

Cite This Article:

Gudz P. V. Measurement of the effectiveness of non-profit organizations [Online] / P. V. Gudz // *Economic Processes Management: International Scientific E-Journal*. 2015. № 3. Available: http://epm.fem.sumdu.edu.ua/download/2015_3/2015_3_2.pdf

Received
May 27, 2015

Accepted
July 12, 2015

UDC 364.2: 330.12:334.724

JEL Classification: A13, L44, O17

**MEASUREMENT OF THE EFFECTIVENESS OF
NON-PROFIT ORGANIZATIONS**

Gudz Petro Vasilovych

*Dr. of Economics, Professor,
Head of the Management Department,
Zaporizhzhya National Technical University, Ukraine*

The necessity of implementing evaluation of effectiveness in non-profit organizations activity is grounded in this article. Shown adaptation EERL approach based on result monitoring. Analyzed one of the activity effectiveness on the example of the civil organization. Evaluation of effectiveness is important as for organizations to improve their services as to present the results for audience.

Keywords: *non-profit organizations, evaluation of effectiveness, cross-sector partnership, EERL approach, result monitoring.*

Introduction. The development of the third economy sector is an important part of civil society development in any country. It is an integral part of globalization processes. Ukraine with the development of market economy is no exception and the impact of the third sector is also definitely great and important, because in addition to the economy it promotes democracy.

In democracy developed countries, politics is based on economic and political potential of non-profit organizations. This is due to great achievements of the third sector, for example, its total turnover in 22 countries such as the Netherlands, Ireland, Germany, Ireland, Spain, Belgium, Austria, France, Japan, Czech Republic, Hungary, Slovakia, Romania, Argentina, Peru, Brazil, Colombia, Mexico, was in the mid 1990's 1.1 trillion dollars. Non-profit organizations reflect a wide range of legal, cultural, economic, ethical, religious interests. Their budget is growing, for example in the United States from 1960 to 1990 it rose from 3% to 6,9% of GDP [1].

Today we can say that the Ukrainian third sector is in a vicious circle, where non-profit organizations are not credible because they don't show the results of their activities. At the same time, the results aren't measured because it is difficult and not everyone sees sense in it. Therefore, an important scientific and practical task is to

break this cycle by developing methods of calculating the efficiency of non-profit organization activity.

Analysis of recent publications about assessment of non-profit organizations outline, firstly, the existence of several concepts, including the most popular: target, linking effectiveness with the level of achievement its purposes; system resources, linking effectiveness with the possibility of organizations to provide their resources; stakeholders – it is based on the fact that different stakeholder groups differently assess effectiveness; the latest concept is social constructivism, where interested parties can not only affect the evaluation of effectiveness, but also manipulate the formation of public opinion and technic, which considers the best use of resources in terms of results achieved through good governance, the necessary work coordination, choice of technology, etc. [2].

Several studies link to social payment index (SI) or PI – public index – the index B. Weisbrod [3], where efficiency is a comparison of the budget amount and voluntary deposit of their revenues from paid services and commercial and financial transactions. Another index of social efficiency is the social return rate (SR). It is calculated by analogy with the rate of economic efficiency as the cash assessment ratio of social effect to the cost of its achieving.

Economic theory, for example, considers evaluation of effectiveness in terms of a generally accepted definitions of economic efficiency – the use of its production capacity due to given resources expenditure, in other words on the verge of finding a set of productive capacity, which is formed by all possible logical cost and result combinations. However, analysis of recent publications shows that the evaluation of effectiveness problem in non-profit organizations as a tool for strategic planning of cross-sector partnership remains unresolved because of a weak sector and lack of scientific justification.

The subject of the evaluation could also become allocative efficiency, which shows how efficiently the organization combines different types of resources in view of its market value and assess, whether it achieves with minimum costs in the same final results. The peculiarity and limitations of these methods is their comparative nature, they are based on a comparison of the results of similar organizations [2].

Often non-profit organizations involved in the project activity, that's why some domestic sources describe the evaluation of activity effectiveness in non-profit organizations through the evaluation of investment projects. Then calculated a Total Return Rate (TR), Net Present Social Value (NPSV), Total Net Present Value (TNPV). The project is considered acceptable if $TNPV > 0$. There is shown Total Profitability Index of non-profit organizations (TPI) [3].

It is seen that the non-profit sector studies have interdisciplinary nature, used instruments borrowed from sociology, psychology, management and other disciplines.

