Organization Effectiveness Based on Performance Measurement and Organizational Competencies - Getting to Perfect!

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Abstract

This article describes a model of the relationship between an organization's results and the needed competencies of the organization and staff to create those results and how those needed competencies can be improved by human capital development programs.

Organizations exist for results. Results come from the activation of specific competencies within the organization. As competencies are improved results improve. Specific competencies are improved by improving specific skills, abilities, knowledge and attitudes. Competencies include leadership.

Every type of organization result can be traced back to the specific competencies that are required to create these results. For example, assisting deaf children to learn to speak effectively with confidence, enter and graduate from college and become employed are results that requires a number of organizational competencies including, vision, leadership, relationship building, communication, education and therapy skills, etc. The speaking, graduation and employment results are measured by key performance indicators (KPIs). Once the results and needed competencies are identified a determination is made as to what specific types of human capital development programs will best improve the needed organizational competencies. Analyzing the impacts of the human capital development programs on the needed competencies and then on the key social results must be a continuous feedback process so competency based organization program adjustments can be made.

Is it possible to have a "perfect" nonprofit organization? That is, to have a nonprofit that has a perfect mission statement and strategic plan, a perfect vision, is perfectly effective and efficient, has perfect execution of all its plans, has a perfect board and staff, is perfectly funded, and is evaluated in all organization categories as perfect? Assuming a healthy external environment, such a nonprofit could then completely achieve its mission. For example, its clients would no longer be living in poverty; the economic development policies it advocated would be entirely implemented and effective; its public arts programs would be widely offered and so forth. Similarly, a perfect intermediary organization or funder would be completely successful in supporting nonprofits and causes.

Of course this goal of perfection is an unreachable ideal. But "getting to perfect" can be materially advanced by utilizing recent developments in nonprofit management, behavioral science and management science. In particular, new approaches to **performance measurement** make it possible to align individual, team and organizational performance in ways not feasible before.

This article describes the author's model for capacity building or improved performance and measurement starts with the identification of the organization's **key performance indicators (KPIs)**. These indicators of organization results are based on the execution of specific **organizational competencies** the people working in the nonprofit organization need to exhibit in order to achieve the desired results. These organizational competencies are improved by implementing appropriate **human capital development** strategies and programs that develop the needed competencies and thus improve the nonprofit's key performance indicators. The model includes an assumption of measuring, developing, improving and **re-measuring** as part of the organization's basic management strategy and **plan**.

The McLaughlin Performance Measurement Model (depicted in Figure 1 below) has five components:

I. **Developing KPIs to Measure Organization Results**

II. **Identifying and Developing Needed Organizational Competencies**

III. **Creating Human Capital Development Programs**

IV. **Creating a Measurement and Improvement Plan**

V. **Re-measuring KPIs and Re-analyzing Competencies**

Each component is based on organizational performance assumptions and each requires critical steps for effective implementation as outlined below.

I. **Developing Key Performance Indicators (KPIs) to Measure Results**

Assumptions:

A. Every organization must create results that someone will pay for. For example, donors will fund a youth literacy improvement program because they see evidence that the program helps children learn to read and have better social and economic outcomes.

B. Measurements must be based on an agreed method of quantifying the organization's results.

C. KPIs are well accepted as measures of an organization's results.[1]

D. KPIs need to be specific, reliable, collectible and put into the form of numbers or percentages

E. Each KPI measures the results of specific activities, programs or processes of the organization. For example, a literacy program that results in "reading scores at various grade levels and shows progress over time" will provide funders with measureable outcomes to evaluate the program.

F. More funders are requiring quantitative evidence of results before continuing to fund a program.

G. KPIs can measure input, output, outcome, impact and what can be called the "social return on contributions" (SRC). (Similar to "Return on Investment" (ROI) without the negative connection to commercial enterprise.

H. Measurement of social problems and measurement of programs that alleviate them should not be in conflict with the qualitative humanitarian motivations needed to commit to tackling the most complex human problems. As in advances in healthcare, those healthcare programs that are more effective than others need to be identified and measured by outcome data.

Implementation Steps:

1. **Identify KPIs** - identify the most important organizational results. For example, the percentage of deaf students in a special program to learn to communicate orally who are then accepted into a four year college.

2. **Establish baseline KPI measures -** determine the initial or "before" measures of these key results so they can be compared to later or "after" organizational improvements. For example, the reading scores from students "before" their teaching staff underwent a new reading program in January and the student's "after" scores in June compared to students whose teachers did not attend the program.

