

Research Brief

March 2016

Why Performance Measurement?

An Introduction

Measuring programmatic achievement on a regular basis can provide significant value to organizations that use the derived data to guide strategic decision-making. Performance measurement is the collection and analysis of program and operational data, and the use of that information to continually develop, test, and hone organizational strategies.¹ Performance measurement has become increasingly ingrained in the strategic functions of organizations resulting in substantive literature on the topic for private industry and nonprofit organizations in general.

However, there is minimal performance measurement literature that is focused specifically on associations. The unique structures and responsibilities of associations—their commitments to members, to volunteers, and to the industries they serve—suggest that general performance metrics may inadequately address the nuances of their programmatic success. The combination of an overwhelming volume of general information with a dearth of targeted insights for associations' specific needs may leave association professionals feeling

¹ Wolk, A., A. Dhokalia and K. Kreitz. "Building a Performance Measurement System." *Root Cause*, November 2009.

overwhelmed—or underwhelmed—by performance measurement options. To address those sentiments, this research brief applies insights from an in-depth literature review and interviews with experts in the field to provide an overview of effective approaches to performance measurement, as well as special considerations that are relevant for associations.²

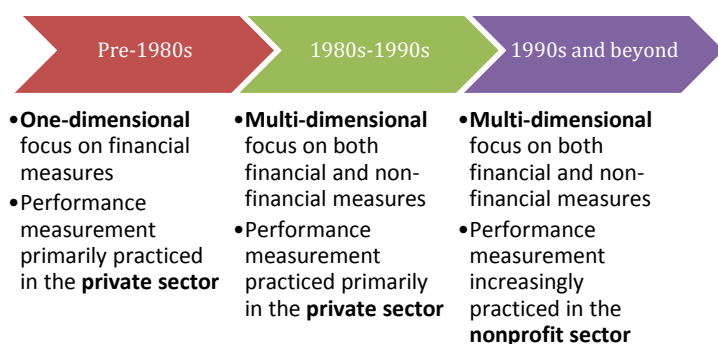
The Evolution of Performance Measurement

Performance measurement systems prior to the 1980s tended to be solely based on financial measures, and this single-dimension focus provided an accessible but overly simplistic understanding of organizational performance. Such an approach encourages a focus on short-term milestones (e.g., quarterly reports) at the expense of long-term vision. Fear of an immediate dip in profits means that organizations are incentivized to avoid strategic, long-term decisions like capital investments.³ Secondly, a focus on financial measures often means a backwards-looking focus on historical data. A company trying to estimate its upcoming earnings might only examine past fluctuations in total sales, rather than seeking to understand qualitative and predictive measures such as customer opinion, which could signal a future drop in sales. Sole focus on financial measures makes it difficult to meaningfully link data with a company’s long-term, strategic objectives. As such, measurement systems that only track financial metrics fail to effectively guide an organization’s performance.⁴

Performance Measurement and Remarkable Associations

In 2006, the ASAE released the publication *7 Measures of Success: What Remarkable Associations Do That Others Don’t*, the result of a four-year study on the common characteristics and practices of remarkable associations. One of these best practices is that “the development and use of data driven strategies depend upon the sophistication of an organization’s performance measurement processes.” This in turn contributes directly to another best practice, “the alignment of products and services with an association’s mission.”

Figure 1. Milestones in the Evolution of Performance Measurement



In the late 1980s, academics and senior executives across industries began to focus on how multi-dimensional frameworks could track performance more effectively than financial measures alone.⁵ In the 1990s, this focus elevated the importance of using non-financial measures to complement traditional financial measures. For example, leaders recognized that being able to track and ensure the consistency of product quality could help maintain sales and

create greater shareholder value. Rather than solely focusing on financial figures, performance measurement

² Associations are considered nonprofits from a legal standpoint; therefore, insights from the literature on nonprofit performance measurement are assumed to generally apply to associations as well. Through this research project, we will use this base literature to apply a lens focused on how associations, as a *specific subset* of nonprofit, can practice performance measurement.