Foreign sources, which are based on the characteristics of third sector organizations, pay more attention to the approaches and systems implementation description of the evaluation of activity effectiveness, where specific indicators, indices and ratios for each organization are developed. These approaches include six sigma, balanced scorecard – BSC and the similar. Six sigma is used more as a tool for quality evaluation, while balanced scorecard is called strategic tool [4].

For example, implementation of BSC in the organization will need about two months, work with the software and, in fact, responsible for the implementation, having some knowledge. There is BSC institute offering courses on the implementation of this system in the organization. Recent studies show that nearly 57% of international companies have adapted BSC [7], but for non-profit organizations this system may seem difficult to implement.

One of the largest non-profit organizations in the world UN – developed and introduce into their national offices to track their effectiveness management approach based on the results (Results Based Management – RBM), which implements the evaluation in all stages: planning, management, monitoring and evaluation, reports [5].

The basic idea is that organizations can use different approaches in developing their own customized by features of the organization system or approaches to evaluating effectiveness.

The purpose of the article is in justification of EERL methods in evaluating effectiveness of non-profit organizations.

The presentation of research results.

Evaluation of effectiveness should consider the features of organization, a lot of non-profit organizations brings together a number of the following characteristics:

- ambitious and often vague purposes;
- complexities caused by the structure and size;
- great variety of activities;
- software and various management tools are not always available;
- lack of information and standards.

Evaluation system should take into account and partially solve these problems.

So the main criteria to the evaluation system should be:

- the system must be clear and easy to use;
- it should describe all important areas of the organization;
- this system has to approximate mission and purposes of the organization with its daily activities;
- it should help in decision-making;
- call right reasons – to encourage proper behavior;
- embedded in the organization;
- statistically significant;
- must consider specific of the organization [6].

In general, the approach to implementation can be presented in three stages, namely the development of a system or approach, its entry into force and the use of purpose-evaluation. One of the approaches to the implementation of the evaluation system is EERL (Enterprise Engineering Research Lab) approach, which was developed by the University of Virginia Tech [6]. It consists of six main stages shown in Fig. 1.

