METRICS FOR MISSION IMPACT:
How Nonprofits Can Strengthen Outcomes through Quantitative Measures

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OVERVIEW

In their seminal article, "Nonprofit Starvation Cycle", Ann Goggins Gregory and Dan Howard exhort nonprofit finance professionals to report to funders the real costs of running nonprofit organizations. The authors explain that the popular trend to restrict funding to specific programs without accounting for infrastructure expenses leads to an unintended consequence, a "nonprofit starvation cycle", where charities cease to function because they can't pay for overhead costs, such as administrative employees, computers and electric bills. To break this unhealthy cycle, the article encourages nonprofits to recalibrate funder expectations by providing accurate financial reports and other supporting information to reflect the true costs of nonprofit operations.

On a similar timeline, but with a different perspective, the watchdog agency Charity Navigator was founded in 2001 to evaluate nonprofit effectiveness, much like a nonprofit Consumer Reports. Charity Navigator has since become the largest and most-used evaluator of charities in the United States. Its professional analysts have examined tens of thousands of nonprofit financial documents and have developed a metrics-based rating system to evaluate nonprofit organizational performance.

Charity Navigator's rating system examines two broad areas of nonprofit performance, Financial Health and Accountability and Transparency. Ratings demonstrate to donors how efficiently a nonprofit will use their contribution; how well it has funded its programs and services; and its commitment to governance, best practices and transparency. Those organizations that receive a 4-star rating from the agency are designated with superior fiscal responsibility, signaling to potential donors excellence in both information transparency and financial best practices. In the world of nonprofit fundraising, there is no measure more valuable or objective than that of a 4-star Charity Navigator rating.

Individuals and grantors can review the Charity Navigator reports online and choose where to donate their dollars. With this easy access to information, a new kind of donor has emerged—one that demands accountability for how their donations will be spent. Yet, to create a strong nonprofit and avoid a cycle of starvation, the reality of expenditures needs to be addressed as a necessary element of running any type of organization, including

nonprofits. Now more than ever, nonprofits must be able to truthfully report the revenue-to-program delivery chain, as they walk a tightrope to justify overhead expenditures as an integral component of mission fulfillment.

What kind of metrics does your organization need to track to ensure that your organization is financially healthy, spending dollars wisely, delivering successful programs and creating mission impact in an efficient manner? Using advice from sector thought leaders, and examples from NetSuite's nonprofit customers, this ebook will describe the principles and mechanics of building metrics for mission impact.

"Organizations that build robust infrastructure—which includes sturdy information technology systems, financial systems, skills training, fundraising processes, and other essential overhead— are more likely to succeed than those that do not. This is not news, and nonprofits are no exception to the rule."

Ann Goggins Gregory and Dan Howard
Stanford Innovation Review, "Nonprofit Starvation Cycle" Fall 2009 edition

BUILDING YOUR MISSION METRICS

BEGIN WITH THE END IN MIND

Jacob Harold, CEO of Guidestar, an information service focused on nonprofit organizations, advises nonprofits to define their internal goals for success before they report to funders or the public, stating that "the most important source of data about an organization is in the organization itself." When building performance metrics, each nonprofit must first align definitions of awareness and accomplishment inside the organization.

Governance teams are counselled to identify financial, program and operational goals first, and work to coordinate goals across what are sometimes siloed departments. Once definitions of success are created, then the operations team needs to work backwards, identifying appropriate data elements, establishing how data is entered and where data is stored, so that meaningful and relevant reports and dashboards can be developed and produced. NetSuite's ERP functionality is uniquely designed for this type of work as it tracks multiple layers of finance and constituent

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data, and then displays data in role-appropriate metrics, dashboards and reports, all pointing back to the original key performance indicators, or KPIs, that organizational leaders have worked to identify, define and coordinate. With NetSuite's Nonprofit SuiteSuccess, much of the legwork for important quantitative measurements has been completed, allowing your organization to focus on strategy and operational execution, not technology and metric customization.

UNDERSTANDING REVENUE AND EXPENSE DRIVERS

All nonprofits strive for sustainability, but numerous nonprofit organizations have a cloudy picture of the revenue and expense drivers needed to deliver their programs. Leadership teams may not know if they are pursuing work that is creating a structural deficit, meaning there is a gap between what amount of funds are raised for a program and what it costs to perform the work. A structural deficit, if not identified, can drain resources from an organization and ultimately collapse the nonprofit.

Many organizations' staff and boards do not understand the need to maintain surpluses to be sustainable; and that key performance metrics should ideally include cash flow and balance sheet reporting as a tool to identify the overall financial health of the nonprofit. It's important for nonprofit finance leaders to set up financial systems that allocate direct as well as indirect costs across programs or geographic regions, allowing executive teams to make educated decisions about strategy, focus and programmatic investments. By capturing the relationship between costs and the organization's activities, nonprofits can make better and more data driven decisions on the most effective ways to deliver on their missions.