3. **Connect any grant requirements for measurement to specific KPI**s-use the quantitative grant requirements if any, to help identify the KPIs for specific programs.

4. T**rain staff to use measurements and KPIs** - if the organization does not currently quantify non-financial results it is essential to develop and share the new measurement plan with top management, the board, the funders and the entire organization; create a cross-functional measurement team and educate the team on the concepts of KPIs and measurement; begin to identify the key organizational processes that create results and begin to develop procedures that are practical for collecting results.

II. Identifying and Developing Needed Organizational Competencies

Assumptions:
A.Organizational competencies are the skills, abilities, knowledge, motivations, intelligence, etc., needed to achieve organization results (KPIs). (2), (7)

B. Organizational competencies include a wide variety of human behaviors and activities such as leadership, project management, evaluating performance, creativity, empathy, communication, strategic planning, fund raising, persistence, client interviewing, problem solving, accurate month end reporting, etc.

C. Competencies exist at the level of the individual employee, teams, departments, executives and collectively they add up to an organization's competencies.

D. Every organization's competencies are unique; but there are some competencies common to every nonprofit organization, e.g. fundraising, accounting, governance, planning.

E. An organization cannot do something correctly it does not have the competency to do; it must develop or acquire competencies at the level needed.

F. The organization's culture may encourage or discourage certain competencies.

G. Competencies exist on a continuum from basic to advanced.

H. It is important to develop or maintain an employee performance management system with specific performance criteria and goals for each employee linked to the organization's KPIs and competencies

I.   Since the specific organizational competencies required to achieve results (KPIs) are directly dependent on the type of results needed, there is a logical link between them. For example, if providing "timely, quality mental health services" is a KPI measured by timeliness and clinical quality, then the competencies needed would include "staff responsiveness (Initiative), ability to develop responsive systems and procedures (Analytic Thinking), knowledge to develop easy access support processes (Design Creativity), staff ability to provide best practice mental health services (Attention to Detail), create easily understood intervention guidelines, (Communication)" etc. (Specific competency(General Competency).

J.   Different organizational levels and processes require different competencies. For example, coordinating complex educational events requires both "executive level planning" (Decision Making, Conceptual Thinking), competencies as well as staff level "coordination with the conference facility staff to ensure signage is correct" (Project Management) competencies. Another key result area such as the publication of research requires "high level editorial review" (Written Communication, Technical Knowledge) competencies as well as "graphical data presentation" (Design Creating)competencies.

Implementation Steps:

1. **Identify key results, then the needed competencies** -Start with the KPIs needed and work backwards. For example, if timely delivery of temporary housing services is a KPI, identify what specific staff skills and abilities are needed, e.g., the competencies of responsiveness, ability to develop timely housing service programs and systems (Initiative, Technical Knowledge) to yield the tightest connection between attainable KPIs and needed organizational competencies Or if a KPI is "the time to complete the analysis of proposed legislation that will affect low income housing, (Task Completion)" the required **competencies** would include "the ability to know where to find the earliest legislation versions (Conceptual Thinking), the knowledge of the current laws and regulations (Functional, Technical Skills), the skill to quickly research and write position options." (Written Communication)

2. **Develop an organization competency profile (see below)** -The organization needs to determine its current profile of individual, group, department and organizational competencies and create a strategy to close the gap between what is the needed level and the current competency level. To create such a profile, list the competencies needed by individual, group, etc. With all competencies listed, use

methods such as applying the results of knowledge and skill assessment tools, management judgment, staff performance evaluations, record of previous experiences, etc. to identify and quantify the current levels of competency. The gap between the "Needed" or perfect competency level and the "Current" competency level can be bridged by a strategy of continually improving the specific organizational competencies needed for the specific KPI.

Competency	Needed Level	Current Level	Improvement Gap	Strategy to Close Gap
1. Priority planning	10	7	3	Experiential learning
2. Aligning goals	8	4	4	Seminar on Org. Design
3. Customer service	10	6	4	Class on Customer Service
4. Etc.	TBD	TBD	TBD	TBD

3. **Develop or maintain a performance management system**- Each employee should have detailed performance criteria and measureable goals as a part of their development program. Each performance competency such as "adaptability", "accuracy", "communication" and each goal such as "complete 90% of intake interviews within 24 hours" or "achieve client satisfaction survey scores of 80% or above", etc. should provide a link the KPIs of the organization. This helps guide the workforce towards a common set of outcomes. The sum of all the performance competencies and achievement goals should represent the total competencies the organization requires to succeed in improving its KPIs.

