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11-3-2016

### **Struggling to get it right: Performance measurement challenges and strategies for addressing them among funders of human services.**

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#### **Recommended Citation**

Campbell, D. A. and Lambright, K. T. (2017), Struggling to Get It Right. *Nonprofit Management and Leadership*, 27: 335-351. doi:10.1002/nml.21249

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## **Abstract**

This paper examines the challenges public and nonprofit human service funders face in the performance measurement process and the strategies they use to address these challenges. We use survey and interview data to compare funders' experiences across a region. Common challenges included dissatisfaction with formal data collection procedures, difficulty getting providers to comply with reporting requirements, provider performance problems and lack of capacity to use performance information. Capacity issues were a greater concern for smaller funders. Funders used a variety of strategies to address challenges. Use of some strategies depended on context. Practices were relatively consistent across funder groups.

## **Introduction**

Many recent studies have documented the proliferation of performance measurement in human services (see, for example, Campbell, Lambright and Bronstein 2012; Carman 2007, 2009; Hatry 2014; LeRoux and Wright 2010). Recently published, best-selling books written for popular audiences, lionizing nonprofits with strong measurement cultures and advocating for a greater results orientation in the sector, reflect this trend (Kristof and WuDunn 2014; Stern 2013). Funders account for at least some of the growth in performance measurement; they have an interest in understanding how the providers they support use the resources given to them and the extent to which these providers are able to meet performance goals. Many researchers have found performance measurement expectations and processes are funder driven (see, for example, Carman 2011; Ebrahim 2005; Froelich 1999; Mayhew 2012). Yet research on performance measurement has focused on providers (Barman and MacIndoe 2012; Carman 2007; Carman and Fredericks 2010; Eckerd and Moulton 2011), specific subgroups of providers (Carman and Fredericks 2010) or individual organizations (Carnochan, Samples, Myers, and Austin 2014; Thomson 2011).

Researchers have shown less interest in funder experiences with performance measurement. A few studies have considered leading foundations (Brock, Buteau and Herring 2012; Buteau and Chu 2011; Greenwald 2013), a relatively small subset of nonprofit human services funders. Other researchers studying local governments have investigated this aspect of human services, although their work emphasizes contract management rather than performance measurement (Van Slyke 2003, 2007). Most existing studies on the challenges human service funders face in the performance measurement process examine the experiences of one type of funder: they do not compare the challenges different types of funders face nor do they compare the strategies different types of funders use to address these challenges. Further, those who have studied funder experiences tend to examine either performance measurement challenges (such as Buteau, Buchanan and Gopal 2013; Nicholson-Crotty, Theobald and Nicholson-Crotty 2006) or strategies (such as Girth 2014; Marvel and Marvel 2009) used to address those challenges, and not both.

The limited research on funder experiences is surprising and important for two reasons. First, leaders in the field have debated the value, strengths and limitations of performance measurement and have directed their comments at funders as its initiators (Berger 2013; Schambra 2013). Without a better understanding of funder experiences, we cannot assess whether performance measurement is delivering value for funders, and if it is not, what funders can do to address those limitations. Second, separately discussing challenges and the strategies funders use to address them leaves us with incomplete knowledge of performance measurement, making it difficult to assess the conditions under which funders are likely to adopt an agency or stewardship approach to performance measurement. New research that focuses specifically on human service funders' experiences with performance measurement can address these gaps in

our knowledge. We provide further insights by considering the experiences of public and nonprofit funders together, assessing similarities and differences in their approach. In this paper, we are specifically interested in addressing the following questions:

- What types of performance information are funders requesting and why do they request it?
- What challenges do funders face in the performance measurement process? Do different types of funders report different challenges?
- What strategies do funders use to address challenges? Do different types of funders use different strategies?

This research, in combination with ongoing work about the experiences of providers and service beneficiaries, can be used to help improve human service performance measurement practices. It also provides a foundation for future research that considers whether or how different funder groups influence each other's approach to performance measurement. As a final note, our focus here is performance measurement, which we distinguish from program evaluation. The former involves the systematic collection and analysis of a range of information about program accomplishments while the latter is narrower in scope and addresses whether a program intervention accomplishes specific goals (Hatry 2013, provides a detailed description of these differences).

