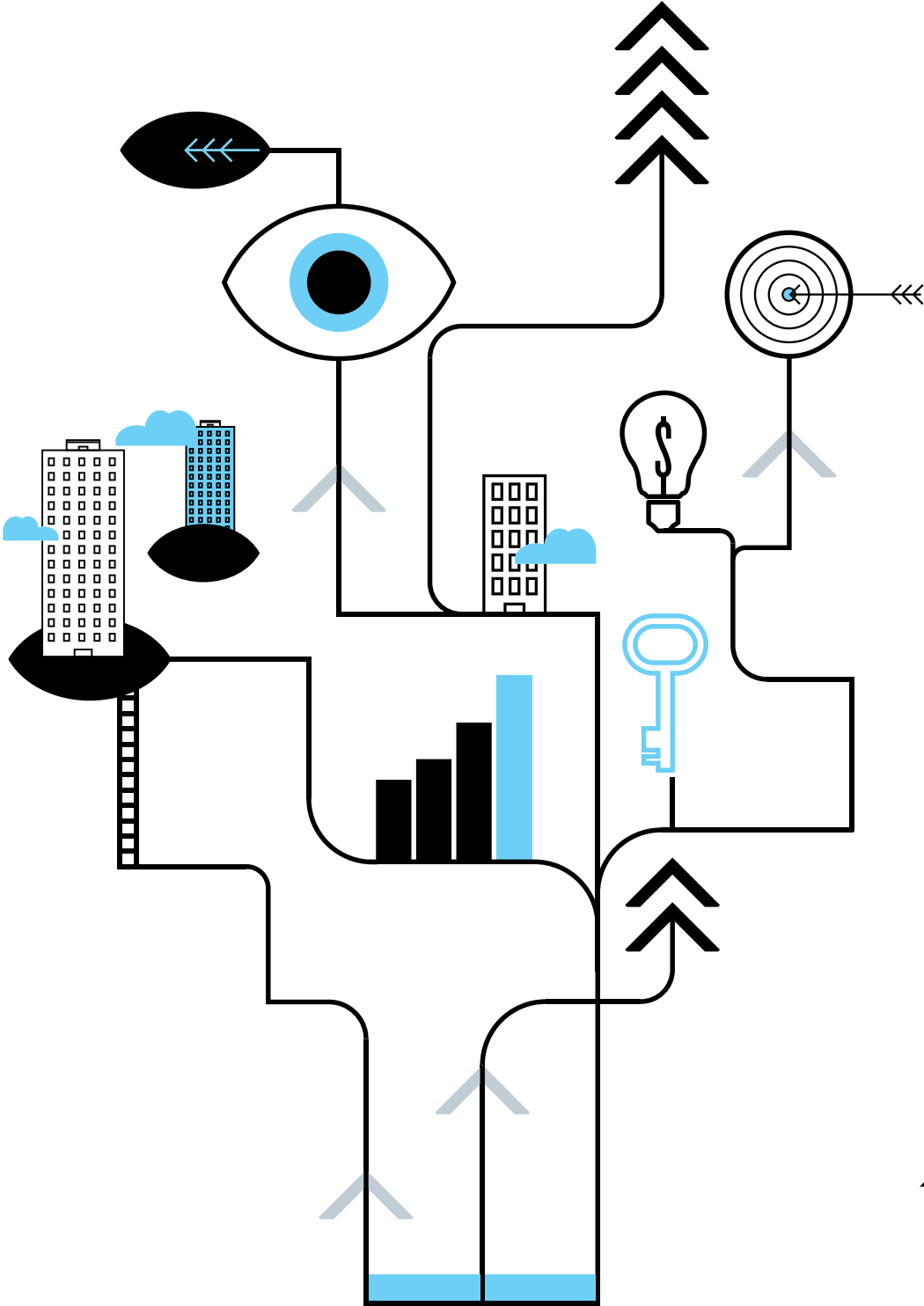


# Non-profit leadership: Emerging Themes Impact and Measurement

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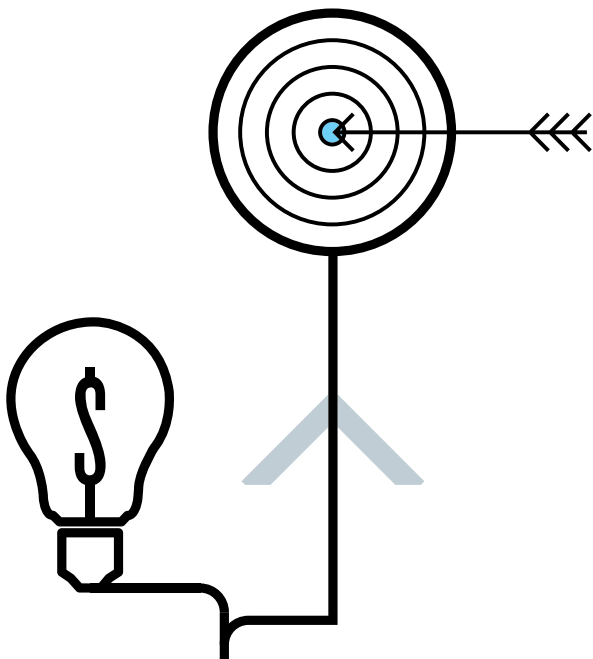


## Introduction

Over the last 18 months, we have been engaged in many conversations across a gamut of topics: fundraising, governance, board regeneration, advocacy, impact investment, collective impact, sector collaboration, and consolidation, as a start. A common thread has arisen: measuring effectiveness, outcomes and impact.

You are the leaders. You make decisions on behalf of for-purpose organisations. Do you have the much-needed information required to make the right strategic choices? This is a fundamental concern of the 'for-purpose' sector. As management guru Dr H. James Harrington stated, *"Measurement is the first step that leads to control and eventually to improvement. If you can't measure something, you can't understand it. If you can't understand it, you can't control it. If you can't control it, you can't improve it."*<sup>1</sup>

In this paper we will explore the importance of measurement for non-profit organisations, and the current state of measurement in the sector. In addition, some insight will be provided regarding how you, as leaders, should be thinking about measurement in your own organisations. My hope is that this paper provides clear insight into the challenges and opportunities associated with measurement so that you may lead your organisation in a positive and focused manner to deliver better social outcomes.



<sup>1</sup> International Performance Management expert and author of over 35 books on performance improvement. He has developed many important concepts over his 50 plus year career which included 40 years at IBM and 10 and Ernst & Young.

## It's about the big A – Accountability

In the recent past, we have noticed a marked shift in the way organisations react to measurement or requests for data. Once, many organisations were taken aback when data was requested and results required.

