

Evaluating the organizational performance and social impact of third sector organizations: a new functional realm for nonprofit marketing

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ABSTRACT

The need for measuring and evaluating organizational performance and social impact of third sector organizations (TSOs), with the ultimate goal of improving the degree to which their mission and objectives are achieved, has turned into one of the most popular issues in professional and academic forums during the last decade, together with the subjects of transparency and accountability. Research has suggested a significant consensus within the third sector about the convenience of evaluating (measuring to improve) for tactical, strategic and ethical reasons. The need for measuring the outputs and outcomes of philanthropic organizations started with the model of scientific philanthropy born in the early years of XXth century (Anheier and Leat, 2006). As the century advanced, focus shifted from measurement to evaluation, from efficiency to effectiveness, and from internal, operating performance measures to external, mission-related impact indicators (Sawhill and Williamson, 2001).

The purpose of this paper is threefold. First, to review a selection of significant, recent comparative studies dealing with performance and impact measurement and evaluation experiences in philanthropic organizations from an international perspective, in order to come up with a general typology of approaches and indicators (Walker Information, 2002; World Economic Forum, 2003; LBG, 2004; Salamon et al., 2004). Main typologies would include quantitative vs qualitative, performance vs impact/influence/leverage, and efficiency vs effectiveness indicators. Evaluation focus could be set upon results (outputs and outcomes), performance (KPIs or Key Performance Indicators, BS or Balanced Scorecard) or benchmarking with competitors/best practices/indexes.

Second, to draw common features out of the most (un)successful evaluation experiences in order to propose a best-practice repertoire. This repertoire would suggest evaluation procedures to be participatory, strategically aligned, trust-based, flexible, proactively communicated, transferable, full-cost funded, focused, proactive, and oriented towards continuous improvement.

The third purpose of this paper is to propose a theoretical framework that supports the decision of conveying outward-, mission-, qualitative- and learning-oriented evaluation methodologies from the functional realm of auditing and control or operations management to the realm of marketing strategies of TSOs (Rey, 2007a). These organizations need both evaluation and communication techniques to successfully manage the expectations and the perceptions stakeholders have upon them, in order to maximize their value to society. Their customer-orientation would be mediated only by their mission and values, as they cater for the most demanding client, i.e. society (Bruce, 2005).

KEYWORDS

Nonprofit marketing, evaluation, third sector organizations, organizational performance, social impact

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1. Introduction

The need for measuring and evaluating organizational performance and social impact in third sector organizations (TSOs), with the ultimate goal of improving the degree to which their mission and objectives are achieved, has turned into one of the most popular issues in professional and academic forums during the last decade, together with the subjects of transparency and accountability, which by the way evaluation is conceptually related to. Research has suggested a consensus within the third sector about the convenience of evaluating (measuring to improve) for tactical, strategic and ethical reasons. The need for measuring the outcomes of philanthropic organizations started with the model of scientific philanthropy born in the early years of XXth century (Anheier and Leat, 2006). As the century advanced, focus shifted from measurement to evaluation, from efficiency to effectiveness, and from internal, operating performance measures to external, mission-related impact indicators (Sawhill and Williamson, 2001).

There exists today a considerable repertoire of practical experiences and alternative indicators for measuring both performance and impact. However, systematic measurement and evaluation has not yet been implemented in daily operations of most European TSOs; and even in the United States, where it has been more frequently utilized, intensity varies widely (Bertelsmann, 2001; Ostrower, 2004; Martin and Ernst, 2006). Cultural barriers include the resistance to change and self-scrutiny inherent to any organization, (Rey, 2007b) and also the "audit society"-like perception of evaluation as a controlling, tight corset that may legitimize bureaucracies, limit creativity and prevent risk taking (Bertelsmann, 2001; Power, 1997). Operational obstacles include the uncertainty among grantmakers and grantees about who should bore the costs of evaluation; and the scarcity of literature about (un)successful evaluation experiences that translates into easily replicable, flexible, facilitating toolkits composed by a metrics repertoire and evaluation procedures. These toolkits should build upon real case studies, particularly those of unsuccessful implementation of evaluation strategies, as failure maximizes learning. The hypothesis behind this paper, however, considers the main obstacle lies in the absence of a functional realm inside TSOs that assumes the responsibility for leading the implementation of an evaluation culture and for supervising improvement-oriented measurement practices as part of both strategy and daily operations (Rey, 2007a).

Despite these obstacles, evaluation has been inevitably impelled by the fact that contemporary philanthropy has been increasingly permeated by market forces, while at the same time the enterprise world has adopted philanthropy-related strategies. An example of the first trend –market-oriented philanthropy-

is the surge of venture philanthropy and social entrepreneurship; an example of the second trend –philanthropy-sensitive business- is the growth of corporate social responsibility as a competitive advantage source for businesses (Porter and Kramer, 2002). Corporate partners and funders demand a business-like approach to TSOs management; venture philanthropists expect measurable results from their social investment projects (Dees, 1998; Letts et al., 1999). In any case, third sector organizations have continuously imported business management science tools during the XXth century, including the concepts of strategic planning (Porter and Kramer, 1999), continuous improvement, and quality management approaches and standards; evaluation being an essential piece of these tools. Ongoing social debate about the need for TSOs to become more transparent and accountable has pushed in the same direction, as evaluation would be the basis for both communication strategies and organizational learning processes. Evaluation would ultimately measure the degree to which nonprofit organizations succeed in maximizing their value to society, and would therefore substitute external valuation mechanisms based on market forces (Bertelsmann, 2001).

In today's competitive environment, characterized by high uncertainty and diffuse frontiers between the third sector and the business and public sectors, nonprofit organizations utilize evaluation to continuously improve their course in the direction of their mission, while responding proactively to the demands of action and knowledge development that stakeholders put on them (Tayart, 2005). Research has suggested evaluation serves as a compass in those TSOs which struggle to obtain a differential positioning by being coherent with their mission, values, and strategic goals, while being sensitive to the environment and to their customers needs in a creative and innovative way. Evaluation allows them to move from a theory of hope to a theory of change within a market environment. As a result, current research about evaluation is closely connected, on the one hand, to the market demands for increased transparency and accountability within the third sector; and on the other hand to the concepts of systems and sustainability and to the stakeholders theory (Ricart et al., 2005; Williams and Iman, 2007).

