

How to measure performance and set unrestricted reserves

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Measuring effectiveness and setting reserves are two of the most common problems faced by charities, says Mark Salway of Cass Business School.

As a lecturer on the part-time Charities MScs at [Cass Business School](#), I get to meet all sorts of people, working in a wide range of charities and nonprofits. Despite the vast differences in the roles and organisations which our students represent, there are two topics of conversation which frequently emerge.

The first is the question as to ‘what constitutes an appropriate performance model for a nonprofit organisation?’ The second is ‘how to manage pressure on unrestricted reserves given the current fundraising and grants climate?’ Given the frequency with which these questions arise, I want to provide a brief answer to both.

What constitutes an appropriate performance model?

When I worked in international development with CARE International, the organisation comprised over 70 country offices and hundreds of local partners, each with their own level of skill, competence and delivery. It was often difficult to be able to assess their performance and the quality of their work.

This dilemma led to the development of a performance model called Ubora, which translates as ‘excellence’ in Swahili. The model which we put forward identified four different facets of an organisation which needed to be in balance to guarantee good performance:

1. Governance

Good governance is essential to ensure proper oversight of a nonprofit’s work and the effective management of implementation and delivery.

2. Infrastructure

The infrastructure provides the platform for work to be undertaken- it is crucial, therefore, that this is efficient.

3. Impact

It is important to measure the impact of our work, both to hold ourselves accountable to the social change we are creating, but also to be able to be transparent with donors and

beneficiaries alike.

4. Quality

The element that often doesn't receive enough focus is the quality of our work, yet it is critical. At CARE International, we recognised the importance of quality - we created our own metrics of what quality looked like, both internally throughout the organisation and externally to beneficiaries, customers and funders.

It's important that each individual organisation finds its own way of assessing its performance and keeping this balance right.

How to manage pressure on unrestricted reserves?

The second issue concerns how best to respond to pressure on unrestricted funds. To address this, a nonprofit organisation could focus on:

- Raising new unrestricted income
- Undergoing cost reduction measures
- Becoming more efficient; and
- Ensuring effective cost recovery

Typically, the default position is to look at cost reduction measures and where cuts can be made. However, I believe an easier method is to focus on cost recovery, grants and contracts.

Whilst raising new income can be really tough and undergoing cost efficiency drives are often difficult to implement, the option of looking at cost recovery is often forgotten about and can deliver some relatively quick wins.

Our informal research at Cass Centre for Charity Effectiveness (Cass CCE) has identified that a third of all nonprofits don't know their overhead levels and a further third do, but don't focus on fully recovering those overheads.

In my experience, when seeking grants, nonprofits lack both the negotiation skills and the narrative to be able to maximise cost recovery. One of the main obstacles to this is that they often don't understand their own cost base.

Furthermore, some donors don't want to provide full cost recovery and would rather spread their funds as widely as possible without ensuring the sustainability of those they fund.

We need a different kind of conversation

We need a different kind of conversation in which nonprofits are able to transparently measure their overheads and justify this to funders. We then need funders who are prepared to finance work in full, ensuring a fair proportion of overheads for each project, programme or service.

Cost recovery practices haven't really changed since Julia Unwin's 1999 report, 'Who pays for core costs?', called for openness and transparency on this debate. It may be that by being

transparent with your overheads and showing the scale of any subsidy, you receive greater funding – what have you got to lose?

Students ask intelligent questions, I hope you can use this article to take the same intelligent questions back to your organisations, management teams and Boards.

Mark Salway is director of social finance at Cass Business School's Centre for Charity Effectiveness

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