³ Bourne, M., J. Mills, M Wilcox, A. Neely and K. Platts. “Designing, Implementing And Updating Performance Measurement Systems.” *International Journal of Operations and Production Management*. Vol. 20. No. 7. 2000, p. 755-758. Eccles, R. “The Performance Measurement Manifesto.” *Harvard Business Review*. January-February 1991. Kaplan R., and D. Norton. “The Balanced Scorecard – Measures that Drive Performance.” *Harvard Business Review*, Jan-Feb 1992, p. 77. Neely, A. “The Performance Measurement Revolution: Why Now And What Next?” *International Journal of Operations and Production Management*. Vol. 19. No. 2. 1999, p. 205.

⁴ Ibid.

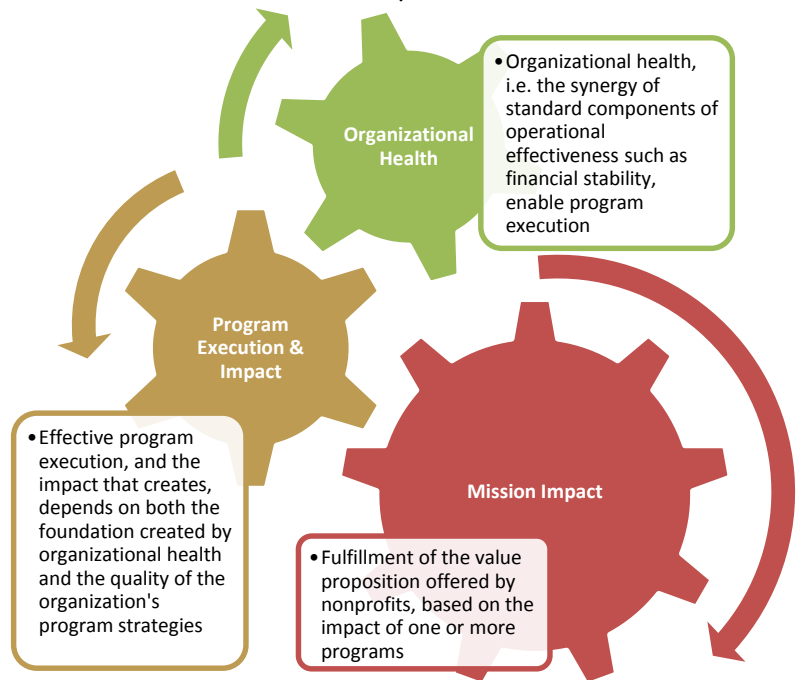
⁵ Eccles Op. Cit., p. 132. Bourne et al. 2000, Op. Cit., p. 754.

systems began to identify financial data as just one part of a collection of metrics. In particular, two key metrics emerged to become core components of many performance measurement systems in private industry firms—product quality and customer satisfaction.⁶

The shift towards multi-dimensional frameworks has been particularly useful for nonprofit performance measurement systems. As was the case in the private industry sector, prior to the 1990s, many nonprofits only tracked financial measures related to fundraising and overhead ratios at the expense of more salient metrics related to their programs. A sole focus on financial measures is particularly inappropriate for non-profits or philanthropies because effectiveness in these organizations is tied to the degree to which they fulfill their missions. This does not mean that standard components of operational effectiveness such as financial health should be ignored; rather, as laid out in Figure 2, finances should be assessed in the context of how they contribute to program execution and outcomes, and ultimately to mission impact.

Let's examine a food bank that has a mission of providing meals to needy children. Even if it is strong financially, if it is only serving adults it is failing to achieve success as dictated by its mission because it is not reaching its primary target population. In contrast, if the same food bank was weaker financially but predominantly served children it could be considered more successful because it is leveraging the resources it does have to effectively accomplish its mission. Similarly, an association that does not generate surplus revenue but scores highly on member and volunteer satisfaction surveys may feel they are achieving their strategic objectives more successfully than an association that generates significant revenue but finds it does not connect to members and volunteers in a meaningful way. In other words, associations, like other nonprofits, need to be assessed both on their ability to acquire and maintain resources (operational effectiveness) as well as their ability to effectively *use* them to achieve mission impact.⁷

Figure 2. Multidimensional Assessment of Performance for Nonprofits



⁶ Eccles Op. Cit., p. 133.

