

*Department of Business and Management*

*Chair of Performance Measurement and Financial Reporting*

*The importance of NGOs in the current system and the need of Financial  
Measurement and Performance Management in the Social Sector*

*Supervisor:*

*Prof. Elisa Raoli*

*Candidate:*

*Chiara Ercolano*

*ID n.708231*

*Assistant Supervisor:*

*Riccardo Tiscini*

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*For my family,*

*Lucio*

*and Amka Onlus*

*"Not everything that can be counted counts and not  
everything that counts can be counted."*

*Albert Einstein*

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## ***Introduction***

The UN adopted the term "Non-Governmental Organization" in 1945, given the need to address private, non-governmental and Non-Profit Organizations that participate in the protection of rights.

The definition of a Non-Profit Organization that the United Nations provides is: *"an NGO is a non-for-profit, voluntary citizens' group, which is organized on a local, national or international level to address issues in support of the public good."*

They are therefore Organizations independent of Governments and their policies, which do not aim to make a profit and which are financially supported by voluntary donations and public funds.

The Industrial Revolution has led to problems such as the exploitation of child labor and the worsening of health conditions; 1968 has historically represented a year of popular uprisings that have created a more affirmed sense of community; globalization has increased the social, political and economic gap between the world's population; the economic and financial crisis characterizing our century has caused a reduction in the resources available to Governments to be used for social causes.

Therefore, as a result of these difficulties, new social needs develop and for this reason the Third Sector becomes increasingly important, given its ability to understand and meet the needs of the community.

In Italy, NGOs are mostly formed by Onlus operating in the field of development cooperation and they are recognized by the Ministry of Foreign Affairs and they are included in a special list.

Founded in 1919 in Great Britain, Save The Children is the oldest NGO in the world, while in Italy it is the Community of Sant'Egidio, founded by Andrea Riccardi in 1968. Among the most famous in the Italian territory there are Caritas, Emergency, Legambiente and Nessuno Tocchi Caino.<sup>1</sup>

Non-Profit Institutions in our country have been growing exponentially in recent years, increasing their importance compared to For-Profit companies. With the

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<sup>1</sup> Volontariato per lo sviluppo, "Organizzazioni non Governative: Cosa Sono e Quali sono le più Famose e Attive in Italia" <https://www.volontariperlosviluppo.it/organizzazioni-non-governative/>

2017 census, there are 350,492 Organizations in Italy, which employ 844,775 workers.<sup>2</sup>

The sector's affirmation has led to a profound transformation in the rules that regulate it and to an increase in the legislative obligations with which it has to comply, therefore, in addition to the constraint of the bookkeeping, an assessment of the impact produced through its work is currently required. The objective just mentioned is not a simple achievement, but on the other hand it is essential to demonstrate the change that can be achieved, since the purpose for which NGOs are born is not to make profit, but to change some social spheres.

Given the growth trend of the Sector, the paper aims to examine its general aspects and the literature on the topic. Afterwards, the changes it has undergone during the last decades and the motivations that have led to its greater relevance are discussed. The paper also aims to highlight the differences between the for-profit and nonprofit sectors, given that it is a topic at the heart of the current debate.

During the first chapter, the legislation on the Third Sector has been analyzed in detail, from the antipodes of the legislation to today's reform.

In the law in force in 1890, NGOs were called "*public charitable institutions*" and it was already planned to draw up the Budget and the report on the operating result.

This law was followed by a series of changes, which improved and expanded the body of legislation governing the sector. The changes made concern the legal definition of the Entities, the tax benefits they receive and the services they provide. In many cases the social services that were previously offered by the State are now provided by NGOs.

In 2014 the law on international cooperation is introduced, which concerns the reduction of poverty and inequality, the assurance of human rights and the cessation of conflicts.

The increasing popularity and relevance of NGOs leads to a growing demand for transparency in their operations, given the large pool of resources they currently employ. In fact the key features of the reform launched in 2016, are the change in the

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<sup>2</sup> Forum Terzo Settore, "Cresce il numero delle istituzioni non profit nel nostro Paese"  
<https://www.forumterzosettore.it/2019/10/11/cresce-il-numero-delle-istituzioni-non-profit-nel-nostro-paese/>

name of the Entities and the definition of precise guidelines for the preparation of accounting records and impact assessment.

The first chapter also analyses the divergent visions about the Third Sector. The first one defines it as a point of dialogue between citizens and the Governments, as an instrument of communication and cooperative debate and as an evolving process. The second one depicts it as a means of Government control over the population and as a static phenomenon.

Observing the Sector through a more objective lens, it can be said that it differs from the Market for the absence of profit and from the Public Administration for the private nature of the Organizations that compose it.

The definitions about NGOs that can be found in the literature are based on the values, orientation, mission, activities and type of financing and control implemented by the Entity. Despite the vast number of definitions, they all agree on some of the main aspects of the Organizations, namely their non-governmental and nonprofit-oriented nature, the voluntary nature of the work and the fact that they must be formally established.

The characteristic of the impossibility of redistribution of profits does not prejudice the realization of profits or losses and therefore the consequent possibility of failure for an NGO.

The life cycle of an Organization is described by its *birth*, the *development of the Boards*, the *development of the staff*, the definition of the *governance* and the *organizational structure*, the *maturity phase*, the *consolidation* and finally the *decline* or *rebirth phase* of the Organization. Therefore, just like for-profit companies, NGOs have to interface with a series of external variables and internal problems, which affect the continuity of activities. In order to be able to respond to exogenous changes, it is necessary that NGOs adapt their structure, understood as decision-making process and their infrastructure, which affects how the organization relates to the outside world.

In addition, the environment in which they operate becomes increasingly competitive due to the reduction of Government funds in their favor, so they must create strong values, shared by all the people who make up the Organization and employ cutting-edge solutions in order to remain "competitive" in the market.

In addition, the variables that influence the final performance are inputs, outputs, how resources are used, governance, internal relations, reference context, organizational culture and leadership.

In order to ensure that the desired results are achieved, NGOs must analyze in depth the *baseline conditions* of the context in which they operate, creating close links with the local population.

There are various frameworks in the literature in order to monitor performance, for example the model proposed by Ferreira and Otley, based on twelve areas of interest of the Organization, or methodologies based on programs (proposed by Buckmaster, Pool et al., Poister, Tom and Frenzel, Epstein and Buhovac) and those based on more dimensions (proposed by Knapp and Kendal, Kaplan, Cutt, Paton, Neely et al., Mullen, Lampkin).

The *Balanced Scorecard*, a method theorized by Kaplan, is applied in both sectors, but in order to increase the effectiveness of its use in the Non-Profit Sector, some improvements are made to the basic model. There is a greater interest about the Institution's mission rather than the financial perspective; indicators are used to measure the satisfaction of the project beneficiaries; the focus is on short - medium term objectives; the importance of estimating both the output and the outcome of the projects is underlined.

At the end of the first chapter, the importance of the evaluation, also financial, of NGOs' activities is supported, despite the Non-Profit nature. This is because thanks to financial analysis it is possible to continue operations, to demonstrate the use of resources and project performance, to learn from data and information collection and to improve organizational management.

The second chapter is based on an understanding of the essential tools through which NGOs can interface efficiently with the increasing difficulties of the environment in which they operate.

First of all, it is necessary to define the *vision*, *mission* and *values* that guide the Organization. The vision serves to clarify what changes the Organization wants to achieve through its work and it is essential to describe its identity. The mission specifies the actions to be taken in order to fulfill the vision. The values indicate the



philosophy shared by the members of the Organization and guide their actions towards meeting the needs of stakeholder.

These three elements give rise to the *value proposition* that differentiates the Organization from others and indicates what it offers to meet certain needs.

Of fundamental importance are the indicators needed to understand if the activities carried out are useful to achieve the objectives. In addition, by calculating the indicators that are most appropriate for each NGO, it is possible to obtain the data and information needed to estimate the impact produced. Specifically, the indicators which have been analyzed are aimed at studying the trend of donations, the economic and social return of the activities organized by the NGO, the impact of online activities, human resources management and financial management.

The key accounting records are the *Budget, Balance Sheet, Income Statement* and *Cash Flow Statement*. They must be prepared by law and they are essential to understand how to best allocate resources and to report to stakeholder on how the Organization is performing and using voluntary contributions.

The *Budget* is a forecast of the management performance and there exist various types that perform different functions.

The *Balance Sheet* catalogues the Assets and Liabilities (both divided into Current and Non-Current) at a given time and provides a picture of the financial situation of the Organization. The BS must respect the *Accounting Equation*, according to which the Organization must present a constant balance between the value of the Assets and the sum of the portion of debts and own resources. Nevertheless, the BS does not consider the reason for the change in the Assets, Liabilities and *Net Asset*, hence the *Income Statement* is drawn up. Through this document one is aware of how resources enter and exit during the current financial year and in the Non-Profit Sector, it is commonly called the *Statement of Activities*.