### **How Funders of Nonprofit Organizations Approach Performance Measurement**

Because the goal of this paper is to consider the performance measurement experiences of three different categories of institutional funders (private foundations, public charities, and local governments), our literature review considers research on each of them (though public charities and foundations are often grouped together because of their nonprofit status). Research

regarding government funders and their approach to performance measurement is part of the broader literature on contracting for public services. That work, as well as research involving foundations and public charities, has analyzed performance measurement through the lens of agency and stewardship theories. Both theories can be used to predict how funders will approach performance measurement as one key aspect of the contractor or grantee relationship, although the predictions of the two theories are different.

Both agency and stewardship theories focus on situations in which one party, the principal, delegates a task to another party. The party performing the task is referred to as the agent in agency theory and the steward in stewardship theory. Agency theory (as described by Eisenhardt 1989; Lambright 2009 and Van Slyke 2007) assumes that both the principal and agent behave in ways that reflect their self-interest. Challenges arise when the principal and agent have conflicting goals and when it is hard for the principal to monitor the activities of the agent (Eisenhardt 1989). Principals, the theory suggests, can use performance measurement as an oversight mechanism and as the basis for whether it rewards or sanctions agents.

In contrast, stewardship theory (described by Davis, Schoorman, and Donaldson 1997; Lambright 2009) argues principals and stewards develop cooperative relationships. Their interests do not necessarily diverge but rather the goals shared between the two parties are more important than each one's individual goals. Stewardship theory suggests that performance measurement is more likely to be collaborative, shaped by mutual trust and defined by the shared goals of the principle and the steward.

Research on the performance measurement expectations governments have for contractors provides empirical support for both agency and stewardship theories (Girth, Hefetz, Johnston, and Warne 2012; Lambright 2009; Marvel and Marvel 2009; Van Slyke 2007).

Notably, these and other studies (Amirkhanyan 2010; Witesman and Fernandez 2013) have found the relationships public funders have with nonprofit providers tend to be more stewardship-like in character than the relationships they have with for-profit contractors. Researchers who have studied performance measurement requirements imposed by private funders on their grantees have also found support for the two theories (Benjamin 2010; Carman 2011).

### **Performance Measurement Challenges**

While agency and stewardship theories provide some indication of how funders see their relationship with providers, researchers have also identified a range of specific challenges funders have experienced with performance measurement. Key concerns include dissatisfaction with the type of data received, its timeliness, the data's lack of utility and overly technical nature, providers' ability to meet reporting requirements, and funders' own capacity to use the data they receive.

Research about the performance measurement process indicates both public and private funders have concerns with the data providers give them. For example, in one study, 48% of foundation CEOs indicated they had difficulty generating data "to understand their foundation's progress" (Buteau, et al. 2013, 24). Likewise, Greenwalt (2013), writing about foundation program evaluations, found that the technical sophistication of evaluation methods limited their overall utility for stakeholders; he notes evaluation reports were "excessively technical...too jargon laden and 'academic'" (511). Greenwalt also found that foundation staff receive performance data after it would have been most useful (for subsequent funding cycles). Public sector researchers have identified general challenges associated with measuring public work, including both the limitations of individual measures (Kravchuck and Schack 1996) and

competing measures for the same concept that yield different results (Nicholson-Crotty et al. 2006). From a process perspective, researchers studying local government contracting have found dissatisfaction with the kind and quality of data contractors provide (Blasi 2002) and that they receive more contract implementation (process) information than data about outcomes (Van Slyke 2007).

While most scholars have focused on the capacity of providers to implement performance measurement activities, capacity is also an issue for both public and private funders. Amirkhanyan (2009) reported lack of funder capacity was an impediment to collaboration in the performance measurement process. Similarly, Van Slyke (2003, 2007) found that governments lacked the capacity to monitor contracts in ways that would generate useful performance information; Boris and Kopczynski Winkler (2013) raise this concern for foundations.

What stands out in this research is that funders face a variety of potential challenges with performance measurement: some are provider-related, others are internal to the funder. Funders have a range of options for responding to these challenges. Understanding the strategies they use particularly in response to provider-related challenges is important in clarifying the role agency and stewardship theories play in explaining performance measurement.