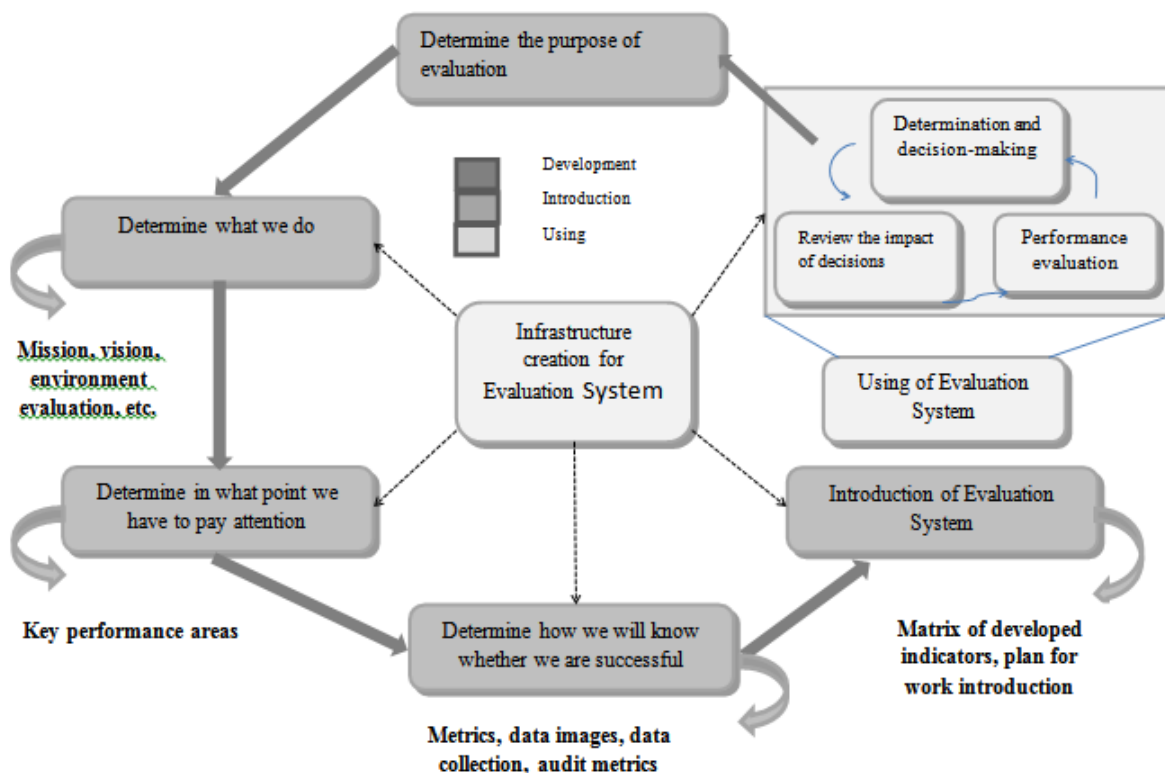


Fig. 1. **EERL structure** [6]

The analysis shows that the first step is the setting of clear needs in evaluation. If people don't know why to implement this approach or system, they will not be motivated to use it, but motivation plays a major role in non-profit organizations. So, first of all, it is important to define the purposes, expectations and advantages of evaluation;

The second step: a review of the organization activity before the selection of activity areas on which the organization needs to focus, it is necessary to analyze the organization and its environment (SWOT, SIPOC analysis, review mission and purposes, market researches, etc.). It is also necessary to understand the scale of evaluation;

The third stage associated with determination of Key Performance Areas (KPA) – these are the areas where the effective activity is essential for success. These areas

have to be allocated with the organization's mission. It is important to have not so many such areas, not to lose the focus. In addition, these areas should emphasize the competitive advantage of the organization;

For the fourth stage organization have to identify state of success – how it sees it. During this step for each key performance area Key Performance Coefficient or Indicators (KPI) are selected. You can use the knowledge from evaluation of various parameters that have been described above. These indicators should be based on specific links and data, show the dynamics over time and if it possible fit for benchmarking (development of metrics, data collection for them, audit metrics). It is also important at this stage is the limiting of values. Further, all figures have to be sorted and consist in metrics, such as outcome metric. Of course only the development of indicators is not sufficient, you need look whereof information will be collected, how and how often. An example is the matrix of metrics shown in Table 1.

Table 1. Example of matrix metrics [6]

Parameter determination				Representation		
Metric (option)	Definition or formula	The purpose of setting	Responsible	Frequency measurement	Type of data	View presentation
Key area №1						

Collection of information				Using	
Tool	Access to information	Responsible	Frequency	Representation time	Purpose

d) fifth: the introduction of system into the work, performance plan with responsible. At this stage it is important not to forget the training, which will be involved in the use of these metrics. It is desirable to create documentation that would help to use the system.

e) sixth: to use of the system (performance evaluation, making decisions based on it and review of decisions). Once the system put in place, the cycle must run to ensure the correct distribution of system products and continue its work. This cycle must consists of two parallel conditional loops – cycle, which analyzes the values derived by the system and make decisions based on them, and the cycle analyzes the hole system (meta-analysis).

The fourth step, in addition to the above mentioned, includes a spacious stage of monitoring activities, implementation of which is critical important. One of the last works by the third sector monitoring performance is the work of Gary P.Hatri, indicating that non-profit organizations in their work have three types of raw data – product, intermediate result and the final result, and the efficiency seen only as coefficient based on the final result [7].

International Organization BEST (Board of European Students of Technology) – Board of Students from European technical universities in 2009 – 2010 launched a project on implementation EERL structure to evaluate the effectiveness of its activities.

At the local level, it has been adapted with detailing the specific steps that take into account mainly the importance of building of evaluating effectiveness index based on performance results.

Adapted EERL approach is the emphasis that the basis for the evaluation of effectiveness is performance monitoring. Generally accepted efficiency formula is the ratio of product to spent on its production resources, in the non-profit sector proposed to express the product in the form of, for example, customer satisfaction service and resources in the form of organization budget increase for the provision of services. Adapted approach shown in Fig. 2.

