

Assessing the Effects of Market-Based Performance Measurement on NGOs

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The call for increased accountability of non-governmental development organizations (NGOs) has created pressure for NGOs to provide quantifiable results of their work in order for donors to have more objective decision-making criteria. This paper aims to show that these market-based performance measurement tools have adverse effects and conflict with the beneficiary-oriented work of NGOs. To illustrate this argument, three points of conflict between markets and NGOs are discussed (non-unitary performance criteria, multiple accountabilities, and market failures) and their effects on the work of NGOs are examined. An alternative market approach to development that holds NGOs accountable while acknowledging the non-linear nature of social change is proposed and recommendations for how to achieve such a rights-based market are outlined.

Introduction

Non-governmental development organizations (NGOs) have grown significantly in number and in visibility over the past two decades and have become established actors in today's global development arena. With their growing exposure has come increased scrutiny of their organizational practices and the effects of their work. This scrutiny is augmented by the fact that public trust in charitable organizations has eroded as a result of publicized cases of unethical behaviour in established organizations, such as the American Red Cross and United Way. Furthermore, public and private donors have grown more critical in their donating decisions and are increasingly interested in evaluating the impact of their donations. As a result, NGOs are under increasing pressure to be accountable for their actions and the effects of their work. Ebrahim (2003) defined the concept of accountability for NGOs as "the means through which individuals and organizations are held externally to account for their actions and as the means by which they take internal responsibility for continuously shaping and scrutinizing organizational mission, goals, and performance" (p. 194). According to this view, there is a responsibility for both external and internal actors in the process of developing accountability mechanisms for NGOs.

With the growing demand for NGO accountability has come increased attention towards measuring the effectiveness and impact of these organizations (Flynn & Hodgkinson, 2001). Participants in this debate represent the variety of constituents involved in the work of NGOs, including donors, academicians, members of the NGO community themselves, and politically motivated actors (Schmitz, 2006). At the heart of this debate lie two main factors that have complicated the establishment of coherent mechanisms to measure the effectiveness of these organizations: 1) To whom are NGOs primarily accountable (i.e. beneficiaries, the public, governments, or donors) and

2) What should their "bottom line" be? In other words, the two disputed questions with regards to measuring NGO performance as a means to improve accountability are for what and for whom to measure it (Ebrahim, 2005).

In an effort to satisfy the demands for greater accountability, different measurement techniques have been introduced and tested in order to better capture the performance of NGOs. The adaptation of private sector approaches to measure performance is one of the most prominent trends. One of the most frequently used buzzwords in this context is Results-based Management, a technique of measuring performance by setting targets and evaluating results. This concept is embedded in a broader trend that is often described as the "marketization" of the nonprofit sector (Salamon, 1997). Marketization refers to the adaptation of private sector management models and the embrace of market values and principles by NGOs (Eikenberry & Kluver, 2004). This approach places NGOs in a competitive context, requiring them to quantify social benefits and focus on characteristics, such as financial data and "measurable" outcomes, by which they can be compared. Consequently, NGOs become market actors who are evaluated by their donors based on the results they are asked to present. In this way, the complexity of creating an accountability mechanism for NGOs is presumably achieved by measuring what is "measurable".

The development field, on the other hand, appears to have shifted its paradigm towards a more process-oriented approach, which includes increased ownership and participation of beneficiaries. This paradigm acknowledges the complexities associated with social change in human societies and recognizes development as a process consisting of a multitude of factors. As Sen (1999) asserted, poverty and development should not be measured in one-dimensional terms, such as

income levels, but must be defined on a more comprehensive basis. Thus, quantifiable development criteria, such as GNP growth, rise in income levels, or technological progress, are merely means to achieve the broader objective of the development process, which is defined as increasing the level of individual freedoms. Similarly, Earle (2002) observes that there is a perceived need in the development field for a greater understanding of differing cultural contexts, values, and frames of reference when planning and assessing development projects.

The question emerges about how compatible these two approaches are. Can the quantitative measurement of performance that results from a market structure between donors and NGOs be combined with a process-oriented approach to development that is based on empowering beneficiaries by encouraging participation and transferring ownership of development interventions to local people?

