

E-BOOK

## Outcome Metrics

*Measuring what matters in the nonprofit world*



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# *Introduction: The age of transparency and accountability*

Amid increasing demand for transparency and accountability, today's nonprofits are seeking ways to both produce and to demonstrate successful outcomes.

Heightened expectations and heightened scrutiny come from several sources – including ever more-engaged funders looking for financial management techniques and principles employed by for-profit businesses.

To meet this demand, nonprofit organisations are embracing outcome metrics to measure and report their performance.

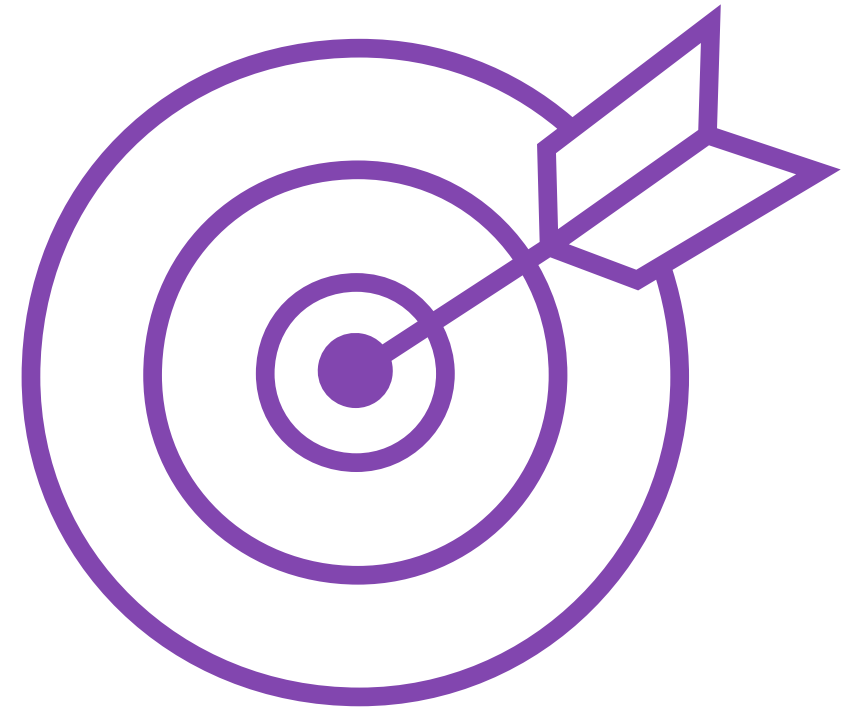
Outcome metrics not only show funders and constituents how the organisation is performing; they also help pave the way for sustainable growth and greater efficiency.

# *What are outcome metrics?*

Outcome metrics are powerful, essential tools for demonstrating accountability and transparency.

They can measure financial or non-financial criteria that reflect an organisation's, program's, or initiative's efficacy. They're derived by carefully defining outcome indicators, data-collection methods, analytical techniques, and presentation vehicles that collectively show a rich picture of organisational performance.

These outcome metrics may go by many names and fit in countless categories. Many nonprofits obtain their best results by measuring across multiple dimensions for blended scorecards that encompass activities, capacities, financial results, and other metrics. Ultimately, well-defined outcome measures help organisations to continuously adapt and improve.



# Why outcome metrics matter

The importance of outcome measures can be seen from a variety of perspectives and functions within the nonprofit organisation. These include:

**Funding** – In a competitive environment, the ability to define, measure, monitor, and report the metrics that define success can encourage new and additional funding from donors, foundations, and other benefactors. For instance, demonstrating achievement of key milestones can unlock subsequent rounds of multi-year grants.

**Accountability** – Funders are increasingly tying their support to stringent accountability. They want to see where their monies are going and the results that are achieved whether it's organisational growth and new locations or more nonprofit partnerships and matching funds. Nonprofits must provide exceptional transparency into the organisation's outcome metrics, controls, and reporting.

**Stewardship** – From development and accounting to operations and programming, the ability to define, track, and report outcome measures – showing where you are and where you want to go – will help ensure good stewardship. This, in turn, will boost donor confidence and strengthen your credibility – which supports your growth and your ability to pursue your mission.

# *Performance: who's monitoring nonprofit performance?*

With intense competition for donor pounds – and funders insisting on greater accountability and visibility – nonprofits must show fiscal responsibility as well as program results.

