**Performance Measurement in NGOs**

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**Introduction**

Non-government organizations are important institutional players in non-formal interventions including health, education, tertiary and primary care including aged, policy and institutional building, governance awareness, etc. In a developing country like India, their role and participation is crucial to extensively cover and deliver quality services. According to recent statistics, India annually raises anywhere in between 400-800 billion INR. Many of these organizations are run under state trust acts or as societies or companies act. There are several stake-holders involved in functioning and growth of the NGO. The board and management are focused on raising funds and deploying them to meet the objectives of the NGO. The donors are interested in channelizing their contributions through NGO to meet social interventions deemed appropriate. Government and regulatory machinery are concerned about the sources of funds, utilization and management of funds so that inappropriate activities do not happen. An NGO faces difficulty in the areas of accountability, transparency, internal control mechanisms and financial management (Edwards, 1994). For the organisation to be accountable, it must explain how it has used its resources and what it has achieved as a result to all stakeholders. Every person in the organisation has a moral responsibility to follow the policies and procedures. Transparency can be achieved only through maintaining complete records and disclosing them without any window dressing or hidden information. Being a voluntary organisation an NGO has to have members who work with integrity and aim towards achieving the objectives. Internal control becomes essential for any organisation to monitor and measure the integrity of individuals and also keep a check on the smooth functioning of the activities. Finally, NGOs need guidelines to increase trust and awareness about the organisation (Fowler, 1995).

**Performance measurement**

In order to align the activities with their objectives and to meet the donor accountability NGO's need to measure and monitor performances of various groups. An NGO's performance can be measured by how well it achieves the goals it has set itself and at what efficiencies. The two principal functions of performance measurement systems are, firstly, to ensure that organisations are held accountable for their performance and actions; and secondly, to facilitate learning and improve performance. Performance measures for an NGO could be both financial and non-financial measures. Such an integrated view would offer a comprehensive link between several units within an NGO (right from resource generation unit to program management unit). Such a comprehensive framework is highly recommended. (Epstein and McFarlan, 2011)

**Financial measures of performance**

A vital measure to evaluate the quantitative parameters is the financial statements of organisations. (Lewis, 2009) These statements provide the stakeholders with an insight on the financial situation of the organisation and facilitate better planning and monitoring of activities. With soliciting and using the donor funds comes the responsibility of being able to justify and provide clarity on the usage of funds and also plan for effective utilization of the limited resources. Therefore transparency is an essential condition for accountability. NGOs are striving to gain the confidence of their donors and internally create a committed organisation. Many NGOs are proactively deciding what more can they inform their stakeholders. The disclosures in the financial statements are better and if any person from anywhere in the world is able to understand the financial statements then the objective of transparency is achieved.
Many NGOs are adopting the IFRS (International Finance Reporting Standards) system of reporting to increase the quality of information. These financial statements prepared using common accounting standards across the globe would help the donors and other stakeholders better understand and analyse the financial condition of the organisation.

Financial statement analysis offers insights into: (Lewis, 2009)

- Where has the money come from? For any organisation to smoothly function and sustain would require funds. The source of funds for NGOs could be primarily donations, interests, rents or dividends.
- For what purpose has it been received? It is essential to define the objective of the organisation and the purpose for which the funds are generated. For any other company the objective would be profit but for an NGO the objective would be to serve the society and expand its reach in uplifting the weaker sections of the society.
- How has it been spent? To know and summarise at the end of each financial year what has been the application of funds.
- What are the outcomes of the operation? To provide information internally as well as externally about the projects funded, intangible benefits to the project beneficiaries and the impact that the organisation could create with the activities.

Understanding the purpose of objective measures to meet the needs of each stakeholder paves the path for defining and institutionalizing them.

Resource Generation Staff: They would need financial statements to analyse the cost incurred for the revenue generated. Their basis would be to evaluate the worth of the expenses in generating funds.

Finance Staff: The finance staff would be interested in the complete financial statements as they would evaluate the current financial condition and financial sustainability of the organisation. To ensure and effective and efficient utilization of resources to achieve the organisation's objectives.

Board of Trustees: To keep an eye on how resources are being used to achieve the NGO's objectives.

Donors: Donors are the lifeline of any NGO. The donors would look at the statements to understand how their funds are being utilised and whether to consider supporting that organisation in the future.

Project Beneficiaries: They would be concerned to understand what it actually costs the NGO to provide them the services and how much is it benefitting their community.

The aim in analysing and interpreting financial results is to assess the financial health of the organisation, compare the performance over the years or with other organisations, effective decision making and better planning for the future. Financial statement is also an important source of assessing the risk in the organisation and taking appropriate measures to mitigate them. The risks associated with an NGO could be that of fraud, theft, volatility in costs, exchange risk etc. These risks could be mitigated through appropriate internal checks, constant review of the financial records and updated information and timely action. The financial measures present three dimensions of the NGO:

Financial Sustainability: Financial sustainability for an NGO would mean the long term support that these organisations provide to their beneficiaries. Hence, to support these activities the NGO must have sufficient funds to function and service not just today but also in the future. This financial sustainability would be a result of good financial management which would include planning to foresee and predict, organising to work as per the plan, monitoring the activities to compare and match to the original plans and reviewing the activities performed.

Efficiency: The efficiency of an organisation is assessed by measuring the organisations capability to serve as many people as possible with its resources at the lowest cost and good service.

Effectiveness: The capability of an organisation to achieve desired results by managing the limited resources and consistent performance.