III. Creating Human Capital Development Programs

Assumptions:

A. Every organizational competency, whether required by an individual or a group can be improved by developing and implementing human capital development programs for that competency. ("Human capital" is used here instead of "human resources" since the former reflects the acknowledgement that people in organizations are an extremely valuable asset, and equivalent or superior to any other asset and can be developed in to increase their value to the organization). (3) An asset in this context is still a living breathing person.

B. The more specific and relevant the human capital development programs are to increasing specific competencies, the greater the likelihood for improvement of these competencies. For example, if "project management for large healthcare conferences" is determined to be an organizational competency needing improvement, then a human capital development program would be customized for this set of specific skills, abilities and knowledge and provided to the group conducting the healthcare event.

C. Human capital development programs include much more than training programs; they include any program that improves organizational competencies such as: an effective recruiting and orientation program, team communication programs, organization process analysis and system improvement seminars, use of new technology workshops, an effective staff performance evaluation program, cascading of goals from the top down, staff engagement surveys and of course all types of leadership development. (4)

D. Investing in or allocating resources to human capital development is essential for organization improvement.

E. The effectiveness of the development program can be measured at various levels, from the reaction of the participants to the training, to the test scores after the training, to the change in organizational results as measured by KPIs.

F. It is also essential to understand and measure the SRC (Social Return on Contributions) or the ROI (Return on Investment) of Human Capital Programs. The "Return" in both definitions is the higher level of results achieved by the new level of skills, abilities or knowledge acquired as a result of the development program. The "Investment" or "Contribution" is the cost of the human capital development program. For example, the investment/contribution could be an education program for low cost housing managers about resolving resident conflicts for $200 each with a return resulting in a 25% decrease in the reduction of manager time to deal with conflicts and property damage which equaled $1000 in savings per manager. So the return on this investment is $1000 – $200 = $800/$200 = 1:4 or 400%.

G. Human capital development can also be accomplished by informal means such as a supervisor and/or staff member creating and developing a new method of handling a specific process that then becomes widely adopted. For example, developing a new method of processing homeless clients.

H. Management is accountable for ensuring that the appropriate human capital development programs are identified and implemented.

Implementation Steps:

1. **Create a profile of organizational competencies and related human development strategies** - Create a human capital development profile that lists all the identified needed competencies by individual, group, department, etc. and now identifies the most appropriate human capital development program for each competency. This process is identified as "workforce planning" in the human capital literature. (5)

2. **Create a strategic plan for human capital development programs** - Create a strategic plan for implementing human capital development activities and aligning them with other organizational strategies and goals.

3. **Create a "mini university" of the human capital programs needed** - Identify and organize all required human capital development activities. Develop and publish a schedule of development activities.

4. **Complete an SRC/ROI analysis** - Calculate the "Investment/Contribution" cost of a development program i.e., the cost of the staff time, trainer/consultant, supplies, facility cost, etc. The "Return" value can be challenging to measure since many of the returns of importance are programmatic outcomes or impact returns and often seemingly "intangible," such as "the increased quality of life in a shelter versus homelessness," "the reduction of depression with an increase in perceived opportunities," "the positive effects of a good education program on self-esteem," "the positive emotional impact of short waiting periods for mental health services," etc. Therefore it requires estimates be made by knowledgeable people either inside or outside the organization of the social value of the improvement and a proposed monetary value linked to the change. The SRCs/ROIs can range from a 1% increase to a 100%+ increase. More can be found on these methods in the literature. (5)

IV. Creating a Measurement and Improvement Plan

Assumptions:

A. Organization measurement and improvement requires effective planning so that all elements of the plan are coordinated and integrated with the ongoing management activities in the organization.

B. Reviewing pages of statistics of the organization's activities such as the number of events held, the number of attendees, the number of new volunteers, alone will not in themselves, create improvements to the organization.

C. Nothing will improve unless the statistics lead to new or higher levels of organizational competencies that are developed and implemented according to a comprehensive plan.

Implementation Steps:

1. **Create an effective measurement and improvement implementation plan** - Develop an implementation plan with clear accountability and objectives, detailed steps including phases and an appropriate timeline for each phase.

2. **Develop precise communication** - Develop a comprehensive and clear communication plan so there is no misunderstanding of the intention of the plan; and, of course, supportive leadership leading the communication is extremely helpful.

3. **Implement competencies** - As organizational competencies are developed they should be implemented and become integrated into the organization's processes. This could take place at the individual, team, department or organization level. For example, as soon as the volunteer coordinator of an arts program for children at risk program has developed the abilities and knowledge to develop and present a new volunteer orientation program they should implement it with the next orientation (no need to wait for perfect competencies)!

