Learning to measure? Examining the challenges of measuring performance whilst supporting organizational learning in UK nonprofits

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Paper Submission

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Research problem

There is a global quest to find ways to improve the quality and delivery of public services (Boyne, 2003). One approach that has been widely used is the engagement of nonprofit organizations in public service delivery (Smith, 2008). Nonprofits have been described as innovative, flexible and responsive to need and are therefore seen by some as key to delivering improved public services (Cairns, 2009). Those nonprofits that do engage with the public sector must adhere to accountability requirements and are therefore required to demonstrate effectiveness, ‘value for money’ and performance improvement (Wainwright, 2003; Moxham and Boaden, 2007). To demonstrate such achievements, nonprofit organizations are under pressure to measure their performance (Moxham, 2009).

Scholars advocate the importance of relevant, integrated, balanced, strategic and improvement-oriented performance measurement systems (Johnston and Clark, 2005; Bititci et al., 2005). In addition, performance measurement has been described as ‘the heart of the control system that provides for organizational learning’ (Atkinson et al., 1997:30). There is limited research, however, that examines whether the accountability practices stipulated by the public sector support organizational learning in nonprofit organizations. This paper considers the performance measurement systems used by six UK nonprofit organisations in order to ascertain whether public sector accountability practices support organizational learning in the third sector.

Research questions

The literature review highlighted a dearth of research that examined the link between public sector accountability requirements and organizational learning in the nonprofit sector. The study therefore poses the following research questions:

RQ1: What processes are used to measure and evaluate the performance of nonprofit organizations that provide public services?

RQ2: How are such processes developed?

RQ3: How do public sector accountability practices support organizational learning in nonprofit organizations?
Underpinning theories and concepts that inform the research

Organizational learning: The theory of organizational learning is used to underpin the research. There is rarely agreement within disciplines as to what learning is and how it occurs (Fiol and Lyles, 1985). There is, however, agreement as to the dynamic nature of learning and its use in theory emphasises the changing nature of organisations (Dodgson, 1993; Huber, 1991). Scholars advocate that the greater the uncertainty in the environment, the greater the need for learning (Argyris and Schon, 1996; Dodgson, 1993). Studies demonstrate a positive relationship between organizational learning and organizational effectiveness (Argyris and Schon, 1996; Fiol and Lyles, 1985; Rainey and Steinbauer, 1999). ‘Learning can be seen to have occurred when organizations perform in changed and better ways’ (Dodgson, 1993:378). It therefore follows that if public sector organizations require nonprofits to demonstrate effectiveness, they are looking for nonprofits to become learning organizations. One method that public sector organizations use to assess effectiveness is performance measurement (Macpherson, 2001; Poister, 2003), which is a further body of work that will be used to support the study.

Performance measurement: Under pressure to meet accountability requirements nonprofit public service providers are beginning to engage in performance measurement (Moxham and Boaden, 2007). Scholars advocate performance measurement as playing a key role in the development of strategic plans and evaluating the achievement of objectives (Ittner and Larcker, 2003). It has been argued, however, that whether performance measurement is viewed as strategic to an organization depends on for what purpose and for whom it is used (Ebrahim, 2005). Performance measurement is perceived as fostering organizational learning due to its capacity to acquire, distribute, interpret and store knowledge (Kloot, 1997). Akinson et al (1997:30) go further and state that performance measurement is ‘the heart of organizational learning’.

Research methodology and design

Due to the shortage of empirical research examining the relationship between accountability, performance measurement and organizational learning in nonprofit organizations, a qualitative, multi-case comparative research design was adopted (Hardy et al., 2003). Nonprofit organizations were chosen as the unit of analysis and were selected against the following criteria:

- The nonprofit delivered services.
- The nonprofit was in receipt of public sector funds to deliver public services.
- The nonprofit was required to report on its performance to its public sector funder(s).

The study adopted a matched-pair approach in order to ensure that adequate data was collected and to help safeguard against observer bias (Voss et al., 2002). Due to the diversity of the nonprofit sector, it was important to consider accountability and performance measurement practices across a range of organizations to support the validity of the findings. With this in mind, six UK-based nonprofit organizations and their associated public sector funders were selected to participate in the study.

Key findings

The majority of the public sector organisations in the study measured the performance of the nonprofit organizations to which they had contracted services. The processes used to measure the performance of the nonprofit organizations were predominantly specified by the funders, with public sector organizations stipulating the procedures and measurement criteria.
The study found that there was little feedback on performance from the public sector funders to the nonprofit organizations, thus there appeared to be limited scope for service improvement from the perspective of the service providers. It appeared that service commissioners were collecting performance information that could have supported nonprofit organizational learning, but this information was not disseminated to the nonprofit service providers. It could therefore be argued that it was the service commissioners, and not the service providers, that were the recipients of any learning from the accountability practices employed.