The purpose of this paper is threefold. First, to review a selection of significant, recent comparative studies dealing with performance and impact measurement and evaluation experiences in philanthropic organizations from an international perspective, in order to come up with a general typology of approaches and indicators (Walker Information, 2002; WEF, 2003; LBG, 2004; Salamon et al., 2004). Second, to draw common features out of the most (un)successful evaluation experiences in order to propose a best-practice repertoire. Third, to propose a theoretical framework that conveys outward-, mission-, qualitative- and learning-oriented evaluation methodologies from the functional realm of auditing and control to the realm of marketing strategies of TSOs, turning marketing into the engine or leading force behind organizational culture and management practice based on evaluation (Bruce, 2005; Rey, 2007a).¹

¹ The author first formulated this proposal in REY GARCÍA, Marta (2007a), "Sistemas de evaluación del desempeño organizativo e impacto social de las fundaciones. Utilidades del *marketing* no lucrativo", *Perspectivas del sistema financiero*, Fundación

2. Defining evaluation in context

For the purpose of this paper, evaluation will be defined as a conscious and systematic effort to measure the results of the activity of nonprofit organizations, both regarding their performance as organizations and also their impact on the rest of society, and to compare them with a series of goals and objectives. The final purpose of evaluation would be to learn from deviations between measured results and preset goals, and to correct the ongoing strategy and tactics of the TSOs accordingly, with the ultimate goal of continuously improving the degree to which their mission is accomplished.

Evaluation practices were born within the context of a business management science based on empirical measurement and mediated by strategies. Evaluation is thus a key component of the virtuous circle of continuous improvement, which allows managers to translate vision into action and action into measurable results in a feedback process. The organization plans, does, evaluates, and acts again within an environment that is modified by the new information acquired through the evaluation process. This type of strategic planning, widely utilized in the business world, cannot only be implemented in TSOs, but should be utilized to its full potential in a flexible way in order for those organizations to create value for society (Porter and Kramer, 1999).

Strategic planning in TSOs would emanate, on the one hand, from a general (society) and specific (market) environmental analysis and, on the other hand, from the analysis of the strengths, weaknesses, opportunities and threats faced by the organization within that environment (*swot* analysis). In this context the organization would fix and explicitly state its mission, vision and values; and would then translate that broad waybill into long-term objectives (goals), which specific and prioritized short-term objectives would be derived from (objectives). Operating plans would be drafted to achieve those objectives. These plans would be articulated in terms of budget and timing, and would be as detailed as needed (by programs or projects; and/or by activities, marketing or financial

de las Cajas de Ahorros, nº 91. This paper focused on Spanish case studies and bibliography, such as CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS (CECA) (ed.) (2005), *Valoración del Impacto de la Obra Social*, PricewaterhouseCoopers and AIS-Aplicaciones de Inteligencia Artificial; FUNDACIÓN LEALTAD (2006), *Guía de la transparencia y las buenas prácticas de las ONG*, Madrid; or MINISTERIO DE TRABAJO Y ASUNTOS SOCIALES (2005), *Quién es quién. Las entidades de acción social beneficiarias de la asignación tributaria del 0,52% del IRPF, convocatoria 2004*, Madrid. The present paper builds on this approach but considerably expands on an international perspective, and tries to both reinforce the theoretical framework and to include valuable remarks received from peers during the presentation at the 8th ISTR International Conference at Barcelona, July 2008. The author wishes to express her deep appreciation for all comments received, particularly those from Prof. Ian Bruce from Cass Business School.

function, etc.). In order to measure those processes and the results obtained during and after the implementation of those operating plans, indicators or metrics would be utilized. These metrics would have been ideally fixed at the very starting point of the planning process, i.e. at the moment of defining the strategic goals and objectives to be achieved, as the choice of metrics ultimately influences and conforms the reality being measured (Williams and Iman, 2007). During the implementation process a whole range of data would be gathered, synthesized and interpreted through those indicators, thus allowing the third sector organization to detect any deviation of its results from pre-set goals and objectives, and to correct its course accordingly (TPCT, 2001; Tayart, 2005).

These measurement criteria (indicators, metrics, benchmarks) can be as broad, complex and diverse as the activity covered by the third sector organization. The evaluation process, however, essentially consists in answering a series of basic questions. In certain aspects, evaluation methodologies applied to organizations have important points in common with Socrates' Mayeutic or with Plato's Dialectic, as inductive processes based on reasoning, self-questioning and a collective search of the truth for the sake of self-improvement (Platón, 1984). What do we want to be as an organization? Which kind of impact do we want to achieve? What should we do in order to achieve it? How do we compare relative to what we used to be? And compared to what we want to be? Which position are we at relative to our benchmarks? Have we traveled the way between one point and the other in the best, most efficient way? Evaluation results –the answers to these questions- would be transferred again into strategic and operating corrections.

Evaluation is therefore a formal process oriented towards continuous improvement of management systems that allows a third sector organization to measure the degree to which it is achieving its mission and strategic objectives. It is based on measurement and benchmarking, against both quantitative and qualitative indicators, and in order to succeed it requires the participation of a series of key members of the organization and a leading force sustaining it over time. This sustained feedback process serves as a compass for TSOs that know where they want to get to. Therefore there cannot be effective evaluation without strategic planning.