Sure, Accountability with a Capital A was a convenient talking point. Yet, there was a preference for another term beginning with a significant upper case A: Anecdotes – stories of specific individuals and how much they had gained from a program. Whilst in no way diminishing the importance of anecdotal evidence and the power of stories in the 'for-purpose' sector, there was an over-reliance on it as the sole form of measurement – *"We help those in need. We do great work. What more do you need to know?!"*

However, as strategic advisers to many non-profits, we have witnessed that those with a focus on learning, improvement, efficiency and maximising impact are the ones who truly engage with the challenges posed by measuring their performance. Continuing to do the things they have always done is not enough – they want to know if it works, how much it works, and how it can be improved to deliver on their mission.

This importance of accountability becomes evident when we consider this from a sector level. As highlighted in our Australian Giving Trends report last year, in 2013 the total income received by 56,984 non-profit institutions was \$107 billion – up from \$33 billion in 2000. So one would reasonably ask what the result of this expenditure was? What has been achieved by this massive application of time, money, blood, sweat and tears?

As government expenditure shrinks in percentage terms and priorities shift, and funders start asking incisive questions about 'outcomes' and 'impact', all non-profits, whether they be charities dealing with front-line issues like poverty and disability, or independent schools, or membership organisations, need to ask – *"Why should people give us their money? How much impact are we having? Is there someone doing it better? How can we improve for the benefit of our stakeholders?"*

*So one would reasonably ask what the result of this expenditure was? What has been achieved by this massive application of time, money, blood, sweat and tears?*

## We understand that it's hard

Let's be honest – if measuring was easy, we all would have done it by now. No one who works in the 'for-purpose' sector wants sub-optimal outcomes. But the fact that it is difficult is no excuse for not exploring all possible ways in which we can better understand the performance of our programs, our managers, our leadership team, and the entire organisation.

