nonprofit leaders, as well as empirical evaluation of its use, remain quite limited.

Future research on performance management would benefit from detailed case studies of nonprofits attempting to implement performance-based decision-making that focuses on financial management, organizational effectiveness and service outcomes. While the literature on logic models emphasizes program outcomes and outputs, management in nonprofits also

encompasses the need to assess management effectiveness (e.g. financial efficiency, organizational capacity and staff motivation). There is a need to develop internal logic models that measure management effectiveness.

Finally, future research on nonprofit performance management literature needs to include a more detailed analysis of TQM and the balanced scorecard using the same complex network of stakeholders that define performance and success in human service work.

References

- Aristigueta, M.P. (2008). The Integration of Quality and Performance. In P. de Lancer Julnes, F.S. Berry, M.P. Aristigueta & K. Yang (Eds.), *International Handbook of Practice-Based Performance Management* (395-412). Thousand Oaks: Sage Publications, Inc.
- Behn, R.D. (2003). Why Measure Performance? Different Purposes Require Different Measures. *Public Administration Review*, 63(4), 586-606.
- Benjamin, L.M. (2008). Account Space: How Accountability Requirements Shape Nonprofit Practice. *Nonprofit and Voluntary Sector Quarterly*, 37(2), 201-223.
- Boyne, G.A., & Walker, R.M. (2002). Total Quality Management and Performance: An Evaluation of the Evidence and Lessons for Research on Public Organizations. *Public Performance & Management Review*, 26(2), 111-131.
- Buckmaster, N. (1999). Associations between Outcome Measurement, Accountability and Learning for Non-profit Organizations. *The International Journal of Public Sector Management*, 12(2), 186-197.
- Cairns, B., Harris, M., Hutchison, R., & Tricker, M. (2005). Improving Performance? The Adoption and Implementation of Quality Systems in U.K. Nonprofits. *Nonprofit Management & Leadership*, 16, 135-151.
- de Lancer Julnes, P. (2008). Can Performance Measurement Support Program Performance Improvement and Accountability? In P. de Lancer Julnes, F.S. Berry, M.P. Aristigueta & K. Yang (Eds.), *International Handbook of Practice-Based Performance Management* (65-78). Thousand Oaks: Sage Publications, Inc.
- Easterling, D. (2000). Using Outcome Evaluation to Guide Grantmaking: Theory, Reality, and Possibilities. *Nonprofit and Voluntary Sector Quarterly*, 29(3), 482-486.
- Ebrahim, A. (2002). Information Struggles: The Role of Information in the Reproduction of NGO-Funder Relationships. *Nonprofit and Voluntary Sector Quarterly*, 31, 84-114.
- Ebrahim, A. (2005). Accountability Myopia: Losing Sight of Organizational Learning. *Nonprofit and Voluntary Sector Quarterly*, 34, 56-87.
- Edwards, M., & Hulme, D. (Eds.). (1995). *Non-Governmental Organizations: Performance and Accountability, Beyond the Magic Bullet*. London: Earthscan Publications Ltd.
- Forbes, D.P. (1998). Measuring the Unmeasurable: Empirical Studies of Nonprofit Organization Effectiveness from 1977 to 1997. *Nonprofit and Voluntary Sector Quarterly*, 27(2), 183-202.