The *Cash Flow Statement* is used to catalogue from which activities (divided into operating, investing and financing) the income and losses come from.

In the second chapter, the items that make up each document are analyzed in detail.

Using the accounting documents, it is possible to calculate financial indicators to conduct liquidity, profitability, solvency and effectiveness analysis.

However, often and willingly, too much weight is given to these economic measures, losing sight of the true objective of Non-Profit Entities. Their aim is to promote the development of populations and Regions, it concerns the improvement of skills and the modification of behaviors of target population, thus it is also necessary to use indicators through which it is possible to express numerically the social value produced. The chapter thus examines the SROI (*Social Return On Investment*) methodology, with which to estimate the impact of projects on the basis of certain social variables.

In the literature it is argued that calculating the same financial indices in different NGOs is an error, given the difference between the *vision, mission and values* of the various entities. Moreover, each Institution has a different set of stakeholder with different ideas and interests, hence the impossibility to define a unique performance evaluation framework.

In order to estimate and communicate performance, but above all the social impact produced, theoretical frameworks can be used, which are necessary to examine the various phases of the project and its results.

The ToC (*Theory of Change*) for example, describes the events that must occur to achieve a desired outcome. This methodology starts from the definition of the outcomes and the outputs of a measure, and then it goes backwards specifying the activities necessary to achieve them and the interconnection between them; it clarifies the assumptions on which the project is based and the indicators to estimate the impact. By following these indications, it is possible to create successful interventions and to explain the results obtained to external subjects.

Impact means the improvement of the lifestyle of the beneficiaries of the measures and therefore indicates the long-term change that occurs. The impact assessment by means of *counterfactual analysis* is able to estimate the starting and final conditions, the scenario that would occur without the implementation of the project, the catalytic and unexpected effects that can occur.

In order to detect greater accuracy in the analysis, the simultaneous use of qualitative-quantitative methods (*triangulation technique*) is advisable.

Simultaneously with the SIA (*Social Impact Analysis*), it is necessary to monitor the individual activities, in order to evaluate the short-medium term outputs, using a limited number of quantitative indicators.

For-profit organizations are now also widely used to carry out activities that benefit the community that welcomes them; this is known as CSR (*Corporate Social Responsibility*), i.e. the set of voluntary actions that companies carry out towards the environment and society during the course of business. Companies have now incorporated the concept of sustainable development into their strategy and therefore they include CSR initiatives in their annual reports.

In conclusion, through the second chapter, the main differences between the Profit and Non-Profit Sectors were examined.

First, it is necessary to highlight the homologation between the two sectors in terms of bookkeeping; in fact, almost the same documents (*Balance Sheet, Income Statement, Cash Flow*) are prepared for both.

The *Accounting Equation* is valid for both sectors and it indicates that assets must always equal the sum of liabilities and *Net Asset*. The main difference is found in the composition of the *Net Asset*. In an NGO it is given by the free assets, the Entity's endowment fund and the restricted assets, while in a profit it is formed by *shareholders' equity*.

NGOs carry out *liquidity, profitability* and *solvency* analyses just like profit companies. Obviously, the analysis of profitability in the for-profit sector takes on greater value, since the main purpose of companies is to make a profit. Moreover, it is difficult to quantify the return on an NGO's "investment", because the value of the projects' return is not traded in the private market (and therefore the consequence is the impossibility to define a "price").

The real differences between the sectors are to be found in the sources of revenues, objectives, stakeholder and performance measurement techniques.

The third and last chapter deepens the application of the concepts examined in the first two chapters, through the example of AMKA Onlus.

AMKA was founded in 2001 to contribute to the improvement of the living conditions of the populations in which it operates. It focuses its work on the integrated development of projects, i.e. it defines its activities with the help of local inhabitants, in order to fully understand their needs and to ensure that the future is defined by the community. It operates mainly in Congo, in Guatemala and on Italian territory.

The third chapter illustrates the importance of defining governance, organizational structure and value proposition for an NGO. It also shows the practical structuring of the accounting documents and the articulation of the items that make them up. Moreover, the calculation of some financial indicators, through the accounting items, clearly illustrates the evaluation of the operating management of the NGO.

Finally, a framework has been used to explain how to carry out the analysis of the social impact produced by the projects, dividing them into activities, inputs, outputs and outcomes.

Thanks to the collaboration with AMKA voluntary staff, it was possible to conclude this work with some reflections useful to increase the efficiency of the impact assessment system, also in view of the entry into force of the Legislative Decree that provides the obligation to carry out the impact evaluation.

It is clear that it is difficult to make precise measurements of these transformations, since they concern intangible and subjective aspects, but by improving the analysis of *baseline conditions*, using appropriate indicators and employing a defined and efficient governance structure, it is possible to implement concrete and detailed analyses of the outcomes generated.

## *Chapter 1: The impact of NGOs in the system*

### *1.1 General aspects of Third Sector*

The Third Sector today still gives space to different definitions and debates on its meaning and explanation. Its usefulness as a means of interconnection between the community and the Government is largely discussed, as well as its interpretation as an instrument of "ownership" of the State to influence society.

The Organizations that compose it may have different purposes and forms, but they have in common the Non-Profit nature.

Finally, the environment in which they operate becomes more and more "competitive" and difficult and for this reason, sophisticated management systems of the Organizations are developed.

#### *1.1.1 Strands of thought about Third Sector*

In many strands of thought and in general belief, the Third Sector is defined discontinuously and non-univocal. O. Corry states that most of the time, it is traced back to the concepts of 'civil society'<sup>3</sup> and 'volunteering' and it is seen as an area which is poorly defined, poorly regulated or rather which cannot be characterized by a dense body of legislation, otherwise the strengths of the Entity, represented by the motivation and the voluntary participation of the individuals, will be lost.

It includes foundations, social cooperatives and all those associations that do not belong to the State and the Market (first and second sector respectively)<sup>4</sup>.

The author frames the sector under two different perspectives: *ontological* and *epistemological*.

The first concerns the analysis of the sector, what it represents or not, and therefore two points of view emerge: the American one that defines it as characterized by certain qualities and the European one which instead explains it as a set of other social organizations (public and private), supporting a hybrid vision of the same.

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<sup>3</sup> Civil society: A set of associative, economic, cultural and social relations in complex societies between citizens, which is a distinct and sometimes opposed to the state and political society.

Definition by: Treccani, Dictionary of History, 2011

[http://www.treccani.it/enciclopedia/societa-civile\\_%28Dizionario-di-Storia%29/](http://www.treccani.it/enciclopedia/societa-civile_%28Dizionario-di-Storia%29/)

<sup>4</sup>Corry O., "Defining and Theorizing the Third Sector", Springer, Switzerland, 2010.

On the other hand, by using the *epistemological* approach, the Sector is configured as a process, rather than something objective. So, it could be understood as a way of communicating between different social systems and actors.

More specifically, as far as the *ontological* point of view is concerned, it is necessary to find precise and structured definitions of the sector under examination, in order to analyse all the characteristics of the same and its links with other sectors.

However, such a view can be deviant and reductive because, it does not take into account different points of view of the actors. For an economist, for instance, the characteristic that distinguishes the Sector, is the non-redistribution of profit whereas for a sociologist, it is the motivation guided by the values of the people who make it up.

For this reason, the *epistemological* approach is preferable and it allows to explain how the sector is formed, justifying and giving explanation to existence of different definitions and points of view on it. Moreover, by observing the sector from this perspective, it can be considered as a process of negotiation between the community and the political and economic actors. This means that citizens can use the Third Sector as a source of dialogue to create collaboration and to compromise with the Government.

Then, there is a less free vision, which contrary to the definition of a source of dialogue and cooperative interaction among Civil Society, Government and the Market, sees the Third Sector subject to the force and laws of Governments.

Corry defines it as '*governmental view*', which limits the sector according to what it must or it must not be, determining how it can or cannot act. Consequently, the Third Sector is used by States as a means of achieving their own goals and imposing their own rules on the population.

This line of thought is, however, reductive, by far diminishing the Third Sector, reducing it to a mere (and further) instrument of citizen control.

In reality, if we were to observe this Sector under a more critical (but also more objective) lens, we would support by far the *epistemological* vision, which gives it a procedural identity, therefore, it consider the system as a means of communication rather than control. Hence, society is free to express its needs (in continuous evolution) and Government and Market are able to understand them and in turn, to support them.

There is never a point of arrival, but a continuous evolution is observed as society's needs evolve.

In this regard, M. Kaldor, gives a further definition of the Third Sector, as it is a process based on communication, debate and negotiation rather than rationality, strength and coercion<sup>5</sup>.