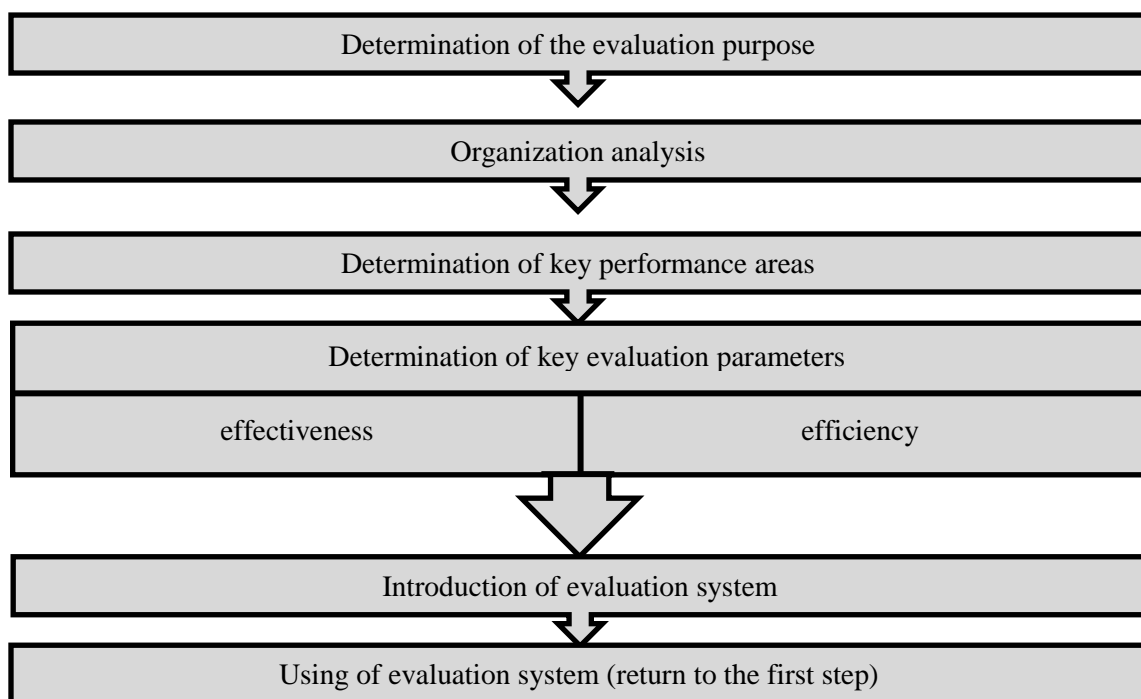


Fig. 2. Adapted EERL approach [authoring]

This structure has been adapted and eventually became the developed metric matrix for several international committees; statistics on the internal website of the

organization of local branches of the organization; the study on the ease of use and reliability of internal site; was introduced as one of the main indicators – a measure of customer satisfaction (NPS – Net Promote Score). During the implementation of the system was revised key areas of the organization and made suggestions for next year plan, which will be based on many indicators of outcomes matrix and other. It certainly brought together the organization mission with daily activity, increased motivation in some way, because there were introduced rewards for achieving certain performances (eg, in the training system one of the indicators was set number of hours, only after a certain number trainer became trainer enjoying full rights).

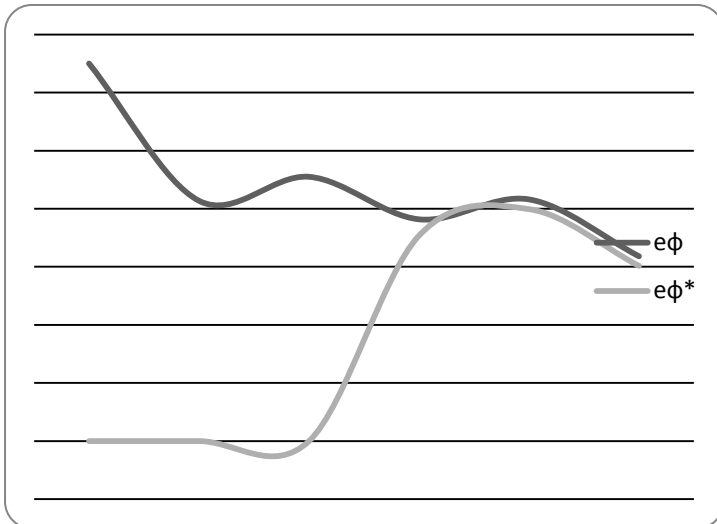
It is advisable to demonstrate an example of implementation of this approach on the example of a local branch "Board of Students from European technical universities" in Zaporizhzhya.

In the fourth step, it was determined that one of the important indicators is effectiveness of realization one of the main activities, namely "International Academic Course BEST». This project is a major source to achieve its purposes by organization. The format of the event is about 20 students from all Europe gathered at a university in the local branch (in this case based on ZNTU) and for about two weeks they listen lecture course and visit some local factories on topic predefined by organizers. It may be a technical subject (on ZNTU base were conducted courses on Automation, Aircraft building, Energy, etc.) and economic subjects, which will help in future employment of participants (Financial crisis, Management and Marketing).