- Frumkin, P., & Kim, M.T. (2001). Strategic Positioning and the Financing of Nonprofit Organizations: Is Efficiency Rewarded in the Contributions Marketplace? *Public Administration Review*, 61(3), 266-275.
- Geer, B.W., Maher, J.K., & Cole, M.T. (2008). Managing Nonprofit Organizations: The Importance of Transformational Leadership and Commitment to Operating Standards for Nonprofit Accountability. *Public Performance & Management Review*, 32(1), 51-75.
- Greenlee, J., Fischer, M., Gordon, T., & Keating, E. (2007). An Investigation of Fraud in Nonprofit Organizations: Occurrences and Deterrents. *Nonprofit and Voluntary Sector Quarterly*, 36(4), 676-694.
- Hall, L.M., & Kennedy, S.S. (2008). Public and Nonprofit Management and the "New Governance". *The American Review of Public Administration*, 38(3), 307-321.
- Hatry, H.P. (1997). Where the Rubber Meets the Road: Performance Measurement for State and Local Agencies. *New Directions for Evaluation*, 75, 31-44.
- Hatry, H.P. (2002). Performance Measurement: Fashions and Fallacies. *Public Performance & Management Review*, 25(4), 352-358.
- Hatry, H.P. (2006). *Performance Measurement: Getting Results*. (2d. ed.). Washington, D.C.: The Urban Institute Press.
- Joyce, P.G. (1997). Using Performance Measures for Budgeting: A New Beat or is it the Same Old Tune? *New Directions for Evaluation*, 75, 45-62.
- Kaplan, R.S. (2001). Strategic Performance Measurement and Management in Nonprofit Organizations. *Nonprofit Management & Leadership*, 11(3), 353-370.
- Kaplan, R.S., & Norton, D.P. (1992). The Balanced Scorecard-Measures that Drive Performance. *Harvard Business Review*, January-February, 71-79.
- Keating, E.K., & Frumkin, P. (2003). Reengineering Nonprofit Financial Accountability: Toward a More Reliable Foundation for Regulation. *Public Administration Review*, 63(1), 3-15.
- Kettner, P.M., Moroney, R.M., & Martin, L.L. (2008). *Designing and Managing Programs: An Effectiveness-Based Approach*. (3d. ed.). Thousand Oaks: Sage Publications, Inc.
- Kloot, L., & Martin, J. (2000). Strategic performance management: A balanced approach to performance management issues in local government. *Management Accounting Research*, 11, 231-251.
- Knowlton, L.W. & Phillips, C.C. (2009). *The Logic Model Guidebook: Better Strategies for Great Results*. Los Angeles: Sage Publications, Inc.

- Lindgren, L. (2001). The Non-profit Sector Meets the Performance-management Movement: A Programme-theory Approach. *Evaluation*, 7(3), 285–303.
- Martin, L.L. & Kettner, P.M. (1996). *Measuring the Performance of Human Service Programs*. Thousand Oaks: Sage Publications, Inc.
- McBeath, B., & Meezan, W. (2006). Nonprofit Adaptation to Performance-Based, Managed Care Contracting in Michigan's Foster Care System. *Administration in Social Work*, 30(2), 39-70.
- McCarthy, J. (2007). The Ingredients of Financial Transparency. *Nonprofit and Voluntary Sector Quarterly*, 36(1), 156-164.
- McHargue, S.K. (2003). Learning for Performance in Nonprofit Organizations. *Advances in Developing Human Resources*, 5(2), 196-204.
- McLaughlin, J.A. & Jordan, G.B. (1999). Logic models: a Tool for Telling your Program's Performance Story. *Evaluation and Program Planning*, 22, 65-72.
- Melkers, J. (2003). Incorporating Performance Measures into the Budgeting Process. In T.H. Poister, *Measuring Performance in Public and Nonprofit Organizations* (186-203). San Francisco: Jossey-Bass.
- Moravitz, C. (2008). Performance-Based Budgeting: Integrating Objectives and Metrics with People and Resources. In P. de Lancer Julnes, F.S. Berry, M.P. Aristigueta & K. Yang (Eds.), *International Handbook of Practice-Based Performance Management* (361-392). Thousand Oaks: Sage Publications, Inc.
- Moxham, C., & Boaden, R. (2007). The Impact of Performance Measurement in the Voluntary Sector: Identification of Contextual and Processual Factors. *International Journal of Operations & Production Management*, 27(8), 826-845.
- Moynihan, D.P. (2005). Goal-Based Learning and the Future of Performance Management. *Public Administration Review*, 65(2), 203-216.
- Mullen, E.J. (2004). Outcomes Measurement: A Social Work Framework for Health and Mental Health Policy and Practice. *Social Work in Mental Health*, 2(2/3), 77-93.
- Newcomer, K. (2008). Assessing Performance in Nonprofit Service Agencies. In P. de Lancer Julnes, F.S. Berry, M.P. Aristigueta & K. Yang (Eds.), *International Handbook of Practice-Based Performance Management* (25-44). Thousand Oaks: Sage Publications, Inc.
- Ospina, S., Diaz, W., & O'Sullivan, J.F. (2002). Negotiating Accountability: Managerial Lessons from Identity-Based Nonprofit Organizations. *Nonprofit and Voluntary Sector Quarterly*, 31(1), 5-31.
- Poister, T.H. (2003). *Measuring Performance in Public and Nonprofit Organizations*. San Francisco: Jossey-Bass.

