

# Measuring Performance of Nonprofit Organisations: Evidence from Large Charities

by

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## Measuring Performance of Non-profit organisations: Evidence from Large Charities

### *Abstract*

*How to measure performance in charitable organisations continues to excite interest among academics and practitioners. Despite the intellectual interest, little consensus has emerged as to what are the best measures of performance in charities. This is against the backdrop of an increased demand by donors and other stakeholders on charities to provide information on their performance. Building on prior studies, this paper examines the measures of performance in charities using a hybrid methodological approach which consists of 14 exploratory interviews and a quantitative survey of 105 CEOs / board of trustees of British large charities. Our results of factor analysis and internal reliability produced five broad measures of performance of charities: i) financial measures, ii) client satisfaction; iii) management effectiveness; iv) stakeholder involvement and v) benchmarking indicating that the overall performance of charity is best measured by a set of factors which reflect the multiple and diverse stakeholders associated with charities. Further analysis using the structural equation modelling (SEM) corroborates the results that non-financial measures such as management effectiveness, stakeholder involvement and benchmarking are important to the performance of charities.*

**Keywords: Measures of Performance, SEM, Charities;**

### INTRODUCTION

The concept of organisational performance measurement in the profit making organizations is well documented and established in the academic and practitioner milieu (See Geringer and Hebert, 1991; Otley, 1999). However, what are the best measures of performance in charitable organisations and broadly speaking in non-profit making organisations (NPOs)<sup>1</sup> have been extensively debated over the past two decades in the academic press. Yet, despite the academic interest in the topic, there remained significant gaps in the literature on how to define and measure performance of NPOs. Glassman and Spahn (2012); Sowa et al. (2004) and Forbes (1998) point out that no consensus has emerged as to what constitutes organisational performance and how to measure it. Researchers such as Stewart and Walsh (1994) emphasise the difficulty of operationalising performance for charities and NPOs. The financial, legal status and goals of charities which are based on social values make the conceptualization of organisational performance even more complex (Kanter and Summers, 1987;

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<sup>1</sup> Charities are part of Non-profit making organisations (NPOs)

Herman and Renz, 1999; Forbes, 1998). For example, charities are built around a wide range and complex missions with different and diverse constituents (Oster, 1998; Speckbacher, 2003; Hallock, 2002). As a result, it is argued that the performance of charities is not reducible to a single performance measure (Herman and Renz, 1999; Jobome, 2006). For instance, Frumkin and Keating (2001) summarised the three main reasons why measuring performance in NPOs may be difficult.

*“First, there is no owner with an equity stake in nonprofits within the organisation demanding or requiring measurement. Second, there are no bottom lines of profitability or easily quantifiable outcomes that can be used as a benchmark, only the far more ambiguous notion of mission accomplishment. Third, the diffuse nature of ownership and stake holding in the nonprofit sector raises the additional problem of building an accountability system that is consistent and meaningful across the sector (Frumkin and Keating 2001:9).*

Although, measuring performance in the charities is clearly beset with controversy and there are questions about the validity of measuring the construct at all (Goodman et al., 1983), yet the complexity of how to measure performance perseveres due to its substantive importance. Likierman (1993) noted that measuring performance allows the charitable sector to justify its existence. To Sayer (2004: 1), “Unless performance measures are in place it is difficult for the charitable sector as a whole or for individual charities in particular to counter criticism for poor management and ineffectiveness”. Moreover, charities have become increasingly important, as government and donors, clients and public have increased pressure on charities to demonstrate their impact on complex social problems. Given the privileged status as tax-exempted organisations, charities are expected to act as stewards and to responsibly and ethically manage funds from donors, government, and foundations to carry out their mission in the interest of public good (Le Roux and Wright, 2010). In fact, measuring performance in the charitable sector is very important to the donors who often provide resources for such organisations to function, without demanding the payment of cash dividends,

compared to profit making organisations (Kendall and Knapp, 2000; Moxham, 2008). The above reasoning creates an even greater imperative for researchers to agree on common criteria that define charitable performance and provide frameworks that can facilitate the assessment of performance.

Building on prior studies, this paper has three goals: (1) To find out how charities measure performance. (2) To provide a parsimonious set of measures of performance for the sample studied by means of factor analysis. (3) To validate the measures of performance through structural equation modelling (SEM). This study addresses these objectives in two stages: In the first stage, we identify measures of performance of the charities in England, Wales and Scotland through an interview of chief executive officers (CEOs) of 14 large charities<sup>2</sup>. The second stage involves a survey of 105 large charities in the Great Britain utilising the measures of performance identified in the first stage of the study.

This paper contributes to the performance measurement discourse in NPOs in two important ways. First, we build on the extant literature on charity performance by integrating and consolidating performance evaluation measures of charities which remain fragmented. Second, we believe such an endeavour is timely because of the increasing importance of charity sector to a country's economy as a major force for delivering public good in every society. Incomes of charities come predominantly from institutional funders, trusts, individual donations, government funding (Connolly et al., 2011; Brammer and Millington, 2003; Brammer et al., 2006) and consequently, providing a clear approach of measuring performance in charities forms a basis for accountability, stakeholder trust and long term sustainability. This is even more necessary given the recent scandals in the wider charity sector (see Yasmin et al., 2014). By providing a framework for performance measurement, this study inspires confidence and accountability in charity sector, helps to reduce the potential for scandal and promotes increased charitable giving.