Obviously, these considerations are not enough to give a complete and detailed definition of it.

Analysing the term *Third*, one can trivially guess the existence of characteristics that differentiate it from the first and second sector. That is to say, being a service provider sector, it differs from the second sector (market companies) by the absence of profit and from the first (public institutions), for the private nature of the organizations that compose it.<sup>6</sup>

For this reason, the birth of the Third Sector could be mainly due to the lack of State presence in the process of satisfying the needs of the community.

Consequently, the Sector must receive independence and autonomy from the State and the Market.

In addition, Salomon and Anheier state that, due to the inhomogeneity of the historical and cultural path of the various countries, it is impossible to attribute a univocal definition to the Sector. In Europe it is catalogued as a set of actors characterized by a set of shared values, while in England a more economic vision prevails and it focuses on the *mission* of the Organizations, therefore on the formal, private, not profit making and self-governing aspects.<sup>7</sup>

Also important it is the division between *member serving*, i.e. Organizations which carry out activities mainly in favour of their members and *public serving*, i.e. producers of services for the benefit of third parties.

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<sup>5</sup> Kaldor M., “*Journal of human development*”, Taylor & Francis, London, 2010.

<sup>6</sup> La rivista del lavoro sociale, “*Primo, secondo, terzo e quarto settore del welfare*”, Edizioni Centro Studi Erickson S.p.A, 2015. <http://www.lavorosociale.com/archivio/n/articolo/primo-secondo-terzo-e-quarto-settore-del-welfare>

<sup>7</sup> Salomon L.M., Anheier H.K., “*In Search of non profit Sector II: Il problema della classificazione*”, Voluntas International Journal of Voluntary and Nonprofit Organizations, 1992.

Salomon and Anheir, through their project *'International Classification of Non-Profit Organization'*, propose a table for the classification of the Third Sector.

<b>ICNPO</b>	<b>International Classification of Non-Profit Organization</b>
<b>1</b>	Culture and recreation
<b>2</b>	Education and research
<b>3</b>	Healthcare
<b>4</b>	Social services
<b>5</b>	Environmentalism
<b>6</b>	Promotion to the development of the local community
<b>7</b>	Promotion and protection of civil rights
<b>8</b>	Philanthropic intermediaries and promotion of voluntary work
<b>9</b>	International activities
<b>10</b>	Business, trade union and professional organizations

Fig. 1 International Classification of Non-Profit Organization, by Salomon L.M., Anheier H.K., 1992.

From this classification, Amka Onlus (subject of the third chapter), can be traced back to the second, third, sixth, seventh and ninth category. In fact, the Organization is involved in implementing projects in Guatemala and Congo, with the objective of food safety and personal hygiene, it carries out challenges for the defence of the rights of individuals and the empowerment of women. It therefore seeks to improve the lifestyle of the communities in which it operates, also dealing with the health problems faced (i.e. in Guatemala diabetes is widespread, so the Association has set up a diabetes centre to which medicines and awareness of this disease are provided).

Knapp and Kendal argue that, in order to be considered a Non-Profit, an Organization must be formally established, it must be self-governing, it cannot distribute profit, it takes benefit from philanthropy and it produces external benefits.<sup>8</sup>

Also Bauer states that, what distinguishes the Third Sector is that the Organizations that make it up are non-governmental, Non-Profit, private and voluntary. He adds that this sector can be more properly defined as a fourth sphere, which it is used as a point of contact between Government, Market and community.

<sup>8</sup> Kendall J., Knapp M., *"Voluntary Means, Social Ends"*, PSSRU, Canterbury, 1995.



This characteristic can represent a strength but also a weakness of the same, since it is a means to manage relations, which are conflictual or cooperative, among other spheres.<sup>9</sup>

Another different view is the one of Hansmann, which defines the Organizations about the type of financing and of control: for the former on the basis of donations, grants and sales; for the latter on the basis of control by donors or entrepreneurs.

He goes on arguing that, the Third Sector can be considered as a surrogate to the State, having the objective of improving the welfare state, or it can be considered independent from the State to solve social problems, but at the same time coordinating with the State to overcome bureaucratic obstacles and to adapt supply to demand.<sup>10</sup>

Extrapolating the main concepts of the different strands of thought, it can therefore be concluded that the Organizations belonging to the Non-Profit Sector, have the objective of producing goods and services on a Non-Profit basis. They have to use the profits for the supply of further goods and services, to improve the quality and well-being of the people.

The subjects that make up the Organizations, are guided not only by pure rationality, but also by a series of common motivational values.

Therefore, in conclusion, the Organizations have some well-defined characteristics: they are private, self-governing and the work offered by them is voluntary and not for profit-making purposes.

### *1.1.2 Academic definitions and classification of NGOs*

During a "NGO Workshop" organized at the Asian Institute of Technology of Bangkok, an NGO is defined in a highly comprehensive and detailed manner, as: "*A Non-Profit making, voluntary, service-oriented/development organization, either for the benefit of members (a grassroots organization) or of other members of the population (an agency). It is an organization of private individuals who believe in*

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<sup>9</sup> Bauer R., "*Journal of Voluntary and Nonprofit Organizations*", Springer, Switzerland, 1990.

<sup>10</sup> Hansmann H., "*Economic Theories of Nonprofit Organizations*", *The Nonprofit Sector: A Research Handbook*, Yale University Press, New Haven, 1987.

*certain basic social principles and who structure their activities to bring about development to communities that they are servicing.... An organization not affiliated to political parties, generally engaged in working for aid, development and welfare of the community....they are not only a charity organization, but work on socio-economic-cultural activities. An organization that is flexible and democratic in its organization and attempts to serve the people without profit for itself.”<sup>11</sup>*

The U.N. define an NGO as: *“it is a non-for-profit, voluntary citizens’ group, which is organized on a local, national or international level to address issues in support of the public good.”<sup>12</sup>*

Finally, a last, more concise definition is provided by Vakil: *“self-governing, private, not for profit organisations that are geared to improving the quality of life of the disadvantaged people”<sup>13</sup>*.

These definition enclose the synthesis of what is expressed in the previous paragraph i.e. what it can be found in literature.

NGOs can be classified according to their orientation:<sup>14</sup>

- *Charitable orientation*, i.e. they are based on a paternalistic approach and therefore those who benefit from the goods and services are not very participative (i.e. Amka Association).
- *Service orientation*, the production of services such as health, education and therefore stakeholder are actively involved.
- *Participatory orientation*, in which the (economic and labour) support of the local inhabitants is foreseen.

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<sup>11</sup> Workshop notes: "NGO Workshop" organized at the Asian Institute of Technology, Bangkok, 1988.  
<https://www.gdrc.org/ngo/wb-define.html>

<sup>12</sup> Ricki E. Kantrowitz, NGO Representative, “UNITED NATIONS: DEFINITIONS AND TERMS”.  
<https://www.apa.org/international/united-nations/acronyms.pdf>

<sup>13</sup> Vakil A., “*Confronting the classification problem: Toward a taxonomy of NGOs*”, University of Windsor, Canada, 1998.

<sup>14</sup> Goel S. L., Kumar R., “*Administration and Management of NGOs : Text and Case Studies*”, Deep and Deep Publications Pvt. Ltd., New Delhi, 2004.

- *Empowering orientation*, in order to raise awareness in some groups of people about the political, social and economic factors that affect their lives (i.e. Amka Association).
- *Community-Based Organizations*, such as sports clubs and religious organizations.
- *City Wide Organizations*, such as the Rotary Club, organizations that are formed by people from the same social group who are prepared to help the poorest.
- *International NGO*, their main activity is to find social projects of local associations.

On the other hand, the World Bank characterizes the Third Sector Organizations through two macro categories:<sup>15</sup>

- Operational NGOs: the main object is the implementation of development projects. These Organizations need to find staff and money and to do so they need a well-defined bureaucratic apparatus for Budgeting, accounting and reporting and high skills to implement impactful fund-raising campaigns.

- Advocacy NGOs: they deal with specific social causes or pressure to change the policies of international organisations. In this type of NGOs, even if donor funds are needed, they are not as strongly needed as for Operational NGOs. Campaign contributors donate money to highlight their presence and the significance of the campaign itself.

### 1.1.3 NGOs lifecycle

At this point, having repeatedly stressed that NGOs must be formally established and that they achieve profits (even if there is a prohibition of redistribution), we need to reflect on a fundamental and critical point: can NGOs fail? What is their life cycle? Can it be compared to the one of for-profit companies?

One of the main models used in this regard is from US and it was theorized by O'Connor in 1998.

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<sup>15</sup> Malena C., "*Working with NGOs: a practical guide to operational collaboration between the world bank and non-governmental organization*", Operations Policy Department, World Bank, 1995.