During the evaluation of effectiveness usual formula (Ef_0) was transformed into one that is appropriate for non-profit organizations. The product, ie the result is expressed in the form of customer services satisfaction (contributors) as a percentage, and resources are expressed as percentage change from what is defined balanced, get customized efficiency formula (Ef_1):

$$Ef_0 = \frac{\text{Product}}{\text{Resource}} = Ef_1 \frac{\text{contentment, \%}}{\text{budget changes, \%}}$$

The level of satisfaction was measured with the help of participants evaluation by the following criteria: adequacy of the information before the event, the quality of the lectures, got participants additional knowledge and skills or not, take part participants in the organization after the event or not, and would you recommend to a friend to take part in such event – NPS (this figure was introduced after 2010). Then with the help of expert method and weighted average method was derived aggregates satisfaction of participants. As mentioned there was elected a balanced budget (it was 2008 budget) and the estimated deviation from it considering the level of inflation for years. When all the elements of the formula were reduced to a percentage values the event efficiency was calculated (Fig. 3).



Year	Effectiveness	The effectiveness of NPS account
2008	0,65	
2009	0,41	
2010	0,45	
2011	0,38	0,35
2012	0,42	0,40
2013	0,32	0,30

**Fig. 3. Efficiency dynamics of the project
 «International Academic Course» 2008-2013**

Based on this evaluation the analysis was done and purposes for the next year event with more focus on academic part was made, search English teachers and orientation to familiarize participants with the activities of the organization in general. In addition to the evaluation the evaluating criteria was added by the organizers, about communication during the project, motivation and obtain new skills by organizers.

Every non-profit organization can take this approach as a basis for the system of evaluating effectiveness, so it comes to the display form their own results and ways and places their presentation.

Summarizing we can mention that today question is to convey the importance of performance monitoring tools and approaches implementation for evaluation of effectiveness in non-profit organizations. Change the focus from finding universal coefficients to adapt approaches of evaluating effectiveness, customized for each organization.

Over the past two years the state of public confidence in Ukraine to civil organizations shows a positive trend: the number of citizens who don't trust to non-profit organizations decreased by 10%, while the number of those who completely trusts increased by 2% [8]. This figure can be bearing in the third sector evaluation changes.

Making workshops that would help organization members learn to use such approaches, for example EERL, should be included in the plans of social partnership programs and other programs that develop the third sector. It can be seminars and

workshops along with those going on fundraising subject. With the help of proper evaluation and presentation of organization activity results of non-profit sector they will be able to become cross-sector partnership initiator. Analyzing the forums on this topic held in Zaporizhzhya region and using the practice of Lviv region [9], we can formulate a new cross-sector social partnership concept. Schematically it is shown in Fig. 4.