This paper aims to show that the efforts to measure the performance of NGOs with quantifiable criteria are based on a market paradigm that fails to account for the complex dynamics associated with human societies and social change. Thus, the idea of quantitative performance measures or ratings for NGOs which are used by donors as primary decision criteria reflects a simplified conception of the development process and does not represent a comprehensive accountability mechanism for NGOs. To illustrate this argument, a description of the origins of market-based performance measurement and the reasoning behind its use is provided. Next, points of conflict between market-based performance measurement and the work of NGOs, as well as the effects of these conflicts on NGOs, are outlined. Finally, an alternative market approach that shifts the focus from donors towards local partners and communities is proposed and recommendations for how to achieve that are delineated.

The Marketization Trend

The increase in financial and competitive pressures in the NGO sector has stirred demands for the adoption of management practices from the private sector in order for these organizations to live up to their increased responsibilities and to ensure the access to funds from private and government sources (Alexander & Weiner, 1998). Measuring performance is one of the most central applications of this marketization trend (Speckbacher, 2003).

Forbes (1998) has noted that measuring effectiveness is a powerful tool in evaluating and improving the work of an organization. NGOs have an interest in improving their performance to ensure the accomplishment of their mission and, consequently, their survival. Due to the increasing number of NGOs

competing for financial resources, these organizations are being pressured to manage their money efficiently and to demonstrate the impact of their work to donors. Otherwise, they run the risk of bankruptcy or irrelevance (Lindenberg, 2001). The shifting of the distribution of foreign aid from governments to private foundations and the increasing exposure that NGOs are receiving by virtue of their growing roles in fighting poverty and promoting democracy (Flynn & Hodgkinson, 2001), represent specific changes that are driving this competitive trend of NGOs in the development field.

Proponents of the adoption of private sector models to measure the performance of NGOs emphasize the similarities between for-profit and non-profit organizations. Emerson (2006) argues that both types of organizations work towards a common end goal: the creation of value. While business enterprises are primarily concerned with creating economic value, NGOs are mostly concerned with social value (while making financial ends meet as well). The big challenge is to measure the social value created in order to gauge the performance of these organizations (Emerson, 2006).

Another argument made by market proponents is the escalating competitive climate of the NGO sector, where a vast number of organizations compete for scarce financial resources. In this "marketplace", donors must assume the responsibility of ensuring the survival of the most effective organizations and evaluate NGOs according to how well their expectations match with the achievements of the NGO. The ultimate goal of these efforts is the creation of a performance-based market for philanthropy, in which donors resources are allocated to the best performing NGO, thereby maximizing the impact of donations. The requirement by donors for NGOs to conduct evaluations that are centered on previously agreed targets and the measurement of quantitative results are an indication of this market-based approach.

Finally, there is an imperative for social purpose organizations, such as NGOs, whose goal is to create social value, to maximize the outcome of their work. Just as for-profit companies have an incentive to grow due to the interests of their key stakeholders (i.e. shareholders), NGOs have a similar motivation to satisfy their key constituents (i.e. donors and beneficiaries). As Kanter and Summers (1987) concluded, NGOs have the obligation to be doing well while doing good. By adopting a more market-like way of operating and placing greater emphasis on the results of their work, NGOs can ensure that they are utilizing resources to the best of their abilities.

The nonprofit sector itself appears to have embraced the marketization trend by adopting more business-like management models and by creating strategies to promote greater impact, efficiency, and accountability (Lindenberg, 2001). This organizational

development has fostered a new breed of market-embracing, entrepreneurial practitioners. In addition, it has generated benefits for NGOs in particular with regards to ensuring income streams and to creating greater perceived accountability (Eikenberry & Kluver, 2004).

The emergence of “watchdog” organizations, such as Guidestar, Charity Navigator, and the American Philanthropic Institute, exemplifies another attempt to provide donors and the general public with quantitative and comparable information about NGO performance. They aim to enforce NGO accountability through uniform and comparable performance criteria, thereby facilitating a transparent market in which donors can invest their money wisely. Although the rating systems of these watchdog organizations do not claim to be precise and infallible mechanisms, they do claim to convey normative information about the performance of charities, including NGOs. The meaningfulness of these ratings is demonstrated by the fact that many NGOs that receive high ratings from these organizations will signal this on their website, using it to support their fundraising efforts (Schmitz, 2006). The credibility of these rating mechanisms is discussed below.