- Poole, D.L., Nelson, J., Carnahan, S., Chepenik, N.G., & Tubiak, C. (2000). Evaluating Performance Measurement Systems in Nonprofit Agencies: The Program Accountability Quality Scale (PAQS). *American Journal of Evaluation*, 21(1), 2000, 15–26.
- Ritchie, W.J., & Kolodinsky, R. W. (2003). Nonprofit Organization Financial Performance Measurement: An Evaluation of New and Existing Financial Performance Measures. *Nonprofit Management & Leadership*, 13(4), 367-381.
- Rivenbark, W.C., & Menter, P.W. (2006). Building Results-Based Management Capacity in Nonprofit Organizations: The Role of Local Government. *Public Performance & Management Review*, 29(3), 255–266.
- Salamon, L. (2003). *The Resilient Sector: The State of Nonprofit America*. Washington, DC: Brookings Institute.
- Savaya, R. & Waysman, M. (2005). The Logic Model: A Tool for Incorporating Theory in Development and Evaluation of Programs. *Administration in Social Work*, 29(2), 85-103.
- Schalock, R.L., & Bonham, G.S. (2003). Measuring Outcomes and Managing for Results. *Evaluation and Program Planning*, 26, 229-235.
- Sowa, J.E., Selden, S.C., & Sandfort, J.R. (2004). No Longer Unmeasurable? A Multidimensional Integrated Model of Nonprofit Organizational Effectiveness. *Nonprofit and Voluntary Sector Quarterly*, 33(4), 711-728.
- Speckbacher, G. (2003). The Economics of Performance Management in Nonprofit Organizations. *Nonprofit Management & Leadership*, 13(3), 267-281.
- Tassie, B., Murray, V., Cutt, J. & Bragg, D. (1996). Rationality and Politics: What Really Goes on When Funders Evaluate the Performance of Fundees? *Nonprofit and Voluntary Sector Quarterly*, 25(3), 347-363.
- Thijs, N., & Staes, P. (2008). Applying the Common Assessment Framework in Europe. In P. de Lancer Julnes, F.S. Berry, M.P. Aristigueta & K. Yang (Eds.), *International Handbook of Practice-Based Performance Management* (455-485). Thousand Oaks: Sage Publications, Inc.
- Uphoff, N. (1995). Why NGOs are not a Third Sector: a Sectoral Analysis with some Thoughts on Accountability, Sustainability and Evaluation. In M. Edwards & D. Hulme (Eds.), *Non-Governmental Organizations: Performance and Accountability, Beyond the Magic Bullet* (pp. 17-30). London: Earthscan Publications Ltd.
- Van Dooren, W. (2008). Quality and Performance Management: Toward a Better Integration. In P. de Lancer Julnes, F.S. Berry, M.P. Aristigueta & K. Yang (Eds.), *International Handbook of Practice-Based Performance Management* (413-432). Thousand Oaks: Sage Publications, Inc.

- Vinzant, J.C., & D.H. Vinzant. (1996). Strategic Management and Total Quality Management: Challenges and Choices. *Public Administration Quarterly*, 20(2), 201-219.
- Whitaker, G.P., Altman-Sauer, L., & Henderson, M. (2004). Mutual Accountability between Governments and Nonprofits: Moving Beyond "Surveillance" to "Service". *The American Review of Public Administration*, 34(2), 115-133.
- Woods, M., & Grubnic, S. (2008). Linking Comprehensive Performance Assessment to The Balanced Scorecard: Evidence from Hertfordshire County Council. *Financial Accountability & Management*, 24(3), 343-361.
- Zimmermann, J.A.M., & Stevens, B.W. (2006). The Use of Performance Measurement in South Carolina Nonprofits. *Nonprofit Management & Leadership*, 16(3), 315-327.