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<sup>2</sup> Following the work of Crawford et al., 2009, we define large charities as those with income above 1 million pound sterling

The rest of the paper is structured along the following lines. The next section presents the literature of the study. Section 3 discusses the data and methodology. Following that is the findings of the study. The last section provides a summary of the conclusion and implications of the study.

## **Literature Review**

### **Measures of Performance**

The concept of performance which is defined as demonstrated ability to acquire resources necessary for organisational survival (Kanter and Summers, 1987; Kendall and Knapp, 2000) has been in the limelight of academic research over the last two decades. One particular aspect of performance that has been a concern for many years is the appropriate yardstick with which to measure or assess the performance of NPOs (Herman and Renz, 1999; Gill et al., 2005; Aldrick, 2009). Prior research on performance measurement in NPOs has been examined through two approaches: internal measures and external measures. Internal measures focus on the organisational health (Argyris, 1964; Bennis, 1966). Prominent internal factors include a variety of financial indicators such as fundraising efficiency (Aldrick, 2009); absence of repeated financial deficits, cost and growth positions and fiscal performance (Ritchie and Kolodinsky 2003; Gill et al., 2005). Aldrick (2009) finds the cost of fundraising and its effectiveness to be an important measure of performance in the UK charities. Others have used objective measures such as input effectiveness (success in obtaining essential resources); throughput effectiveness (efficiency in the use of resources). On the other hand, external factors emphasise the relationship between the organisation and its environment. The system resource model, developed by Seashore and Yuchtman (1967) defines organisational performance through its “ability to exploit its environment in the acquisition of scarce and valued resources to sustain its functioning” (p.393). Against this backdrop, the ability to develop good relationships and satisfy key external actors and strategic constituencies in their environment appears important to organisation’s

survival and performance (Keeley, 1978; Connolly et al., 1980; Boschken, 1994; Campbell and Slack, 2006; Moore, 1995).

Scholars have used measures that aim to align performance measures with organisational objectives such as balance score card (Cairns et al., 2005; Gill et al., 2005). Another most common measures used by NPOs include client satisfaction, and industry standards or benchmarks (Carman, 2007; Aldrick, 2009; LeRoux and Wright, 2010). In a more comprehensive treatment of performance evaluation of charities, Cutt and Murray (2000) summarised performance measures into two, namely, absolute standards and relative standards. Absolute standards consider how well an organisation has achieved specific goals while relative standards allow comparison of an organisation's achievements to results of other organisations in a similar field or to its own past performance.

In the context of the UK, the importance of measuring and reporting performance has strongly been articulated by the Charities Commission and other regulatory bodies (Connolly and Hyndman, 2004). The increased efforts of government to measure performance and the emergence of result-oriented management philosophies in the 1990s led to the adoption of the Statement of Recommended Practice (SORP) by all large UK charities. SORP highlights the importance of preparing the charity's annual report and financial statements and states that, "the purpose of preparing financial statements is to discharge the trustees' duty of public accountability and stewardship" (Charity Commission, 2000). However, researchers like Hyndman (1990); and Parsons (2003), in addition to financial reporting, advocate for other sorts of reporting that describe the non-financial performance of charitable organisations. Herzlinger (1996) echoes the same views and suggests that charities should disclose non-financial measures of the quantity and quality of services provided, although this study did not offer guidance about how organisations should select such measures. At the core of the performance debate is the difficulty of operationalising performance, with the effect that consensus still eludes researchers as to how to define and measure the concept of NPO performance. Consequently, researchers including Sowa et al. (2004); Stewart and Walsh (1994); Cameron (1981, 1982); Connolly

et al. (1980) call for the use of multidimensional approach for measuring performance to reflect the role of the multiple constituents of charities. A numbers of researchers such as Herman and Renz (1997, 1999); Kushner and Poole (1996); Rojas (2000) argue that the fruitful way to measure performance is to develop a framework that captures multiple dimensions of charities. Cameron (1981; 1982) reinforces this point and argues that a single measure ignores the complexity of charity performance and that effective model should capture multiple dimensions. In this study, we take a step towards that direction using the opinions of CEOs/Trustees to identify a performance framework that captures multiple dimensions of charities.