The call for greater transparency and accountability is growing louder. Charity evaluators are diving deeper into nonprofit results – and they're expanding their evaluations and criteria to include the tracking and reporting of non-financial performance and outcome metrics.

Charity Navigator, the premier charity evaluator, has for years used very specific financial metrics when computing its nonprofit ratings, which have a significant impact on nonprofit funding. Now the organisation has declared that financial metrics are not enough, and they will begin tracking outcome metrics—and the reporting of those measures.

Your efforts to track outcome metrics for your organisation will encourage accountability among other organisations while building your credibility and reputation. You can expect your community to become more engaged and supportive – resulting in a virtuous cycle of greater visibility, strengthened credibility, and a more committed support network.

# *Performance: linking metrics to the mission*



Outcome metrics deliver value only if they are tightly linked to your core values and mission.

It's best to start with a simple template that defines what matters – your organisation's short-and long-term objectives – and the impact measures that effectively map to them. Set goals and strategies that help ensure your activity measures support the overarching mission.

These might include progress toward goals, and program implementation; e.g. projects launched and sites protected. Finally, drill down to define the supporting tactics and activities. These might be measures of memberships, funding, or growth in fundraising.

However you establish and define your outcome metrics, keep it simple – and never lose focus of what truly matters to your organisation.

# *The best path to success: a balanced approach*

Outcome metrics include all measures that reflect organisational performance and impact.

These can include performance (e.g., program efficiency), outcomes (e.g. meals served), capacity (e.g., membership growth), financial (e.g., budget to actual), or sustainability (e.g. operating reliance). If you report solely financial-based metrics, your potential funders won't know whether you are successful in your mission and in meeting your stated goals. Consider: Your programs and activities can grow and be hugely successful, but without organisational capacity and sustainability, the programs – and their impact – will come to an end.

Define key indicators across the spectrum to ensure that you are getting – and giving – a complete picture to key stakeholders, staff, and constituents. Your website is a great way to communicate that focus, and to ensure that both internal and external constituents have access to the information.



**The key is to balance financial-and performance-based outcome measures**



# *Set up your plan*

With your mission and a balanced approach firmly in mind – and with your leadership engaged – define the top three indicators that best reflect your progress and impact, and how you will measure and monitor them.

Next, identify supporting metrics that help ensure peak performance. Ensure each metric aligns with your strategic mission. Make those measures integral to your annual strategic plan. When you focus on what and how to measure, you inform other aspects of your strategic planning, strengthen your stewardship and performance, and increase your mission impact.



# Helpful metrics

## Program efficiency

This metric may be the most important for many charity evaluators, board members, and donors because it shows how funds are used: for overhead, or for making progress.

The basic formula is:

$$\begin{array}{c} \text{Program efficiency} \\ = \\ \text{Total program services expenses} \\ \div \\ \text{Total expenses} \end{array}$$

## Revenue per member

Many membership-based organisations rely heavily on membership dues and program fees. How much revenue are you generating from your membership?

The basic formula is:

$$\begin{array}{c} \text{Revenue per member} \\ = \\ \text{Member revenue} \\ \div \\ \text{Member Count} \end{array}$$