### **Strategies for Managing Performance Measurement Challenges**

Unfortunately, the literature on performance measurement challenges and strategy do not align. While researchers have identified a range of possible challenges funders face with performance measurement, the literature on the strategies funders use primarily focuses on how funders address concerns they have with providers' behavior and not on other types of challenges. This focus in the literature on strategies is consistent with researchers' emphasis on the experience of providers, as opposed to the experience of funders: performance measurement

as a provider phenomenon. Research suggests that funders often address performance measurement issues with nonprofit providers by using minor sanctions. Consistent with stewardship theory, studies report funders may be more inclined to help poorly performing providers solve their problems rather than punish them. For example, foundations, according to Greenwalt's (2013) study, use technical assistance to address performance measurement issues. Sanctions were rare; his interviewees identified only three cases in which foundations reduced or eliminated funding due to poor performance. Interviewees expressed more interest in supporting struggling organizations than defunding them.

Several studies on contracting out have also examined the use of sanctions and more collaborative problem-solving approaches as strategies for addressing poor performance. Some have found nonprofit contractors receive different, more favorable treatment than for-profit contractors (Girth 2014; Johnston and Girth 2012; Marvel and Marvel 2009). For example, Marvel and Marvel (2009) report that while governments address for-profit contractors' performance with "high powered incentives," such as "financial penalties and contract suspensions" (192), they use "low-powered incentives" (195) with nonprofit contractors. Low-power incentives include discussions with the contractor about performance, having ongoing interactions with them and public acknowledgement of success. Similarly, Van Slyke (2007) found sanctions were used as a "last resort" (181) in contracts with nonprofit providers. In addition, Johnston and Girth (2012) report in non-competitive markets, governments nurture providers and use relational contracting rather than sanctions to address concerns about provider performance. Girth (2014) suggests that how governments respond to contractor performance may depend on other considerations, including the extent to which: (1) the sanctioning process is



burdensome, (2) there is political support for contracting, (3) the contractor has expertise in the service area and (4) the public manager is willing to apply discretion.

In sum, the literature identifies two primary strategies funders use to address concerns with performance measurement by providers: sanction and technical assistance. The former aligns with agency theory, the latter with a stewardship orientation. With the exception of Girth's (2014) work on public funders, we know little about how funders determine which approach to use to address challenges; this gap in our knowledge is significant, with implications for how agency and stewardship theories apply in this context. Further, researchers' focus on one type of funder and the absence of comparisons across funder groups is also a gap. In order to address these issues, we examine the experiences of different types of funders from the same region with performance measurement.

### **Research Design**

As our primary source of data, we interviewed local human service funders in a six-county area in South Central New York State. To supplement this information, we surveyed the population of local human service funders in this same geographic region and interviewed a random sample of nonprofit providers that these funders support. The county populations in the region ranged from approximately 50,000 to 200,000. For the purposes of data collection, we defined performance information as any data providers collected regarding their service beneficiaries to learn about their experiences. Examples of performance information include: outcome measurements, satisfaction surveys, goal accomplishments, and output data.

*Sample.* We contacted all local United Way chapters and local private foundations funding human service nonprofits in the region. We also contacted all county departments in the region involved in the delivery of human services including: departments of health, mental

health, social services, youth services and aging. We asked each funder organization for the names and email addresses of all the staff in their organization who supervise grants and/or contracts and (2) the names of the nonprofits their organization currently funds. In total, funders identified 153 nonprofit providers.

***The Survey.*** In our study's first phase, we emailed electronic surveys to all funders in our sample. We sent links for our surveys to 65 individuals at 42 funder organizations: 17 county government departments, 9 public charities (ie. a community foundation or a United Way), and 16 private foundations. We received 48 usable funder surveys from 36 funder organizations, representing an 86% organizational response rate. Of the 36 funder organizations, 16 were county departments, 8 were public charities and 12 were private foundations. When multiple individuals from the same organization filled out the survey, the responses for the individual surveys were aggregated into one survey for the organization. The responses to any rating questions were aggregated by averaging the individual responses.

The top funding priority for funders in our sample was human services with slightly more than half of funders identifying this field as their top priority. Another 22% of funders indicated they did not have a top priority and funded all fields, and 6% identified health care as their top priority. The average funder reported their organization gave approximately \$1.25 million to nonprofits in the last fiscal year and funded 38 nonprofits.