⁷ Kaplan, R. "Strategic Performance Measurement and Management in Nonprofit Organizations." *Nonprofit Management & Leadership*. Vol. 11 No. 3. Spring 2001. p. 356. Sheehan, R. Jr. "Mission accomplishment as Philanthropic Organization Effectiveness: Key Findings from the Excellence in Philanthropy Project." *Nonprofit and Voluntary Sector Quarterly*. Vol 25. No. 1. March 1996. p. 113.

Best Practices in Performance Measurement

Among both private industry and nonprofits, performance measurement systems are most valuable when they are used to hone the strategies an organization is using to reach a goal, whether that goal is higher shareholder value or achievement of a social mission. A strategy is simply a method or plan to that is implemented through actions and decisions that consistently use relevant strategic priorities as a guide. Performance measurement metrics provide feedback on whether these actions and decisions successfully realized the strategy by indicating achievement (or not) of a pre-defined strategic objective.⁸

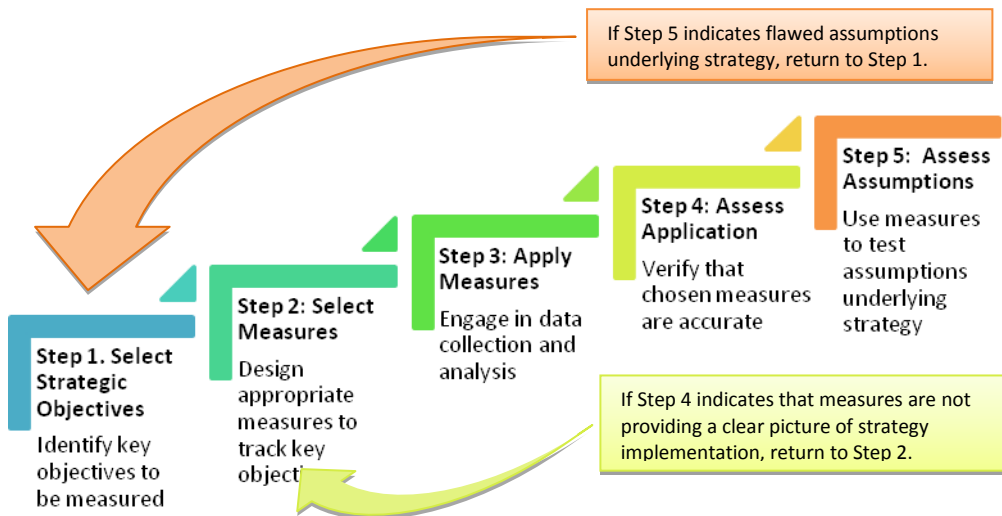
So, how should an association design a performance measurement system to effectively capture metrics that indicate where adjustments to strategy are needed? As a result of decades of study and implementation by academics and practitioners, we do have a good idea of *general* performance measurement best practices that can be applied to associations. Dr. Robert Kaplan, co-developer of the Balanced Framework approach to performance measurement, notes that “A performance measurement system that has been developed for private sector companies won’t necessarily work for nonprofits immediately. But the same *framework* to a performance measurement system can be used for for-profits, nonprofits, and the public sector, particularly when you substitute mission or constituent performance for financial performance at the top of the hierarchy.”⁹

In the context of this brief, such **performance measurement frameworks** are primarily a set of high-level guidelines and steps for using data collection and analysis as decision-making inputs. Although many different performance measurement frameworks exist, in general the processes described have a similar series of overlapping stages. Initially an organization will proceed through the stages linearly, but over time an effective

performance measurement system will include ongoing reassessment and modification that can occur at different points for different measures.¹⁰

This research brief will outline five process steps for performance management using concepts gleaned from performance measurement literature

Figure 3. Five Process Steps for Performance Measurement



⁸ Neely, A. “Performance Measurement System Design: A Literature Review and Research Agenda.” *International Journal of Operations and Production Management*. Vol. 25. No. 12. 2005, p. 1241.