The first phase is obviously the one of the *birth* of the Organization, followed by the development of the Boards and then the staff, i.e. the structure. The second and third phases are mostly aimed at determining the internal disposition of volunteers, managers and all the staff that compose it.

Then it comes the *maturity* and *consolidation* phase, the latter characterized by a change of focus, which from internal becomes external. It is based on exogenous stimuli, on its own strengths and on establishing cooperative relationships with other Organizations, forming networks which can expand worldwide (the so-called *Non-Profit groups*).

Finally, as for profit companies, there is the phase of *decline* or *rebirth*.

Obviously, it is necessary to consider the existence of external variables, which guide the Organization in one phase rather than another, or internal variables, which influence the passage between one phase and another; further, it may happen that the different organizational areas of the same, are in different phases. For example, small NGOs go directly from the initial phase of birth to the phase of rebirth, through changes in *mission* and staff.

During the life cycle, the Entity has to make important choices regarding the sizing of personnel (obviously not always more personnel is synonymous of greater productivity), the improvement of management skills and capabilities of managers, the administration of funding sources and the expansion of the sectors in which it operates.

After the Organization has consolidated, it reaches a critical and decisive point for business continuity and it faces with two alternatives: *rebirth* or *decline*.

At this point it is necessary to analyse the causes that can lead an NGO to decline and therefore to failure. A further distinction is made between:

- *Structural factors*, i.e. issues related to the *values* for which the Non-Profit was born, or related to culture, *vision*, disengagement in ordinary and strategic management, or to the decline of leadership and possible internal conflicts.
- *Functional factors*, which refer to the acquisition and use of resources. Personnel and monetary funds are the two main productive factors of NGOs. The problem of personnel concerns the high turnover that characterizes the Sector, the difficulty of staff retainment and the recruitment of qualified personnel. Instead, as far as liquidity is concerned, there are different ways to find it; through institutional fund raising, funds come from international

agencies (ex. UN), while through market fund raising, funds come from a large pool of stakeholder (ex. grant foundations<sup>16</sup>, individuals, companies, banks). The difficulty in the supply of money lies in the increase in the number of Organizations present on the territory and therefore in the growing competition between them.<sup>17</sup>

In order to overcome these problems and to allow the continuity of the activities, Non-Profit Organizations, just like for-profit companies, are evolving to react to the growing competitiveness that characterizes even the Third Sector, implementing digitized solutions both for the recruitment of personnel (e-volunteering) and for fundraising (e-charity).

The growing competitiveness of the Organizations, also requires greater transparency from them towards their stakeholder (associates, donors, workers). In this way the NGO preserves its image and reputation and ensures its continuity. It is therefore necessary for the NGO to develop a management control through which it is able to maintain its economic and financial balance.

## **1.2 Italian Legislation about Social Sector**

As early as the nineteenth century there has been legislation on NGOs, which were called *public charitable institutions*.

The regulation of the Third Sector has evolved into a reform that started in 2016, which includes important changes.

Organizations are required to draw up accounting documents and to use indicators and performance measurement systems. In this sense, the legislative distance between for-profit and Non-Profit Sector is increasingly narrowing.

### **1.2.1 The beginning and the evolution of Legislation (from 1890 to 2000)**

With the entry into force of the law of 17 July 1890 on *pious works*, it comes

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<sup>16</sup> The grant-making model chosen by those foundations that decide not to provide services directly, but rather to use their assets to finance projects and activities, including those proposed by other actors, deemed close to the statutory purposes. Definition by: Noia E., “Fondazioni di impresa: modelli d’azione nel panorama italiano”, Percorsi di Secondo Welfare, 2017. <https://www.secondowelfare.it/terzo-settore/fondazioni/fondazioni-di-impresa-modelli-dazione-nel-panorama-italiano.html>

<sup>17</sup> Menguzzo M., “Economia e gestione delle aziende nonprofit”, Aracne, Roma, 2008.

legally given a definition to Non-Profit Organizations: *"Charitable institutions subject to this law are pious works and any other moral institution that has in whole or in part for the purpose of: a) providing assistance to the poor, both in the state of health and sickness; b) providing education, instruction, initiation into any profession, art or craft, or in any other way moral and economic improvement."*

Article 20 states that public Non-Profit making charitable institutions must draw up their Budget and final accounts and *"a report on the moral performance of their management"*.<sup>18</sup>

This law remained in force until 1924, since in 1923 a decree was issued to rectify it and the wording *'public charitable institutions'* was changed to *'public welfare and charitable institutions'*.<sup>19</sup>

In 1987 a law on development cooperation was issued, which provides for the satisfaction of basic needs, principles of food self-sufficiency, environmental protection and ways of participating in the process of economic and social improvement in developing countries. The Organizations involved were independent from governments, they were not for profit and they were set up in the form of non-recognized associations.<sup>20</sup>

In 1991 the Framework law on volunteering was issued, which recognises the social value of volunteering and it regulates relations between regions and voluntary organisations.<sup>21</sup>

In the text of the law the characteristics of voluntary work such as spontaneity and absence of remuneration emerge, as well as the trait of the absence of profit and the obligation to draw up the Balance Sheet for the NGOs.

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<sup>18</sup> Legge 17 luglio 1890, n. 6972, "Legge sulle Opere Pie."  
<https://www.normattiva.it/uri-res/N2Ls?urn:nir:Stato:legge:1890-07-17:6972>

<sup>19</sup> R.D. 30 dicembre 1923, n. 2841. Riforma della legge 17 luglio 1890, n. 6972, "Sulle istituzioni pubbliche di assistenza e beneficenza."  
[http://www.edizionieuropee.it/LAW/HTML/0/zn10\\_02\\_001.html](http://www.edizionieuropee.it/LAW/HTML/0/zn10_02_001.html)

<sup>20</sup> Legge 26 febbraio 1987, n. 49, "Nuova disciplina della cooperazione dell'Italia con i Paesi in via di sviluppo."  
[https://www.gazzettaufficiale.it/atto/serie\\_generale/caricaDettaglioAtto/originario?atto.dataPubblicazioneGazzetta=1987-02-28&atto.codiceRedazionale=087U0049&elenco30giorni=false](https://www.gazzettaufficiale.it/atto/serie_generale/caricaDettaglioAtto/originario?atto.dataPubblicazioneGazzetta=1987-02-28&atto.codiceRedazionale=087U0049&elenco30giorni=false)

<sup>21</sup> Legge 11 agosto 1991, n. 266, "Legge-quadro sul volontariato."  
<https://www.gazzettaufficiale.it/eli/id/1991/08/22/091G0313/sg>

The Legislative Decree of 1997 has great importance in the Third Sector, defining in a precise manner all the Entities that fall within it, the fields of action for which an Organization is classified as Non-Profit, the prohibition of the redistribution of profits and their use in the activities of the Institution, the obligation to donate the assets in case of dissolution of the Organization and the obligation to draw up the Balance Sheet.<sup>22</sup>

In addition, this Decree determined a series of support and fiscal advantages for entities such as foundations, committees and cooperative societies, whose purpose was the pursuit of social solidarity.

### 1.2.2 Radical changes in the Legislation of Third Sector (from 2000 to 2012)

The Framework Law of 2000 "*for the implementation of the integrated system of social interventions and services*", marks a great change for the Third Sector, which increases its importance. Through it, the Third Sector Entities, together with the State, Regions and Municipalities are responsible for the implementation of social interventions. They are responsible for planning them according to the needs of society.<sup>23</sup>

In addition, Non-Profit Organizations (citizens' associations, Onlus, social cooperatives, voluntary organizations, social promotion bodies and foundations), can provide some social welfare services, alternative to those offered by the public administration. The Regions determine the requirements and define the quality of the services provided.

In this way, a new welfare system is created based on cooperation between the First, Second and Third sectors, aimed at satisfying social needs and providing civil society the opportunity of defining interventions aimed at development and solidarity.

The great revolution took place in 2001, when the principle of subsidiarity was incorporated into Article 118 of the Constitution which "*...also regulates forms of understanding and coordination in the field of the protection of cultural goods. The*

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<sup>22</sup> D. Lgs. 4 dicembre 1997, n. 460 "Riordino della disciplina tributaria degli enti non commerciali e delle organizzazioni non lucrative di utilità sociale."

<https://www.gazzettaufficiale.it/eli/id/1998/01/02/097G0489/sg>

<sup>23</sup> Legge 8 novembre 2000, n. 328, "Legge quadro per la realizzazione del sistema integrato di interventi e servizi sociali."

<https://www.gazzettaufficiale.it/eli/gu/2000/11/13/265/so/186/sg/pdf>

*State, Regions, Metropolitan Cities, Provinces and Municipalities favour the autonomous initiative of citizens, individuals and associates, to carry out activities of general interest, on the basis of the principle of subsidiarity.*<sup>24</sup>

In function of this news, the transformation of the relationship between the Third Sector, the State and the Market is confirmed, since it redefines a welfare system that focuses on the guarantee of the rights of individuals rather than on the determination of the subjects that take care of them. Therefore, social services are provided by a plurality of subjects rather than only by the State.