Before completing the survey, we assured participants their responses would be confidential. The survey contained primarily close-ended questions. We began by asking respondents for basic organizational information, including whether their organization received performance information from the agencies it funded. We asked all funders that collected performance information (34 of 36) to complete the full survey.

On the remainder of the survey, we asked respondents a range of questions about their experiences with performance measurement. This paper only focuses on the survey questions relevant to our research topic, including questions about various uses of performance information, the utility of the information collected, reasons why the information was collected, funder capacity to use performance information, and collaboration with providers in the performance measurement process. These questions asked respondents to indicate their level of agreement with a series of statements using a five-point Likert scale where 1 equals strongly disagree and 5 equals strongly agree.

**Interviews.** In the second phase, we randomly selected 20 funder organizations from our survey sample for in-person interviews. At each organization, we interviewed the administrator most closely involved in the performance measurement process. In a few organizations, multiple staff participated in the interviews. In these interviews, respondents' descriptions of their organization's experiences with performance measurement were similar. When selecting funder organizations for our interviews, we divided the funders into three distinct groups: departments within county government, public charities, and private foundations. Of the twenty funder interviews, ten were with individuals working for county government, five were with individuals from public charities, and five were with individuals from private foundations.

The purpose of these semi-structured interviews was to explore the preliminary findings of our survey in greater depth. We asked funders several open-ended questions about the type of the performance information they collected, why they collected this information, how they used it and what the benefits and challenges of performance measurement were. To supplement this information, we used data from in-person interviews with 20 provider organizations randomly selected from the 153 nonprofits funders identified. This data was collected as part of a larger

research project. We only discuss the providers' answers to questions about their experiences collaborating with funders in the performance measurement process since our primary focus in this article is on funders.

Funder organizations in our interview sample ranged in size from annual budgets of \$118,000 to \$68,000,000 and no paid staff to roughly 200 employees, with a median budget of \$1,200,000 and a median staff size of 1.63. The size of provider organizations included in our interview sample also varied. Annual budgets ranged from \$125,000 to \$20,000,000, and the number of employees ranged from 2.5 to 480, with a median budget of \$1,200,000 and a median staff size of 23.

At the beginning of each interview, we guaranteed confidentiality. Average interview length was 45 minutes. All interviews were recorded, transcribed, and coded. Initial codes were developed based on the interview protocols and on past research one of the authors had conducted. This list of codes was then revised and augmented through an inductive process based on analysis of interview transcripts.

***The Research Design's Limitations.*** Our mixed methods approach enabled us to examine challenges funders face in the performance measurement process and strategies they use to address these challenges from a variety of angles. However, the research design has some limitations. The small sample size for our survey limited our ability to analyze differences between various groups of funders using inferential statistics. In addition, we did not clarify the difference between outputs and outcomes on the survey so it is possible that some respondents may have misclassified information they received on outputs as outcomes and overstated their use of outcome measurements.

## **Findings**

Funders gathered a wide array of performance information through both formal and informal methods. Generally consistent with past research, several funders were dissatisfied with current reporting practices, and funders sometimes lacked the capacity to use performance information. While some research indicates that providers may lack the ability to meet funders' performance measurement demands, it does not categorize the degree of non-compliance. Prior work also does not detail other challenges funders may have with providers as we do. Funder concerns went beyond providers not complying with reporting requirements and included providers not delivering the services they had promised and failing to implement projects altogether. In addition, we link the challenges that funders face with the strategies they use to address them rather than looking at these two issues separately as much past research does. Some of the strategies funders identified were consistent with agency theory while others suggest a stewardship mindset.

***Types of Performance Information and Why Funders Request This Information.*** The difficulty involved in performance measurement partially depends on the type of performance information funders receive. For example, analyzing and using information about performance outcomes is generally more complicated than analyzing and using information funders have traditionally requested such as outputs and expenditure reports. The reasons why funders collect feedback may also shape concerns they have about the feedback process. Thus to provide context for challenges funders experienced, we begin by summarizing the various types of performance information funders requested and why they wanted this information. As shown in Table 1, two-thirds or more of funders reported requesting each of the following types of feedback from providers: outcome measurements, goal accomplishments, expenditure reports, and output information. By contrast, only 36% of funders asked providers to conduct

satisfaction surveys. Table 2 breaks down the same information included in the first two columns of Table 1 by funder type. As illustrated in Table 2, public charities were the most likely to require outcome measurements, satisfaction surveys, goal accomplishments, and output information while county departments were the most likely to request expenditure reports.