### ***Multidimensional Approach to Performance Measurement***

The most meticulous and significant multidimensional approach is the competing values approach (CVA) by Quinn and Rohrbaugh (1981; 1983). CVA recognises the competing principles that surround the evaluation of performance, principles such as internal versus external focus and the equilibrium between the process and results. In an attempt to further our understanding of performance, Sowa et al. (2004) develop a multidimensional and integrated model of nonprofit organisational effectiveness (MIMNOE). This model which builds upon debates in the organisation theory and NPO management research considers the assessment of factors and their interrelatedness. MIMNOE captures two prominent dimensions of organisational effectiveness, that is, management effectiveness and programme effectiveness. According to Sowa et al. (2004), organisational effectiveness should not only constitute the mere outcomes of the programmes operated by the organisation or the services it provides, but should include the purpose of its management structures, how effective they are, and how they impact on the most vital organisational resource, its employees. “An organisation that is well managed and operated but delivers poor programmes is not fully effective, just as an organisation that delivers well-run programmes but has an unhappy staff or poor overall organisational operations is not fully effective” (Sowa et al., 2004: 715). Similarly, Hasenfeld

(1983) documented that the management structures are especially, important in NPOs because employees play a crucial role in translating organisational inputs into outputs. It is also argued that, if the management is effective, it improves programme performance, as it provides the basis for the sustainability, development, and expansion of programmes (Letts et al., 1999). The above suggests that performance should consist of a component that measures the effectiveness of the programme outcomes or the services an organisation provides while recognising the importance of effectiveness dimensions on management level.

## **Research Methods**

Our mixed methodological approach has three main phases: The content analysis, qualitative enquiry and the quantitative study (Coghlan, 1987; Elbanna and Child, 2007). Figure 1 summarises the main steps of the methodology employed in this study.

(Insert Figure 1 here please)

### **Study 1: Content analysis**

We began with an extensive literature search and review related to performance measures of charitable organisations in order to have a sound basis for the development of interview protocol (Saunders et al., 2007). Measures of Performance are well documented in the context of profit making organisation literature across disciplines such as finance and accounting (Lubatkin and Shrieves, 1986), management (Schoeberg, 2006; Moore and Robson, 2002; Dess and Robinson, 1984), and international business (Geinger and Hebert, 1991; Boateng and Glaister, 2002). These studies provide us with some insights and ideas on how to focus on performance in terms of NPO

and its antecedents. This exercise makes the above theoretical concept particularly relevant to the NPO sector. As a result, we developed an interview protocol for the following phase.

### **Study 2: Qualitative exploration**

Due to limited empirical evidence on charity's performance measurement and its antecedents such as stakeholders' involvement, management effectiveness, benchmarking exercise, client satisfaction, the qualitative phase of the research was required in order to gain a better understanding of the above phenomenon. We embarked on an inductive method using in-depth interviews to conceptualise a theoretical model and develop paradigmatic statements as items for deductive testing and validating the proposed model (Bryman and Bell, 2003).

We collected the data via interviews from the CEOs/Trustees of the top 14 British charities selected from the databases of CharityDirect.com which provides free source of information on the charities in England, Scotland and Wales. The CharityDirect.com which is owned by Caritas Data (part of Wilmington Publishing & Information Ltd) provides full charity contact details, trustees and executives staff; ranking of leading charities by legacy, voluntary and investment income. It is important to point out that CharityDirect.com is the premier online database for the British charities.

According to Kvale (1996) and Kvortnik (2003), it is important to establish rapport with the interviewee before the interview by giving them information about the interviewer, the purpose of the interview, and the importance of participating in the study (Churchill, 1999; Malhotra, 2004). The length of interviews varied from 40 to 50 minutes. An interview script involving the same unstructured questions was employed for all interviews. We took notes and included all the details discussed and any corresponding views expressed by the interviewees without delay.

Between September and November 2007, 14 unstructured interviews were conducted – 85.7% telephone and 14.3% face to face, with CEOs of charities. The companies involved in the interview come from the following sectors: Art and culture (28%), Health and Religious sectors (21%) and Social services & environmental and Education charities (14%).

### **Qualitative Data Analysis & Results**

We followed qualitative analytical procedures (e.g. data reduction, data display, categorisation, codification, abstraction, drawing conclusion and verification) to transcribe the interview transcripts and content and analyse all discussions. Responses were classified, summarised and organised into sets of meaningful categories. In order to highlight the depth of feeling about each of the research questions, responses were quantified. A coding system to apply to each response was devised on a scale of 1-3 as follows: 1 = Significant; 2 = Moderate and 3 = not significant. For example, key phrases used by the respondents, such as “very influential”, “very important”, “a significant measure”, “definitely”, “substantial” were used for rating their perceptions as “significance”, while respondents’ comments such as, “to some extent”, “should be”, “in some cases”, “play certain roles” are grouped as “moderate”. However, phrases like, “not really”, “we don’t use that” or “it is not applicable” were grouped as “not significant”. Consequently, the results provide a fine grained means for developing an understanding of complex phenomena from the perspectives of items’ generation. This methodological process reveals statements which enable us to derive 20 variables. The 20 variables form our measures of performance. These measures are used and depicted in the process of quantitative analysis (see Tables: 1, 2, 3 and 4). The results of the interview phase are reported in Table 1.