⁹ Root Cause Interview with Dr. Robert Kaplan (October 14, 2015).

¹⁰ Bourne et al. 2000, Op. Cit, p. 756-758.

(see Figure 3). Because terminology across the literature varies, we will use the terminology Root Cause applies in its practice to provide consistency.

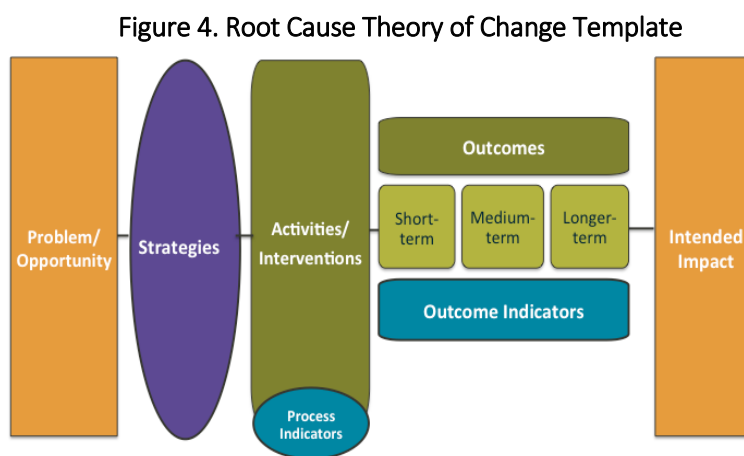
Step 1. Select Strategic Objectives: Identify key objectives to be measured¹¹

In Step 1, an organization maps out “key organization objectives.”¹² Key objectives are subjectively defined by the organization and may include its annual goals, the goals detailed in its strategic plan, or even its guiding mission. When developing a performance measurement system, Root Cause chooses to articulate key objectives as two interlocking concepts in order to capture both an organization’s overarching mission and the discrete stages of work that contribute to its execution:

- **Intended impact** summarizes what an organization hopes to ultimately achieve as defined in its vision
- **Outcomes** are the *measurable* results of the activities, services or programs designed to achieve the intended impact. Outcomes can be accomplished in short, medium, and long-term timeframes.¹³

An organization’s intended impact should be highly aligned with its stakeholders’ needs. The “needs-led” approach to performance measurement system design is an approach that identifies customer, business, or stakeholder needs and then works backwards to identify steps and monitor progress towards fulfillment of those needs.¹⁴ As Dr. Kaplan notes, “To develop a performance measurement system you need to know who your customers are and how you create value for them. The customers of a professional organization are its members.”¹⁵

All five of the performance measurement process steps, and particularly Step 1, rely heavily on a planning document that acts as an interface between an organization’s intended impact, outcomes, strategies, and its performance measurement system. There are a variety of planning documents that can be used. Association expert Bob Harris, CAE, recommends that organizations use strategic plans as a performance measurement planning document.¹⁶ Another common option is a strategy map, a document that is part of the Balanced Scorecard performance



¹¹ Bourne et al. 2000, Op. Cit, p. 756-758.

¹² Kaplan, R. and D. Norton. “Transforming the Balanced Scorecard from Performance Measurement to Strategic Management: Part I.” *Accounting Horizons*. Vol. 15. No. 1, March 2001. p. 90.

¹³ Root Cause, November 2009, Op. Cit.

¹⁴ Bourne, M., Neely, A., Mills, J. and Platts, K. “Implementing Performance Measurement Systems: A Literature Review,” *International Journal of Business Performance Management*, 2003, vol. 5, No. 1, pp.6-7, 1-24.

