Nonprofit Fiscal Fitness

A newsletter about issues in the nonprofit business world

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Editor's Note

October 2004 Contents

Keeping up-to-date with the latest developments and trends in one's profession is always difficult. Finding new ideas, inspiration and best practices is difficult when you're trying to manage the details of your "real job." Blackbaud's Conference on Philanthropy, which took place earlier this month, is a great opportunity to take a break from work and catch up with what's new in the nonprofit world. However, if you didn't attend, you may be wondering what you missed. Don't worry — in this issue of Fiscal Fitness (and this month's Fundraising Well), we are bringing the Conference to you! We'll highlight one of the most popular sessions from the Financial Management track — and even throw in some extra tips! P.S. – if you couldn't make it, you can still order audio and MP3 CDs (PDF) of all sessions, or watch the keynote speech online.

Key Performance Indicators for Nonprofits: An Introduction

Adapted from the Blackbaud Conference on Philanthropy session, *Key Performance Indicators and Scorecarding*.

In this session, Liz Marenakos, senior product manager at Blackbaud, explained why nonprofits must use key performance indicators to gauge the success of their organization.

As many of you have experienced, the days of donations with little or no obligation for the nonprofit to provide data guarantees that funds are being appropriately utilized are a thing of the past. Donors and internal staff are now demanding transparency and accountability, and they are demanding it frequently. They want tangible proof that a nonprofit is delivering on its mission and strategic goals.

Lacking, however, has been a framework that measures the performance of a nonprofit organization against its goals. Every organization, regardless of type, needs a clear and cohesive performance measurement framework that everyone in the organization understands. Many for-profit businesses and nonprofits are looking to key performance indicators (KPIs) as a framework for measuring their business or organizational performance in meeting specific goals and outcomes. For nonprofits, KPIs provide internal and external audiences transparency into how effectively and efficiently the nonprofit has used donations to deliver on its mission. KPIs help nonprofits better align themselves with their missions to help achieve their goals.

What are Key Performance Indicators (KPIs)?

Key performance indicators (KPIs) are quantifiable measurements, agreed to in advance, that reflect an organization’s critical success. KPIs are the measures showing how well an organization is attaining its goals or delivering on its mission. Once an organization has analyzed its mission, identified all its stakeholders, and defined its goals, it needs a way to measure progress toward those goals. KPIs are those measurements. They differ depending on the organization. For example, a business may have as one of its KPIs the percentage of its income that comes from return customers. A school may focus its KPIs on the graduation rates of its students. A KPI for a social service organization might be the number of clients assisted during the year. In a nutshell, KPIs are a high-level snapshot of an organization based on specific, pre-defined measures.

View a list of sample KPIs

Whatever KPIs are selected, they must reflect the organization's goals, they must be key to its success, and they must be quantifiable (measurable). KPIs are usually long-term considerations. They can be defined from the organizational level down to the departmental level.

Key Performance Indicators Must Be Quantifiable

If a KPI is to be of any value, there must be a way to accurately define and measure it, as well as retaining the same definition from year to year. KPIs should also have targets. For example, a company goal to be the employer of choice might include a KPI of "turnover rate". After the KPI has been defined as "the number of voluntary resignations and terminations for performance, divided by the total number of employees at the beginning of the period," and a way to measure it has been set up by collecting the information in an Human Resources Information System, the target must be established. "Reduce turnover by five percent per year" is a clear target that everyone will understand and be able to take specific steps to accomplish.

Although non-financial measures are increasingly important in decision-making and performance evaluation, organizations should not simply copy measures used by others. The choice of measures must be linked to factors such as strategy, value drivers, organizational objectives and the competitive environment. In addition, organizations should remember that performance measurement choice is a dynamic process — measures may be appropriate today, but the system needs to be continually reassessed as strategies and competitive environments evolve.

Sample KPIs

Financial KPIs

- Cash flow ($)
- Cost per dollar raised ($)
- Cost per service offered ($)
- Contributions in dollars or units for a given period
- Collection rates and amounts by funding source
- Average gift amount by age range
- Average gift amount by gift type
- Proportion of October contributions to total annual donations

Process KPIs

- Improvement in productivity (%)
- Administrative expense ($)
- Cost of administrative errors ($)
- Average length of time to process a grant application
- Average length of time to receive a planned gift
- Average length of time to deliver a service per service provider

Customer Indicators

- Number of clients treated by hour, day, week, month, quarter, or year
- Average $ per donor ($)
- Collection rates (%)
- Average collection time (# days)

Learning and Growth

- Employee turnover (#)
- Certification levels (%)
- Time in training (#)
- Average absenteeism (#)
- Per capita annual cost of training ($)

Putting Key Performance Indicators to Work
Once you have good KPIs defined — ones that reflect your organization's goals that are measurable — what do you do with them? Use KPIs as a performance management tool, as an employee incentive. KPIs give everyone in the organization a clear picture of what is important and what they need to do to use them to manage performance. Make sure that everything the people in your organization do is focused on meeting or exceeding those KPIs. Post the KPIs everywhere: in the lunch room, on the walls of every conference room, on the Intranet — even on your organization's Web site, if appropriate. Show what the target goal is for each KPI, and mark the progress toward that target for each of the KPIs. Your goal is to help motivate your staff to reach those KPI targets.

Conclusion
In summary, KPIs are a way to give everyone in your organization a clear picture of expectations. They help communicate what is important and what employees need to make happen within the organization to be successful. KPIs also make it easier to spot negative trends. They translate your organization's vision into clear, measurable outcomes that define success. These target outcomes are shared with employees, clients, donors and other external stakeholders. KPIs help align and motivate employees to deliver on improved quality, reduced costs, and superior customer service.

Remember...

- KPIs must be realistic! Imposing KPIs from the top down won't get you the organization-wide buy-in you need to effectively use KPIs.
- KPIs should guide employee efforts.
- Keep it simple to start...too many goals and KPIs make nothing a priority. You may want to try a pilot program in one department first and start with three critical measures that are impacted by all departments, as opposed to three for each department.

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