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Charities Need a Bottom Line Too

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Time after time, managers, board members, and supporters of nonprofit organizations find themselves frustrated by a simple but fundamental problem: the lack of clear goals for their organizations. Without a shared understanding of goals, leaders and supporters of even the most well-meaning nonprofit will almost inevitably find themselves drawn into activities that diminish and divide the organization, undermining its effectiveness and undercutting its performance. The lesson for nonprofit managers, board members, and donors is clear—nonprofits need a bottom line.

Already outside pressures—cuts in government support, more intense competition for private-sector giving—are pushing nonprofits to think and act in a more businesslike way. Smart nonprofits are finding that goal-oriented management, combined with yardsticks to measure progress, may mean the difference between success and failure.

The following examples illustrate the problem:

- A U.S. charity concerned with Latin American education assigns a young field worker to Peru, where he supervises the construction of schools in especially hard-to-reach, rural areas. After two years of hard work, he has built more than 200 new classrooms in remote areas at a very low cost per unit. But when his boss comes from Los Angeles to review the program with Peruvian education authorities, they find that neither literacy nor school attendance has improved. The young field worker is devastated. His tremendous effort to make a successful contribution to education in Peru now appears to have failed.

- The board of directors of a family planning clinic in a major American city assembles to review the facility's performance. In looking at the clinic's year-end data, board members note with some dismay that fewer women have received family planning services this year than last. The clinic director points out, however, that the services provided have expanded dramatically. Not only are the women receiving birth control services but each client also receives a Pap smear, a breast examination, minor gynecological treatment, and, where appropriate, such ancillary services as menopause counseling.

This report sends the board into total disarray. "I thought we were in the family planning business," says one. "What about the teenage pregnancy problem?" asks another. "Gynecological services are fine, but is that what we're here for?" adds a third. Time runs out and the meeting breaks up before any agreement can be reached. The clinic's director returns to his job with a confused and contradictory sense of direction. The clinic drifts.

Scenarios like these are all too common in the nonprofit world. The key reason is that most nonprofit organizations fail to agree on a clear-cut set of objectives. Instead, they accept without rigorous discussion a broad and unquantifiable "idea" as a goal. In addition, managers and board members who do agree on goals usually fail to quantify them and to develop yardsticks for measuring progress toward them.

The solution to both problems is simple to state but stubbornly difficult to implement: key managers and board members of nonprofit organizations must define—and periodically redefine—exactly what it is they are in business to achieve. Further, they must define their goals with enough precision to be able to develop yardsticks that will tell them when they are making progress and when they aren't.

Defining Objectives

Why should it be difficult to agree on objectives? Doesn't everyone understand that CARE is in business to help poor people overseas? That the Salvation Army helps the homeless? That the Girl Scout program fosters goodwill and socially constructive attitudes? The problem is that these broad statements of purpose are not objectives at all. They are only concepts. And they certainly do not encourage the measurement of progress.

Goal statements can be very different from the broad ideas behind them and the processes involved in achieving them. If an organization's goal is higher income for a target population, for example, the broad idea might be to alleviate poverty. If the goal is to prevent unwanted pregnancies, the process might be to construct more health clinics—an apparently useful activity, but one that may or may not help achieve the goal.

It is far easier to accept a general idea or the description of a process than a goal. Ideas sound worthwhile, are unspecific in their application, and invite no rigorous evaluation. It is precisely because goals are more specific and invite quantification and evaluation, however, that they represent an essential starting point in the efficient operation of a nonprofit enterprise.

Why is clear goal definition so elusive in the nonprofit world? Here are six reasons:

1. Many nonprofit managers fear accountability. Indeed, some professionals are attracted to the non-profit world because they think they can perform a useful service without being subjected to the harsh discipline of the bottom line. This is a mistake for all concerned. Nonprofits need a bottom line too, and nonprofit managers must be held accountable for achieving it.

2. Many projects continue even when they no longer serve an organization's goals. Ending a project often means firing people—always hard. And we all find it difficult to end things, whether jobs are at stake or not. Often there is no mechanism in the nonprofit world for terminating faulty or completed projects. When a business makes a big mistake, it has no choice but to recognize it or go broke. But a nonprofit group may drone on for decades, accomplishing little but persuading donors that it is "doing its best."

3. Nonprofits normally undertake any activity for which money is available. If donors continue to underwrite Peruvian schoolrooms, those rooms will go on being built, even if they aren't needed. "Donor driven" activities take on a life of their own. Schools get dedicated and photographed, and the photographs are used to raise more funds. The schools become desirable

project activities within the organization. But rarely does anyone ask how much—or even *if*—they are really helping Peruvian children.