Also in 2000, by the Decree of the President of the Council of Ministers of 26 September, the Agency for the Third Sector was set up to supervise, promote, guide and control Non-Profit organisations.<sup>25</sup>

Its role was to improve the operations of the Sector's Entities through the drafting of principles for the accounting documents, for fundraising and for the participation of the Sector in the definition of local interventions.

The agency remains active until the entry into force of the Decree Law no. 16 of 2 March 2012, which delegates its functions to the Ministry of Labour and Social Policies.

### *1.2.3 Actual Italian Legislation about Third Sector (from 2014 to 2020)*

After twenty years, Law no. 125/2014 definitively redefines the scope of international development cooperation.<sup>26</sup>

Article 1 states that the development cooperation *"is an integral and qualifying part of Italy's foreign policy"* and, in fact, the Ministry of Foreign Affairs is subsequently named Ministry of Foreign Affairs and International Cooperation (Law 132/2019).

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<sup>24</sup> Legge costituzionale 18 ottobre 2001, n. 3, "Modifiche al titolo V della parte seconda della Costituzione"  
<http://www.parlamento.it/parlam/leggi/01003lc.htm#:~:text=L'articolo%20118%20della%20Costituzione,di%20sussidiariet%C3%A0%2C%20differenziazione%20ed%20adeguatezza>.

<sup>25</sup> Ministero del Lavoro e delle Politiche Sociali, Agenzia terzo settore  
<http://sitiarcheologici.lavoro.gov.it/AreaSociale/AgenziaTerzoSettore/Pages/default.aspx>

<sup>26</sup> Legge 11 agosto 2014, n. 125, "Disciplina generale sulla cooperazione internazionale per lo sviluppo."  
<https://www.gazzettaufficiale.it/eli/id/2014/08/28/14G00130/sg>



The State in an annex to the Budget publicly communicates the amount of resources allocated to international cooperation.

The objectives are the reduction of poverty and inequality, the certainty of ensuring human rights for all the world populations and the cessation of conflicts.

In order to implement cooperation interventions, Italy must participate in initiatives of international institutions and in cooperation plans promoted by the European Union; the Regions, the *Cassa Depositi e Prestiti* and the community participate with financial initiatives; finally, timely interventions in humanitarian emergencies must be defined.

Article 12 provides the preparation of a three-year document through which the subjects that participate in development cooperation (State, NGOs, Regions, profit organizations) must specify the vision, objectives and methods by which a project is carried out and to which territories it is addressed.

Last but not least, the *report on development cooperation activities*, through the use of indexes, it must express the level of achievement of project results and further indicate the activities in progress. It must be completed by the previous year.

The Third Sector is defined by the Delegated Law 106/2016 article 1, as the set of private Institutions having civil, solidarity, social utility objectives and not-for-profit making purposes. They implement actions of general interest, which are voluntary and free of charge and they produce goods and services, which are in line with their statutes.<sup>27</sup>

Within twelve months of the date of entry into force of this law, the Government must issue one or more Legislative Decrees on the reform of the Third Sector, defined as such because it provides all the rules governing the Non-Profit and social enterprise.

Some of the main articles of the Law are:

- Article 4 which states the definition, through subsequent Decrees, of common provisions applicable to the Third Sector Organisations and of common activities that have, as their object, the aims of general interest

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<sup>27</sup> Legge 6 giugno 2016, n. 106, “ Delega al Governo per la riforma del Terzo settore, dell'impresa sociale e per la disciplina del servizio civile universale.”

<https://www.gazzettaufficiale.it/eli/id/2016/06/18/16G00118/sg>

and the prohibition of the redistribution of profits. Moreover, it provides that the activity of the Entity shall be based on certain standards of quality and social impact, transparency and simplicity for the verification of results in terms of efficiency and effectiveness.

- Article 5 sets out to give guidelines and parameters for the definition of volunteering, social promotion and mutual aid, establishing a consultation body, the *National Council of the Third Sector*.
- Article 7 requires the *Ministry of Labour and Social Policy* to carry out monitoring and control functions. The evaluation is qualitative and quantitative, observing the medium-long term benefits of the activities carried out by the agency and considering the subjects to whom the interventions are addressed (social impact analysis).
- Article 9 concerns the reorganisation of the tax system and the advantages for Third Sector entities.

Subsequently, Legislative Decree 117 of 2017 has been enacted "*in order to support the autonomous initiative of citizens who contribute, also in an associated form, to pursue the common welfare, to raise the levels of active citizenship, cohesion and social protection, promoting participation, inclusion and full development of the person, to enhance the potential for growth and employment at work*".<sup>28</sup>

Therefore, the changes brought by this Decree are various and have as their object the reorganization and revision of the regulations of the Third Sector.

Article 4 of the Code defines the Institutions which are part of the Sector; therefore, there are voluntary organizations, social promotion associations, philanthropic bodies, social enterprises, associative networks and mutual aid societies, underlining the civic and social utility objectives and the free supply of goods and services produced by them.

According to article 5, activities of general interest are defined as follows: health and social-healthcare services, activities aimed towards education, actions towards the environment and cultural heritage, scientific research, actions aimed to development, services for reintegration into the world of work, commercial activities

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<sup>28</sup> D. Lgs. 3 luglio 2017, n. 117, "Codice del Terzo settore, a norma dell'articolo 1, comma 2, lettera b), della legge 6 giugno 2016, n. 106."

<https://www.gazzettaufficiale.it/eli/id/2017/08/2/17G00128/sg>

carried out in favour of fair trade, charitable activities, promotion of legality and human rights.

Article 7 regulates the collection of funds by Entities and it stresses that they must be used to support activities of general interest. Funds may even be raised on an on-going basis and through the provision of goods and services, but always in accordance with principles of transparency and fairness towards their stakeholder.

Article 8 underlines the impossibility (even indirectly) of redistribution of profits among the subjects that make up the Organization.

Article 9 states that in case of dissolution, the Organisation must donate the remaining assets to other Entities of the Sector.

Articles 13, 14 and 15 concern the Balance Sheet obligations of the Entities of Third Sector.

More specifically, Article 13 provides information for the preparation of the financial statements for Entities with revenues of not less than 220,000 euros, including the *Balance Sheet*, the *Cash Flow Statement* and the *Report on the Mission*, explaining the economic and financial performance and how the statutory purposes are achieved. The financial statements must be drawn up according to the guidelines laid down by the *Ministry of Labour and Social Policies*.

Article 14 adds the obligation for Entities with revenues greater than 1 million of euros, to draw up the social Budget, which takes into account the activities that have been carried out and the size of the Entity for the assessment of the social impact produced by the same.

Finally, Article 15 is further relevant and important, because it defines the other accounting records that are mandatory for Third Sector Organizations, i.e., the book of associates, the book of meetings and resolutions of the shareholders' meetings, of the Board of Directors, of the control body, and of any other corporate bodies; it also provides the possibility for associates to consult the books.

It can therefore be said that with the legislative measures of 2000 and 2016 there is a radical change in the Third Sector. More autonomy and more value are given to Organizations. They have become real players in development cooperation,

with the task of providing services and support for the protection of citizens' fundamental rights (i.e. Amka Onlus).

In these legislative texts, there is already a talk about the intervention planning systems and the qualitative and quantitative monitoring pursued by them. In any case, it is only in 2019 that a real structure of the social impact assessment process it is in place.

With the Decree of July 23, 2019, the Legislator draws up a series of parameters through which Organizations are able to make concrete assessments of the effects produced by their interventions. Therefore, Organizations will be able to provide their stakeholder with timely information about social, cultural and economic impact produced.<sup>29</sup>

The criteria on which the social impact assessment system developed by the Legislator is based, are:

- *Intentionality*: i.e. the relationship between the evaluation system and the strategic objectives of the Entity;
- *relevance*: it is necessary to make available all the information useful for a correct evaluation of the activity carried out;
- *reliability*: truthfulness of the information, specifying its sources;
- *measurability*: the Organization's operations that generate a quantifiable result must be properly defined through the value they produce and by the means of indexes and indicators;
- *comparability*: between historical and current data;
- *transparency and communication*: i.e. disclosure of results.

The legislator even defines the phases that this process must follow, starting from the phase of analysis of the needs of the context in which the Organization operates, followed by the phase of planning the objectives and the phase of planning the methodologies and the timing through which achieve them. Once the project has been implemented, it is necessary to monitor the degree to which the objectives of the

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<sup>29</sup> Decreto 23 luglio 2019, "Linee guida per la realizzazione di sistemi di valutazione dell'impatto sociale delle attività svolte dagli enti del Terzo settore."