The Market and NGOs

The effects of adopting market principles and practices on the work of NGOs are complex and difficult to interpret. As previously discussed, this trend is driven by increased exposure and competition that characterizes the NGO sector and the resulting demand for a self-regulating and effectiveness-enhancing mechanism that ensures the accountability of these organizations to their stakeholders. However, it is critical to call attention to the points of friction where the dynamics of a market structure between donors and NGOs and the mission-oriented work of NGOs collide. Three main sources of conflict can be identified: non-uniform performance criteria, multiple accountabilities, and market failures.

Non-Uniform Performance Criteria

The unique nature of NGOs renders the objective assessment of their performance quite difficult. Unlike business organizations, NGOs cannot be assessed on financial data, such as profitability, stock market values, or return on investment. NGOs evaluate themselves by their progress toward their mission and the social benefits they create, which is by nature hard to quantify, difficult to measure, and contingent on societal values (Kanter & Summers, 1987). As Paton (2003) succinctly summarized, NGO performance might seem a unitary, stable, and objective attribute but in reality it is a multifaceted, fluid, and contested concept. Given these

complications, the validity of market-based accountability mechanisms for NGOs is called into question.

Table 1
Evaluation Criteria

Charity Navigator (7 criteria)	Better Business Bureau (20 criteria)
<i>Financial</i>	<i>Financial</i>
<ul style="list-style-type: none"> • Program expenses • Administrative expenses • Fundraising expenses • Fundraising efficiency • Primary revenue growth • Program expenses growth • Working capital ratio 	<ul style="list-style-type: none"> • Program expenses • Fundraising expenses • Accumulation of funds • Availability of financial statements • Breakdown of financial statements • Accuracy of financial statements • Board-approved budget
	<i>Governance and oversight</i>
	<ul style="list-style-type: none"> • Existence of a board of directors • Minimum of 5 voting members • Minimum of 3 annual meetings • Maximum of 10% of voting members are compensated • No material conflict of interests
	<i>Measuring effectiveness</i>
	<ul style="list-style-type: none"> • Existence of a board policy to evaluate organizational performance • Submission of performance report to governing body
	<i>Fundraising and informational materials</i>
	<ul style="list-style-type: none"> • Accuracy of informational materials • Annual report readily available • Inclusion of financial information on website • Address privacy concerns of donors • Clear disclosure of how charities benefit from cause-related marketing • Promptly response to complaints about fund raising practices and other issues

Source: Author's compilation with information from Better Business Bureau (2008) and Charity Navigator (2008a)

To test the reliability of quantitative performance assessments, one of the most popular performance mechanisms—the Charity Navigator rating system—was examined. A sample of 68 development NGOs based in the U.S. was evaluated and their results were compared with a broader rating system of another organization, the Standards for Charity Accountability of the Better Business Bureau (BBB). The rating methodologies and criteria of Charity Navigator and the Better Business Bureau differ significantly. Charity

Navigator examines only the financial health of charities, and does so by examining their organizational efficiency (across four variables) and operational capacity (across three variables). The Better Business Bureau in contrast uses a more comprehensive set of criteria to evaluate the performance of charities. Its standards include a variety of financial as well as non-financial criteria that are grouped into the following categories: financial (seven standards), governance and oversight (five standards), measuring effectiveness (two standards), and fundraising and informational materials (six standards). An overview of the different evaluation criteria is provided in Table 1.

Although Charity Navigator and the Better Business Bureau use different criteria to assess NGO performance, their missions are very similar. Charity Navigator states as its purpose “to help charitable givers make intelligent giving decisions” (Charity Navigator, 2008b). Similarly, the Better Business Bureau states that it “seeks to assist donors in making informed judgments about charities soliciting their support” (Better Business Bureau, 2008). Therefore, both rating mechanisms aim to provide an objective and comparable judgment about how well charities are performing, with higher scores from Charity Navigator or the fulfillment of more Better Business standards indicating better performance.