Figure 1: Components of Nonprofit Program Effectiveness

	Objective	Perceptual
Capacity	Tested and professionally accepted technology used (both processes and structures) to demonstrate inputs to outputs.	Staff and management perception of program efficacy.
Outcomes	Existence of theories of change that are widely accepted by like organizations	Client Satisfaction

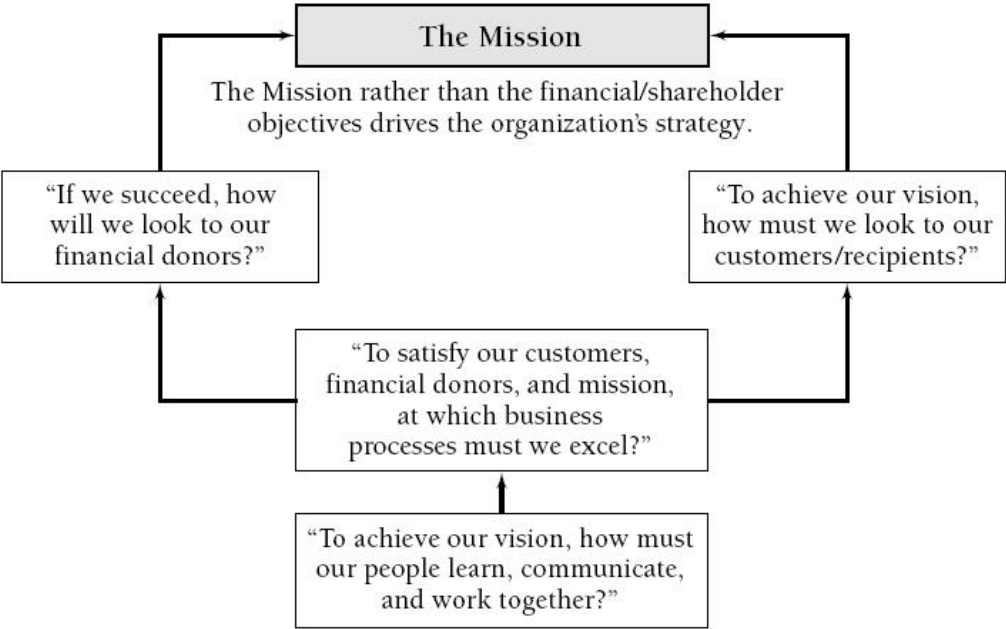
Adapted from Sowa, Selden and Sandfort (2004)

Figure 2: Categories and Questions of Performance for Nonprofit Managers to Consider in Implementing a Plan of Performance Management

Category of Performance Management	Applicable Question	Applicable Area/s of focus
Evaluate	How well is the nonprofit performing?	Financial Performance, Organizational Effectiveness, Program Effectiveness
Control	How can I assure my subordinates are doing the right thing?	Organizational Effectiveness
Budget	On what programs, people, or projects should my agency spend contracted public money, private donations or foundation/public grants?	Program Effectiveness
Motivate	How can I motivate line staff, middle managers, nonprofit and for-profit collaborators, stakeholders, and citizens to do the things necessary to improve performance?	Organizational Effectiveness
Promote	How can I convince political superiors, legislators, stakeholders, journalists, donors, private foundation leadership and citizens that my agency is doing a good job?	Program Effectiveness
Celebrate	What accomplishments are worthy of the important organizational ritual of celebrating success?	Program Effectiveness, Management Effectiveness
Learn	Why is what working or not working?	Financial Performance, Program Effectiveness, Organizational Effectiveness
Improve	What exactly should who do differently to improve performance?	Financial Performance, Program Effectiveness, Organizational Effectiveness

Reproduced and adapted from Behn, R.D. (2003). Why Measure Performance? Different Purposes Require Different Measures. *Public Administration Review*, 63(5), p. 588.

Figure 3: Adapting the Balanced Scorecard Framework to Nonprofit Organizations



Reproduced from: Kaplan, R. S. (2001). Strategic Performance Measurement and Management in Nonprofit Organizations. *Nonprofit and Management Leadership*, 11(3), p. 361.

Figure 4
Decision-Making Grid For Performance Management
(*Organizational Effectiveness, Program Effectiveness, Financial Performance*) in Nonprofit Environments

