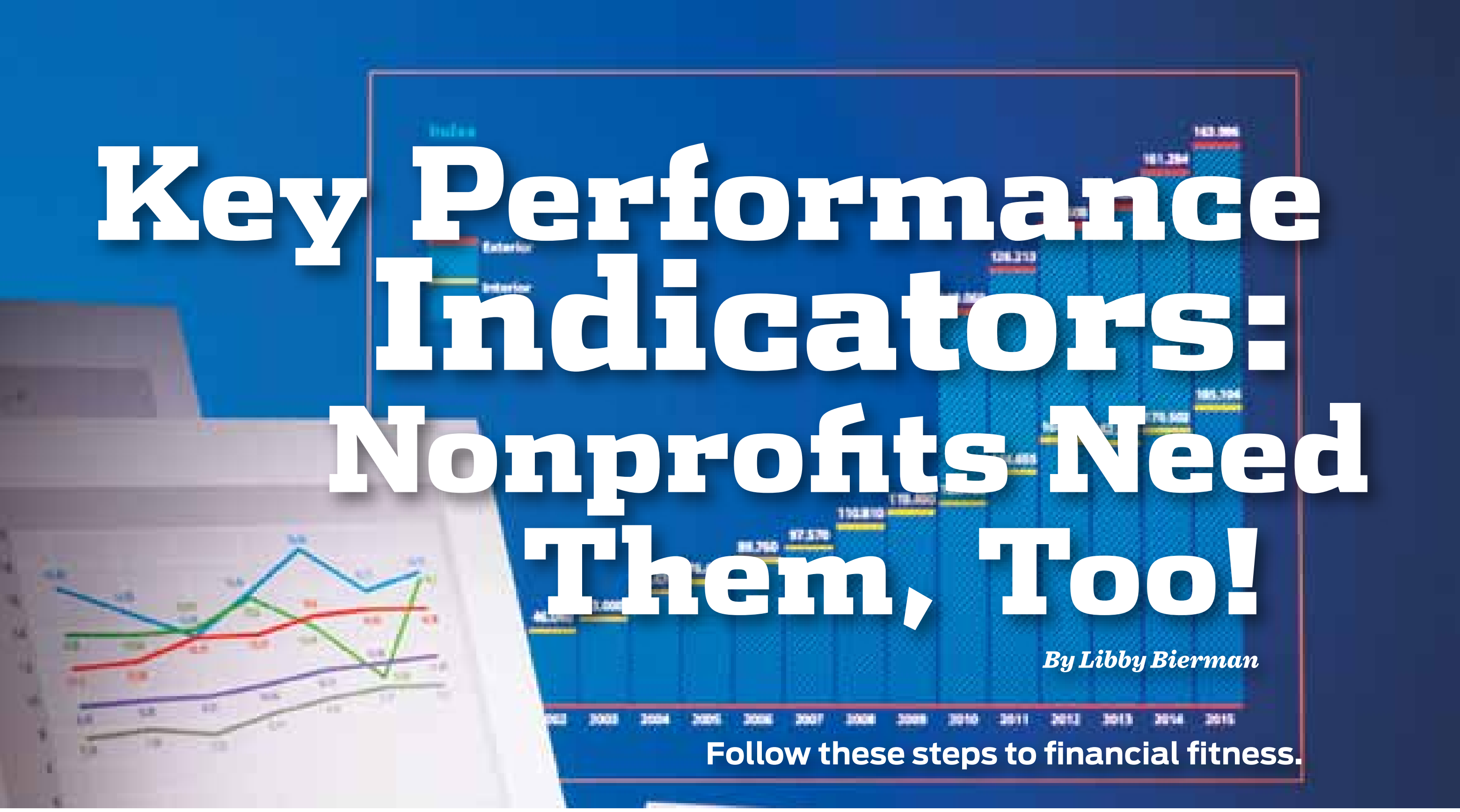

Key Performance Indicators: Nonprofits Need Them, Too!

By Libby Bierman

Follow these steps to financial fitness.

You hear the term "key performance indicators" (KPIs) more commonly among the for-profit crowd, but they have their place in nonprofits, too. KPIs are quantifiable measurements of an organization's health. And usually, these KPIs are benchmarked against peer organizations for context about good and bad positions to be in. Here are some principles to remember when selecting KPIs for your organization:

When choosing metrics to watch over time, decide how best to quantify your organization's mission. This will tell you the organization's reach into the community and how it has changed over time. A soup kitchen, for example, might consider the average number of lunches served each day as a key indicator of performance.

Have a definition or calculation to find the KPI, and don't change it over time. For your longitudinal analysis to be of value, you need to compare X today to X tomorrow and isolate other variables. If your "average cost per meal" includes the related overhead costs when you calculate it today, be sure to include the same costs when you calculate it in the future.

Create a target for the year, and "back solve" to determine what your KPI must be month after month to hit that annual target. For example, if your target "number of new memberships" is 500 for the year, you should be shooting for at least 42 new signups per month to hit that goal.

Set the target according to industry benchmarks. Since KPIs should be context-specific, it's important to review how similar organizations are performing on each selected KPI. Success isn't guaranteed by matching or exceeding others, but keeping pace with your sector will lend more credibility to your organization in stakeholders' eyes.

> "Benchmark your KPIs against peer organizations."

Benchmark data can be difficult to find for the nonprofit sector, so speak with your accountant to determine a source for reliable data. If necessary, check public copies of similar organizations' Form 990s and find the averages among them.

Here are three benchmarks you can use to compare historical and peer data:

- ***Program efficiency ratio.*** This ratio is calculated as program service expenses (money directly spent to further your mission) divided by your total expenses. This information is significant to donors, board members, and managers because it quantifies how much you're spending on your primary mission rather than administrative costs. How many cents of every dollar spent is dedicated to your goal or programs? Ideally, this ratio would be equal to one, but such success is unrealistic for most business models.
- ***Operating reliance ratio.*** To figure out this ratio, divide unrestricted program revenue (inflows from operations that can be spent at your discretion) by total expenses. Calculating this number will help you gauge whether you can pay all expenses from program revenues alone. A good outcome for this measure is one, and in some cases more than one, but most nonprofits must also rely on temporarily or permanently restricted revenues.
- ***Fundraising efficiency ratio.*** This third ratio is calculated as unrestricted contributions (income from donors who don't specify where the money must be used) divided by unrestricted fundraising expenses (how much money you spent to collect

> KPIs should be context-specific.

those contributions). An important takeaway from this ratio is how many dollars you collect for every dollar of fundraising expense — how efficient you are at raising money. The higher the ratio, the more efficient your fundraising efforts.

Use these metrics as a starting point, and then select KPIs specific to your organization. Also consider having KPIs specific to certain campaigns in your organization so that you can compare how one campaign performs over another. Using information you gain from KPI analysis, you'll make better decisions regarding resource management and be able to support those decisions when reporting to stakeholders.

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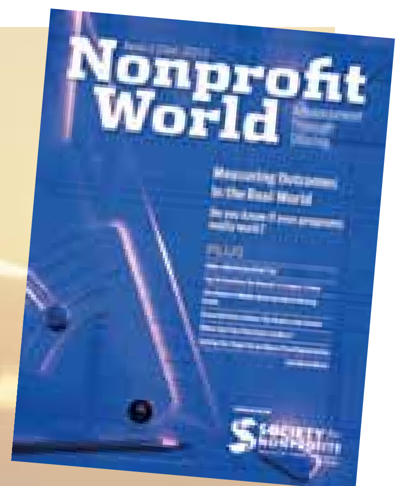
Coming Up in *Nonprofit World*



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