<https://www.lavoro.gov.it/documenti-e-norme/normative/Documents/2019/DM-23072019-Linee-guida-realizzazione-sistemi-valutazione-impatto-sociale-attivita-svolte-dagli-ETS.pdf>

intervention have been achieved and finally to communicate the results, which will also serve to formulate the next project strategies.

It emerges the fact that the Organizations must equip themselves with precise methodologies through which they constantly and promptly inform their stakeholder; it is necessary to provide analytical and qualitative data of the operational impact, thanks to the use of monetary or non-monetary indexes and indicators, which are appropriate to the scope of action of the organization.

Projects which are characterised by a deadline, are defined by:

- activities: i.e. actions carried out to meet the needs of the target populations of the measures and which comply with the mission;
- input: resources (human and financial) used by the Organisation;
- output: results obtained from the activities implemented;
- outcome: long-term results that have a high impact on the life of the population targeted by the measures.

In Italy, 30 June 2020 was the deadline by which Third Sector Organizations should have adapted their statutes to the Third Sector Code, but given the pandemic situation which occurred during these months, the deadline has been established for 31 October 2020.

### ***1.3 How the macro environment of NGOs has changed***

The environment in which for-profit and Non-Profit organisations operate is constantly evolving. Exogenous factors such as Industrial Revolutions, Globalization and ideological and social changes, give rise to new needs of the community.

Governments sometimes find themselves unprepared and unable to create solutions to deal with them. For this reason, the Third Sector becomes fundamental in social functioning and its importance increases dramatically.

#### ***1.3.1 Short historical hints***

To date, the established presence of Non-Profit Organizations is justified by the high quality and quantity of services they provide to the community and therefore, for its ability to support the State and the Market with a view to increase welfare.

The UN coined the term "Non-Governmental Organization" in 1945, given the need to refer to private, non-governmental and Non-Profit Organizations that participate in the protection of rights.<sup>30</sup>

The reasons why Third Sector Organizations become increasingly important players in the modern scenario, are various and depend on the transformations that society has undergone over the past centuries.

During the Industrial Revolutions, serious problems begin to arise such as the exploitation of child labour, the impoverishment of the health and hygiene conditions of the poorer classes, but also issues such as the right to vote for women.

Historically '68 is characterized by revolts of the community, which create a moment of civil growth. This same year is marked by the birth of organizations that seek to include in the community, groups of marginalized people (mentally ill, drug addicts...).

Hence during this period, the task of these Organizations is to recognize emerging needs, which are not understood and satisfied by Governments. Moreover, citizens start to feel as part of civic and social life, as also real protagonists of change thanks to their participation and motivation.<sup>31</sup>

After the crisis of the 1990s, the abundant economic availability of governments is lacking, consequently affecting their capacity to deal with public problems.

For this reason the Third Sector is used by the State as a tool to implement activities that it can no longer carry out due to the lack of funds. Therefore, the density of Non-Profit Organizations in the territory increases and consequently, for each one, the aid coming from Governments decreases.<sup>32</sup>

As a result of these events that change the nature, number and tasks of NGOs, the legislative body that concerns them, becomes more and more complex and detailed, including the compulsory drafting of detailed financial books and the use of specific social impact assessment systems.

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<sup>30</sup> Morrison A. *"Non-Governmental organisation performance : financial governance and its impact on funder policies."* Sheffield Hallam University, 2008.

<sup>31</sup> Borzaga C., Janes A., *"L'economia della solidarietà"*, Donzelli, Roma, 2006.

<sup>32</sup> Ascoli U., Ranci C., *"Il welfare mix in Europa"*, Carocci, Roma, 2003.

### 1.3.2 Relevance of Third Sector

The Third Sector evolves abruptly and therefore the objectives and aims of the Organizations change, becoming more and more sophisticated. The legislation in fact provides a detailed planning of interventions through systems that reflect the nature and characteristics of the Organization itself.

As in for-profit organizations, when there is a change in the reference environment, it is the people who make up the organization that allow it to change. This means that also in Non-Profit Organizations it is the volunteers, the workers, the managers who adapt their values, their motivation and their skills to exogenous changes, to allow the Organization to survive.

Globalization has played a fundamental role in the evolution of the sector, making it more dynamic and flexible. It has also increased the importance and participation of NGOs in social policy decisions.<sup>33</sup>

The Third Sector is fundamental in developed societies where new needs are always arising. Thus, the rise of the Sector is due to various factors such as the worsening of the Welfare State, problems in the labour market, the change of societies and therefore the increase in the commitment of the community. Thus, it is assumed that the Sector is able to hire workers who can find no other employment, producing goods and services that Governments are unable to offer and consequently implementing activities which are not convenient for the Market<sup>34</sup>.

Globalisation obviously brings with it serious problems, as efforts are being made to increasingly homogenise the economic, political and social spheres at international level. This process increases social problems such as the proliferation in inequalities, thus defining one of the reasons for the popularity of NGOs.

In fact, Salomon and Anheier define the Entities of the Third Sector on a par with the small companies belonging to the profit sector, from the point of view of their ability to determine innovations, regarding the emerging needs of the community.

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<sup>33</sup> Nawaz A., *“Investigating Impacts of Globalization on Performance of NGOs”*, Global Journals Inc., USA, 2015.

<sup>34</sup> Converso D., Piccardo C., *“Il profitto dell’empowerment. Formazione e sviluppo organizzativo delle imprese non profit.”*, Raffaello Cortina Editore, Milano, 2003.

From this it comes the competence of the Organizations to be a fundamental part of the economic and cultural phase that is going through.

Therefore, this Sector can be considered as an engine of development for the change of the present society.

Salomon and Anheir mainly identify three causes according to which there has been and still there is a dominant development of the Third Sector. First of all, the size of the service economy has increased, because only in this sphere it is possible to find an increase in employment. In addition, there is a demographic growth that has caused a rise in the quantity of social services and last but not least, political and ideological transformations have occurred, creating profound changes in the consideration of Organizations.

High rates of development of the Sector are found in Countries where the relationship between State and Non-Profit is cooperative and consequently, the Sector is subsidized in large part by public funds.

It should be noted, however, that after the financial crisis that occurred at a global level, the funds provided by Governments have been reduced, jeopardizing the survival of many Organizations. For this reason and due to the growing competition of for-profit companies in the provision of certain services, NGOs must use fund raising systems that are similar to those of the profit sphere, leading to an increase in comparability between the two sectors.<sup>35</sup>

According to Professor Nawaz, the increase in the use of technology, driven by globalization, has created problems and even benefits for Non-Profit Organizations.

On the one hand, NGOs can respond abruptly to certain situations using the network and they can improve relations with volunteers and other organizations, thanks to the continuous interconnection. On the other hand, however, the implementation of new technologies requires investments (difficulties that emerge from the lack of funds) and new skills for the staff (resistance could be created by the staff and therefore there could be an increase in turnover).

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<sup>35</sup> Ibid, note 4.



Nawaz argues that NGOs are flexible and ready for change, as they know how to recognize in advance the redefinition of community needs or the emergence of new needs, given their proximity to society.<sup>36</sup>

In conclusion, it can be said that the Sector has undergone a wide expansion both in quantitative terms, but also for the increase of possible forms of association, of legislative body and for the rise of the personnel and the community's motivation, in the achievement of objectives and common welfare.

The scenario in which NGOs operate is constantly changing and it is characterized by the lack of funds and by the increase of competition, factors that undermine their survival and test their resilience.

For this reason, it is necessary to adopt innovative solutions, such as networking with other organizations and/or cooperation with other sectors and to follow the reporting and impact assessment schemes proposed by current legislation, in order to constantly monitor the economic-financial situation and the satisfaction of stakeholder.

### 1.3.3 Theoretical Organizational changes

The Organization must implement internal changes in order to respond to the challenges of the external environment.

Laughlin proposes a model in order to understand what variables the company needs to work on. He proposes three elements to take into account and he analyses them according to their tangibility, nature and relevance to the Organisation.

The first element is called "*interpretive schemes*", which concerns intangible resources such as beliefs, norms, *values* and rules which affect the *mission* and the aims of the organization; then there is the "*design archetype*", which concerns the structure, decision-making and communication process and refers to more or less tangible aspects. Finally there is the "*organizational sub-system*", which concerns the infrastructure, systems and processes of the organization. The latter affects how performance is measured, the accounting system and the channels through which the organization communicates externally.<sup>37</sup>

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<sup>36</sup> Ibid, note 30.

<sup>37</sup> Kuruppu S.C., Lodhia S., "*Disruption and transformation: The organisational evolution of an NGO*", The British Accounting Review, University of South Australia, Australia, 2019.