3. *Why should third sector organizations evaluate?*

Evaluation is not only the bearing of planning that allows a nonprofit organization to measure its impact, i.e. the advance (or receding) in the fulfillment of its mission. Evaluation can also be a powerful instrument for internal cohesion and learning, and the basis for a communication strategy of the organization based on transparency. Evaluation thus becomes the primary way to manage knowledge within these organizations and to share it outside, so that value is created for partners and for society in general beyond pure grants, always limited in comparison with the funds available to public administration. Evaluation thus understood is not a controlling instrument to be occasionally utilized in managing these organizations, but a feedback process that should

transcend the realm of strategic planning tools to impregnate the culture of the whole organization. It would allow it, on the one hand, to learn from its mistakes, to rectify its course if necessary, and to adopt the right decisions to advance towards new objectives; on the other hand, it would help the organization to transmit society measurable achievements and useful knowledge (Bertelsmann, 2001; Tayart, 2005).

Reasons supporting evaluation in nonprofit organizations can be tactic, strategic and normative. Tactic or operating reasons can be internal- or external-based. From an internal point of view, evaluating efficiency at the organizational, program or project level should be at the core of day to day management, as TSOs always lack resources compared to the social problems they pretend to tackle. From an external point of view, a nonprofit organization which does not evaluate its activity nor is willing to communicate its results to the environment (transparency), will be expelled from the emerging fundraising market and will have difficulties in attracting resources. Resources available for a nonprofit are not only money and other tangible assets, but a whole range of intangible assets that are based on trust and are therefore fueled by transparency: the capacity to attract the best clients (grantees, users) and partners, a differential positioning in the eyes of its stakeholders or a reputed brand.

In the second place, there exists a broad range of strategic reasons supporting evaluation. Evaluation allows for a flexible adaptation to the environment and for continuous improvement based on learning, on the one hand, and supplies the organization with a proportion of its social impact, on the other hand. It allows its members to check whether medium- and long- term objectives for the organization have been translated into clear itineraries of action, and whether its course keeps oriented in the chosen direction with necessary adjustments (Meffert, 2005). The simple fact of aligning the mission, objectives and performance indicators of a nonprofit organization can change it profoundly, making it more effective (Sawhill and Williamson, 2001).

There are, finally, normative or ethical reasons. TSOs must explicitly pursue a true general interest mission and adopt a culture or set of values coherent with it, and their strategy must emanate from that mission. An organizational culture based on evaluation poses questions relative to that set of values, and supports accountability to stakeholders and to society in general. Are we headed towards the right mission? Is the chosen course the correct one? Moral certitude –“We do good”- must be complemented with objective knowledge –Why can we do good? What have we done badly? How can we do it better?-. in order to avoid self-complacency (Tayart, 2005). Value-based evaluation is the compass that allows us to transfer nonprofit action from a theory of hope to a theory of social change (Martin and Ernst, 2006).

4. *Perspectives on evaluation: efficiency vs. effectiveness; organizational performance vs. social impact*

If we consider nonprofit organizations as highly complex organizations in a systemic environment, evaluation alternatives multiply. "The integrated management of any foundation contemplates the combination of normative, strategic and operational management in a complex leading system" (Meffert, 2005). For the sake of simplicity, we suggest mapping all evaluation methodologies under the following four perspectives:

- from quantitative and operational to qualitative and normative: from efficiency to effectiveness
- from internal operations to the footprint upon the environment: from organizational performance to impact, influence and leverage indicators.

The perspectives of efficiency and organizational performance evaluation are relatively well known and to a certain point standardized, at least in comparison with the perspectives of effectiveness and the footprint upon environment. The first path can be comfortably traveled with management techniques borrowed from the business world; the second is more specific, though not exclusive, of nonprofit organizations pursuing general interest or public good missions, and requires extra effort to produce indicators and a long term vision from their managers. An ideal evaluation culture tries to cover all four perspectives, as they are clearly complementary.

The first contrast regarding evaluation perspectives refers to efficiency, on the one hand, and effectiveness, on the other. United Way International, in its on-line "Glossary of United Way Concepts", distinguishes between efficiency as a measure of "the cost of producing a result in terms of resources or time required", and effectiveness as a mission-minded measure of "whether the process is able to produce the intended result" (UWI, 2006). Efficiency is a predominantly quantitative realm that refers to the productivity of tangible resources (capital, labor), i.e. the use that a nonprofit does of these factors in order to improve its capacity to produce more results at the lesser cost (money/time) possible. Results are compared with the operating objectives of the organization. Efficiency-based evaluation tries to maximize results for a given resource allocation. Many evaluation methodologies based on cost-benefit analysis would be included here.

Effectiveness is a predominantly qualitative realm, which refers to the capacity resources have to achieve pre-set goals or objectives. It includes a strategic-normative component, as it refers to "doing the right things" instead of "doing things right", paraphrasing William S. White, President and CEO of the Mott Foundation. (Bertelsmann, 2001). Effectiveness-based evaluation allows the nonprofit organization to check whether resources are allocated to relevant programs or projects, i.e. coherent with the general interest or public good mission of the nonprofit, coherent with its set of values, and coherent with the demands of the stakeholders it was born to serve. This perspective transcends traditional cost-benefit analysis and builds upon a basic economic concept, i.e. opportunity cost: the value of the best possible economic alternative that is abandoned to devote resources to another activity. Results are compared with the mission itself and with the medium- and long-term objectives of the organization, and therefore both strategic and normative decisions are

evaluated. Porter and Kramer have applied this effectiveness perspective to corporate social responsibility, stating that "corporate philanthropy" can be the most cost-effective way for a firm to improve its competitive context whenever it supports the right causes in the right way, focusing its philanthropic action upon the contextual conditions that are more relevant for its industry and strategies (Porter and Kramer, 2002).