The most common financial measures NGOs could use are, (Lewis, 2009)

Ratio Analysis: A quantitative analysis of information in the financial statements to evaluate relationships among financial items. These ratios are used to analyse over time, individually or in comparison to similar organisations.

Some of the ratios to understand the Financial Sustainability of the organisation could be:

- Donor Dependency Ratio: Donor Income/Total Income:

This ratio is a measure of the organisation's donor income to the total income generated during the year. The usual norm followed is that if the ratio is high then the donor dependency would be high and if the ratio is less, the organisation is independent and there is less reliance on the donors to generate income. Accordingly there is another view point to this. Considering the donor income it becomes very essential to analyse the number of donors contributing to that income. The donor mix is
an indicator of the concentration of donations through limited donors which poses a risk to the organisation. To de risk the organisation it becomes important to dilute the donor income or have a dispersed donor mix which reduces the risk of dependency on limited donors. This would be a true indicator of donor dependency and a measure to increase donors.

- **Survival Ratio: (General Reserves/Total Income)*52 or 365**

  This is a hypothetical ratio which is an indicator of how long can the organisation survive if all its funds are dried up and there are no donations received during the year. In simple terms it would mean if with the total income generated the organisation can survive for 52 weeks or 365 days assuming all activities constant and income generated is spent then how many weeks or days would the organisation sustain with its reserves. The General reserves here would mean the unrestricted funds/reserves.

- **Corpus Fund to Earmarked Funds Ratio**: This ratio provides a comparison between the corpus fund and the restricted funds of the NGO. The ratio should not be unduly lopsided on either side. A very high corpus would imply that the NGO is comparatively dormant and a very low corpus would denote insecurity about its future.

- **Current Ratio: Current Assets/ Current Liabilities**

  This ratio in profit making companies indicates the liquidity position of the company. In NGOs too it determines the ability of the organisation to pay off its immediate debts (within 12 months). A ratio of 2:1 is considered satisfactory. This ratio signifies the effective management of resources by the organisation.

- **Income Utilization Ratio: Total Expenditure/Total Income**

  This ratio is basically to understand how much has the organisation incurred in expenditure as a percentage of total income generated. This ratio can be further broken down into sub ratios such as the ratio between Programme expenses to Total Income or Administration Expenses to Total Income. These ratios help the organisation to ascertain the efficiency to handle expenses with the generated income and prioritise expenses on the basis of need and original plans.

**Resource Generation Ratio: Resource Generation Expenditure/Resource Generation Income:**

This ratio emphasises on the efficient utilization of the available funds to generate more funds. It is an indicator of the real value of the income generated and the outflow to generate that income. If the expenditure to generate the income is high then there would be very little margin that could be used in the future.

Trend analysis of the key financial measures would help us know how the organisation is performing when compared to last period. What has been the growth, the increase in projects and the expansion through the years? By comparing it may be possible to detect trends and use this information to forecast future trends or set targets. The trend analysis becomes more meaningful if combined with the ratio analysis.

**Non Financial Performance Measurement:**

In recent years the concern for quality has created a greater demand for more performance measurement strategies. The NGOs are under pressure to invest more in evaluating the work and measuring its implications both financially and non financially. A measure of non-financial performance is essential to provide a balanced view of organizational performance. The scarcity of resources and increased competition from other organizations for funds has elevated the need for the NGOs to measure and proactively manage organization performance. The NGOs are accountable to their stakeholders most importantly to their donors and beneficiaries. The analysis of financial statement is usually a post hoc measure detailing the result of the performance whereas on the other hand the non financial parameter elevates the measurement for strategic re-organizing and continuous improvement to better the performance.

NGOS should consistently measure the impact of the activities and efforts on the society and individuals and the progress made towards achieving the set objectives. To determine the ability of an organisation to constantly grow and improve, the NGOs need to keep a track of the changes within and outside the organisation. Necessary skills and tools in employees are essential to drive the strategic goals and align with organizational objectives.

Another measure of performance in NGOs could be the level of relationship maintained and built through the years. The number of new donors added during the year or the repeatability of donors through the years. The jobs created during the year are also an indicator of the organisation’s development each year. (Epstein and McFarlan, 2011)

The main objective of these measurements is to:

- Align the resources, processes and financials to meet the organization’s objectives.
- Transform goals set to goals achieved.
Take proactive measures to determine what has to be accomplished from time to time.
Enunciate and strive for a sustainable and efficient organisation.

**Conclusion**

The NGO sector as a whole has traditionally been dawdling in measuring and improving its organisational performance. This partially is because employees often see their aims as somewhat less visible and quantifiable than the profitability and stock market measures that the business sector concentrates on. Performance measurement gives an overview of organizational deficiencies and thereby there is a greater chance to discover the relevant areas where improvements are needed and where rationalizations are most urgent. A performance measurement system involves creation of an information feedback system by which management identifies, monitors and takes action to improve selected key performance indicators that tracks the organisation's primary performance areas.

Performance measurement as a tool demonstrates and improves efficiency in both the financial and non-financial aspects of the organisation. A fully integrated approach to performance measurement is a prerequisite. The organization has to strike a balance between the optimal utilization of the financial resources combined with the efficient and effective non financial resources. Such measures give an organisation a more informed view of their performance and better understanding of the impact they are able to create on the communities they serve. Good performance is a criterion whereby an organization can determine its capability to achieve its objectives and prevail.

**References**

4. V. Terry Lewis (2009): *Practical Financial Management for NGOs-Mango (Management Accounting for Non-governmental Organisations)*