A difficult challenge for the Entities is therefore represented by the modification of variables within the Organization, which are difficult to change because they require investments in time and money.

In conclusion, therefore, it can be said that Non-Profit Organizations, in the short term, must change their Statutes and therefore they adapt internal factors such as resources, skills and organizational culture, to respond to legislative changes introduced and to adopt innovative models which must be able to ascertain the performance and social impact produced.

This challenge which is introduced by an external factor, such as the change in the regulation of the Sector, could cause the disappearance of some Organizations that are not able to adapt and to exploit the flexibility characterizing the Third Sector.

#### ***1.4 Meaning of Performance for NGOs***

The environment in which organisations (for-profit and Non-Profit) operate is evolving and its complexity is increasing. Therefore, it is necessary to look for suitable measures to better understand how to use resources, to estimate the results and the impact obtained by using them.

It is therefore necessary to identify means of measuring performance that take into account all areas of the business.

##### ***1.4.1 Theoretical Frameworks about Performance Measurement in NGOs***

Why is it becoming increasingly important for NGOs to determine their performance? What are the causes that have reinforced this need?

Since 1980, state aid has become more difficult to obtain and it can only be claimed if the Entity meets certain financial and impact standards.

Moreover, after the Cold War, the request of donors to NGOs was to change their activities to meet the needs of society.

During the 1990s, NGOs began to claim that, compared to governments, they had better skills and potential to address social issues and therefore they had to prove it.

Finally, the last factor is the relationship between effectiveness and the ability to learn from past experiences, which it is particularly important in the Third Sector due to its orientation to incorporate the changes that are needed in the society. Thus,

performance will depend on the ability to respond to challenges determined by the environment. This is only possible through learning and therefore through the collection of data on all processes, activities, resources and the impact produced by activities.<sup>38</sup>

In general, Keller & Price define organizational performance as the value that the company produces for its stakeholder, using certain measures such as: return on capital, return for shareholders, management costs and stock rotation.<sup>39</sup>

With regard to the concept of performance in NGOs, one can find different visions and models through which it is measured.

For example, according to Armstrong and Baron, it is necessary to take into account inputs, behaviours, outputs and results and therefore an organisation performs well when it makes the best use of skills, achieves results and aims. Obviously, the factors that influence process, performance and its measurement vary as organizational characteristics change.

According to the authors, the aspects influencing the quality of performance are personal, team-based, and concern the leadership, the system and the context in which the NGO operates. These factors are the same ones that make up the Organisation and for this reason they define the results.

The context in which an NGO operates can be understood from its culture which is the set of beliefs, *values* and standards shared by the members of the Organization. This factor is predominant in the definition of performance because it determines the actions which are implemented.

Then personal and group-based factors are mentioned. The former concern the explanation of work positions, the tasks and the duties assigned to each worker, which the more circumscribed they are, the more they increase the motivation of individuals and the definition of a positive and productive work environment. The second refer instead to group work, which is very important nowadays and it is characterized by organizational structures that are increasingly flat and oriented to teamwork.

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<sup>38</sup> Fowler A., *“Demonstrating NGO performance: problems and possibilities”*, Oxfam, UK and Ireland, 1996.

<sup>39</sup> Keller S., Price C., *“Beyond Performance: How Great Organizations Build Ultimate Competitive Advantage.”* John Wiley & Sons, Inc., new Jersey, 2011.

The factors of the system concern the *values* and the aims that the Organization proposes. Hence, to improve efficiency and effectiveness, it is necessary to use planning systems and to listen to the voice of stakeholder to make sure they agree with the *core values* of the organization.

Finally, as far as leadership is concerned, it is especially important to manage the personnel who must have the right skills, values and motivation to achieve the objectives.

The authors define performance management as a constantly evolving process that includes skills and objectives, feedback and increasing work skills to improve results.<sup>40</sup>

Consequently, in order to achieve satisfactory levels of performance, it is useful to use timely planning tools and also to use motivating and flexible management and leadership models. Moreover it is needed to implement efficient techniques for Budgeting and for economic-financial measurement, so as to be transparent and to inform its stakeholder about the situation, while listening to their opinion.

Another approach which explains the performance management process is the one proposed by Jacobs, who states that the *strategy definition phase* must be able to bring as much benefit as possible to the standard of living of the target populations.<sup>41</sup>

Then, there is the *planning phase* through which, according to stakeholder, the action plan is defined in order to achieve the objective. More specifically, the author supports the importance of this phase which focuses on people and relationships needed to achieve the goals.

Through the *Theory of Change*<sup>42</sup>, one can observe the aims that the Organizations set themselves, such as the increase of welfare, through the production of services or the supply of technologies which are useful for this purpose; the modification of policies in favour of the poorest through lobbying.

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<sup>40</sup> Armstrong M., Baron, A. “*Performance Management: A Strategic and Integrated Approach To Achieve Success.*”, Jaico Book, Mumbai, 2006.

<sup>41</sup> Jacobs A., “*Managing Performance in NGO: A 10 Point Agenda*”, 2011.  
<https://ngoperformance.files.wordpress.com/2010/11/ngo-performance-agenda-jan11.pdf>

<sup>42</sup> The theory of change defines how much the work of NGOs contributes to the actions of the people concerned. For more details see Chapter 2 Paragraph 2.5.

However, it is not necessary to focus extremely on these objectives, which are purely long-term and theoretical, but rather to observe how the beneficiaries of the projects react and for this reason, the expected results do not always coincide with the actual ones. Moreover, this phase is important for the definition of the interests of the various stakeholder, finding meeting points to resolve conflicts.

Then, through the *measurement phase*, it is possible to observe how much the results of the Organisation's interventions are in line with what it has been set. Feedback systems are used, through which questions are addressed to stakeholder (both beneficiaries and volunteers) to ascertain the level of satisfaction/dissatisfaction and also the use of indicators that produce data is important.

In addition, according to the author, it is necessary to create a culture of continuous improvement of the actions and to establish strong relational links both with volunteers and local populations, in order to fully understand their needs, to set standards and to adapt them if necessities change over time. Jacobs defines this phase as *managing relationships*.

Last but not least, it is necessary to measure performance to see if the set standards are being reached. Such standards can be set by governments (e.g. when implementing projects that have an educational purpose) or in the absence of them, they are defined by the Organisation itself (e.g. when helping people affected by natural disasters).

Hence, the author underlines the importance of constantly encouraging and motivating volunteers, the value of creating an environment oriented towards change, the importance of transparent and efficient communication of results and the definition of money collections with realistic and not highly ambitious objectives. Therefore, the NGO must work to promote continuous improvement in performance and efficient use of resources.

Ferreira and Otley's create a framework that allows Organizations to set their *vision, mission* and objectives to ensure their survival and success.

The authors define the Performance Management System as:

*"...the evolving formal and informal mechanisms, processes, systems, and networks used by organizations for conveying the key objectives and goals elicited by management, for assisting the strategic process and on-going management through*

*analysis, planning, measurement, control, rewarding, and broadly managing performance, and for supporting and facilitating organizational learning and change.”*

This theoretical approach determines 12 topics of interest on which the organization should focus:

1. the *mission* and *vision*, defined according to the *value proposition* of the Organization and the system used to communicate them to the staff;
2. *key success factors* and *feedback* from organizational participant;
3. *organizational structure*, therefore the definition of workers' responsibilities and tasks;
4. *strategies*, the definition of the actions necessary to achieve the objectives and their communication;
5. *key performance measures*, useful in order to understand whether the set objectives have been achieved;
6. *target of performance measurement*, i.e. to understand what the Organization can actually achieve;
7. *evaluation activities tools*, useful to investigate individual and group performance, to improve it and to influence the behaviour of individuals;
8. *rewards* and *penalties*, for having achieved or not achieved the goals set;
9. *communication system* within the organization;
10. *control of information*;
11. *changing PMS*, concerning the organization's ability to modify its processes according to internal and external changes;
12. *consistency* of links in the PMS framework.

This performance monitoring system is useful for both profit and Non-Profit Organizations, since it is valid to determine generically the characteristics of the organization.

In the literature it can be found a myriad of frameworks concerning the measurement of performance and one can make a distinction between them, cataloguing some based on programs and others on several dimensions.<sup>43</sup>

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<sup>43</sup> Ramadan M. A., Borgonovi E., “*Performance Measurement and Management in Non- Governmental Organizations*”, Journal of Business and Management, USA, 2015.

For the first category, Buckmaster (1999) takes into account inputs, processes, outputs and outcomes. The measurement of the latter starts by determining the objectives of the project, then specifying some indicators and finally communicating the information with the aim of making improvements to the Organisation.