While a process can be effective without being efficient if it achieves the desired end using more resources or time than necessary; efficiency indicators do not give any information on whether the organization is complying with its mission, and can even hide the failure of that mandate. This was the case of *The Nature Conservancy*, a nonprofit organization based in the US and devoted for 50 years to the mission of preserving vegetal and animal diversity through the protection of habitats of rare species around the world. During the most part of its history the evaluation methodology of this organization focused on the second aspect of its mission, protecting habitats, as it was easy to quantify. Main metrics were dollars received from donor members for that purpose, and the number of acres protected. The evolution of both indicators, baptized as "bucks and acres", told a success story, but in the meantime biodiversity kept on decreasing, even within the habitats protected by the organization. Some mistaken decisions had been taken, among them those relative to the size of protected areas –too small for ecosystem restoration and preservation–, and to its location –determined by the scenic qualities and proximity to populated areas in order to appeal to donor preferences– (Sawhill and Williamson, 2001). This case study demonstrates the crucial importance of choosing the right metrics when designing an evaluation process.

The second contrast regarding evaluation perspectives refers to organizational performance versus the social impact or footprint left by a third sector organization upon its environment. Evaluation of organizational performance is born from an inward-looking process; social footprint evaluation results from an outward-looking process. This opposition, no matter how artificial may be, has the advantage of widening the evaluator's zoom and submitting the nonprofit to a humility exercise, reminding its limited capacity relative to complex social problems and forcing it to explore diverse levels of effect upon society, as did the Annie E. Casey Foundation (Silverman, 2004):

- Impact: to which extent has the activity of the nonprofit improved the lives of the people it exists to serve?
- Influence: has the activity of the nonprofit modified the patterns of thought and /or behavior of politicians, communication media and opinion makers in general?
- Leverage: has the activity of the nonprofit stimulated the realization of other general interest initiatives by other nonprofits, the public sector or the business sector that may amplify its results or make them sustainable over time?

Evaluating impact, influence and leverage brings nonprofit management to a purely contemporary vision of foundation resources as a broad repertoire of tangible and intangible assets (including knowledge, values, brand name,

capacity to partner, capacity to attract talented people, etc.), that can be grown if managers understand their activity as part of an ecosystem that can be stimulated, and adopt a catalyzer or convenor role in cooperation with other social change agents in order to achieve that multiplying effect (Tayart, 2005).

These four perspectives –efficiency, effectiveness, organizational performance, social footprint- should be interpreted not only as complementary but also as concurrent. Efficiency-based evaluation would allow nonprofits to improve its organizational capacity through the implementation of management tools designed to optimize tangible resources. Effectiveness-based evaluation would allow nonprofits to update its sense of purpose and original impulse, to make their values explicit and, foremost, to permanently align its mission and strategy in a continuous learning process through intangible resources management and honest self-questioning (alignment with mission, coherence with values, relevancy of alternatives, capacity to influence, impact or leverage).

5. *Towards a repertoire of evaluation methodologies and indicators*

There exists today a broad range of diverse evaluation experiences that supplies indicators that can be adapted to almost any third sector organization. Evaluation is a tough job, but it is becoming easier every day. We have just stated evaluation can belong to the realm of efficiency or to that of effectiveness; can focus upon the performance of the organization itself or can try to weigh its social impact, influence and leverage. The paragraphs devoted to the need for evaluation suggest the existence of purely operational, strategic and normative indicators. Or, in other terms, capacity measures -organizational performance, tactic achievements-, activity measures -strategic goals achievement-, and impact measures -advances towards mission achievement- (Sawhill and Williamson, 2001). Under a management control approach three types of output measures can be distinguished (Anthony and Young, 1994):

- Social indicators: a broad measure of output that reflects the impact of an organization's work on society at large.
- Results measures: measures which attempt to express output in terms that are related to an organization's objectives. They are ends oriented measures.
- Process or productivity measures: measures which relate to an activity carried on by the organization. They are means oriented measures.

From a practitioner's point of view, the most obvious typology of evaluation metrics distinguishes between quantitative and qualitative indicators. There are numerous examples of quantitative indicators that are frequently utilized at a managerial and staff level: funds raised, number of members or volunteers, number of direct and indirect beneficiaries, users or grantees, percentage of administrative or overhead expenses over total expenditures, number of programs or projects managed, cost per user, value of media coverage, promotion costs per media impact, etc, Qualitative indicators arise from the

effort to answer effectiveness- and social footprint-related questions such as: Is our mission clear and focused enough? Are our programs and projects aligned with that mission? Are we positioned where we want to be? Are we learning as an organization? Which is our potential as a nonprofit? These tough, time-consuming questions should be answered from all organizational levels in an ongoing debate launched by the top ruling board of the nonprofit and supported –this is this paper hypothesis- by the marketing function.

A second practitioner-oriented basic typology refers to the object of the evaluation procedure. From simple to complex, from inside to outside, and for a certain period of time, the following processes could be evaluated:

- A grant
- A portfolio of grants
- A project
- A program or articulated set of projects and actions
- The performance of the nonprofit itself as organization
- The performance of a grantee or partner organization
- The impact of nonprofit activities upon a community
- The impact of nonprofit activities upon social debates and perceptions upon issues
- The impact of nonprofit activities upon policy making
- The systemic impact of a nonprofit upon its environment

Evaluation can be formal, if based on objective data gathering and tested procedures or methodologies of data analysis; or informal, if implemented occasionally and/or mainly based on subjective impressions. Informal evaluation techniques include peer review, unplanned visits to grantees or to program sites, and mystery shopper tactics. Although evaluating exclusively on the basis of informal techniques is not advisable, these subjective indicators can add valuable information as a complement to formal evaluation procedures.

Finally, two other evaluation typologies that offer a lesser value to practitioners could be described. The first distinguishes between internal and external evaluation. Evaluating requires a volume of knowledge and time that may be not available in-house for every third sector organization. That task can be outsourced to consultants and other external resources available in the market. Certain formal evaluation procedures such as customer satisfaction indexes or grantee satisfaction inquiries must be outsourced to market research specialists that can properly manage sample and questionnaire design, implementation and analysis. However, external evaluation will be useful only if the nonprofit is really committed with the process. The nonprofit must clearly formulate the goals pursued through external evaluation and must design the ways to implement its results within the organization afterwards. This is only possible if all its members, from trustees to staff, are willing to “buy” external evaluation procedures and outcomes. The second typology distinguishes between ex ante and ex post evaluation. Evidence suggests, however, that effective evaluation must start at the same time as the design of the program or project to be evaluated. Goals and objectives that state the desired changes and a time frame for achieving them should be set, metrics and indicators should be

devised, and milestones or benchmarks that reflect the expected incremental changes in the short, medium, and long-term should be agreed upon from the very beginning. All those goals should be reviewed periodically and adjustments should be made as needed (monitoring and assessment). Effective evaluation is thus an intrinsic part of the process being evaluated (UWI, 2006).