(Insert Table 1)

The results shown in table 1 identify 20 measures of performance used by the British charities. Prominent among the measures include programme spending (85.7%), quality of service (64.3%); number of board meeting attendance and percentage of board members as donors (57%) of the respondents. Following the top ranked measures are client satisfaction; administration cost to expenses; income earned ratio to donation; organisational past performance; number of people served and competitor's performance (50% each). The lowest ranked measures include revenue growth (28%); donor sustainability (28%); labour turnover (28%) community involvement (14.3%); and timeliness of service provision (14%). Overall, the transcript and analysis of interview discussions generated five theoretical constructs and 20 statements which provided a deductive support for the quantitative approach in the following stage.

### **Study 3: Quantitative investigation**

We developed our survey data collection instrument which comprised the aforesaid 20 statements using a five-point Likert type scale with anchors (1=Not important; 5 = very important). A pre-test of the questionnaire was conducted in two stages. First, the questionnaire was subjected to critical review involving four UK academics who have previously conducted research in the area. Revisions were made in light of the various suggestions by these academics. The questionnaire was further pre-tested with eight charities. The research population of interest (i.e. British large charities) was obtained from two online sources, namely, CharitiesDirect.com and The Charity commission website. CharitiesDirect.com provides all information on all British charities in England, Scotland and Wales. The study focussed on the top charities with initial sampling frame of 3000 charities. Several restrictions were employed in selecting the final sampling frame. First, the charity must have an income of over £1m as at 2007 financial year. This is because the UK Strategy Unit report (2002) *Private Action, Public Benefit*, for example, provides more stringent requirements on large charities to complete a standard information return that focuses attention on the measurement of impact,

achievement, stakeholder involvement, governance and trustee selection and abilities (Mordaunt et al., 2004) and hence increasing the reliability of information collected. Second, information in respect of board size, names and other contact details of trustees and executive staff must be available on CharityDirect.com. These restrictions led to a population of 500 large charities. We checked for other information, particularly those relating to England and Wales from The Charity Commission which is established by law as the regulator and registrar of charities in England and Wales.

The web-based questionnaire was employed to collect data from respondents. In December 2007, 500 questionnaires with covering letters were emailed to the CEOs. After one reminder, a total of 105 usable questionnaires were returned, representing a response rate of 21 per cent. In exchange for their participation in the study and to provide motivation for accurate responses, the respondents were assured of anonymity and promised a summary of the report findings. Following the recommendations of Armstrong and Overton (1977), a late-response bias was tested by implementing a t-test comparing earlier and late responses along key descriptive variables such as the size and the sector of the charity. The differences between the two groups were not significant, suggesting that late-response bias is not a problem in this study. The results not reported to conserve the space is available upon request.

### **Sample Characteristics**

The sample characteristics are summarised in Table 2. The highest response came from social services and environmental and education with (20% each). This is followed by Art and culture (18.1), health and others both had (15.2% each) and Religious charities had (15%). The size of the charities is categorised according to the number of employees with about 57% equal to or less than 250 employees and about 43% have employees greater than 250. The classification is consistent to

Accounting Standards. The gender of CEO is as follows: Male (56.2%) with female constituting 43.8%.

**(Insert Table 2 here please)**

## Data Analysis

To examine whether the measures are important to charity performance, we used test of differences (Friedman one-way analysis of variances test) (ANOVA). We then employed exploratory factor analysis to extract the underlying factors of performance measurement variables identified as important to charity performance. To check the robustness of the results, we used the structural equation modelling (SEM) technique to determine and test the charity performance with its key antecedents.

## Results and Discussion

### *Measures of Performance*

Table 3 shows the rank order of factors of measures of performance in the British charities, based on a mean measure of the importance of 20 factors. Scores are significantly different on the Friedman two-way ANOVA test ( $p < 0.001$ ). For the 20 performance measures, the median measure is exceeded by 15 measures of performance with all the measures being statistically significant. The highest ranked performance measures (those ranked 1-3) are: programme spending to total income (4.95), quality of product/service (3.90), client satisfaction survey (3.80) and these are related to client satisfaction. The results appear unsurprising in that, one of the main roles of charities is to render services to their clients and customers and therefore client satisfaction appears to be more appropriate for measuring the quality of the services provided and improving subsequent performance. The findings appear consistent with the studies of Morley et al. (2001) and Carman and Frederick (2008)

who pointed out that about two-thirds of charities use client satisfaction techniques to measure performance. The second group of measures (4-15) are fundraising expenses to income generated (3.70), past organisation performance (3.70), output/number of persons served (3.59), administrative expenses to total expenses (3.54), competitors' overall performance (3.51), timeliness of service provision (3.46), revenue growth (3.43), diversification of revenue sources (3.39), donor sustainability (3.33), ratio of income earned to donations (3.18), absence of repeated financial deficits (3.13) and programme goals meet charity objectives (3.01). It is clear from the Table that, most of the performance measures are concerned with financial measures, management effectiveness, benchmarking and the stakeholder involvement. The findings that benchmarking and fundraising effectiveness are important for charity performance provide some support for the conclusion drawn by Aldrick (2009) who pointed out that the cost of fundraising and its effectiveness are important performance indicators for the British charities. The third and lowest ranked measures of performance (16-20) consist of a number of distinct measures. While stakeholder involvement in terms of community involvement (2.87), percentage of board as donors (2.95) and number of board meeting attendance (2.30) are the least ranked measures, compliance to statement of recommended practice of British charities (SORP) (2.98) and employee turnover (2.97) are better ranked comparatively. The finding therefore highlights the importance of key external actors and strategic constituencies such as community involvement are important to charity performance consistent to the findings of Connolly et al. (1980); Boschken (1994).