And so, we proceed bearing in mind William Bruce Cameron's salient observation that *"not everything that can be counted counts, and not everything that counts can be counted."*<sup>2</sup>

Now, before commencing measurement within your organisation, you must first accept that it is worth doing on a cost/benefit basis. Measuring the right things properly involves deep assessment of the programs and the organisation, and often developing IT systems and educating staff as well; easier said than done for many resource strapped non-profit organisations.<sup>3</sup>

In Australia, there is a dearth of quality data surrounding non-profit performance and measurement. The recent 2014 NFP Governance and Performance Study conducted by the Australian Institute of Company Directors (AICD) noted that "some 60 per cent of NFP directors are looking for more or better ways to determine if their organisation's strategy is achieving its purpose"<sup>4</sup>. This would lead us to conclude that this is an area in need of focused development.

We can look to the United States of America for some analysis into whether measurement really helps a non-profit organisation. In their 2000 survey of 391 member organisations, The United Way of America found that a significant majority (84-88%) of organisations found outcome measurement useful for communicating and identifying effective practices, whilst also improving program service delivery (76%). That said, the survey also revealed some clear negatives where outcomes became the focal point over other important results (46%), record keeping/reporting capacity was stretched (55%) and there was still uncertainty regarding how to actually utilise measurement to make program changes (42%).<sup>5</sup>

It is important to remember that it isn't only NFPs struggling with measurement. Governments, charitable foundations, philanthropists, investors and corporations are all grappling with similar issues.

Governments are the largest funder of social services in Australia. In the recent past the language of governments has changed, and this is now coming through in their actions. Take for example the Indigenous Advancement Strategy Guidelines released by the Australian Federal Government in July 2014. For each of the five specific areas they have identified, they have provided specific outcome indicators which the funding recipient will be required to measure and report on. Another example has been the trialing of Social Investment Bonds by the NSW Government, where measurement of outcomes is a necessity not only to ascertain the effectiveness of the program but to determine the financial return.

Corporations, too, are more focused on the measurement of community initiatives. A specific example can be seen where corporations are adopting the Shared Value approach championed by Michael Porter and Mark Kramer of Harvard Business School. Within the Shared Value framework, corporations don't simply engage in corporate philanthropy; instead, they solve problems in three ways that also benefit the bottom line. First, Corporates can solve social problems by developing products and services; second, by reconfiguring value chains; and third, by enabling local cluster development. These initiatives often involve partnership with non-profit organisations to help deliver end outcomes. For the Corporate, all Shared Value initiatives are part of the corporate strategy, and as such will be measured and managed strategically like all elements of the corporate strategy.

The above examples highlight that those non-profit organisations not already undertaking measurement will soon need to do so – the changes upstream and the demands from their funders will necessitate this. So, backing self-interest, let's assume that the sector continues its march towards adopting quality measurement to both prove and improve their effectiveness. Then, the obvious question becomes: *"What should we be measuring?"*

2 'Informal Sociology: A Casual Introduction to Sociological Thinking' 1963

3 Muir, K & Bennett, S., The Compass: your guide to social impact measurement, The Centre for Social Impact, [http://www.csi.edu.au/media/uploads/CSI\\_The\\_Compass.pdf](http://www.csi.edu.au/media/uploads/CSI_The_Compass.pdf) is a good starting point.

4 2014 NFP Governance and Performance Study: Critical issues for NFP directors - 2015 and beyond

5 United Way of America, "Agency Experiences with Outcomes Measurement: Survey Findings," Report 0196, 2000

## The current state of measurement

It is likely you have attended or been invited to an event, launch, seminar or conference in the last 18 months on measurement. This is a great sign that there is a demand and growing appetite to understand the challenges and develop measurement and evaluation systems that will assist each organisation to deliver their mission.

One of the more comprehensive papers produced on the subject was by Catherine Maughan in 2012 – *'Monitoring and evaluating social impacts in Australia'*. This report covers the main measurement and evaluation frameworks used in Australia to assess social impact. It also provides insight into the reporting framework proposed by the *Productivity Commission* in 2010 to encourage the development of common measures and indicators at each level of contribution – inputs, activities, outputs, outcomes and impact.

What becomes clear in reading the *Productivity Commission* report is that all the techniques have their advantages and disadvantages and an organisation must first clarify its purpose of the monitoring and evaluation before it can determine the best approach.

