



# Performance and accountability in the non-profit sector

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- ④ **Measuring satisfactory organisational performance in the non-profit sector**
- ④ **Measuring satisfactory board performance in this sector**
- ④ **Deciding to whom the non-profit board is accountable**

In public companies, performance and accountability would appear to go hand in hand. If the shareholders are unhappy with organisational performance, largely judged by profitability, they will hold the board responsible. Before this gets to a feisty AGM, the market and the press will point the finger at the board on the basis of interim results, successful or failed acquisitions and the occasional rumour or rumbling. It is because of the connection between performance and accountability that we are so concerned when board members disguise the true picture or fail to declare relevant information at the appropriate time. Our financial investment is at stake. Our superannuation, and the quality of our retirement, may be at stake. To provide additional protection, we have the regulatory mechanisms of ASIC and other bodies, imperfect though these sometimes appear.

In the non-profit sector, both performance and accountability are more difficult concepts to apply. How do we measure satisfactory organisational performance and satisfactory board performance? And to whom is the board accountable?

## Organisational performance

Because non-profit organisations exist to fulfil a mission and do not have as a primary purpose the maximisation of profits or surpluses, the basis for measuring performance is complex.

One of the distinguishing characteristics of

the non-profit sector is the absence of a fully competitive market environment: government subsidy and private donations result in the client/customer not meeting the full cost of service delivery. The uneconomic nature of the activity usually limits or precludes the presence of competitor organisations, a situation experienced only by monopolies in the commercial world, where market entry barriers inhibit competition. If the services the non-profit organisation is providing are not as good as they should be, the client often cannot vote with their feet or their wallet. In this context, the board has a responsibility to make an additional effort to listen and to work to improve standards and maintain relevance in the light of client, and volunteer, feedback. The same effort would be driven in a commercial environment by the fear of loss of income, loss of market share or being forced out of business. No such compelling drivers exist in the non-profit sector, although long-term under-performance may threaten donor or government support.

The healthy non-profit organisation will be concerned with effectiveness, and will compensate for the absence of market pressures by a desire for improvement driven largely from within, often by the board. Organisations were founded to achieve social, cultural, welfare or religious objectives, for example. The board needs to know how far these objectives are being achieved and whether there are better ways of achieving them. Where this commitment is made, there remain three barriers to successful performance measurement.

First, there is a natural tendency to monitor what is easy to monitor. Outputs are more easy to measure than outcomes. Outputs describe the amount of work the organisation does, the number of clients served, hot meals delivered, performances given. Outcomes describe the effect the organisation's work has had, better



community health, improved quality of education, richer cultural experiences. It is far easier to measure the work than its longer-term result. Generally, it is far cheaper too.

Secondly, some types of non-profit activity are easier to measure and monitor than others. For example, it is easier to measure exam results at a school than the 'educational progression' that the pupils have experienced and which may include socialisation and communication skills amongst other factors. It is easier to measure audience attendances at a theatre than the quality of the work on stage, or the impact on the audience.

Thirdly, non-profit organisations habitually operate in a multi-tensioned and multi-stakeholder environment. Different constituencies which the organisation is pledged to serve or represent may have different priorities. Government funding agencies may have different policy drivers. Successful performance can only be measured in the context of agreed priorities, but how does the organisation (and specifically the board) resolve the tensions between competing, and equally valid, priorities?

### What are we going to measure?

Despite the constraints or complexities, every non-profit organisation has the opportunity to address the question 'Have we been making a difference?'. Whatever the level of challenge presented by evaluation, the board has to start somewhere.

Two questions can initiate the process: what are we trying to measure, and how are we going to measure it?

Broadly, the board will be concerned with measuring:

- 1 the results of specific programs, projects, or strands of work

- 2 the implementation of strategies identified in the organisation's plan (or policies, for those pursuing John Carver's model of governance)<sup>1</sup>
- 3 overall organisational performance.

Regarding *program outputs and outcomes*, the board might want to know:

#### Outputs

- how many people were reached?
- how many were reached within the key target group?
- what inputs or resources were devoted to the program, and how do the costs and benefits compare with other programs we implement, and with programs undertaken by other organisations?