4. **Develop a joint collaboration strategy and plan** - This process of organizational improvement must be a joint collaboration between the top management, staff, program managers, human capital specialist,

and in many cases the Board and the funders. The highest executive of the organization must advocate for and communicate the plan and support from key stakeholders.

V. Re-measuring KPIs and Re-analyzing Competencies

Assumptions:

A. Organizational improvement is not a one-time event; it requires periodic follow up, re-measurement of KPIs and development or enhancement of organizational competencies to continuously strive for improvement.

B. The data for KPIs will be available at different times. For example, some KPIs, such as "the total volunteer hours," can be re-measured monthly while some KPIs, such as a "school's satisfaction with a new shoes program," would be measured at the end of each school semester.

C. From both these two KPIs the organizations must repeat their analysis of what competencies need further developing and then what human capital program or newer versions of an existing program would work best to improve the results for the next measurement. This analysis becomes more refined with experience.

Implementation Steps:

1. **Conduct timely re-measurement of outcomes** - For KPIs involving clients/stakeholders satisfaction, allow sufficient time for the clients/stakeholders to experience the difference in enhanced organizational competencies from the last survey. Use the same survey unless a new question needs to be added to measure the client's reaction to a new program. Allow for written comments.

2. **Use the survey responses to guide changes** - The feedback received from the last and future surveys will guide the organization to further refine its organizational competencies. Be prepared to conduct a fairly deep analysis of the survey data to detect trends by demographics or other key variables.

3. **Monitor actual and subjective client measures** - In addition to surveys, the organization needs to review its operational measurements of each KPI and where it is relevant, compare it to the subjective values in the survey. For example, for the "new shoes program" what was the actual number of new shoes delivered, how long did the process take in hours, what number of incidents were reported, etc.? These measurements are compared to the survey results of school administrators that includes their perception of the process. Also it may be important or required to collect KPIs of the "outcomes" of the program. For example, scores from children in a random sample interviewed individually after 6 months with a validated 1-10 scale questionnaire expressing their experience of the new shoes program indicates an outcome.

4. **Repeat the ROI of organizational changes** – To determine if the investments are effective it is important to periodically re-measure the ROI to ensure the organization improvement strategies are also cost effective.

Example of the McLaughlin Organization Performance Model

KPIs, Organizational Competencies, Human Capital Developments, a Plan and Re-measuring

Figure 1, below displays an example of the improvement model with the 5 elements in the profile format described above. In this example there are 2 "**KPIs/Results" (1)** for hypothetical Organization A. KPI #1 measures the number of new, $150K or more budgeted project partnerships with whom Organization A would like to partner. KPI #2 measures the funder's satisfaction with Organization A. Each KPI is displayed with the initial results for the "Baseline Year 0," "Year 1" results and the "Target for Year 2". The KPI results for all years could be displayed on an electronic scoreboard that stakeholders could view online.

For each of the 2 KPIs the column to the right shows the **"Organizational Competencies Needed" (2)** to achieve that related KPI. For example, to find new project partnerships, KPI #1, the organization will need to develop competencies such as, "Skill in locating potential new projects," "developing nonprofit connections, networks, i.e. start-ups," "Skills in forming relationships with potential partners ," " Skill in communicating Organization A's program to potential strategic partners" and the "Ability to assess a potential partners feasibility to succeed".

To the right of this column are the **"Human Capital Development Programs (3) for Specific Competencies**" that would create or increase the needed competencies for each KPI. In this first example, KPI #1, the organization has developed a number of specific seminars, classes and interventions that would provide the staff with education on topics such as " locating new potential projects," "developing relationships and clear agreements," "selling the organization's programs" and "performing due diligence to determine if a potential partner would be a good risk".