(Insert Table 3 here)

### ***Factor Analysis of Performance Measures***

The correlation matrix of 20 measures of performance revealed a number of low to moderate intercorrelations between measures of performance. Due to potential conceptual and statistical overlap, an attempt was made to identify a parsimonious set of variables to determine the underlying primary dimensions governing the full set of 20 measures of performance. We employed an exploratory factor analysis using varimax rotation to extract the underlying factors. Measures of performance with factor loading greater than 0.5 are group for each factor derived. The analysis produced five factors, namely, The Financial Measures measuring various financial performance indicators; The Client Satisfaction comprising measures of client satisfaction; The Management Effectiveness measures internal efficiency and quality; The Stakeholder involvement forms a basis of mutual trust and cooperation, improves legitimacy and reputation that are necessary for organisational survival and success (Lindblom, 1994; Roberts, 1991). Benchmarking which is the process of comparing the organisation's operations and performances to those of similar organisations (Trussel and Bitner, 2001; Aldrick, 2009). Overall the factors explained 71.6 percent of the measures of performance in Charities. Cronbach's Alpha for each of the factors ranged from 0.928 to 0.933 which is well above the threshold of 0.70 suggested by Hair et al. (1998). The five fundamental factors obtained from the factor analysis are summarised in Table 4.

**(Insert Table 4 here please)**

### **Further Analysis: Structural Equation Modelling**

To corroborate and increase the robustness of our results, we used the structural equation modelling to explore the strength of the effects of non-financial performance measure which prior studies have paid little attention to, i.e. management effectiveness, stakeholder involvement, and benchmarking

and customer satisfaction on performance of charities. Consequently, we hypothesised that management effectiveness, stakeholder involvement, and benchmarking and customer satisfaction would have a significant effect on performance of charities. The assessment of the proposed model is completed through the following two criteria: the overall model goodness ( $\chi^2/df$ ,  $p$ ,  $GFI$ ,  $RMSEA$ ,  $RMR$ ,  $CFI$ ,  $RFI$  and  $NFI$ ) and the statistical significance for the models' parameters (Guo et al., 2009; Hu and Bentler, 1999; Kim, 2005; Schermelleh-Engel et al., 2003; Schreiber et al., 2006; Yang et al., 2008). The proposed model was investigated using path analysis with AMOS version 20. The fit indices for the structural model indicate satisfactory values as shown in panel a and b of Table 5.

(Insert Table 5 & Figure 2 here please)

The empirical results in panel b of Table 5 indicate that stakeholders' involvement, management effectiveness, benchmarking exercise have significant bearing on performance. However, our results suggest that client satisfaction appears insignificant to charity performance contrary to the findings of Keeley (1978); and Boschken (1994). The finding that client satisfaction has no significant effect may be explained by the fact that charities may see the limited resources available to them as a huge constraint to satisfy the vast and diverse clients they serve hence managers may play down the significance of client satisfaction as performance measure to avoid being judged on measures they do not have full control over. Overall, the structural equation modelling results shown in figure 2 more or less corroborate our results in Table 4 indicating that stakeholders' involvement, management effectiveness and benchmarking exercise have a bearing on charity performance.

### **Summary and conclusions**

This paper identifies the measures of performance in British charities. This study is one of the first attempts to identify, classify and consolidate measures of performance in the charities. To do so, we employed a two stage approach involving interviews and a questionnaire survey with CEOs/board of

trustees. The study finds that 20 indicators best capture the overall performance of charities. Our results support the contention that a set of measures rather than one single measure captures the overall performance of charities. The results imply that senior managers should use multiple measures which reflect the role of the different constituents associated with charities to measure performance. We also find that performance measures such as 'programme spending to total income', 'quality of product/service', 'client/customer satisfaction survey' appear to be relatively most important measures of performance for British charities. The results therefore suggest that the primary measures of performance of charities in the Great Britain appear to be linked to client/customer satisfaction measures. However, measures such as employee turnover rate, percentage of board members as donors, community involvement and number of board meeting attendance appear to be the least important measures for charities.

