

**Nonprofit marketing: a new functional realm for evaluating the
organizational performance and social impact of Third Sector
Organizations**

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The need for measuring and evaluating organizational performance and social impact of Third Sector organizations, 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).

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 Third Sector organizations, 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 inherent to any organization 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, or the lack of extended knowledge about successful evaluation experiences in terms of easily replicable, flexible, facilitating toolkits composed by a metrics repertoire and evaluation procedures.

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. Corporate partners and funders demand a business-like approach to Third Sector organizations; 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 strategic planning (Porter and Kramer, 1999) and quality management approaches and standards; evaluation being an essential piece of these tools. Ongoing social debate about the need for Third Sector organizations 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 Third Sector 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 Third Sector organizations 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; World Economic Forum, 2003; London Benchmarking Group, 2004; Salamon et al., 2004; CECA, 2005). 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 Third Sector organizations (Rey, 2007). 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.

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