<Tables 1 and 2 about here.>

In our interviews, we also explored the extent to which funders asked different providers for different types of performance information. Funders generally indicated they requested the same performance information from providers regardless of grant or organization size. However, there were some exceptions: three funders reported they required less information from providers receiving small grants, and one reported modifying reporting requirements for smaller organizations. In describing her rationale for tailoring requirements based on grant size, one funder commented: “I do try to differentiate a little bit. I think you have to because you put a lot of burden on someone for a small grant.” Funders in our sample gave various types of financial support to providers including direct service grants/contracts, capital grants, support for operating budgets and scholarships. All of the public funders and three private funders only supported direct service grants/contracts. The remaining funders provided two or more forms of financial support. Three of these seven funders indicated they requested different types of performance information from providers based on the form of financial support they were receiving. For instance, one funder reported his organization requested information on outcomes for program grants but not capital projects. Taken together, our findings suggest that many funders take a “one size fits all” approach to performance measurement and often do not modify their expectations based on the characteristics of the provider or the grant.

Using a five-point Likert scale where 1 equals strongly disagree and 5 equals strongly agree, we also asked survey respondents to indicate their level of agreement with statements regarding the usefulness of several forms of performance information: outcome measurement, satisfaction surveys, goal accomplishments, expenditure reports, output data, personal stories/anecdotes, and information about challenges faced by providers. Funders generally agreed that these forms of performance information were useful with average ratings ranging from 4.05 to 4.72.

Although we did not ask funders on the survey whether they collected performance information through informal means, funders in fifteen interviews indicated they used informal feedback. Examples of ways funders received informal feedback included providers contacting funders when they were experiencing service delivery problems, funders calling providers for clarification on their written reports, funders and providers discussing service issues at community meetings, and funders talking directly with constituents about their experiences at provider events. Three funders noted the modest size of their communities made it easy to gather feedback through informal channels. As explained by one of these funders, “It’s a small community. If an agency isn’t doing something they are supposed to be doing, usually what goes around comes around and you will hear about it informally.”

In addition, we asked funders about why they collected performance information. The two reasons most commonly mentioned by respondents in our interviews were to identify outcomes and verify that the funded work had been done. When respondents were asked to indicate why they collected performance information on the survey using a five-point Likert scale, these two reasons also received the highest mean scores with average ratings of 4.5 and 4.46, respectively. These findings indicate that funders view performance measurement first and

foremost as an accountability tool which is consistent with an agency theory approach to performance measurement.

***Dissatisfaction with Current Reporting Requirements.*** While survey results suggested funders generally believed the performance information they received from providers was useful, those we interviewed identified a variety of challenges they had experienced in the performance measurement process. Many funders were dissatisfied with their organization's current reporting requirements for providers. In seven of the thirteen interviews in which this concern was raised, funders (five counties; two private foundations) expressed frustration that the written reports they received did not give them a comprehensive picture of providers' performance. As explained by one funder, "There's always a sense of there's more we could know." In response to this challenge, two private foundations and two county departments reported using information they had gathered informally to supplement providers' formal reports and emphasized the value of the informal feedback they received. One funder noted:

I have two or three grantees now where the executive director will call me to talk. Those to me are more valuable than any printed request because they build the kind of relationship you want to have. You are partners in this. We may be able to help them or maybe not. There's a sense of trust. All of those are tremendously important intangibles that may not be the kind of ordinary feedback.

As this quote underscores, funders perceive limitations with written reports. They foster relationships with providers to get additional information, to help to address this concern. Rather than collecting informal data, a county funder in a fifth interview shared she had partnered with local university students to conduct an evaluation of one of her larger contracts so that she had more comprehensive information on that provider's performance.

A second common complaint about current reporting requirements was funders did not receive enough feedback collected directly from service beneficiaries: individuals in three county



interviews and three public charity interviews expressed this concern. For example, one funder commented, “the thing that’s the weakest not only in our community but statewide is really getting consumer feedback.” Two public charities mentioned their organizations had plans to modify data collection processes so they could receive more information about service beneficiaries’ experiences.