The comparison was conducted as follows. Sixty-eight development and relief NGOs that are evaluated by both rating systems (Charity Navigator and the Better Business Bureau) were identified. A rating threshold was set (determined by the author) above which the organization was assumed to be viewed as good or satisfactory and below which the organization was assumed to be viewed as poor or unsatisfactory. For Charity Navigator this threshold was three stars (“exceeds or meets industry standards and performs as well as or better than most charities in its cause”). For the Better Business Bureau the threshold was fulfilling all accountability standards and thereby gaining eligibility for the Charity Seal Program, which indicates that an organization is operating responsibly.

A comparable number of all development and relief organizations (63% with Charity Navigator, 69% with the Better Business Bureau) were rated positively in each rating system. When comparing scores across the two systems in our sample, 60% of all organizations were rated positively by both rating systems and six percent were rated negatively by both rating organizations. However, 34% of organizations received a high rating from one and a low rating from the other. Specifically, 25% of organizations received a positive rating from Charity Navigator but did not fulfill all standards with the Better Business Bureau, whereas nine percent fulfilled all standards with the Better Business Bureau received a negative rating with Charity Navigator. Fifteen percent of organizations received

discordant ratings with respect to financial criteria. Specifically, nine percent fulfilled all financial standards of the Better Business Bureau but rated low with Charity Navigator, while the reverse was true for six percent of organizations.

In sum, more than one third of all organizations received conflicting verdicts from Charity Navigator and the Better Business Bureau. This discrepancy is explained by the differences in evaluative criteria used by both organizations. As a result, an organization might be seen as financially responsible but not as being able to fulfill other accountability requirements, such as governance or transparency. The discrepancies within the financial criteria alone are caused by the use of different financial performance measures. With the exception of the ratio between program and administrative expenses and fundraising efficiency, the two accountability mechanisms assess different criteria. Charity Navigator examines fundraising expenses, primary revenue growth, program expense growth, and the working capital ratio. In contrast, the Better Business Bureau evaluates the accumulation of funds as well as more administrative criteria such as availability of financial statements, the specificity and accuracy of these statements, and the existence of a board-approved budget. In sum, these accountability mechanisms may produce divergent results even within the same area of analysis.

Despite their common goal to help donors make informed decisions regarding their donations, the use of different evaluative criteria by the Charity Navigator and the Better Business Bureau often results in conflicting verdicts about the performance and accountability of NGOs. This is clearly an unwelcomed outcome, as it demonstrates that the evaluations of charitable organizations lack reliability. A recent report by the National Council of Nonprofit Associations and the National Human Services Assembly (2005) supported this assessment and concluded that although the main purpose of these “watchdog” organizations is a noble one, the use of different standards, scores, and ratings have caused confusion among donors.

Scholars have long been skeptical about the evaluation of financial data of NGOs. Bowman (2006) claimed that overhead ratios (i.e. administrative expenses/total expenses) are useless for comparing organizations because different organizations have different administrative and fundraising constraints. Ebrahim (2005) noted that higher overhead costs can be justified if these expenses contribute to field-level learning, for example through improved evaluation processes. With regards to fundraising efficiency, Brooks (2006) pointed out that from an economic perspective, fund raising efficiency should not be measured by the total return on fundraising expenses but by the maximization of marginal returns instead. Schmitz (2006) has argued that no measure of Charity

Navigator accurately represents how well a charity serves its beneficiaries, or how effective and sustainable their programs really are. Kaplan (2001) agreed with this criticism, asserting that financial measurements are inadequate to measure the success of charities and instead should be measured by how effectively and efficiently they meet the needs of their constituencies.

Multiple Accountabilities

It is widely accepted in the NGO field, as well as in related scholarly literature, that NGO accountability is a multidimensional construct because of the multitude of stakeholders and constituents to whom these organizations are accountable (Herman & Renz, 1999; Kanter & Summers, 1987; Edwards & Hulme, 1996). In contrast to businesses and governments, NGOs have no clear mechanism regarding who evaluates their performance. They are accountable to a variety of constituencies, including donors, beneficiaries, staff, and volunteers, each of whom have different definitions of good performance. And although a diversity of constituents exists for governments and businesses as well, their performance is generally measured and evaluated by two key stakeholder groups: voters and consumers. Many researchers agree that it is critical to consider the perspectives of those multiple constituencies when evaluating NGO performance and that accountability feedback should not come from one exclusive source, such as donors (Herman & Renz, 1999; Kanter & Summers, 1987; Kaplan, 2001; Sowa, Coleman & Sandfort, 2004). These scholars argue that the diverging perspectives on desired organizational outcomes that are held by the multitude of relevant actors in and around an organization make a single performance indicator insufficient.