#### Outcomes

- what is the client or customer's assessment of the program, in terms of personal impact, quality of the work, access to the services?
- what difference in behaviour or environment has the program made?

In the case of those questions which can elicit a quantifiable response (how many, what inputs used), the board will wish to compare the actual result with the anticipated result. Did we reach more or less people than we anticipated when this program was adopted? Did the project cost more or less than we expected it to?

Regarding the *implementation of strategies* contained in the organisation's plan, ideally the board will have agreed to milestones and performance indicators at the time the plan was prepared. The milestones will represent key stages in implementation of the strategies, and the performance indicators will focus on outputs or outcomes resulting from the strategies.

Reviewing *overall organisational performance* is likely to be a less

frequent activity. However, prior to embarking on the development of a strategic plan, or at a time of significant environmental change, there will be value in taking stock of the organisation's progress at a broader level.

### How are we going to measure it?

Routine gathering of quantifiable data related to projects and programs will minimise the cost implications of monitoring and evaluation. The best use of time will be achieved if the basis of evaluation and the monitoring necessary to serve this has been agreed at the inception of the program or the start of implementing a particular phase of the program.

Routine data capture has its limits, however. Some issues cannot be addressed through simple questionnaires or quantitative recording but require qualitative information based on interviews or, for example, client group discussions. A client or customer feedback form may record on a scale of 1-10 the degree of satisfaction with an element of the program, but management and the board will be hungry for more. Why that score? What would have made a difference? How does it compare with other services? It is difficult to secure this level of understanding of the client's, or volunteer's, perspective from a form. Personal interview or facilitated debate may be needed to explore issues in sufficient depth to reveal information which can positively influence the organisation's future actions.

This presents a dilemma. Objectivity and confidentiality require that someone not directly involved in that program's delivery undertake any interviews — possibly another member of staff, possibly an independent market researcher. Budget constraints, however, militate against this. Every cent is needed for

the programs and projects. Market research and evaluation processes seem to be a luxury. They can be time-consuming and expensive. But the alternative is an organisation that risks losing touch with its constituency and settling for service standards that are not as high as they could or should be.

Specific tools for measuring performance include the use of performance indicators and benchmarking against performance in other organisations (or even against other parts of the same organisation).

Taking the technique of using performance measures a step further, Richard Chait and colleagues developed the simple and attractive concept of the Dashboard<sup>2</sup>. A vehicle dashboard presents the driver with a few key indicators — speed, fuel level, engine temperature, warning lights. Because the driver cannot afford to stare long and hard at the indicators, they are presented in simple visual format that can be absorbed at a glance. Translating that into non-profit parlance, the board does not have time to examine every facet of the organisation and needs to be presented with information in an accessible format. The Dashboard presents a few key performance indicators, both financial and non-financial, in graphical format, to highlight trends and comparisons.

The Dashboard may be used for periodic monitoring, perhaps every quarter or half-year; but may also be used to trigger an alert if an area is performing at unacceptable levels, that is, the CEO would be obliged to bring this to the board's attention.

Monitoring and evaluation of non-profit performance is easier said than done. Many organisations baulk at the time and cost implications. There is a balance to be struck.

### Measuring board performance

What constitutes an effective

board? The simple answer is a board that delivers positive organisational performance, a board that gets results. However, precisely because the results may be the fruits of others' labours, and may indeed be achieved despite rather than because of the board, we need to dig further to identify how far the board is adding value.

Additional characteristics of an effective non-profit board might be one that, amongst other things:

- 1 appoints the best possible CEO, and monitors their performance against agreed targets and plans
- 2 recognises and adapts to the particular environment in which this organisation operates
- 3 strikes a balance between attention to conformance and performance
- 4 strikes a balance between short-term and longer-term health of the organisation (pays attention to inter-generational equity)
- 5 defines policy and is highly mission-focused
- 6 requires and contributes to strategic thinking in the organisation
- 7 has developed coherent decision-making processes
- 8 nurtures a collegial environment, but values the right to challenge (cohesive but not over-compliant)
- 9 maintains its own health, through targeted recruitment and induction and through self-assessment.<sup>3</sup>

Finally, because the board and CEO will ideally combine to form an effective management-governance unit, the board needs to adapt its behaviours to the role fulfilled by the particular CEO. For example, in an arts organisation led by a dynamic and visionary artistic director (who is also the CEO) the board may need to complement that leadership with checks and balances that draw especially on its planning, business and political skills. But in an organisation led by a CEO with

strong administrative and financial abilities, the board may more productively focus on strategic thinking and setting directions.