During the last decade a representative selection of nonprofits has dared making its evaluation experiences and methodologies public. This has been the case of the W. K. Kellogg Foundation in the United States (WKKF, 1998, 2002, 2006). Its evaluation manual dates from 1998. This nonprofit understands evaluation as a participatory learning instrument to improve the course of projects. Its recent focus has been on systemic evaluation, requiring grantees and partners to base their programs upon a theory of social change and a logical model. The theory of social change is useful to clarify why the organization operates in a certain way, thus relating to the concept of effectiveness. The logical model helps clarifying what it does and how it does it in order to achieve its goals and objectives, thus relating to the concept of efficiency. Kellogg Foundation utilizes evaluation in four different and successive areas and tries to accommodate the unexpected among the inputs:

- Predictive: did planned interventions lead to expected results?
- Emerging: what spontaneous changes have occurred during the interventions and how can we capitalize on them in support of our goals?
- Exploratory: which unexpected factors have turned into relevant ones for our social change theory?
- Systemic: how does the system renew itself over time?

The Annie E. Casey Foundation has positioned itself as a paradigm of philanthropic practice oriented towards data analysis and results achievement. Its grants can consist on free strategic consultancy. Promotion of public and private decision-making that is based on data analysis ranks between its goals. It utilizes collaboration with stakeholders and continuous evaluation as basic tools to provoke systemic change, particularly in the area of child and family wellbeing. The Pew Charitable Trusts published their philanthropic investment planning and evaluation manual in the context of their interest in extending knowledge and best practices to the nonprofit sector (TPCT, 2001). The Bill & Melinda Gates Foundation considers research and evaluation to be key elements of its work and has published diverse external evaluation reports and "What We're Learning" case studies about its programs, particularly educational, with the goal of "gathering powerful evidences upon problems and measuring the impacts in order to conform decisions and future programs and to motivate other public and private agents to participate in the solution of those problems". One of its recent initiatives, the alliance with the Rockefeller Foundation for "green revolution" in Africa, included a budget entry for evaluation that represented over one sixth of the 150 million dollars committed for the first phase of the program. In Europe foundations such as Bertelsmann and King Baudoin have shared within specialized forums evaluation criteria and indicators applied to existing programs in a context of strategic turnarounds in order to support maintenance or elimination decisions.

However, the most important interdisciplinary, transatlantic effort made to gather, examine and compare measurement practices in the philanthropic arena has probably been the one realized by the Global Leaders for Tomorrow Task Force on Philanthropy for the World Economic Forum of Davos, published under the title of *Philanthropy Measures Up*. This report catalogues evaluation practices among 22 organizations of different types (6 venture philanthropies, 6 founders, 6 infrastructure providers and 4 consulting firms), and weighs the extent to which they may be applicable to third party organizations. The report also suggests trends in measuring corporate philanthropy as part of corporate social responsibility. *Philanthropy Measures Up* gathers all those approaches to measurement in philanthropic organizations under three typologies: results, performance and comparative or benchmarking (WEF, 2003).

1. Results: Social Return on Investment (SRI)

This approach produces a quantitative summary of achievements that are usually based on cost-benefit analysis. Equivalents in the business World would be benefits and other financial indicators, net present value (NPV), or internal rate of return of a project. This is the most traditional and widely utilized approach to evaluate programs and projects. It is based on the following basic logical model (WKKF, 2002):

Resources => Activities => Products => Results => Impact

PLANNED WORK		INTENDED RESULTS		
INPUTS OR RESOURCES	ACTIVITIES	OUTPUTS OR PRODUCTS	OUTCOMES OR RESULTS	IMPACT
Resources devoted to the program	Achievements of the program with those inputs in order to fulfill the mission	Direct results from the activities of the program: services, products	Specific benefits for program participants during and after its activities	Fundamental change that occurs in organizations, communities or systems as a result of the program after its completion

It is important to differentiate between output and outcome. Output or product is the initial result of a process (program, project), and reveals little regarding goal accomplishment. Outcome or result is the consequence of those outputs, or the final result of the activities of a program or project in terms of changes generated in behavior, attitude or mentality among target segments. The outcome is therefore revealing of whether the goals and objectives have been accomplished. An example for an output in an educative program would be the number of centers, students or teachers participating, or the number of media impacts about the program; examples for outcomes would be the new knowledge acquired (measured, for example, through improved qualifications by participating students), new skills and capacities, changes in attitudes or values, modified behaviors, improved quality of life conditions, etc. In this

sense indicators under the results approach are objective measurements that can refer both to processes and to outputs or outcomes (WKKF, 2002; TPCT, 2001).

United Way International recognizes that measuring outcomes is more difficult than measuring outputs as deep changes created in the targeted community conditions often take time to emerge: "United Way organizations work to create measurable results at the community level—lives changed, communities strengthened and community problems that diminish in magnitude over time. This takes into account program outputs, such as numbers of people served by programs or units of service delivered, and goes beyond that to look at long-term macro-level results that are far beyond what anyone organization or program can do on its own. These kinds of results are often referred to as outcomes (as opposed to outputs), and reflect changes in important indicators such as employment, education, or family incomes" (UWI, 2006).