Due to potential conceptual and statistical overlap among the 20 measures identified, factor analysis was conducted to produce a parsimonious set of distinct and non-overlapping measures of performance. The analysis produced five broad set of factors that measure performance of charities, namely i) financial measures; ii) client/customer satisfaction iii) management effectiveness; iv) stakeholder involvement; and v) benchmarking and these factors explained a total of 71.68 percent of the observed variance in the sample data. Our robustness test using the SEM corroborated the factors identified in our factor analysis excluding financial measures. The broad set of performance measures identified in this study integrate both financial and non-financial measures which go beyond those encapsulated in management models such as balanced scorecard and focus management and staff activity on achieving the mission and values of charitable organisations. An important conclusion to be drawn from this study is that business-type performance measures such as profitability are not significantly associated with performance in charities. The managerial implication here is that senior managers of charitable organisations should employ not only financial

indicators to measure performance but also consider its key antecedents such as client satisfaction, management effectiveness, stakeholder involvement and benchmarking which capture the non-financial dimensions of charity performance. The above results also have implications for policy makers. Traditionally, the Statement of Recommended Practice (SORP) emphasise the importance of preparing the charity's annual report and financial statements with virtually nothing on non-financial indicators of performance. However, the results of this study have demonstrated the importance of non-financial measures. We suggest that government should work with the Charities Commission to update and incorporate into the SORP the non-financial measures of performance in order to recognise the multiple stakeholders associated with charities. We believe such a step would not only improve accountability but will encourage charitable giving in charitable organisations. As charities across the globe attract multiplicity of stakeholders, and have similar social and economic goals (see Kendall and Knapp, 2000), the results in this study are generalisable to charities operating in developed and developing countries which have comparable operating regulations as those in Britain.

While this study has identified measures of performance used by the British charities, it is pertinent to point out that, our findings will not end the debate on this subject, but rather illuminate new avenues for scholars and practitioners to research this important and enduring topic. Further investigation on measures of performance in the context of small and large charities appears warranted. In similar vein, the reasons why the influence of client satisfaction on performance is not confirmed in our structural equation modelling despite being ranked as one of the important measures of performance is not readily apparent and future research should single out this factor for further investigation.

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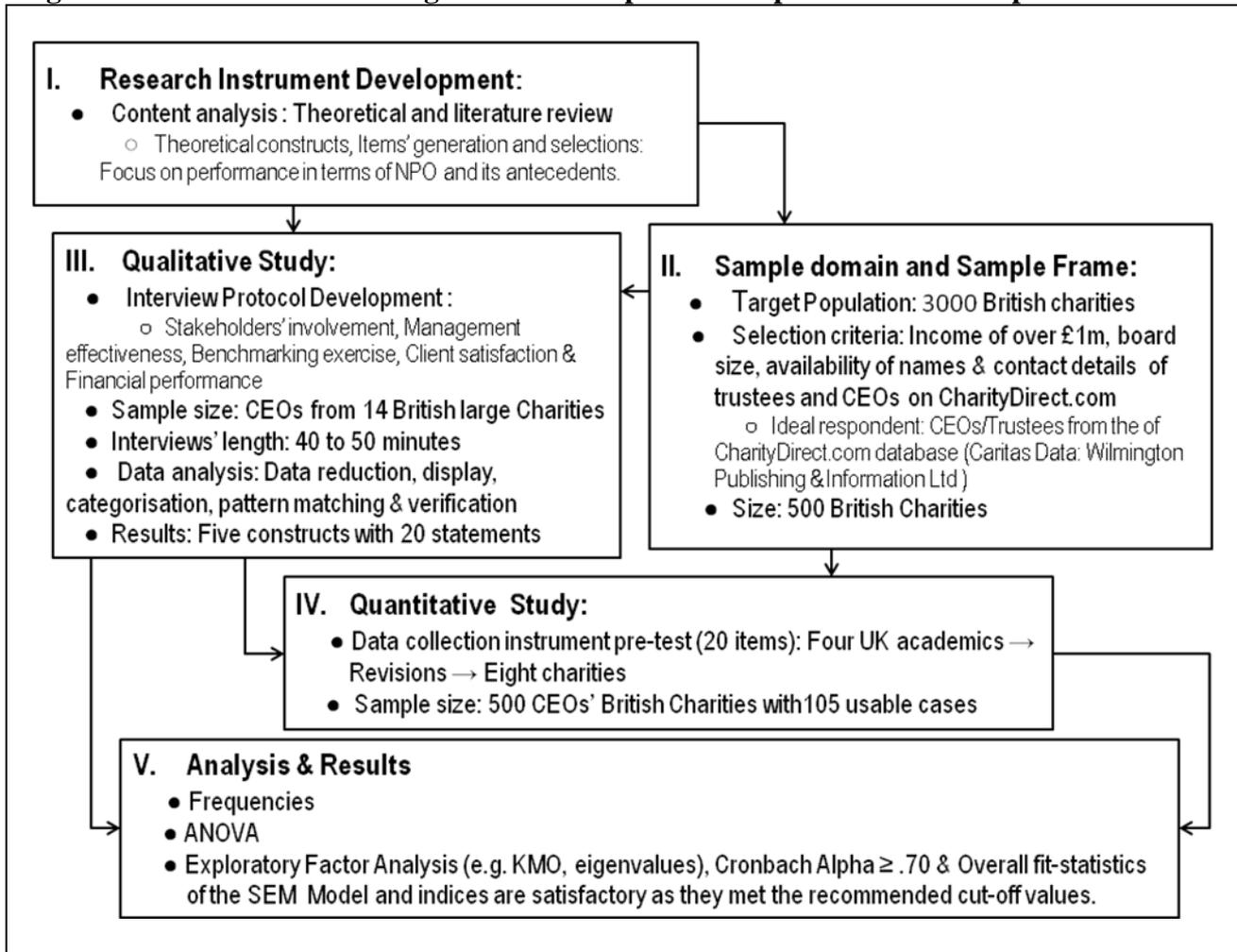
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**Figure 1: Schematic methodological flowchart process: Representation of steps.**