In monitoring the strategic plan and appraising the CEO's work the board should be asking, amongst other things:

- what does this mean for us as a board?
- how does our behaviour need to change, if at all, for the organisation's or CEO's performance to improve in this area?
- where performance has met expectations, in what way did the board contribute to this, are there things we have been doing as a board that we should be recognising as productive and effective and building on in the future?

The board's self-assessment may also include:

- an individual questionnaire to be completed by board members, soliciting views on aspects of current board performance
- a discussion based on analysis of the questionnaire, considering specific ways in which board processes, composition or structures could be improved
- a session set aside within an annual retreat to consider board processes
- commissioning a board audit from a consultant, including not only administration of a questionnaire, but observation at one or two board meetings, review of minutes and papers, facilitation of discussion, and preparing a report on future board development
- establishment of a Governance Committee charged with examining the board's functioning and recommending improvements or developments
- benchmarking against boards of other organisations — reviewing their processes and achievements



to identify areas where your board could raise its game.

Board improvement is likely to be an incremental rather than revolutionary process. This is not about the board making sticks to beat itself with, nor about tilting at some impossible ideal of boardcraft — it is about staying alert to the opportunities for the time invested to be more effective and enjoyable.

### Accountability

To whom is the board accountable? With regard to compliance, the board has responsibilities determined by its framing legislation, and by all the other legislation that affects organisations. With regard to performance the situation is more complex.

There are no shareholders in non-profit organisations. There may, however, be many stakeholders. Consider the network of constituencies shown in Figure 1 which have an interest in most non-profit organisations.

Government funding agencies, members, donors, service recipients; all may have differing expectations of the organisation's and the board's performance. In practice, the ability of some of these stakeholders to hold the board to account is very limited.

Regarding government funding, there has been a trend towards 'contract culture' in the non-profit field. Increasingly, governments articulate their expectations of individual non-profit organisations through funding agreements and other contractual arrangements that make it clear that the government's input is less a grant and more a fee-for-service. Non-profit organisations are expected to report against the outputs and indicators laid down in their funding agreement. Paradoxically, the 'small government' philosophy that has led to an extension of the role of the non-profit sector in supplying services may also have limited the ability of government to monitor the work of the non-profit organisations. Government officers generally have neither the time nor budgets to

monitor closely the work of the organisations they fund (or contract). And where they do find unsatisfactory performance, their options appear to be very limited.

In a commercial context it would normally be possible to replace an unsatisfactory supplier by awarding the contract to a competitor. But many non-profit organisations do not have direct competitors. They may have been established as a consequence of market failures. They will often be 'the only show in town'. Terminating a contract (or de-funding) is a big step, and may leave the even bigger problem of finding an alternative way of delivering the service, or explaining to the public why the service has ceased. There are, then, a number of practical and political pressures militating against the standard of accountability that we might expect.

Non-profit organisations supported by government will tend to be those that serve a wide constituency and provide services to the community or a specific section of the community. A different paradigm is presented by those organisations that exist to serve primarily the interests of their members; professional associations, for example. Ironically, the level of accountability in such organisations may be higher than in those which are provided with public funding to deliver services, because the board is normally elected by and from an interested and coherent membership, and is in close contact with that membership. The members are in a stronger position to keep the board honest and on-task. However, a different issue of accountability arises here. Even a small non-profit organisation serving a close membership enjoys tax advantages (for example, not paying income tax) which constitute a form of subsidy. If the public is subsidising such organisations through tax benefits,

Figure 1



how do we ensure that the broader public interest is served by such organisations? Is it reasonable to expect any broader public benefit, or do we have to content ourselves with the view that Australia is enriched by their presence, that this is a price we should pay for a pluralistic society?