## Fundraising efficiency

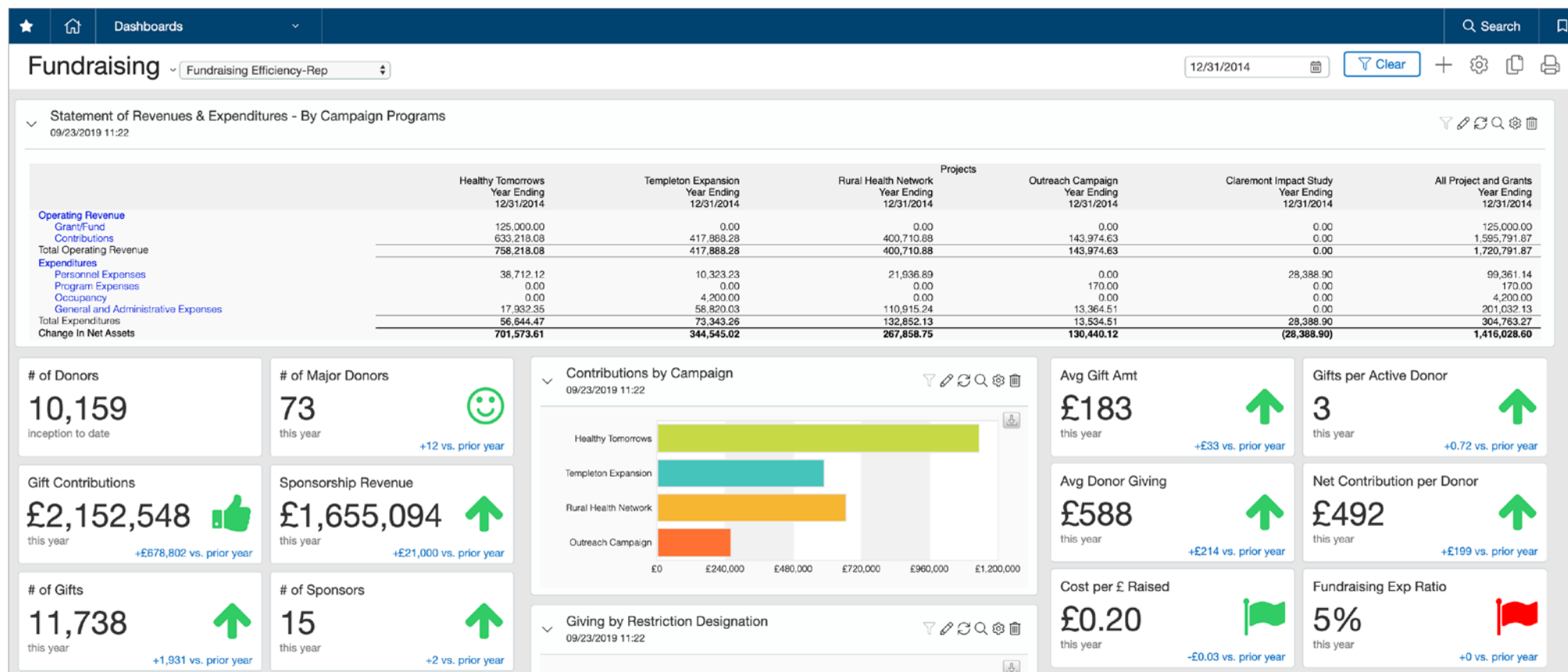
How much do you spend to raise a pound? This metric shows how efficiently your organisation raises funds.

The basic formula is:

$$\begin{array}{c} \text{Revenue per Member} \\ = \\ \text{Member Revenue} \\ \div \\ \text{Member Count} \end{array}$$

# Example: fundraising efficiency

Modern fund accounting software can easily track and tag your expenses and revenue to automatically calculate and report on this key metric. For example: If your annual gala raises £1,500,000, and costs £350,000, your fundraising efficiency is £0.23. It cost you £.23 to raise £1.



# *The right financial software system matters*

As you pursue a strategy based on outcome metrics, consider your financial management solution and how it can simplify the process.