The market relies on the objectivity and shared perspective of stakeholders. Consequently, market-based approaches, such as Charity Navigator's rating system, reduce the variety of relevant realities to one unitary perspective by emphasizing the viewpoint of donors as the main stakeholders NGOs are accountable to. This donor-centric perspective of accountability can hinder NGOs in achieving their missions, in particular organizations that are involved in such complex areas as social development and poverty alleviation (Ebrahim, 2005). By requiring them to be cost effective and show quantifiable results, the space for learning from the field is eroded and the already limited influence of beneficiaries is further reduced. The development arena becomes driven by money instead of ideas and values (Eikenberry & Kluver, 2004).

In a market view, the nexus of interaction with regards to performance and ultimately accountability is shifted to the space of exchange between donors and NGOs. One of the most telling examples of this dynamic is the prevalent use of outcome measurement techniques in development program and project

evaluations. A study by Fine, Thayer, and Coghlan (2000) found that outcome measurement is likely to be the most common evaluation approach used by U.S.-based NGOs. However, most organizations only conduct this format of performance measurement because it is required by donors and not for internal reasons (i.e. learning purposes). In addition, the idea of results-based evaluations is based on certain assumptions about the environment in which the development intervention takes place and the transformational process that accompanies the project. It assumes an environment of certainty and control in which certain changes of the local environment can be attributed to the effects of the activities of the development organization. Change is assumed to be a linear process, initiated by the project, and predictable and structured in nature, with outcomes determined by the people conducting the project (i.e. donors and NGOs), not by the people affected by the intervention (Earle, 2002). Targets are generally set before the project begins and are given little room for adaptation.

The attempt to measure the success of projects by isolating project activities and identifying proxy indicators can be a useful tool to monitor the performance of NGOs. Yet, if conducted for predominantly external reasons and applied in a standard, predetermined format, it creates a donor-oriented form of evaluation and falls short of the realities of social transformation, which takes place in a dynamic, chaotic, and constantly changing environment. The transformation process is, by nature, non-linear and is the result of an abundance of non-project factors (Fowler, 1996). Therefore, this process cannot be analyzed or understood with a linear form of reasoning. Many development organizations acknowledge this dilemma. Upon review of multiple studies assessing the impact measurement of NGOs, Kelly, Kilby & Kasynathan (2004) concluded that there is no single approach to measuring or defining impact. Consequently, there cannot be one generic set of indicators for success (Sawhill & Williamson, 2001), especially when these indicators are determined by people remote to the local environment.

Considering these complexities, it becomes clear why donor-centric approaches to development have historically led to very limited success. Yet in order to satisfy their need for external funds, NGOs are forced to compromise these insights and to adjust their development work according to donor demands. As a result, evaluation efforts become increasingly focused on measurable outcomes and quantitative data rather than participatory assessment approaches that place a greater emphasis on processes and learning. This leads to a climate in which NGOs are motivated to compete for projects with populations that are easy to be helped and with targets that are easy to be measured in order to best be able to demonstrate their results. Their function

becomes reduced to the provision of services and neglects their critical role as agents of change, working for advocacy and rights-based purposes and the transformative effects on society that are explicit in their missions (Edwards & Hulme, 1996; Eikenberry & Kluver, 2004). Their double bottom line of achieving their mission while ensuring their survival is reduced to the single objective of an economic market actor – to ensure survival by obtaining funds. As a result, NGOs are pulled away from their civic roots and turned into economically-motivated actors that, over time, become immune from civic judgments (Fowler, 1996).