Although the far-sighted non-profit organisation will pay great attention to the perceptions and satisfaction of its donors, this does not mean that the donors have much practical influence on the efficiency or effectiveness of the organisation, or much practical redress if the board makes unwise decisions. There have, however, been some exceptional cases recently of the donor taking strong action. In late July, it was reported that the Metropolitan Opera in New York could lose millions of dollars in funding because it did not stage Wagner's *Tristan und Isolde* in a sufficiently traditional way.

Lawyers for the estate of the Met's largest donor, the legendary Sybil Harrington, are claiming that the opera company wilfully ignored her wishes with their televised version of Wagner's opera in 2001...What is now at issue is how 'traditional' was the staging, which included an innovative set design. Representatives of the late Texas oil heiress are taking legal action against the opera house, claiming that the money was not used as stipulated.<sup>4</sup>

In this instance, the terms of a specific bequest created a series of obligations. Most donations will not be made with such defined expectations.

At the other end of the scale from the single, powerful donor lies the army of small donors. Following the September 11 attacks in New York and Washington, Americans donated over US\$600 million to the Red Cross to assist the victims' families. The organisation's initially slow handling of the distribution of assistance, and a decision by the CEO to divert some of the money

donated to other important projects, led to Congressional hearings and angry outpourings from the public. It also led to a reversal, with agreement that all of the funds donated would be given to families of the victims. The situation, coming amidst other Red Cross problems, forced the resignation of the President (CEO) and has raised serious questions about the future governance of the organisation.

These are, nonetheless, exceptional cases. For the most part, the distance between the donor and the activity funded is so great that it is unrealistic for the donor to monitor value for money, to determine how effectively their donation is being used. The situation is compounded by the issue which opened this article, that outcomes are inherently difficult to measure. We give, and we trust that our generosity will not be abused. If too many 'exceptional cases' arise, of course, the giving may dry up.

The drama of the two preceding examples from the US only serves to highlight the fact that bringing the organisation, or its board, to account, may only occur when something has gone seriously wrong. Both litigation and mass protest are very blunt and belated instruments. If we want a healthy non-profit sector in which donors and other stakeholders have confidence, the checks and balances need to apply earlier — prevention not punishment.

This raises a further question. At present, the accountability of the non-profit board is largely a self-imposed discipline. We trust that there will be sufficient probity, diversity of view and commitment to the mission to ensure that the board of the non-profit organisation works to achieve high standards of performance, as well as to observe basic compliance requirements. We trust them to police themselves. But

do we need to go further? Do we need a specialised regulatory body, similar to the Charity Commission in the UK, which monitors and advises the sector and which has the power to penalise non-compliant organisations? Or do we need a national peak body for the non-profit sector which is of the sector rather than a creation of government in order to provide support and advice and to work to raise standards of governance and accountability? The Australian Council of Social Service (ACOSS) is perhaps the closest to that model currently, but is specifically focused on community welfare. Will it be regulation, self-regulation or steady as she goes for the non-profit sector?

### Notes

- 1 John Carver, *Boards that Make a Difference*, second edn (Jossey Bass, San Francisco, 1997)
- 2 Richard P Chait, Thomas P. Holland, and Barbara E Taylor, *Improving the Performance of Governing Boards* (American Council on Education, Phoenix, Arizona, 1996), p. 104.
- 3 For an additional view of the competencies of non-profit boards see Chait pp 7-8. Chait and colleagues identified board competencies across six dimensions: contextual, educational, interpersonal, analytical, political and strategic.
- 4 *Guardian Unlimited*, 25 July 2003

*Positive Solutions is a Brisbane-based management consulting and training firm which specialises in the non-profit sector (www.positive-solutions.com.au). David Fishel is also the author of The Book of the Board: Effective Governance for Non-Profit Organisations, which is available from the publisher The Federation Press on 02 9552 2200 or at www.federationpress.com.au. David Fishel can be contacted at info@positive-solutions.com.au.* 