4. Some nonprofit managers fear that management science may replace romance: Won't hard-nosed evaluation undermine humanitarian instincts? The answer is no. For those truly concerned about serving people in need, a clearly defined set of goals and yardsticks to measure progress should be very reassuring. You do not vitiate an idea by clarifying it, even when you subject it to statistical analysis. Rather, you render your ideas more doable. If the beneficiaries' needs are upper-most—as opposed to, say, the emotional or career needs of donors or board members—then quantifying output can only improve the humanitarian romance because all concerned will know when they are making progress toward real goals.

5. Nonprofit managers must spend a great deal of time on activities that do not further their organization's goals. Meeting with donors, coping with reporting demands, explaining programs and policies to committees, placating and organizing volunteers, satisfying the often burdensome requirements of institutional supporters, and fundraising all make heavy demands on the managers. They are thus continually distracted and easily misled into thinking that being busy means accomplishing something worthwhile. Board members and donors often accept descriptions of activity as substitutes for progress toward goals, permitting unfocused and fragmented activity to continue.

6. Nonprofits have no financial report cards to tell them how they are doing. In the for-profit world, balance sheets and profit-and-loss statements tell managers a lot about how close they are to meeting their objectives. A nonprofit organization's financial reports reveal absolutely nothing about its progress.

Reach an Agreement

How can nonprofit managers deal with the inevitable conflicts and confusion over goals? The answer is not simple, but neither is it difficult to comprehend. Nonprofit managers must work with board members, donors, and other key players to reach an agreement on goals and priorities. Then they must write down these goals and make sure that staff members at all levels of the organization understand and accept them. Finally, they must see to it that the financial and human resources of the organization are consistently applied to these objectives.

This process is not always easy. At a conference of CARE's staff in India a few years ago, 20 officials debated whether CARE's efforts there should focus on relief or development. Most wanted to be part of the development process rather than "just" emergency relief workers. But it was also clear that India needed a private, independent relief agency that could assist the government in times of emergency. After a long debate, CARE officials concluded that the organization's role in India must embrace both relief and development efforts. Unfortunately, because the discussion took so long, there was no time left to define the goals any further or to establish measurable performance standards within these categories.

In situations like that, the solution is to agree on what you *can* agree on. If CARE's representatives thought their agency should provide both relief and development assistance, they could have clarified goals and objectives in both these areas. At the time, CARE's biggest program in India was providing about 12 million schoolchildren with supplemental food at a cost of $60 million per year—an activity in which relief and development overlap. The program had three major goals:

1. Improving the long-term nutritional condition of the children. Nothing wrong with that. A few surveys could easily have determined the extent to which this goal was being met.

2. Providing more food to presumably hungry kids. Easy to measure. At a cost of $5 per child per year, the cost-to-output ratio was very reasonable. The only remaining questions were whether there were even needier kids not in school (there were, but there was no good mechanism for reaching them) and whether the children were actually getting the food (they were).

3. Keeping kids in school longer (nutritious lunches drew students) and keeping them more alert during classes. Surprisingly, many CARE officials agreed that this might be the most important long-term result of the school feeding project. Again, a few sample surveys could have clarified the extent of the program's success.

In all three cases—nutritional status, relief feeding, school attendance—CARE could quantify the goals, measure the results, and make cost-to-result calculations. In fact, CARE has now adopted such practices in many of its programs.

The process of defining and clarifying such goals and assessing their value in light of their costs is a healthy one. It ensures that nonprofit decision makers continuously ask, "Are we doing the right thing? Does it cost too much? Why does our program cost more (or less) than someone else's?"

Quantify Goals

Goals must not be defined so broadly that they cannot be quantified. Having quantifiable goals is an essential starting point if managers are to measure the results of their organizations' activities. It is difficult to quantify the output of social programs, but if managers define their goals well, it can be done. If, for example, CARE in India agreed that the organization's goals should embrace both relief and development and that the program should include giving schoolchildren nutritious meals, then managers could use surveys to calculate the number of meals provided, the cost per meal, the program's nutritional impact, and the increase in school attendance.

Another example of quantified goals combined with effective measurement yardsticks comes from the international population field. Social marketing of contraceptives combines the social motives of reducing population growth and unwanted pregnancies with the efficiencies of free market distribution. That is, donor organizations like the U.S. Agency for International Development (AID) heavily subsidize the cost of contraceptive sales, but after the products arrive in bulk they are packaged attractively, marketed through regular commercial distribution networks, and supported by consumer advertising.