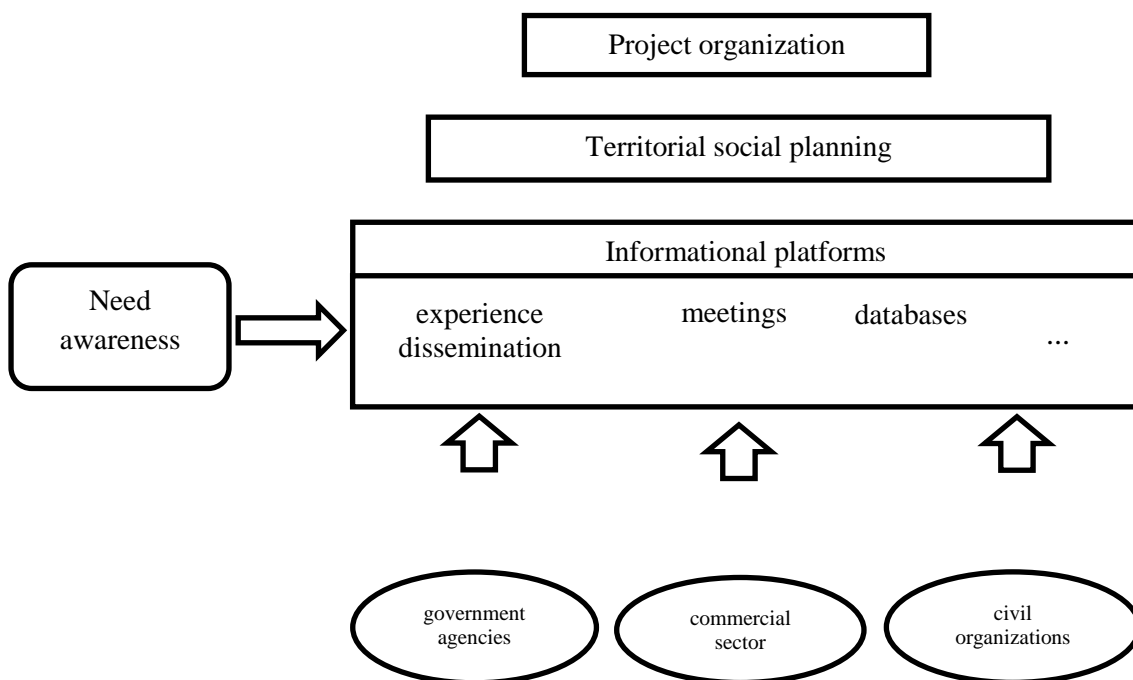


Fig. 4. The concept of cross-sector social partnership [authoring]

This partnership is based on mutual understanding of the partnership necessity and community organizations initiate creation of an information platform (dissemination practices, meetings, databases, etc.) to enable a common territorial social planning with the other two economic sectors. This planning will lead to joint projects.

The impetus and permit to such initiative should be qualitative representation of performance effectiveness by the third sector, which is possible only by introduction of their system of performance evaluation. EERL model provides an opportunity to develop their own key indicators for each organization. It allows to get key information about the organization functioning to improve decision-making efficiency and helps be more aimed at achieving the purposes.

References

1. Salamon, L.M., Anheier, H.K. (1999). Dimensions of the Nonprofit Sector / Global Civil Society. The John Hopkins Center for Civil Society Studies. Baltimore.

2. Borisova, E.I., Polishhuk, L.I. (2009). Analiz effektivnosti v nekommercheskom sektore: problemy i resheniia [The analysis of efficiency in the nonprofit sector: problems and solutions]. *Ekonomicheskii zhurnal VShJe. – HSE Economic Journal*, 1, 80-97
3. Shekova, E.L. (2003). *Ekonomika i menedzhment nekommercheskikh organizatsiy [Economy and management of non-profit organizations]*. Saint Petersburg.
4. Kaplan, R.S. (2005). Balanced Scorecard: Measures That Drive Performance (HBR Classic) Harvard Business Review. Retrieved from: <http://hbr.org/product/a/an/R0507Q-PDF-ENG>.
5. UNDP Results-Based Management Handbook. (2010). United Nations Development Group Results-Based Management Handbook. Retrieved from: <http://www.un.org/files/UNDG%20RBM%20Handbook.pdf>.
6. Hatri, G.P. (2005). *Monitoring rezultativnosti v gromadskomu sektori [Performance monitoring in the public sector]* Moscow.
7. Indeks stalosti v Ukraini v 2011 roci [The constancy index in Ukraine in 2011] [Електронний ресурс]. USAID. 2012. Retrieved from: http://uniter.org.ua/en/data/block/ukraine6-20_formatted.pdf
8. Seliukova, N., Kolodiaznyi, N. (2010). Otchet s pervogo regionalnogo foruma mezhsektornogo partnerstva v Zaporozhskoi oblasti [The report from the first regional forum on cross-sector partnerships in the Zaporozhye region]. Retrieved from: http://ngo.zp.ua/index.php?option=com_content&task=view&id=845&Itemid=88888898
9. Vinnikov, O. (2011). Organizacii gromadjanskogo suspilstva v Ukraini: pravda, brehnia ta derzhavna statistika [Civil society organizations in Ukraine: truth, lies and government statistics]. *Gromadianske suspilstvo – Civil society*, 2(16). Retrieved from: <http://www.ucipr.kiev.ua/publications/organizaciii-gromadianskogo-suspilstva-v-ukraini-pravda-brekhnia-ta-derzhavna-statistika>.
10. Bain & Company guide. Balanced Scorecard (2013). Retrieved from: <http://www.bain.com/publications/articles/management-tools-balanced-scorecard.aspx>.
11. Bourne, M. (2000). Designing, implementing and updating performance measurement systems, *International Journal of Operations & Production Management*. 7. Retrieved from: <http://www.emeraldinsight.com/journals.htm?issn=0144-3577>.