Importantly, as we push forward we must do so in a well-thought through measured manner (pardon the pun!). As Zappala and Lyons (2009) articulate, we have actually been here before – social program evaluation was popular in the 70s and 80s but lost traction for two reasons:

1. Problems with measuring long term outcomes and impacts led to the development of proxy measures, which were dependent on the quality and quantity of the data available and/or the subjective view of researchers; and
2. Monitoring and evaluation took up significant time and resources of non-profit organisations.<sup>6</sup>

We find ourselves again in a situation where there is significant interest and focus on measurement of social outcomes and impact. It would be foolish to think that the past will not be repeated if we don't effectively use the tools at our disposal today (technology being the obvious one). In the next section we explore a framework for measurement that differs from many we have seen previously in Australia.

## A framework for measurement

Many of you will already have considered this important question. You know other non-profits are undertaking analyses of their 'impact'. You've read some Social Return on Investment (SROI) reports with both astonishment and a large grain of salt. You marvel at the creative use of proxies from other countries and programs. You wonder how they will actually use the data.

This is not unusual. Adoption of such reports and analysis stems from the pressing need for non-profit organisations to prove impact. To avoid any confusion, let me state that we do not have any issue with the use of a SROI framework where it is appropriate, but that in many circumstances it is not (for instance, many Arts programs).

We have posed two connected but distinct questions as we have thought through the measurement challenges facing non-profits and funders:

1. What should an organisation measure? Activity, Outputs, Outcomes, Impact?
2. Recognising the costs of measurement and who should pay?

In *'What Impact? A Framework for Measuring the Scale and Scope of Social Performance'*, Professor Kash Rangan and Associate Professor Alnoor Ebrahim put forward a coherent framework for considering these questions. Rangan and Ebrahim state that not all organisations should measure their impact but rather "...some organisations would be better off measuring shorter-term output or individual outcomes".<sup>7</sup>

The paper posits that all organisations should measure activity and outputs. Only then should an organisation measure outcomes, and only under two conditions: "when the causal link between outputs and outcomes is well established, or when the range of integrated interventions needed to achieve the outcomes are within the control of the organisation".

<sup>6</sup> Addressing Disadvantage: Consideration of models and approaches to measuring social impact (2009). <http://www.socialinclusion.gov.au>.

<sup>7</sup> University of California, Berkeley Vol. 56 No 3 Spring 2014.

## The role of the funder

So, within this framework, knowing what to measure means knowing the following three things:



**Your Operational Mission** – This is the pragmatic mission that sits below the aspirational mission and concentrates on the work that needs to be done on the ground.



**Scale** – The scale of the problem that your organisation intends to address and the required intervention (as distinct from the scale of the problem in its entirety).



**Scope** – The range of activities required to address the identified need in the operational mission.

Understanding these three things, along with the time frame, puts you in a position to determine what you should be measuring. But, if only a few organisations are even in a position to measure 'outcomes', then who is measuring 'impact'?

*We expect that over time, funders will come to see the long term benefit and leveraged impact of funding measurement.*

Much of the drive towards measurement has not come from within non-profit organisations. In most cases, it has been an evolution driven by the requests and requirements of their funders, be they governments, philanthropists, foundations or investors.

Within the framework presented by Rangan and Ebrahim, the need to measure 'impact' sits with the funders themselves. As stated, it "is at this level – where the funder is able to oversee hundreds of operating organisations – that it is possible to measure societal impacts". It is to some extent a responsibility and accountability that has been inappropriately delegated by funders to the non-profit organisations. Within this framework, it is the funder that has the resources and capacity to undertake performance and impact measurement. And this does make sense, because 'impact' is rarely achievable by a single organisation, but rather by many organisations trying to achieve the same societal goal.

Within the framework, then, funders have two responsibilities:

1. Allocate greater resources to building management capacity of non-profit organisations to enable them to better manage and deliver their programs – investment in people and systems deliver long term results; and
2. Refocus attention on their own performance and impact whilst reducing their demands on the non-profit organisations to prove their impacts.

Based on our interaction with both funders and non-profit organisations, I can clearly state that this is not the approach taken by the vast majority of funders in Australia. In fact, most funding bodies do not have the scale nor the capacity to take such an approach – at this time it is the purview of very large foundations and governments.

That said, we continue to have meaningful discussions with the funders we advise, on the importance of measurement and their important role in assisting their chosen organisations to succeed. We expect that over time, funders will come to see the long term benefit and leveraged impact of funding the measurement of outcomes and impact.

## Concluding comments

The above has hopefully provided food for thought for both the leaders of non-profit organisations and funders of all stripes.