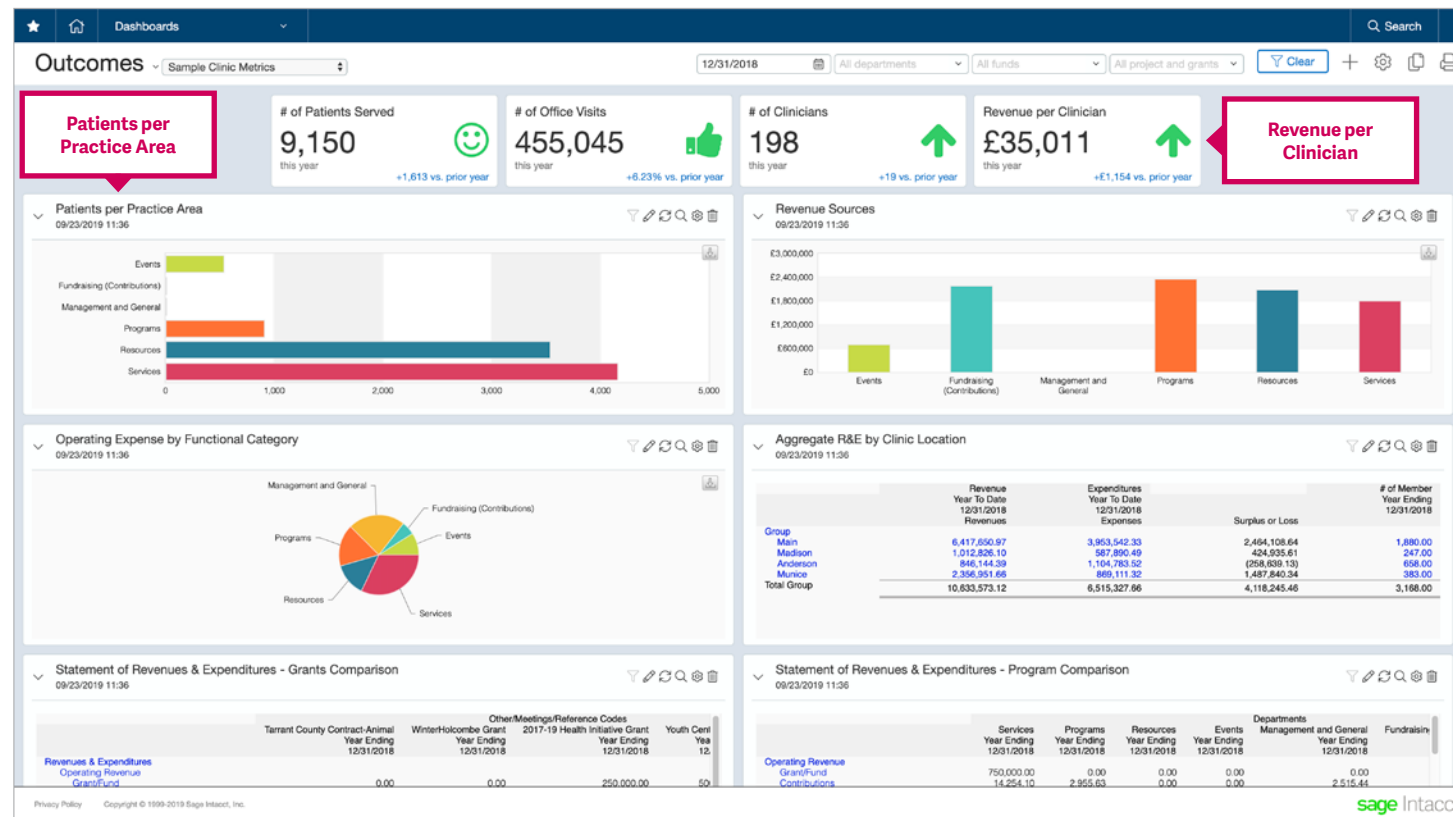
A modern, fund accounting solution will automatically tag and track your data by key dimensions – giving you instant visibility and insights so you can proactively manage locations, programs, members, and funds. The right system can provide access to statistical data that enables you to automatically calculate key metrics such as financial (revenue), statistical (membership), or a combination (donations per attendee).

And it can offer the visibility, automation, access, and adaptability you need to grow your organisation and succeed. Whether you benefit from fast and easy reporting or automated processes that yield greater efficiencies, you will be a better steward of the funds you have.

Perhaps you want to measure attendance, volunteer hours, meals served, immunisations given, or constituents funded. The key is to integrate and calculate those statistics against budgets, plans, projects, and expenses. For example, if your organisation is membership driven, you may want to track revenue by membership count compared to the prior year. Metrics such as these let you easily monitor, track, and report on outcomes. A best-in-class financial management solution can do it all – within your system of record.

# Real-time visibility is a requirement

Dashboards provide real-time visibility into data. They enable you to monitor and proactively manage outcomes. Program managers may look at metrics related to programs, locations, and budgets; grant managers may monitor grant renewals, new awards, and funding pipelines.



# *Conclusion: making a difference*

Take the first step: define the key metrics that best measure what is most important to your mission.

Don't get bogged down with tactical issues such as "Who will measure what – and when?" The subsequent details and processes follow naturally – especially when you use a modern financial system to make it easy.

Take advantage of external resources to get up to speed quickly. You may have too few or too many metrics, but consistent progress brings success. Balance your approach with measures that reflect the complete picture of your organisation's health and impact. Measuring and reporting outcomes will require extra effort. But doing so brings immediate and long-term benefits to the organisation as well as its funders and constituents.





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