A paradigmatic example of the results measurement approach is the Social Return on Investment (SRI) methodology. SRI is based on the idea that the activities of a third sector organization have a measurable financial return, in terms of a decrease on public or private resources devoted to that same goal, in terms of increased economic activity, or both. REDF, a US nonprofit, pioneered its application and documented the process, which can be explained in six steps:

- a. Desired social impacts are defined
- b. Outputs and outcomes are differentiated
- c. Each potential impact is quantified and net present value (NPV) of cash flows calculated
- d. Hypothesis are documented
- e. Reality is checked
- f. Responsibility over results is outlined (WEF, 2003).

2. Performance: Balanced Score Card (BSC)

The performance approach measures achievements relative to preset goals and objectives for the organization as a whole, rather than the return of isolated programs or projects. Equivalents in the business world would be comparisons of results against market expectations or against the firm's own estimates or historical data-based projections. The most relevant example of this approach is the Balanced Scorecard (BSC) methodology, which compares organizational performance against preset goals, and was developed by Harvard professors Robert S. Kaplan and David P. Norton in the first part of the 1990s (Kaplan & Norton, 1992). This methodology has been widely adopted within the business sector and –to a lesser extent- public sector in the US and Europe during the last two decades (Horváth & Partners, 2001). This methodology tries to situate organizational strategy at the core of all management processes and systems. In this sense, it is not only a measurement system, but also a management system that helps

organizations to clarify their vision and strategy and to translate them into action in a continuous improvement process.

BSC methodology utilizes traditional financial indicators, but adds three new perspectives from which new indicators are developed and results are analyzed: learning and growth potential (capacity to change and improve), business processes, and customers perspective. Measurement transcends financial information, which is based on history, and adjusts to contemporary firms, which success depends on their capacity to create future value through investment on clients, suppliers, employees, processes, technology and innovation.

Philanthropy Measures Up contains a BSC model adapted with the collaboration of Dr. Kaplan by New Profit Inc. This venture philanthropy is devoted to investing in nonprofits promoted by visionary social entrepreneurs, and utilizes BSC to manage its own organization and to evaluate the performance of organizations within its philanthropic portfolio, from five different perspectives (WEF, 2003):

- a. Social impact: measures impact, influence and leverage of the organization activities upon society in general.
- b. Customer: measures its performance relative to customer needs (quality, service, cost, time) through a series of indicators (new customers acquisition, customer satisfaction, customer retention, market share, customer prescription).
- c. Internal business processes: measures organizational performance relative to key competencies (innovation, customer relationship management, operations) through a series of indicators (employee retention, volunteer retention, decrease in training and service delivery cycles).
- d. Learning and growth: measures the preparation of the organization for future growth (potential) through employee training, information systems development or governance. Indicators such as employee training, employee satisfaction, information technologies usage, trustee satisfaction or trustee retention are utilized.
- e. Finances: measures growth and diversification of income, cost control and productivity through indicators such as income from service delivery, expenses deviation relative to budget or cash flows stability.

3. Comparative or benchmarking

This approach compares the organization achievements with other organizations', preferably competitors with best practices. Business equivalents would be measurement against sector leaders or against general indexes (S&P, DJ, etc). This approach has had interesting developments in the area of corporate social responsibility (CSR). The *Global Compact* launched by United Nations in 1999 in order to promote CSR, the general framework for reporting established by the *Global*

Reporting Initiative, or stock indexes that group CSR leaders such as *FTSE4GOOD* or the *Dow Jones Sustainability Indexes* (DJSI) exceed the limits of this paper. Instead, we will focus on comparative indexes designed specifically to measure, evaluate and improve CSR management.

A good example would be the *London Benchmarking Group*, developed in 1994 by six British firms and extended today as international standard measurement of community commitment by businesses. This simple model facilitates comparison of community commitment effectiveness relative to three categories of collaboration with community nonprofits (donations, long-term investments, and commercial initiatives). The model first puts monetary value to the costs of business community involvement (money, time, in-kind and management costs). Then the model compares them to the results, results being defined as resources attracted by the initiative, benefits for the community and benefits for the firm (LBG, 2004). *Business in the Community*, a network of more than 700 British firms committed with CSR, launched two years later an environmental index and in 2002 developed the *Corporate Responsibility Index*. This index results from an annual inquiry and evaluates the impact of the firm operations, products and services on the community, the market and the labor environment, and also their interaction with key interest groups. It includes partial aspects such as community commitment or environmental responsibility.

Similar initiatives have appeared in the US. The *Corporate Philanthropy Index (CPI)* allows to compare the effectiveness of so-called "corporate philanthropy" of a firm with others in the same sector. This index, developed in the late nineties at the request of the Council on Foundations, is a numerical ranking resulting from the inquiry and analysis of stakeholder perceptions –employees, customers and shareholders- about the philanthropic action of a firm. Stakeholder groups with high CPI will be more willing to behave in manners beneficial for the firm (the case of loyal employees or satisfied customers willing to prescribe). As a consequence, firms with a greater percentage of stakeholders in the high-end segment of CPI will obtain competitive advantage. Firms participating in the index can compare their results with consolidated sector data from the national database gathered in 2001 to validate this methodology (Walker, 2002).

In the specific area of foundations, this benchmarking approach has been applied during the last years by the Center for Effective Philanthropy. This nonprofit has developed evaluation instruments and comparative data in order to improve foundation performance. Among the evaluation instruments the *Grantee Perception Report*, based on an inquiry to beneficiaries about performance perception and satisfaction, stands out for its simplicity and wide acceptance. Other comparative instruments are the *Applicant Perception Report*, the *Comparative Board Report*, the *Staff Perception Report* or the *Operational Benchmarking Report*.

To finalize, we can point out towards the last generation of evaluation methodologies, based on systemic thought and promoted by the need for adequate tools in a high-complexity environment and by the support of nonprofits such as the W. K. Kellogg Foundation. These systemic evaluation methodologies generate rich and simple descriptions and, at the same time, complex and interconnected scenarios. The relationships among parts and the limits of dynamic analysis are made explicit, and the perspectives or points of view of both the evaluator and the persons being evaluated are considerably widened (Williams and Iman, 2007).