¹⁵ Interview with Dr. Robert Kaplan, Op. Cit.

¹⁶ Harris, B. “Realizing Success: Performance Measurement in Associations.” *Your Membership Industry Trends*. <http://www.yourmembership.com/solutions/ym-industry-trends-realizingsuccess.pdf>. Accessed 11/18/2015.

measurement framework developed by Robert Kaplan and David Norton.¹⁷ A theory of change or logic model is the tool used by Root Cause to concisely summarize an organization's relationship between strategy and impact.¹⁸ Theories of change also help organizations to avoid what performance measurement expert Kathy Romero refers to as "stove-piping," or only identifying success at the program level, so organizations can see how success in one area supports the whole organization to make progress towards its intended impact, rather than siloing outcomes.¹⁹ Figure 4 is an example of Root Cause's theory of change template, which illustrates flow from outcomes to intended impact (process and outcome indicators will be discussed in Step 2).

Step 2. Select Measures: Design appropriate measures to track key objectives²⁰

Root Cause differentiates between two kinds of measurement indicators: *Process indicators* (sometimes referred to as outputs) are data points that measure whether activities and interventions are being executed. *Outcome Indicators* are data points that are collected to measure whether the expected outcomes are being achieved and provide data to support improvements to activities, services, or programs.²¹ Both trade and professional associations track similar indicators. For example to assess the health of a membership base, examining prospect conversion rates and member retention rates can be equally useful whether they refer to individual professionals or organizations. Regardless of association type, selecting the right indicators to assess a particular outcome can often be a trial-and-error process, which will be discussed in Step 4.

Step 3. Apply Measures: Engage in data collection and analysis²²

An association must set up systems that allow staff to collect data on a regular or continuous basis, and in a manageable way that is integrated with ongoing job tasks. Often, data is already being collected easily through normal operations. For example, data related to touch points with members is usually something that membership departments have easily accessible. Once data is collected, staff must be able to easily analyze and use it so they can quickly determine if strategies and activities are producing desired results. Romero recommends that data for all key organizational activities be linked to a regular internal report or scorecard that staff can use to understand where the organization stands at any given time.²³ Debbie King, founder and CEO of Association Analytics®, notes that one of the best ways to do that is through data visualization. She states, "Data visualization is key to helping associations make decisions quickly because the brain processes images three times faster than text. This means we spend less time trying to interpret the data and more time on what really matters – asking better quality questions. Interactive visualizations allow staff to have a conversation with the data."²⁴

¹⁷ Kaplan, R. and D. Norton, 2001, Op. Cit., p. 90.

¹⁸ Root Cause, November 2009, Op. Cit.

¹⁹ Root Cause interview with Kathy Romero (November 5, 2015).

²⁰ Bourne et al. 2000, Op. Cit, p. 756-758.

²¹ Root Cause, November 2009, Op. Cit.

²² Bourne et al. 2000, Op. Cit, p. 756-758.

²³ Ibid.

²⁴ Root Cause Interview with Debbie King (November 20, 2015).

Step 4. Assess Application: Verify that chosen measures are accurate²⁵

It is imperative to verify that the selected performance measures accurately assess progress toward the identified outcomes and the overarching intended impact. When staff engages in data analysis, they must routinely and critically assess whether the indicators they are tracking are providing an accurate picture. To revisit the example of membership indicators in Step 2, if one of an organization's target outcomes is to increase membership, they could examine both prospect conversion and member retention rates. However, if the association's mission-level intended impact is to be the primary membership organization for professionals in its industry, additional indicators—data on members' other memberships, industry saturation, to name a few—are required to assess how the organization is progressing toward that goal. If the indicators do not relate to the strategies set forth by management, an organization must return to step 2.²⁶

Step 5. Assess Assumptions: Use measures to test assumptions underlying strategy²⁷