An organization called Population Services International (PSI) is a pioneer in this approach to family planning. When it was established in 1970, the organization set two long-range goals: (1) improving family health and preventing infant deaths by enabling parents to space the births of their children and (2) lowering birth rates in countries with otherwise exploding populations. The founders decided that PSI could achieve both goals by providing sustained birth control services to a target market of couples who were fertile, sexually active, and motivated to plan their pregnancies.

The next step was to measure the program's effectiveness. Building on research developed by other family planning organizations, PSI settled on a simple formula of "couple-years of protection," or CYPs. Since a woman must use 13 cycles of contraceptive pills per year to avoid a pregnancy, for example, 13 cycles would equal one couple-year of protection.

Use of condoms needed a more subjective evaluation. The first PSI program in Sri Lanka estimated that the distribution of 65 condoms per couple per year would provide one CYP. The Indian government soon began using 72 condoms as its standard CYP. AID eventually settled on an estimate of 100 condoms, a figure that most family planning leaders have adopted as the standard for programs that sell contraceptives.

Those who think that shifting from 65 to 72 to 100 defies scientific measurement are missing the point. What's important is that all social-marketing agencies in family planning have agreed to use the CYP as a performance yardstick to measure the effectiveness of their programs. Even if the number changes again, it will still provide an excellent measurement tool as long as it is consistently applied.

Once PSI adopted the couple-year of protection, its managers could evaluate programs on the basis of cost per CYP. Recent statistics show, for example, that contraceptive social-marketing programs in Sri Lanka and Bangladesh provide services for $4 and $7 per couple-year, respectively. These figures are gratifyingly low, especially in light of the cost of $10 to $80 per CYP in many clinic-based programs. The same measure, however, shows that programs focusing on sterilization are even more efficient than social marketing.

Almost any nonprofit organization can establish benchmarks to measure program achievement. Admittedly, it may be more difficult for some. It is easier for organizations that derive income from some consumer services. A nonprofit hospital in a competitive setting, for example, can't be grossly inefficient or overpriced for very long before doctors and patients jump ship and revenues sink so low that private donors can't bail fast enough to keep the hospital afloat. A bottom line of sorts exists to police performance.

Gauging performance is more difficult for organizations with intangible objectives. The primary mission of a church, for instance, is spiritual—which is nearly impossible to measure. But as the PSI example shows, managers can construct a meaningful measurement of performance for the great majority of nonprofit organizations.

Getting to Goals

Making the decision to define and quantify goals is half the battle. But getting the job done, of course, can also pose problems. Here are some issues to keep in mind:

- Don't confuse activities with program goals. The schoolrooms in Peru serve as a good example here. Building more schools was not the program's goal. Too often people confuse process (building rooms) with output (improved literacy, better school attendance). It's all too easy to get busy at something that has vaguely to do with your organization's objectives and think that you are accomplishing something, when in fact you are merely milling around in procedural matters. Nonprofit managers share this problem with all administrators, but they are not subject to the bottom-line discipline that forces commercial enterprises to correct such unfocused behavior when profits drop.

A recent example in the United States is Farm Aid, the fund-raising concerts designed to help distressed American farmers. The process was wonderful; hundreds of dedicated, well-intentioned people volunteered their time and talent for those in need. But practically no one focused on goals. Who was to be helped? In what manner? Would funds be used to bail out marginal farmers? Buy fertilizer? Make loans? These are tough and complicated questions that were only answered, if at all, as an afterthought to the more important process of raising funds.

- Define reasonable cost-to-output standards. Because it's hard to agree on what is "reasonable," many nonprofits conclude that it's pointless to set standards. It is true that widely differing circumstances will mean significant variations in costs and that no absolute standard for the cost of helping people can be set. But precise parameters are not necessary to make useful comparisons.

In 1968, for example, a drought in central India endangered the lives and health of 20 million people. Roughly 10 million people received relief assistance on a short-term basis, at a cost of about $80 million—a very reasonable $8 per person. In Ethiopia in 1985, the cost per person may have run two or three times greater because Africa's transportation systems are so much worse than India's. Once differences like these are quantified, however, valid comparisons can be made. If one relief agency is providing supplies for half (or twice) the cost of another, what are the reasons? Such an examination will nearly always yield worthwhile results.

It is not necessary to succeed in all, or even any, of the foregoing recommendations to make your organization better. Just the process of defining and quantifying goals is healthy. You will be asking the right questions, examining your organization's reason for being. Even if the best you can do is to agree to disagree on fundamental points, you will at least have addressed them. This self-examination is bound to be better than letting your organization drift, caught up in a swirl of donor-driven projects, procedural meetings, and the other mighty distractions that invariably attend a serious charitable activity. In view of the increasing competition among nonprofits for funding, this kind of evaluation has become more important than ever. If you only ask, "Why are we here?" you will have taken the first step toward ensuring future success.

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