6. Towards a repertoire of best practices in evaluation

The evaluation experience accumulated by certain foundations (WKKF, 1998), the conclusions of the international symposium organized by the Bertelsmann Foundation in 2000 about effectiveness and evaluation (Bertelsmann, 2001), and the conclusions of the World Economic Forum report (WEF, 2003), are coincident: there is not one ideal evaluation methodology for every third sector organization. These pieces of specialized literature, however, suggest a set of features that are common to every successful evaluation system:

1. *Participation*. In order for evaluation to generate trust and mutual learning, all relevant stakeholders of the TSO (donors, beneficiaries, employees, volunteers, partners, trustees, etc.) must share information about their expectations and goals, and "buy" the metrics design and implementation.
2. *Strategic alignment*. Evaluation systems can be optimized only if the TSO has previously formulated its mission and goals, and has aligned with them the organization strategy and operations, and the indicators or metrics chosen.
3. *Trust*. The eventual success of a nonprofit project depends to a great extent upon the overall strategy of the organization promoting it. When selecting partners or beneficiaries, nonprofits should evaluate their overall mission and strategy, and should promote their management capacity in order to reinforce their goals, rather than focusing only on project-related indicators.
4. *Flexibility*. What cannot be measured cannot be managed, and some measure of output is usually better than none. A measurable output, however, does not necessarily mean a positive outcome. Useful evaluation builds also upon results which are difficult or impossible to measure thus demanding surrogate measures, and is nourished by failure-based learning, leaving a space for risk and innovation. Evaluation should be seen as a capacity-building instrument, not as a tight organizational corset. Confluence of diverse perspectives and methodologies, tolerance to failure and the willingness to assume unexpected but valuable results are part of the game.

5. *Communication*. There is not useful evaluation without internal and external communication. Third sector organizations learn if all trustees, staff members, partners and other stakeholders know where they can get to through the evaluation process, and honestly share its results. It is essential to know the expectations of stakeholders relative to the evaluation effort.
6. *Transferability*. Indicators must be coherent, clear and easy to understand. The organization learns if its members understand why and how they are going to be evaluated. It is preferable to implement adaptations of previously existing indicators from the business, nonprofit or public sector, particularly when measuring common areas of action such as education or social services, in order to allow for benchmarking; rather than to create brand new metrics. However, if the option is to create new indicators, an effort should be made to design them ready to be transferred to other programs or partner organizations.
7. *Financing*. Evaluation costs money. If a grantgiving organization asks grantees to evaluate programs or projects, that cost must be budgeted together with all other funded costs.
8. *Focus*. It is not possible, nor convenient to measure everything. In order to properly choose the evaluation object and methodology, goals must be defined in advance. The first question is why do we want to evaluate: which kind of information are we looking for, and which actions will be adopted once we obtain it. Then the questions about what to measure and how to do it come along.
9. *Proactivity*. The sooner evaluation becomes an input in the planning process, the more effective it is. This does not mean evaluation methodologies should condition project design. It means they are a valuable input for that process. Ex ante evaluation facilitates data gathering and real-time course rectification, improving the results of projects. The choice of metrics influences the process outcomes being measured.
10. *Continuous improvement*. Evaluation is an attitude, a feedback culture and a perpetual process, focused on continuous improvement through organizational learning.

7. Nonprofit marketing as the realm for evaluating impact-driven philanthropy

Defining evaluation as an organizational culture of continuous measurable improvement towards a mission, translating into both strategy design and daily operations, generates the need for a functional area that supports top management in leading the implementation of that new culture within third sector organizations and feeding it over time. A functional area that can both champion the cultural change from within, creating incentives for its adoption,

and support top management in spreading out the knowledge and learning extracted from the evaluation process.

Evaluation practice in TSOs has traditionally emphasized quantitative, efficiency-related, inward-oriented, organizational performance indicators. Measurement has been performed in either one of two ways: metrics have been produced in a non-coordinated manner by different functional areas, or the management control function has taken over and coordinated them. As an example of the first scenario, operations or program managers may have been responsible for key indicators in the case of operating nonprofits such as hospitals and educational institutions (minutes per operation, number of persons served, percent of applicants admitted, reject and spoilage rates, etc.); and finance or accounting officers may have been responsible for metrics when utilizing the results or cost-benefit approach or measuring efficiency (overhead ratios, cost per user, funds raised, etc.). Under the second scenario, management control accepts the goals and strategies determined in the strategic planning process as given, and attempts to assure that the organization designs effective programs that move it towards its goals, and that it also implements them efficiently, meaning those programs accomplish their purposes at the lowest possible cost. In this context, most commonly utilized metrics have build upon full cost accounting and financial reporting, and have included inputs (costs and non-monetary data) and outputs (revenues, membership, beneficiaries, services provided, etc.). Therefore the framework has been financial and core measures have been monetary. Controllers, chief financial officers or chief accountants have been the persons responsible for measurement as part of their management control function. They have reported to senior management in order for it to carry out evaluation (Anthony and Young, 1994).

The current environment surrounding nonprofits, however, puts both complex and rapidly changing demands upon them. While financial and production approaches are as important as they have ever been, on their own, or even in combination, they are not enough for steering successfully through this new environment, which is defined by changing boundaries between sectors and continuously changing social needs. The dominant ethos in this complex entourage, increasingly dominated by competitive forces, is to be customer oriented or, in other words, marketing led (Bruce, 2005; Rey García, 2007b). The current environment therefore emphasizes the increasing need to furthermore utilize outward-, mission-, qualitative-, comparative- and learning-oriented evaluation methodologies. Our proposal will be to convey the responsibility for promoting and implementing evaluation within TSOs to the realm of their marketing function.