***Provider Compliance with Reporting Requirements.*** Another widespread challenge was a lack of provider compliance with reporting requirements. This was a concern across all three funder groups. In eleven funder interviews, respondents reported instances in which providers had only partially complied with their reporting requirements. In nine of these eleven interviews, the funder described situations where providers had given them information but it was not the information they had requested. For example, one United Way interviewee expressed frustration that some providers did not understand how to develop appropriate outcome measures. In addition, respondents in four of the eleven interviews complained some providers did not complete their reports in a timely manner.

Funder responses to providers partially complying with their reporting requirements varied. Consistent with stewardship theory, the most common response was to provide technical assistance to increase provider capacity to comply with reporting requirements with respondents in four funder interviews (two counties; one private foundation; one public charity) mentioning this strategy. One commented:

We have deadlines we have to meet. We’re on the phone with these people [providers] all the time saying, is there a better format for you to give feedback, when will you have it in? We give them technical assistance. This is what your bill needs to look like.

Respondents in another two funder interviews said they did the best they could with the information providers gave them. One, who worked for a private foundation, indicated:

We ask [providers] for what they have. We serve some small agencies, one with no computer, very rural communities isolated socially. They have well-meaning people working there, and they do a good job. A lot of those agencies don't know how to put it together but they try.

In this case, providers lacked the capacity to comply with funder reporting requirements. In the other instance, the funder who worked for a county department was less understanding and believed providers sometimes lacked commitment to performance measurement. She was frustrated by one provider in particular who did not “want to give any statistics.” But, she explained that her department had little leverage because the service was mandated by the state and there was only one provider in the rural area her department served. Surprisingly, just one funder indicated that his organization had penalized providers for partially complying with reporting requirements by reducing their future funding allocations or withholding payments.

Five funders also described more extreme situations where providers failed to report any information. The responses to this scenario were uniform. In all five interviews, funders indicated that if the reporting problems were not resolved, the providers did not receive future funding.

***Provider Performance Problems.*** In addition, several funders reported they sometimes had concerns about provider performance based on feedback they received as part of the performance measurement process. This challenge was widespread and a concern across all funder groups. Twelve funders described examples of providers who struggled to deliver the services they had promised. Funders had three different approaches to responding to service delivery challenges. Three funders, all county departments, penalized providers by cancelling their contracts. In two of the three interviews, respondents indicated the funding their departments received had recently been reduced, and their departments had cut funding to struggling providers in order to save money. One funder explained: “We are planning to do

another two [contract cancellations] this year. Mostly because the funding isn't there but they are the low hanging fruit, the ones not giving us the most bang for the buck. They're the ones that get cut." While cancelling contracts is consistent with agency theory, this quote suggests that funders may be reluctant to impose this penalty when there are service delivery challenges unless there are additional pressures such as budgetary constraints forcing funders to choose between existing providers.

Consistent with stewardship theory, half of the funders reporting service delivery challenges attempted to work with struggling providers rather than penalizing them. This group tried to help providers brainstorm solutions to their problems. Representative of this approach, one funder explained:

People have always felt comfortable calling if they have problems. A program gets bonus points if they are willing to talk about issues in an effort to resolve problems. There are calls, visits, questions. Who do I talk to at this school to get what I need? Do you know somebody? And what can we do to make things better?

Finally, three funders used a combination of collaboration and sanctions. These funders initially tried to work with struggling providers but eventually cut funding if service delivery problems could not be resolved, again suggesting that funders may be reluctant to adopt an agency approach at least initially. One described an ongoing situation with a struggling provider commenting:

If multiple times it doesn't work out, you begin to wonder and then it includes twice where I've spent time in person to talk about what's going on, have someone from the board come in. How can we help? What's going on? By the time you go through all that, you say enough. We've decreased their funding each year, and this time I think our board will say they haven't made much progress. We won't continue to fund them. It was a multi-layered feedback.

Table 3 summarizes the frequency with which funders used each of the three approaches and breaks down this information by funder type. As illustrated by Table 3, public charities focused

on collaborating with providers, private foundations used a combination of collaboration and sanctions and county departments used all three approaches.