Figure 1 Organizational Effectiveness Model-Organization A		
KPIs/Results	**Organizational Competencies Needed**	**Human Capital Development for Specific Competencies**
1. Number of new projects found, created with $150K budgets	Skill in locating potential new projects, developing nonprofit connections, networks, i.e. start ups	Seminars and discussions on locating new potential projects, developing connections, networks, i.e. start-ups, etc.
KPI data: Number New Projects Baseline: Year 0 = 2 Year 1 = 3 Target: Year 2 = 4	Skills in forming relationships with potential project partners	Seminars or coaching in relationship building, developing clear agreements
The above represents **The re-measuring of the KPIs**	Skills in communicating Org. A's program as a potential strategic partner	Seminars in presenting and "selling" Org. A's complete program
	Ability to assess an organization's feasibility to succeed	Business type classes in organization assessment; perform due diligence; risk analysis
2. Per cent of funders who say organization helps achieve their mission	Extensive knowledge of funders areas	Seminars on funders areas; review recent publications, research material
KPI data: Funder's Satisfaction Baseline: Year 0 = 70% Year 1 = 75% Target: Year 2 = 80%	Communication skills to describe funders complete vision	Seminars on providing comprehensive services to client organizations
	Skills to manage complex social and community initiatives	Seminars in project management with practice sessions
	Skills to manage conferences, design curriculum, coordinate training, facilitate community outreach	Seminars in conference management-planning, organizing, scheduling, creating administrative processes, community contacts, communication, etc.
	Skills to create effective systems, processes for program office management	Sessions on capacity building specific to funders needs

Background

There is now an extensive literature covering the importance of measurement and improvement by nonprofit organizations. Within it there are a number of organizational concepts that help define this field and relate to the model presented in this article, such as "capacity building," "performance measurement," "change management," "organization effectiveness", "organization development," "continuous improvement" and "evaluation". The McLaughlin Performance Measurement Model connects directly to these concepts. For example, it connects directly to the rigorous quantification found in other performance measurement models as well as the recognition of the core belief that human effort is the essence to organizational improvement as found in all of these concepts.

In addition other management analysis tools such as "logic models" and "balanced scoreboards" are compatible with this model in their use of KPIs and measureable impacts.

It is worth emphasizing here that the critical skill of "data or results analysis" is a competency that must be present for the organization to move forward to the next steps of organizational improvement. Analysis starts the improvement process!

In the "real world" most organizations have some level of the basic management competencies because the leaders and staff possess education and experience that equip them with the basic competencies. But there are some leaders who have little of the two major competencies that are needed to make organizational improvements. One is the knowledge of measurement and how to utilize the valuable feedback measurement information provides. The second is current knowledge of the behavioral and management science findings that are critical to develop the capability of the human capital in their organization.

This model uses customer/client satisfaction to measure output, outcome and even impact. "Customer/client satisfaction" is not a superficial measure, it is still a very relevant yardstick for success. It is essential in identifying the correlation between the customer/client satisfaction with a service and the organization's current state of competency in providing that service.

Conclusion

Organizations must be able to accurately identify and measure their results to know their effectiveness.

However, one cannot improve an organization by only measuring results no matter how exact the measurements. To make improvements in results, organizations must determine what organizational competencies are needed and improve them. The emphasis on organizational competencies is the recognition that every program or process an organization provides is done by people and groups with a range of competencies. And unless this range of skills, abilities, knowledge, motivation, etc. is assessed and systematically improved no improvements can occur in results and no organization can become "perfect".

The ability to determine the "social return" on an investment in human capital development made by organizations is also critical. This is the ultimate test of the usefulness of the model. Can the model help to prove organizational or program effectiveness and progress?

Organization leaders can determine if their approach to organizational development includes the concepts of organizational competencies and their systematic development and if not consider the advantages of including them.

The challenge to the nonprofit sector is to keep its passion for providing services to individuals and communities, correcting social inequalities and developing a civil society while using a sophisticated, data driven, management science approach to organization building. In so doing objective reasons are provided for continued and enhanced donor support.

The Bill and Melinda Gates Foundation (6) have stated their reasons for measurement and improvement as follows: "We measure the results of our work to inform strategy, improve what we do and ultimately, to impact more people's lives,"…"Measuring progress and impact is only useful if you're willing to act on the results…We recognize that the most elegant evaluation is only meaningful if its findings are used to inform decisions and strengthen our work to improve people's lives. " Their concept of following the findings to where they lead is consistent with the model presented here; it emphasizes an open ended approach based on measurement and the development of the ultimate value of every organization - its people and their competencies.

Notes

1. Parmenter, David (2010) "Key Performance Indicators" Hoboken, New Jersey: John Wiley & Sons

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3. Davenport, Thomas "Human Capital" (San Francisco: Josey-Bass, 1999)

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5. Fitz-Enz, Jac "The ROI of Human Capital"   (New York, Second Edition, AMACOM Books 2009)

6. The Bill and Melinda Gates Foundation, August 12, 2013 www.gatesfoundation.org /How-We-Work/General-Information/How-We-Measure-Success

7. Lambardo, Michael and Eichinger, Robert "For Your Improvement"-Leadership Competencies (Minneapolis:Lominger Limited, 2002)