Internal KPIs and reports that focus on the revenue (source) and expense (use) funds used to deliver services not only help the nonprofit build strong programs, they also create the transparency and solid data needed to attract funding.

To build these types of metrics for mission impact within NetSuite, we will review the following elements:

- **Financial segmentation and a modern Chart of Accounts** which provide the structural basis for reporting and analysis.

- **Staff roles within your organization** – identifying the unique performance metrics for CEOs, Controllers, CFOs, development directors, grants managers and accounting staff.

- **Transparency of revenue and expense drivers** for the NetSuite's CFO and Controller Dashboards, using Charity Navigator recommended scorecards and additional metrics to monitor your nonprofit's true financial health.

- **Compliance and Stewardship reports** that adhere to FASB regulations and steward donations based on donor intent.

- **Outcomes measurement,** using the power of the ERP platform to customize NetSuite for your unique programs.

A MODERN CHART OF ACCOUNTS

FINANCIAL SEGMENTATION

The heart of creating reports, dashboards and KPIs is the organization of the underlying data, which for financial systems, is the Chart of Accounts. A sea-change has taken place with cloud-based finance technology, such as NetSuite, which simplifies the Chart of Accounts by capturing segments of data on each transaction, replacing the burdensome, lengthy account code strings used in legacy systems. Financial segmentation, also known as dimensionality, lays the groundwork for complete visibility into the source and use of funds displayed in KPIs and dashboards.

NetSuite comes out of the box with twelve custom segments to code and track expense and revenue transactions. Custom segments can also be created by the user to match their nonprofit's unique needs.

CUSTOM SEGMENTS OFFER THE ABILITY TO:
- Track diverse revenue types such as grants, cash donations, pledges, gifts in-kind, services and ticket sales.

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- Indicate the fund or program to which an expense or revenue transaction is assigned.

- Describe the net asset classification of a gift, either with or without donor restrictions.

- Track the functional expense category—administrative, program or fundraising.

- Correlate revenue to associated expense transactions to clearly show where funds are spent.

- Code revenue and expense transactions at the transaction line level to provide visibility, control and stewardship of the funds received from diverse funding sources and revenue types.

- Track a matrix of relationships between multiple revenue sources, multiple segment dimensions and geographic regions.

- Create unlimited GL segment code combinations for accurate and easy data entry, and gain unparalleled visibility into fund balances and performance metrics.

Financial Segmentation

By using NetSuite's segmentation on revenue and expense transactions, the drivers for performance metrics can be easily created for a comprehensive view into the source and use of funds, and displayed in real-time KPIs, dashboards and reports.

ROLE-BASED METRICS

Dashboards, reports and KPIs will naturally vary for departmental roles within your nonprofit. Each staff role needs unique dashboards and KPIs that facilitate day-to-day work and provide information about strategic priorities that affect decision-making, both at the programmatic and organizational levels. NetSuite's nonprofit solution has over 250 KPIs, dashboards, reports and metrics with pre-defined roles and dashboards to match the operational and strategic needs specific to each role.

FISCAL TRANSPARENCY

While every function within nonprofit organizations can benefit from clarity regarding source and use of funds, the Controller and CFO must especially keep a close watch on operations and performance against goals. All nonprofits must embrace the criticality of accountability and transparency as key components of legal and compliance leadership, as well as sustainability. This becomes not only a stewardship priority, but also an ethical one, where any donor has the ability to inspect and analyze how a nonprofit uses its funds. NetSuite's CFO and Controller dashboards include real-time visibility into a set of Charity Navigator performance metrics: The Efficiency Ratios of Program, Administrative and Fundraising expense percentages; and the Capacity Measures of working capital ratio, debt to net assets ratio, and days cash on hand.

The Charity Navigator Efficiency Ratios are unique to nonprofit organizations and illustrate to donors how effective the leadership is in employing their support and investment dollars. Each ratio takes the functional

NetSuite's CFO and Controller dashboards include real-time visibility into a set of Charity Navigator performance metrics.

expense spending for Program, Management and General, and Fundraising, and divides it by the organization's total expenses. While these ratios are important indicators of how a nonprofit manages its portfolio and invests in its mission, capacity measures popular in the for-profit world are equally imperative for financial leaders within nonprofits to track. The Working Capital ratio (current assets divided

by current liabilities), for example, is a key indicator of financial solvency and liquidity, reflecting the number of times an organization could pay off its current liabilities using its current assets. And one of the most important metrics for the nonprofit CFO is days cash on hand. Apropos to the name, this metric reflects how long, in days, the organization could meet operating expenses without receiving new income.

For many of the metrics that indicate financial health, it is ultra-important to note that the leadership in every nonprofit needs to make a determination of what the right benchmark is for their cause. In other words, a single standard does not apply for all nonprofits. For instance, nonprofit organizations that employ a strategy of contracts or fees with reliable payments likely don't need as much reserves as those that rely heavily on grant applications and events. Therefore, each nonprofit needs to evaluate their revenue sources, develop and analyze cash flow projections, and anticipate and manage risks as part of their overall financial health strategy. With NetSuite, nonprofits

have one-click access to a variety of financial reports and KPIs that can help them through these types of analyses and decision-making.