<Table 3 about here.>

Our survey results also indicate many funders try to work with providers to address performance issues: 74% of funder organizations agreed their organizations discussed feedback results with providers,<sup>1</sup> and 69% agreed they discussed the implications of feedback results. Also generally consistent with the survey and interview data from funders, respondents in sixteen of the twenty provider interviews indicated they had successfully collaborated with at least one major funder in the performance measurement process. Providers reported collaborative relationships with a wide range of funders including all three types of funders participating in this study.

In addition to service delivery challenges, respondents in one interview with a public charity and two interviews with private foundations described instances in which providers had failed to implement projects altogether. One involved a capital grant; in the other two, funders did not specify the type of project. The response to implementation failures was the same with all three funders requiring providers to return the money they had received.

***Funder Capacity to Use Performance Information.*** A final common challenge was funders sometimes lacked the capacity to use performance information although findings on the extent of this problem are mixed. According to survey data, just 18% of funder organizations agreed their organization had limited capacity to use the feedback information it received. Yet our interviews indicate capacity challenges may be more widespread. Individuals in eight funder

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<sup>1</sup> For organizations that had multiple staff completing the survey, the average response for this question had to be a 4.0 or higher in order for the organization to be counted as agreeing with this statement. We used the same criteria for the other Likert scale questions we report in our findings.

interviews (again across all three groups) indicated their organization's capacity to use performance information was limited. One funder commented:

I'm in the middle of doing my annual plan for the year. I always have it in there, do something with this [performance] data, collect and use it in some way. I always want to make a presentation to the board at the end of the year. When you are competing with other things you are trying to do, it gets pushed to the side.

As illustrated by this quote, funders may face difficult trade-offs because doing a good job analyzing and using performance information can be labor intensive and reduce the time staff has to spend on other important activities. Consistent with this observation, all eight funders identified lack of staffing as the major barrier limiting their organization's capacity to use feedback. Reflecting the sentiments of many, one funder stated: "I'm a one woman show here, so I handle everything from top to bottom. So reports sometimes do come in last, because I do what I have to do first. So it can be tough." Organizational capacity challenges appear to be more common for organizations with small staffs: just two of the eight interviews where capacity concerns were discussed were with organizations that had two or more full-time employees. As a strategy for addressing capacity concerns, two public charities and one county department mentioned using interns to supplement existing staff's efforts.

### **Discussion**

This study addresses challenges three types of nonprofit human service funders face in the performance measurement process and strategies they use to respond to those challenges. The results raise several issues for theory and practice. First, the challenges funders faced and the strategies they use to address them were generally consistent across groups. Second, as with previous research, funders identified limitations with current practices: the data they receive do not provide them with all the information they would like about provider performance. Third, the findings highlight collaboration and sanction as competing approaches for addressing

challenges with providers. Finally, while considerable research has addressed capacity limitations among providers, this study also suggests capacity can be a challenge for funders, particularly for funders with small staffs.

This study found the challenges funders face and the strategies they use to address them are generally consistent across funder types. Funders in each category expressed concerns about the four primary challenges discussed in our findings section, and at least two of three types of funders used several of the strategies we identified. This finding matters because it demonstrates similarities in funders' approach to performance measurement. It also suggests we might build theory and learn about practice from looking at funders both as individual types, with distinct features (public or private), but also as a field in which funders have common interests with grantees and contractors.

Funders, across groups, expressed concerns about the data they received. While our survey results indicated funders found the performance information they received useful, the interviews told a somewhat different story: many funders wished they had more performance information. Our results are consistent with previous research involving both public and nonprofit funders (Buteau, Buchanan and Gopal 2013; Greenwalt 2013; Kravchuk and Schack 1996; Van Slyke 2007), but elaborate the specific challenges funders experience with the data they receive. Many interviewees indicated they received informal information about performance from their grantees, and some indicated this informal information was helpful in giving them a more comprehensive picture of provider performance despite industry norms emphasizing the limitations of anecdotal or unsystematic data. The provision of informal feedback suggests more of a stewardship-like relationship between funders and providers. Several interviewees also indicated that they would have liked more feedback from service

beneficiaries. The movement among some national funders to develop ways to collect and analyze beneficiary feedback may address this concern (Fund for Shared Insight, 2014) and somewhat remedy funders' perception that they have incomplete performance information. Researchers have begun to study this phenomenon (Wellens and Jegers 2016), however; we need to learn more about the experiences of funders who gather informal and/or service beneficiary feedback

Funders used two distinct approaches to address challenges with providers in the performance measurement process: collaboration to improve performance, and sanction, either to penalize a provider, with hopes for performance improvement, or to end the relationship with that provider. In some instances, funders used a combination of collaboration and sanction. Our findings are consistent with previous research indicating public and private funders often take a stewardship-like approach when working with nonprofit providers (Greenwalt 2013; Marvel and Marvel 2009) and suggest funders have a strong interest in provider success.