Market Failures

Initiatives to promote a market for social capital, such as Charity Navigator, are rooted in the premise that market forces lead to an efficient allocation of resources. This assumption is reflected in the missions of these initiatives as well as in the market-based, comparative performance criteria that are used by Charity Navigator. For example, one of the criteria of Charity Navigator examines the revenue and program expenses growth of an organization. This criterion is based on the assumption that “charities must grow over time if they are to sustain their programs and services” (Charity Navigator, 2008a) and is intended to indicate how well the organization is able to pursue long-term impact. Underlying this assumption is the notion of a functioning donor market (i.e. donors make rational and well-informed giving decisions) in which high revenue growth indicates that donors have identified a charity as doing valuable and effective work.

As demonstrated above, this market logic is problematic when applied to the NGO sector due to non-uniform performance measurement criteria and accountability to multiple and socioeconomically diverse stakeholders. Yet, there is another fundamental problem associated with the idea of a global marketplace for NGOs that regards recent realizations of the empirical shortcomings of markets. First, market actors do not always possess full information and, as a result, make decisions that do not lead to the most beneficial allocation of resources. In the donor-NGO market, donors oftentimes lack information of what exact effect their money will have due to the incalculability of the consequences of the intervention. Consequently, donors often act on the basis of personal preferences and interests rather than rational decision-making. As Porter and Kramer (1999) found, even foundations (which supposedly possess more sophisticated decision criteria and enable more efficient donation decisions) do not often act strategically and rationally with regards to their grant making. This increases the inefficiency of private giving initiatives and disables the functioning of the marketplace of private philanthropy (Porter & Kramer, 1999).

Second, markets are based on competition and on the beneficial outcomes of self-interests. Yet, economic concepts, such as game theory, have shown that under certain conditions cooperation leads to more beneficial outcomes even in market environments. This is also applicable in the NGO field where for instance the success of advocacy campaigns is largely dependent on the effective coordination and collaboration of different organizations (Edwards & Hulme, 1996).

Third, in many markets resources become more concentrated over time due to economies of scale and power asymmetries. This trend can be observed in the NGO sector already where a relatively small number of large NGOs control the majority of resources. Smaller organizations have difficulties devoting sufficient resources to gathering quantifiable data and gaining donor support or marketing their cause effectively to potential donors (Lindenberg, 2001). As a result, they are crowded out of the market.

Finally, the welfare-maximizing theorem of the market can be viewed as having utilitarian characteristics that conflict with a humanitarian approach to development. The market goal of maximum welfare for most people implies that there are some people who will not gain from market forces because they are not in line with supply and demand requirements of market actors. In the case of donors and NGOs, it then becomes acceptable practice for donors to shift resources to people and places that are more readily helped with available means, with their decisions being based on the potential quantitative results. Thus, an economization of human life is the result. This stands in stark contrast to the humanist idea of non-quantification of human life which forms the basis of human development theory and rights-based approaches to development. While prioritization of development initiatives is a reality born of the scarcity of resources, the valuation of human lives based on quantitative indicators cannot be the sole basis for donor decisions.

The Way Forward

As this paper has discussed, efforts to create a market mechanism for NGOs in order to ensure their accountability and to efficiently allocate funding resources are associated with several problems. Attention is shifting away from beneficiaries and towards donors, who in turn do not have the means to make rational decisions due to the complexity and non-comparable nature of NGO performance. NGOs are forced to compromise their mission since they become pressured to sacrifice their long-term impact strategies for short-term presentable outcomes. They are turned into service providers instead of agents of change.

Nevertheless, performance measurement remains important. The independent nature of NGOs and the

influence of their work on a growing number of people require accountability mechanisms that ensure that their work reflects the interests of their various stakeholders. Performance measurement also helps organizations to increase their legitimacy and ensures their survival by presenting visible results of their work, thereby generating and securing funding streams. Yet, most importantly, performance measurement done right gives organizations the opportunity to learn and to adapt to changes and miscalculations that prevail in instable and complex environments. The important question that practitioners and academics alike have to ask is for whom and for what purposes accountability mechanisms, such as performance measurement, are employed (Ebrahim, 2005). Recognizing the risks and adverse effects associated with market-based, donor-centric approaches to measuring performance, several conclusions and recommendations can be drawn.