COMPLIANCE AND STEWARDSHIP

Every nonprofit organization must adhere to FASB regulations, and NetSuite allows CFOs and controllers to access pre-built FASB reports directly from a dashboard. The ability to restrict donations to specific programs as requested by the donor is done through NetSuite segmentation, reportable in the Statement of Activities and displayed in KPIs and dashboards.

"Words that describe goals and strategies should be matched with numbers that measure progress. These metrics form a causal chain that flows through to social good."

Jacob Harold President and CEO, GuideStar

Development directors have access to many fundraising reports and KPIs that assist them in assessing fundraising strategy, identifying high performing campaigns, top donors, managing pledges and segmenting donors for re-solicitation based on donation response. Reports for donors that gave last year but not this year (LYBUNT) and some year but not this year (SYBUNT) are also accessible through a dashboard.

FASB REPORTING

The following reports are built into NetSuite dashboards. Reports are also configurable, so date ranges and addition or exclusion of information is easy to do. With NetSuite's custom segments, a variety of reports correlating costs to revenue to program are possible.

- **Statement of Financial Position**
  Modified Balance Sheet meets FASB financial reporting requirements.

- **Statement of Functional Expenses**
  Reports all expenses, broken down by "Program Services," "Management and General" and "Fundraising," as required by FASB.

NetSuite allows CFOs and controllers to access pre-built FASB reports directly from a dashboard.

- **Statement of Cash Flow**
  States cash flow from inflows and outflows resulting from net assets without donor restrictions.

- **Statement of Activities**
  Revenue Report for Restricted Funds to support Statement of Activity. Lists all revenue transactions by Account and Fund.

- **Supporting FASB Activity Report by Program/Fund**
  Revenue Report for Restricted Funds supports Statement of Activity. Lists all revenue transactions by Fund/Program segment.

- **Grant Statement of Activity**
  A combined Statement of Revenues and Expenditures, which includes the Net Asset categorizations, can be filtered for a single grant or provide a comparative view of all grants.

OUTCOMES

Since every nonprofit has unique programs, its articulation of mission impact will be unique as well. Jacob Harold of GuideStar, says that a nonprofit's description of its outcomes should be both qualitative (words) and quantitative (numbers). "Words that describe goals and strategies should be matched with numbers that measure progress. These metrics form a causal chain that flows through to social good."

As an ERP system, the NetSuite platform allows for customization, so that, as your organization matures in its financial systems, quantitative outcome measurement unique to your nonprofit can be configured. With NetSuite, you can correlate programs to financial data in ways that are impossible with traditional accounting-only software. For example, if your organization delivers meals to seniors, NetSuite has the capability to track program donors, staff, beneficiaries and volunteers; the ability to track costs associated with meal preparation and delivery; the ability to track in-kind pledges, pledges and cash donations to the meals program; and finally, to track the number of meals served with multiple types of reports or KPIs to track costs and service delivery. As your program grows, NetSuite grows with it, building your organization's capacity to fulfill and report on its mission impact.

SUMMARY

Many nonprofits boast of the small percentage of dollars that go to administrative and fundraising expenses, particularly in web pie charts and fundraising pitches. Unfortunately, such claims inadvertently play into the nonprofit starvation cycle, as they reinforce underinvestment in critical programs because the true of costs of delivering services are not explained.

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Like all types of businesses, nonprofits have their share of scoundrels and scandals, so financial ratios have historically been touted as the way in which nonprofits can demonstrate integrity and prove their effectiveness. However, as Harold explains in the "Overhead Solution," the next wave of nonprofit effectiveness is to help educate funders on the real cost of results using a blend of quantitative measures and qualitative narratives.

"Funders need to understand the truth if they are to change their behavior…this starvation cycle hurts nonprofits and donors, but, most important, it hurts our shared work for a better world," Harold says.

With NetSuite, you can be assured that your quantitative measurements support the full story of your aspirations, strategies and governance processes. NetSuite's Nonprofit SuiteSuccess has built-in quantitative measurement scorecards, reports and KPIs, which allow your organization to confidently know your numbers so you focus on strategy and results. Imagine the outcomes

your organization can achieve when your programs are resourced fully, and you can tell funders the whole story of your mission impact with numbers and heart. Your determination to resource your mission based on true costs will have a ripple effect throughout the sector, creating a cycle of sustainability, truly changing the world, one metric at a time.

Resources

Stanford Social Innovation Review: Breaking the Starvation Cycle

Charity Navigator: How do we Rate a Nonprofit's Health?

BridgeSpan Group: Nonprofit Cost Analysis Toolkit

FMA

Overhead Myth

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