We would ask non-profit leaders in management and on boards to reflect on the questions below:

	What is our operational mission?
	What is the scale and scope of our activities?
	What are we measuring? Is it activity, outputs, outcomes or impact?
	If we claim to be measuring impact, is it really the impact of our organisation and programs?
	Should we be limiting scope and scale to enhance our chance of impact?
	Have we asked our funders about additional resourcing for the measurement they have requested?

*In this evolving environment, the key players must step back to appreciate and understand the challenges being faced by each other.*

Likewise, we would ask funders to pause, take stock, and consider the following:

	How are we measuring our performance as a funder?
	What is our theory of change? What do we think will address the issue we want to address?
	Are we having an impact on the issue?
	Are we providing adequate support to the non-profits that we fund?
	Are we finding the best organisations to deliver the specific outputs, or are we asking our non-profit-partners to expand their scope without adequate resourcing and understanding of the desired outcome and impact?

In an environment of intensifying competition between non-profits for a slice of the limited funding pie and growing accountability across all spheres of the market, it is no surprise to see performance measurement coming to the fore as a challenge in the non-profit sector. What we hope you will take away from this paper is that in this evolving environment, the key players (non-profit organisations and funders) must step back to appreciate and understand the challenges being faced by each other. By working together within a clear framework, they will each be able to target the measurement of the right things – the things that will help them lead positively to deliver better programs or provide more targeted effective funding. They will then truly be partners in the creation of lasting impact for the benefit of all.

# The JBWere Philanthropic Services team



## Shamal Dass

Shamal joined the Philanthropic Services team in November 2012 and has led the team since December 2014. His responsibilities include the provision of specialist strategic advice to both non-profit organisations and private clients in areas ranging from the structuring of philanthropic giving, governance, capacity building, sustainability, donor relations and organisational strategy. Shamal also works in partnership with JBWere advisers to develop tailored investment management solutions that allow clients and non-profit organisations to fulfil their mission. Prior to joining JBWere, Shamal worked within the financial services and trustee industries where he has significant experience in advising high net worth individuals on their philanthropic structures, managing trusts and foundations (including PAFs), and constructing charitable foundation investment portfolios. Shamal is a member of the Cure Cancer Australia Foundation Advisory Committee.

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## John McLeod

John joined JBWere's Philanthropic Services team on its establishment in 2001 after 16 years in resource equity markets. His primary responsibilities were researching and analysing trends in the philanthropic sector; interpreting the findings to provide valuable insights for clients; and forging relationships between clients with a philanthropic interest and the not-for-profit sector. After retiring as a Principal and Executive Director of JBWere, John has been able to devote more time to both his family's interests in private philanthropy through a Private Ancillary Fund (PAF) established in 2004 and broader education through independent consultancy in the sector while still undertaking research and client advisory work for the Philanthropic Services team at JBWere. John is also the co-author of IMPACT – Australia: Investment for social and economic benefit.

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## Josephine Paino

Josephine joined JBWere in 2008, managing a number of teams within the Client Services department before moving into Private Wealth Management. In 2012, she joined the Philanthropic Services team to provide specialist advice including strategic reviews for non-profit organisations, philanthropic and private clients. Josephine works closely with JBWere advisers to develop investment management solutions, enabling clients and non-profit organisations to achieve their mission. In addition, Josephine co-ordinates all of the wider Philanthropic Services teams insights and activities giving her a broad coverage and understanding of the sector. Josephine is the Secretary of the Investment Committee of the JBWere Charitable Endowment Fund and also a member of the JBWere Diversity Council.

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## Luke Branagan

Luke joined the JBWere Philanthropic Services team in March 2015. His responsibilities, in partnership with JBWere advisers, include the provision of strategic advice to not-for-profit institutions, and individuals and their families with an interest in philanthropy. Prior to joining JBWere, Luke was the Executive Manager of the MLC Community Foundation, where he led the evolution of the strategic direction of the Foundation to focus on mental health outcomes. During Luke's tenure, the Foundation was recognised as a philanthropic leader in measuring social outcomes, driven by innovative approaches to measurement and impact investment. Luke was also a member of NAB's Corporate Responsibility Leadership team. Prior to this role Luke led the community program at the Australian Securities and Investments Commission.

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**2012 and 2013 Winner of the Australian PrivateBanking Council 'Outstanding Institution – Philanthropic Services' Award. Based on a submission lodged by JBWere and NAB Private Wealth.**

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