While collaboration was common, our findings also provide insights into instances in which funders may be inclined to use sanctions and build on Girth's work (2014). For example, sanction was the preferred approach in extreme situations: when providers failed to give funders any performance information or failed to implement projects altogether. In addition, two funders reported addressing their own agencies' budget shortfalls by cutting funding to poorly performing providers, and three funders sanctioned poor performance only after close collaboration with providers. Taken together, our findings are consistent with the observation in Van Slyke's (2007) study that the sanctioning of nonprofit providers is a "last resort" (p. 181). Funders tend to use sanctions when they have major concerns with a provider or they have been unsuccessful resolving ongoing problems through alternative means.

Our findings present an interesting paradox. Funders indicate that they collect performance information first and foremost to hold providers accountable, as predicted by agency theory. Yet funders often adopted a stewardship approach to addressing problems with providers rather than penalizing them as agency theory would suggest. On the one hand, respondents may have reported they were using performance measurement as an accountability tool because this was what they felt they “should” be doing. But, they were reluctant to use performance measurement in this way because of the close relationships that sometimes develop between funders and providers (Smith 1996).

On the other hand, given that our study focused on small to medium-sized counties, it is also possible some of the funders in our sample would have liked to have used sanctions more often but were unable to due to the lack of alternative providers. One funder was very dissatisfied with the performance information a provider had given her organization but was forced to continue the contract because no other organizations in her county offered this state-mandated service. Future research should explore how funders working in markets without multiple providers exercise leverage over poor performers, when they do not have the threat of defunding and shifting resources to an alternative provider.

Finally, our findings are mixed on the extent to which funders have the capacity to use the data they receive; our interview results suggest concerns about capacity are more widespread than do our survey findings. Past research has emphasized a range of capacity issues facing nonprofit providers in general and with performance measurement in particular. This issue is rarely discussed with respect to funders; Boris and Kopczynski Winkler (2013) are a notable exception. Six of the eight interviews in which capacity concerns were discussed were with organizations that had fewer than two full-time employees. Perhaps the reason this issue is less



well known is that research on funders tends to involve larger organizations. For example, the study by Buteau, et al. (2013), cited earlier, involved only foundations with annual budgets greater than \$5,000,000. Scholars should build on this research and further explore funders' experiences with performance measurement, paying particular attention to how organizations' characteristics may affect their experiences. Future research should also explore whether some funders collect performance information because they feel obligated due to institutional isomorphism (DiMaggio and Powell 1983) and not because they will be able to use the data given that several interviewees reported struggling with capacity issues. Work in these areas will complement the growing body of literature on challenges providers face in the performance measurement process.

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**Table 1. Forms of Feedback Requested and Received by Funders (Survey Data)**

	% of Funders Requesting Form of Feedback (n=36)
Outcome measurement	83%
Satisfaction surveys	36%
Goal accomplishments	69%
Expenditure reports	89%
Information on outputs	67%

**Table 2. Forms of Feedback Requested by Different Types of Funders (Survey Data)**

	% of Private Foundations Requesting Form of Feedback (n=12)	% of Public Charities Requesting Form of Feedback (n=8)	% of County Departments Requesting Form of Feedback (n=16)
Outcome measurements	75%	100%	81%
Satisfaction surveys	25%	50%	38%
Goal accomplishments	75%	88%	56%
Expenditure reports	83%	88%	93%
Information on outputs	50%	88%	69%

**Table 3. Approaches for Addressing Provider Performance Problems by Different Types of Funders (Interview Data)**

	# of Private Foundations Using Approach	# of Public Charities Using Approach	# of County Departments Using Approach
Penalize Providers	0	0	3
Collaborate with Providers	0	3	3
Combination of Collaboration and Penalties	2	0	1