The first reason supporting the conveyance of the responsibility for evaluation to the marketing function consists of the basic philosophical fit between marketing and TSOs (Bruce, 2005). Nonprofits, like marketing, have at their core the needs and wants of their customers or stakeholders. The progressive implantation of the marketing concept –meeting customer needs within the objectives of the organization- has translated into an increasing orientation of the firm towards its clients, as a strategy to maximize its benefits (Kotler and

Keller, 2006). Profit is the ultimate *raison d'être* for firms as organizations. In their case, results orientation is not necessarily equivalent to stakeholder orientation. Profit, in the case of TSOs, is non-distributable and is a mere medium to achieve a general interest goal. Nonprofits exist to serve society in general and certain stakeholder groups in particular. In this theoretical framework, a nonprofit organization which is oriented towards results must necessarily be oriented towards its stakeholders. Nonprofits are the stakeholder-oriented organizations par excellence, and marketing is the function that manages the relationships with those stakeholders. The potential of a nonprofit consists on achieving a full orientation towards stakeholders mediated by its mission and values.

The second reason for conveying the responsibility for evaluation to the marketing function is related to the key role played by the communication component of marketing within the evaluation process. If there is no effective evaluation outside the context of strategic planning, it can be said also there is no effective evaluation without communication, both internal and external (Tayart, 2005). Planning, evaluation and communication are interrelated and concurrent activities in TSOs. This is the reason why the debates about evaluation, transparency and accountability in nonprofits have been so interconnected. The efficiency and organizational performance approaches to evaluation are connected to transparency, whereas the effectiveness and social impact approaches connect with the need for increased accountability. The common thread is an orientation towards results which, in the case of TSOs, would be equivalent to an organizational culture based on carefully listening to stakeholders and to the environment (Rey García, 2007a, 2007b). The virtuous circle of evaluation will be complete when the organization makes a proactive internal communication of the results obtained, and also spreads the knowledge learned in the evaluation process to its stakeholders. Transparency is thus an essential strategy for philanthropic impact.

The third argument in favor of conveying evaluation to the marketing function relates to the close connection of the latter to the evaluation process in the case of TSOs. This connection is only realized when the lack of confidence on the potential of marketing within the third sector, dominant among most practitioners, is overcome. Those attaching negative associations to marketing generally resist the implementation of business management techniques in general to nonprofits. Even when marketing is accepted, it is mostly viewed as a plain set of commercial communication tools, mostly associated with fundraising and public relations. Those who are more receptive view nonprofit marketing as a minority version of services marketing which has the specific feature of integrating two different interfaces: grantees relationship management on the one hand and donors relationship management on the other. Evidence suggests, however, that the marketing function in TSOs is more complex than in the business sector and even more necessary. The marketing concept and its operational translation allows nonprofits to establish a permanent contact with its stakeholders, to configure or anticipate their needs, to measure their satisfaction and, in that process of relationship management,

to translate the vision or theory of social change sustaining their mission to society in general (Hannagan, 1992). This modus operandi is grounded on the same listening, self-questioning, and organizational learning procedures that underlie the evaluation process.

The fourth argument in favor of conveying evaluation to the marketing function is an inverse one. No marketing led strategy is possible without evaluation. A stakeholder-oriented strategy requires a sustained management effort that allows for an alignment between mission, strategy, organizational processes, and customer needs; and that effort utilizes evaluation systems as an essential alignment mechanism. In the absence of that effort for strategic alignment, nonprofits risk orientating themselves towards production –operating efficiency of existing processes-, towards a certain product –program or project-, towards the agenda of the particular interests and concerns of their members, or in the worst possible scenario, towards their own inertia as organizations. It is not casual that evaluation cultures are typical of nonprofits which are oriented towards the social environment in general and towards their stakeholders needs in particular (Ostrower, 2004).

The fifth and last argument relates to the need for expanding the focus and tools of performance measurement in TSOs. The case of a Balanced Score Card adapted to a nonprofit reviewed in this paper reminds us that the inherent complexity of nonprofit organizations and the environment they work in requires evaluation systems that are extended relative to those of the business world. Extended in terms of values (mission achievement, instead of profit, is the ultimate goal), and extended also from a socio-demographical perspective (society is the ultimate client). Evaluating is thus more complex in the case of nonprofits than in the case of businesses. The same four perspectives - financial, business processes, learning and growth, and customers- apply (WEF, 2003). The customer category, however, is enlarged as the clients of a nonprofit are not only grantees or users, but also other stakeholders with which it interacts in search for impact, influence or leverage. Accountability is wider and more relevant relative to a business of comparable size. There are also two additional perspectives that are exclusive of TSOs: one is difficult to quantify –social impact-, and the other is purely normative and escapes quantitative analysis –mission and values-. It should be noted that customer orientation in the case of nonprofits is mediated by values: when pursuing general interest maximizing strategies, nonprofits try more frequently to modify customer needs -once they know them-, or to anticipate its future design, rather than to satisfy them in its current state. Unlike the management control approach, which takes the strategy, goals and objectives determined in the strategic planning process as given, the marketing approach to evaluation proactively adjusts strategies, goals and objectives in a continuous improvement loop towards mission accomplishment.

To conclude, the marketing function is positioned to champion new evaluation practices in nonprofits as it is based, on the one hand, on effective communication with stakeholders and, on the other hand, on a factual analysis of the environment surrounding the organization which includes the expectations and perceptions that all relevant interest groups have upon its work, and the positioning of competitors. Nonprofit marketing, both as a philosophy and as a holistic operational approach to management, enables

TSOs to understand the needs of their stakeholders, to adapt their goods, services and ideas in ways that take into account those needs but also what other players in the market are doing, and to measure and evaluate to which extent the course of the organizations and their products is kept true to their mission, goals and objectives in the process of fulfilling those needs.

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Internet resources

www.bitc.org.uk

www.effectivephilanthropy.org

- Performance Assessment Worksheet

www.gatesfoundation.org

www.pewtrusts.com

www.redf.org

- "Social Return on Investment (SROI) Collection"
- "Social Impact Reports"

www.rockfound.org

www.uwint.org

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