Shifting the Focus on Beneficiaries

Understanding that development projects are not isolated endeavors, but rather represent initiatives embedded in a complex and oftentimes unstable social, economic, and political environment, makes a rationalized model of change impracticable (Earle, 2002; Fowler, 1996; Reeler, 2007). The factors that influence the trajectory of social change are difficult to isolate and lie for the most part outside the control of NGOs. As a result, sustainable social change is not achieved by NGOs but by the underserved target population itself (Fowler, 1996). It is therefore critical that NGOs retain the ability to adapt project goals and expectations, to embrace a certain level of uncertainty with regards to the execution of projects, and to allow greater flexibility in planning and evaluating project success. This requires the active participation of beneficiaries in the transformational process as well as the involvement of local people in the planning, execution, and evaluation practices. To improve the sustainability of development interventions, the ownership of projects must be transferred to the local people, requiring a shift towards participatory and rights-based work.

The idea that a less interventionist, more rights-focused approach to development has the capacity to deliver superior, more sustainable results has gained significant ground in the development community over the past decade and has profoundly changed the work of many NGOs around the world (Offenheiser & Holcombe, 2003). However, the potential usefulness of incorporating markets into this approach remains a consideration. The question is if NGOs can embrace a market view without being pressured to compromise their missions, without jeopardizing their relationships with beneficiaries, and without destroying room for learning and adaptation of targets and practices.

As an alternative to the evolving market structure between NGOs and donors, efforts should be focused on creating a market that is centered on the empowerment and the freedom of choice of people. As Sen (1999) noted, a market should not necessarily be seen as a purely economic mechanism but as a natural process of transaction and exchange in which everybody is entitled to participate. Market participation becomes a right that serves both as a means and an end of development. In effect, a participatory paradigm embraces market ideas by focusing on the empowerment, decision-making, and choices given to beneficiaries. This approach places a greater emphasis on individual rights and responsibilities and on the capability of all human beings to make good decisions if given the chance to do so. Beneficiaries have incentives to decide on strategies and activities that best serve their well-being and they are most likely to have adequate information about their particular needs, local culture and context, and social dynamics. Furthermore, by progressing towards a market for the poor, in which they have a voice about what “products” and “services” they welcome, an organic feedback mechanism is created that will lead to more sustainable development interventions and also can satisfy the demands for NGO accountability. Donor demands for accountability will be satisfied since they will have the most meaningful evidence about the effect their money has – the opinion of the poor. Yet, beneficiaries generally do not possess the economic or the political powers to be market actors and, as can be seen in the current structure, the power remains with the actors that possess the resources (i.e. donors). Therefore, increasing decision power for beneficiaries must be promoted from the outside by redefining donor-NGO relations and by creating incentives for NGOs to employ more beneficiary-centered approaches.

Redefining NGO-Donor Relations

The adverse effects of donor-NGO relations that are predominantly focused on quantitative results and measurable performance have been outlined above. As Kilby (2004) has shown, success in empowerment strategies is most likely if the time horizon for the intervention is long-term and if the NGO has stable and long-term funding sources. The importance of trust between donors and NGOs in order for participatory and rights-based approaches to work and for learning to take place contradicts a results-based planning and evaluation approach and a return-focused donor attitude. Excessive pressure to demonstrate results does not only lead to a reallocation of activities towards donor preferences but can also foster an atmosphere of mistrust and control that impedes incentives for innovative approaches, organizational learning, and long-term strategies.

Redefining the relationship between donors and NGOs towards trust and long-term commitment will enable NGOs to measure their performance for internal reasons, such as learning purposes and will help to set a better foundation for functioning accountability mechanisms. As Ebrahim (2003) contends, NGO accountability requires as much an internal process as it is related to outside requirements. It is a relational construct that does not only rely on demands and control but also on partnership and cooperation.

Shifting donor priorities towards the unique strategies and objectives of NGOs (i.e. mission) and towards longer-term relationships (i.e. trust) is one viable step towards a more appropriate basis for accountability between donors and NGOs. Instead of rigid and inflexible outcome measures and targets determined from above, NGOs are assessed by donors in consideration of the particular relationship between them and the organization, which is largely based on mission achievement, and how well the organization responds to the moral values that motivate donors to give (Herman & Renz, 1999). Performance measurement is still a critical procedure, but it is one that serves as a means to improve the impact of the relationship between donor and NGO, not as an end in itself.