Source: Authors

**Table 1****Frequency of Performance Measures used in UK charities**

Performance Measures	Significance		Moderate		Not Significance	
	No	%	No	%	No	%
Revenue growth	4	28.6%	5	35.7	5	35.7%
Fundraising expenses to income	8	57.1	2	14.2	4	26.6
Programme spending to income	12	85.7	0	0	2	14.3
Absence of repeated deficits	6	42.9	6	42.9	2	14.3
Quality of product/service	9	64.3	3	21.4	2	14.3
Client satisfaction survey	7	50	5	35.7	2	14.3
Community involvement	2	14.3	5	35.7	7	50
Administrative cost to expenses	7	50	4	28.6	3	21.4
Programme goals meet objectives	4	28.6	6	42.9	4	28.6
Donor sustainability	6	42.9	5	37.7	3	21.4
Competitor's performance	7	50	5	35.7	2	14.3
Organisational past performance	7	50	5	35.7	2	14.3
No of board meeting attendance	8	57.1	5	35.7	1	7.2
Labour turnover	4	28.6	4	28.6	6	42.9
Timeliness of service provision	2	14.3	5	37.4	7	50
Compliance to SORP standards	5	42.9	4	28.6	5	35.7
Diversification of finance source	6	42.9	2	14.3	6	42.9
Income earned ratio to donations	7	50	4	28.6	3	21.4
% of board members as donors	8	57.1	2	14.3	4	28.6
No. of persons served	7	50	3	21.4	4	28.6

**Table 2: Response rate and Sample Characteristics**

<b>Description</b>	<b>No. of Firms</b>	<b>Percentage</b>
<b>Panel 1</b>		
Firms replied but unable to participate	245	49
No reply	150	30
Total usable replies	105	21
<b>Total</b>	<b>500</b>	<b>100</b>
<b>Panel 2: Size of organisation</b>		
Less than 250 employees	60	57.1
More than 250 employees	45	42.9
<b>Total</b>	<b>105</b>	<b>100</b>
<b>Panel 3: Sectoral Distribution</b>		
Health	16	15.2
Social Services & relief	21	20.0
Education	21	20.0
Art & Culture	19	18.1
Religious charities	12	11.4
Others	16	15.2
<b>Total</b>	<b>105</b>	<b>100</b>
<b>Panel 4: Gender of CEO</b>		
Male	59	56.2
Female	46	43.8
<b>Total</b>	<b>105</b>	<b>100</b>

**Note:** The organisations which offer more than one service are classified as “others”.

**Table 3: Relative Importance of measures of Performance of UK Charities**

Rank	Measures of Performance	Mean	SD
1	Programme spending to total income	4.95	0.50
2	Quality of product/service	3.90	0.83
3	Customer satisfaction survey	3.80	3.80
=4	Fundraising expenses to income generated	3.70	0.90
=4	Past performance	3.70	0.94
6	Output/ No of persons served	3.59	0.94
7	Administrative cost to total expenses	3.54	0.94
8	Competitors' performance	3.51	0.96
9	Timeliness of service provision	3.46	0.92
10	Revenue growth	3.43	0.98
11	Diversification of revenue sources	3.39	0.81
12	Donor sustainability	3.33	1.01
13	Ratio of earned income to donation	3.18	0.83
14	Absence of repeated financial deficits	3.13	0.90
15	Programme goals meet charity objectives	3.01	0.90
16	Compliance to SORP	2.98	0.89
17	Employee turnover rates	2.97	0.90
18	Percentage of board members as donors	2.95	0.95
19	Community involvement	2.87	1.01
20.	No. of board meeting attendance	2.30	0.92

Notes:

1. The mean is the average on a scale of 1(=not important at all) to 5 (very important)
2. SD=Standard deviation
3. (P<0.001)