Step 5 is the most critical part of linking a performance measurement plan to strategy. Fundamentally, a performance measurement system should enable an organization to test the validity of assumptions underlying certain strategies, and to ensure that its programs, activities, and services are resulting in expected outcomes on the way to its intended impact. By continually engaging in this feedback loop, an organization can refine its strategy. This is the stage at which an organization should use measures to both identify adjustments to activities that will improve strategy execution as well as recognize those strategies that may be well executed but are based on flawed assumptions, and so may need to be overhauled entirely. A performance measurement system enables organizations to treat their strategies like a smartphone application: Software developers don't stop at version 1.0; rather they use data to continually iterate and release new platforms, or versions 2.0, 3.0, and so on. If necessary, an organization must be prepared to identify new strategies or target outcomes, and return to Step 1.²⁸

Performance Measurement Implementation Challenges for Associations

Some of the conceptual challenges related to performance measurement among associations have already been mentioned, such as the lack of explicit guidance in the literature on performance measurement. Specific challenges directly related to implementation include:

Assessing impact given the unique relationship between an association and multiple similar-but-different members

The relationship between an association and its members is different than that of a business and its shareholders or a direct-service nonprofit and its clients. A potential model for performance measurement in associations can be found in nonprofit network evaluation practices. An "associated network" is similar to

²⁵ Bourne et al. 2000, Op. Cit, p. 756-758.

²⁶ Bourne, et al., 2003, Op. Cit. pp.6-7, 1-24.

²⁷ Bourne et al. 2000, Op. Cit, p. 756-758.

²⁸ Bourne, et al., 2003, Op. Cit. pp.6-7, 1-24.

associations in that it features a collection of independent organizations that focus on similar activities and services, but have varied program models.²⁹ In addition to assessing a network's achievement of key objectives, performance measurement best practices used by networks also assess the organizational rigor of the network itself and the "enabling conditions" it must produce to achieve those objectives, such as connectivity between various organizations in the network.³⁰ Similarly, associations must not only monitor their own organizational health and effectiveness but also assess the impact of their activities on member professionals and/or organizations as well as the larger industry they serve.

Creating staff buy-in and engaging in change management during the development and implementation stages

Performance measurement implementation requires both infrastructure development *and* the ability to engage in organizational change management.³¹ This is a more amorphous challenge that is strongly associated with organizational culture. Kathy Romero notes that building organizational buy-in should start at the top—leaders must create an expectation that performance measurement has to be done and that the measures collected will be used to determine success.³²

Final Thoughts

From a core focus on financial measures in for-profit enterprise to multi-dimensional approaches that can be applied across sectors, performance measurement has evolved extensively over the past few decades. Today, using some form of performance measurement both to document success and to continually refine strategy is widely adopted in both the for-profit and nonprofit sectors. In the next stage of the ASAE Foundation Metrics for Success Project, we will explore in-depth how associations across the country develop effective performance measurement systems and use those systems to improve their outcomes despite challenges. By drawing on the knowledge and experience of ASAE's membership base, we hope to expand the literature available in the field on performance measurement among associations.

Next Steps

In the next phase of research, Root Cause will gather information from associations to answer the following questions:

- Is there a process or framework to develop a performance measurement system that is particularly useful for associations?
- How do associations resolve the challenges related to performance measurement detailed in this brief?
- How do specific associations leverage performance measurement to be more successful organizations and create greater mission impact?



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CONTACT US
1575 I Street, NW, Washington, DC 20005
Phone: 202.626.2893
E-mail: evaluations@asaefoundation.org
ASAEFOUNDATION.ORG

²⁹ Taft-Pearman, M. and A. Tuck. "Network Impact: How Nonprofit Networks are Raising the Bar on Results." Bridgespan Group Inc., 2011.

³⁰ Taylor, M. and Plastrik, P. "An Emerging Framework for Assessing Nonprofit Networks." *The Evaluation Exchange*. Vol. 13. No 1. Spring 2007, p. 28.

³¹ Bourne et. Al. 2003, Op. Cit. p. 6-7, 1-24.

³² Interview with Romero, Op. Cit.