Furthermore, donor awareness about the effectiveness of participatory approaches and beneficiary-oriented planning and evaluation methods should be raised and there should be greater emphasis on how donors can help to implement such mechanisms.

Creating Incentives for Downward Accountability

The question remains on how the inclusion of beneficiaries in accountability processes and mechanisms can be achieved. As was acknowledged by a director of a large international NGO, apart from intellectual, empirical, and at times ideological reasons, NGOs have very few incentives to employ techniques that focus on satisfying their downward accountability (Alexander, 2007). Incentives have to be created that encourage organizations to increase their efforts towards the empowerment and feedback of beneficiaries. New rating mechanisms that rate NGOs with regards to their commitment to their beneficiaries instead of or in addition to their financial performance could be one way. Just as Charity Navigator examines the financial health of organizations, other ratings could rate organizations according to degree of decision power beneficiaries have in their projects and programs. Awards that reward evaluation practices that fulfill learning as well as accountability objectives would create another incentive for NGOs to rethink their evaluation procedures. These ratings and awards would also contribute to an increase in publicity and public debate

about the objectives and role of performance measurement in the NGO sector.

In a similar fashion, incentives have to be created for donors in order to shift their expectations away from result-based evaluation mechanisms. Scholars are encouraged to further examine the correlation between bottom-up, participatory development interventions and the success and sustainability of development interventions. Such research is certainly difficult to conduct due to the dynamic and complex environments in which development projects are implemented, and due to the necessity of long-term observations to gauge the impact or success of a particular project. However, such endeavors are critical in order for donors to have objective and reliable evidence on which to base their best "investment" decision.

Conclusion

This paper exemplifies one of the dilemmas surrounding the issue of NGO accountability: There is a general agreement about the need to measure performance of NGOs, but there is no consensus on how to do it. It is a critical time to tackle this dilemma. With the emergence of more opportunities for civic action as a result of contemporary trends, such as globalization, NGOs have the chance to become civic motors of change again, moving away from being agents of the foreign aid system towards agents of civil society (Edwards, Hulme, & Wallace, 1999). Furthermore, NGOs today have the capacity to play a critical role in addressing the downsides of global integration, such as prevailing poverty and increasing inequality, that are not addressed by governments or markets (Offenheiser & Holcombe, 2003).

To fulfill this role, NGOs must find a way to move away from the market that has been created between them and their donors. Market-based performance control mechanisms that only measure quantitative criteria, such as financial data of the organization or quantitative proxy indicators from the field, do not do justice to the complexities of human development and transformation. They reduce NGOs to fulfilling the agenda of resource-endowed organizations and individuals instead of representing the collective interests of civil society (in particular the poor and marginalized). A market between NGOs and donors also fails to pay tribute to the importance of human relations that are critical criteria for effective and sustainable developmental change (both between donors and NGOs, and between NGOs and beneficiaries). In a purely economic market, relationships become engineered, contracts replace trust, and rationality outweighs empathy.

The growing sophistication of donors and their increased interest in seeing the impact of their money is a welcomed trend. Yet it is critical that this more

market-oriented breed of donors is educated about the importance of a development process that is based on empowering and capacitating local people and about the positive effects that participatory planning and assessment approaches can have on project success and target achievement (Earle, 2002).

The idea of a market in development should be revised from one that is purely economic to one that is more rights-based. Its existence should not be justified by its efficiency but rather by its underlying principles of freedom and empowerment. Evaluation techniques that build on this conception will be beneficiary-oriented and will have a strong focus on local participation and feedback. These methods have a qualitative focus and are time-consuming in nature. Their results do not provide a comparable picture of NGO performance but rather an in depth analysis of a particular situation. However, it is these forms of evaluation techniques that better correspond to the missions of NGOs while holding them truly accountable for their work. Given the scarcity of resources available to NGOs, decisions about the efficient allocation of resources, which often involve trade-offs and prioritizations are a reality. Yet, in order to align allocation decisions with a process-oriented approach to development, feedback from the targeted beneficiaries must be garnered. Only in this way, the poor may finally move from the role of recipients to actors.

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