**Table 4: Factor Analysis and Reliability of Performance Measures**

<b>Factors</b>	<b>Factor Loads</b>	<b>Eigen values</b>	<b>% of Variance Explained</b>	<b>Cumulative %</b>	<b>Cronbach Alpha</b>
<b>1. Financial Perspective</b>	0.89	8.31	36.14	36.14	<b>0.93</b>
Revenue growth	0.82				0.93
Fundraising expenses to income	0.72				0.93
Diversification of revenue sources	0.62				0.93
Ratio of Income earned to donation	0.53				0.93
Absence of repeated financial deficit	0.88				0.93
<b>2. Client/Customer Satisfaction</b>	0.81	3.43	14.92	51.06	<b>0.92</b>
Quality of Product/Service	0.90				0.93
Client Satisfaction survey	0.70				0.93
Timeliness of service provision	0.55				0.93
Programme Spending	0.81				0.93
<b>3. Management Effectiveness</b>	0.64	2.57	11.17	62.23	<b>0.92</b>
Programme goals meet objectives	0.57				0.92
Output/No of persons served	0.82				0.92
Administrative cost to total expenses	0.83				0.93
Labour turnover rates	0.62				0.92
<b>4. Stakeholder Involvement</b>	0.87	1.14	4.97	67.20	<b>0.92</b>
Community involvement	0.82				0.93
Donor sustainability	0.56				0.93
No. of Board Meeting Attendance	0.67				0.93
% of board members as donors	0.75				0.93
<b>5. Benchmarking</b>	0.73	1.03	4.48	71.68	<b>0.93</b>
Competitors' overall performance	0.64				0.93
Compliance to SORP	0.68				0.93
Past Organisation performance	0.63				0.93

**Notes**

Principal components factor analysis with varimax rotation.

K-M-O Measure of Sampling Adequacy = 0.830

Bartlett Test of Sphericity = 1692.300 (p &lt;0.01).

**Table 5: Assessment of overall model fit (Panel A)**

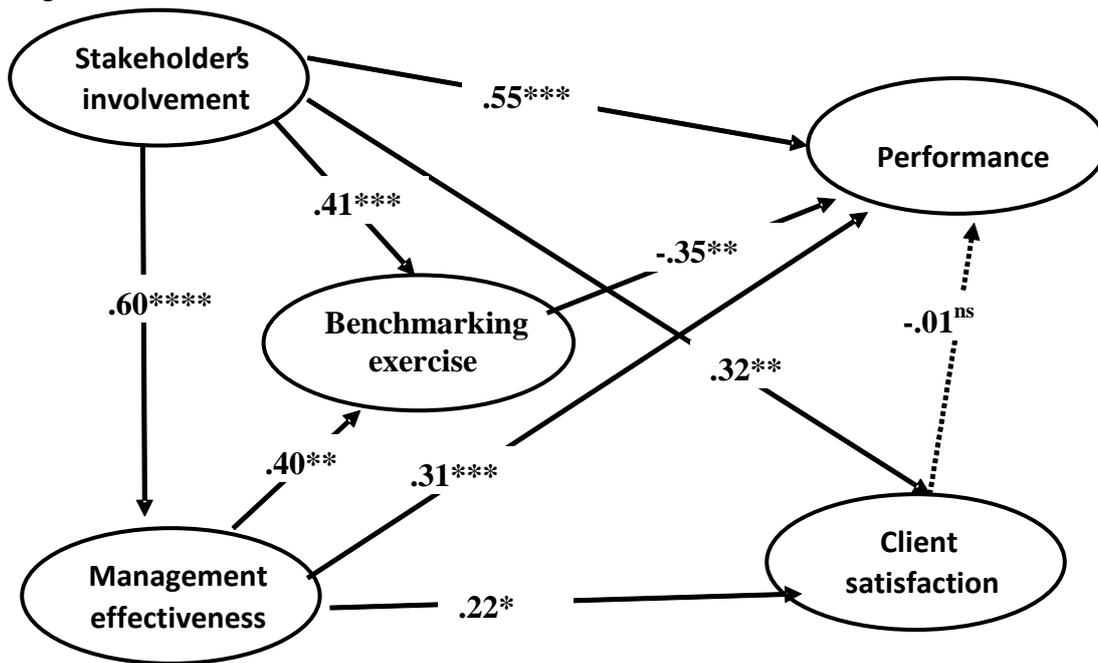
Model	<i>Obtained fit indices</i>							
	$\chi^2/df$	<i>p</i>	GFI	RMSEA	RMR	CFI	RFI	NFI
Overall model fit	.355	.551	.99	.000	.038	1	.98	.99
	<i>Suggested fit indices</i>							
	$\leq 5$	$\geq .05$	$\geq .90$	$\leq .08$	$\leq .08$	$\geq .90$	$\geq .90$	$\geq .90$

**Table 5: Summary of SEM Results (Panel B)**

Criterion variables		Predictor variables	Standardised Coefficients
MEQ3	<---	Stakeholders' involvement	.60***
		EFQ4	
BMQ5	<---	EFQ4	.41***
BMQ5	<---	MEQ3	.40***
CPQ2	<---	MEQ3	.22*
CPQ2	<---	EFQ4	.32**
FPQ1	<---	EFQ4	.55***
FPQ1	<---	MEQ3	.31**
FPQ1	<---	BMQ5	-.35**
FPQ1	<---	CPQ2	-.01 <sup>ns</sup>

Note: \*P < .05; \*\* P < 0.01; \*\*\* P < 0.001 and ns: not significant

Figure 1: SEM Model



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