Poole et al. (2000) determines a model called *Performance Accountability Quality Scale (PAQS)*, composed of seven factors such as resources, activities, outputs, outcomes, goals, indicators and evaluation plan, useful to determine the measurement of performance. For each of them the authors define some criteria to express feedback on the quality of the performance measurement process implemented.

Poister (2003) instead creates a model based on the observation of Organizations own actions and whether they are producing the organizational goals. The framework is called *Generic Program Logic* and it considers resources, activities, output and initial, intermediate and long-term outcome, also taking into account external factors that may influence the activities.

The *Hierarchy of Cause and Effect* is proposed by Tom and Frentzel (2005), who stresses the importance of a cause and effect model, in order to estimate the indicators and behave as a consequence of the obtained results. Also in this model the performance indicators examined are almost the same as in the other models, i.e. the activities, outputs, outcomes and impacts produced.

Epstein and Buhovac develop the *Input-Impact model* which gives priority to the organisation's *mission* and *vision*. What counts for the achievement of the objectives and therefore the expected outputs, are the strategy, the corporate structure and the internal systems of the Organisation. For this reason the authors consider these factors as input.

In the second category of multi-dimensional models we find the *Adapted Production of Welfare (POW)* by Knapp and Kendal. This model takes into account the environment in which the Organization operates and the role of leaders in internal and external processes. In addition, performance is defined with regard to the management of economic resources, the effectiveness of what it is produced, the efficiency regarding the relationship between resources and results, as also equity.

Then we find the *Adapted Balanced Scorecard* of Kaplan (2001), which takes into account the *mission* of the Organization and which it will be analysed in the next subsection.

Cutt (1998) creates a model similar to Kaplan's one, called the *Adapted Balanced Scorecard for Public and Private Nonprofit Organizations*, basing the performance indicators on the Organization's *mission* and long-term goals (*strategic context*), on the efficiency of internal, learning, financial and service performance (*intermediate run scorecard*) and finally on long-term strategic performance. Hence, he argues that the Organization's performance must be measured to determine its governance and its control. Finally, the focus of this model is on effective cost management.

Paton (2003) develops the "*DashBoard*" for NGOs similar to the models proposed by Cutt and Kaplan, but instead of relying on the strategic aspect, it is based on the operational one and it includes the achieved results, risks, projects (considering the fact that they may undergo changes) and the capabilities possessed by the Organization.

A totally different model from the previous ones is the one promoted by Neely et al. (2001), called *Performance Prism Framework*, which defines as its object, the perspective with which stakeholder see the Organization. Therefore, the authors focus on the identification of the organizational strategy and skills, but also on the processes, focusing on stakeholder' satisfaction and participation.

A further different model is the one developed by Mullen (2004), which provides performance indicators for the Organization's interventions, the actions implemented at a geographical level and the evaluation of results.

Last but not least it is the model produced by Lampkin et al. (2006), called *Common Outcome Framework*. The authors define performance on the basis of indicators on programmes (i.e. satisfaction), communities (i.e. social and/or economic evolution), workers participating in the NGO (i.e. skills, attitudes) and the Organisation (financial, structure and management indicators).

We therefore observe an extensive literature on the importance of performance measurement in the Third Sector. Even if there is no meeting point on which aspects are more important for a precise definition of the same, it can be



understood how the multidimensionality of the indicators prevails and it is useful to collect data and information about the activity of the Institution and the impact produced by it.

#### *1.4.2 Application and differences of the Balanced Scorecard in For and Not For Profit Organization*

One of the main differences between performance measurement between for-profit and Non-Profit Organizations is that, the former have to measure elements that are actually measurable, while the latter often provide intangible services that produce results which are difficult to measure.

However, there are some frameworks such as the Balanced Scorecard proposed by Kaplan and Norton<sup>44</sup> which is widely used in the for-profit sector, but which can be applied to both sectors.

This tool takes into account both financial and operational measures, analysing four perspectives: financial, internal business, customer and innovation and learning.

Therefore, by observing different points of view it is possible to answer questions about how the company appears in the eyes of shareholders and consumers, what are its strengths and weaknesses.

For for-profit companies the authors propose such a Balanced Scorecard.

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<sup>44</sup> Kaplan R. S. & Norton D., “*The Balanced Scorecard – Measures That Drive Performance*”, Harvard Business Review, Harvard, 1992.

## The Balanced Scorecard Links Performance Measures

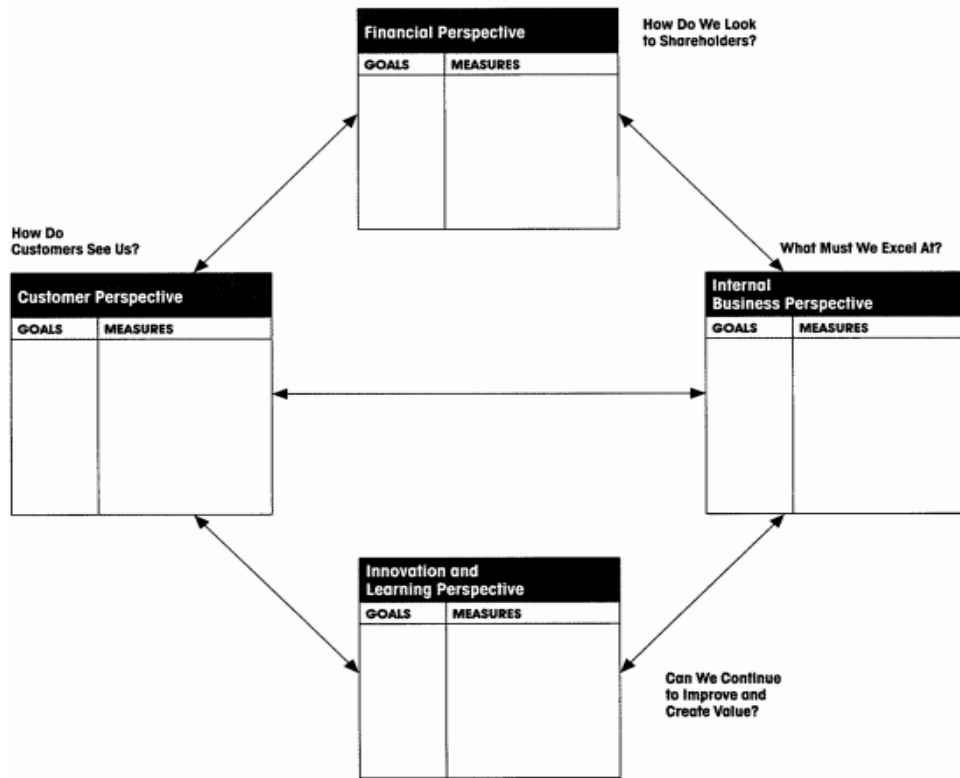


Fig. 2 Balanced Scorecard, by Kaplan R. S., Norton D., 1992.

They support the fact that different aspects of the company can be jointly monitored through this tool. It is also useful to understand whether making improvements in one area can create a qualitative reduction in another one.

In order to answer the questions reported in the BS, the authors state that each organization must develop indicators.

For example, with regard to consumers, there are four factors by which the company is judged: time, quality, performance and services. Therefore, in order to monitor the progress of the activities, it is necessary to determine a priori the objectives that are to be achieved and then convert them into measures that define how well the organization has been able to meet its objectives.

Obviously, before determining consumer satisfaction indicators, it is necessary to define monitoring measures on internal processes and competences.

The measures for change and innovation and the financial sphere need to be defined.

This model is innovative because it focuses on corporate *vision* and strategies rather than control. Therefore, managers are aware of the objectives to be achieved but

they do not exercise a high degree of control over employees, who are expected to implement actions and behaviors that are useful to achieve company's goals.

The multidimensional perspective offered by this approach gives organizations the opportunity to understand the relationships between various aspects and it aims to improve decision-making and problem solving, with a view to continuous improvement and development.

Kaplan even proposes a version of the BS that is more appropriate for Non-Profit Organizations, which in its view must perform their activities effectively and efficiently in order to achieve high performance.<sup>45</sup>

Therefore, financial measures have a less important role than the one played within for-profit organizations. In the latter they represent a tool to express the responsibilities between the company and its owners. On the other hand, the BS for the Third Sector places the organisational *mission* at the top of the pyramid, expressing the organisations' orientation towards objectives rather than activities.

In Non-Profit Organisations, priority is given to other measures such as those concerning consumers and its *mission*, expressing the organisations' orientation towards objectives rather than activities.

The focus of the objectives is short to medium term because, they are aimed at purposes that involve high changes, which take a long time to be fully completed, hence the impossibility of having long-term goals.

An important difference between the profit and the Non-Profit Sector concerns the consumer himself. In the profit sector the client is the one who pays and receives the service, while in the Non-Profit Sector there are those who pay (donors) and those who receive the service (beneficiaries). But organizations must consider the two profiles of the consumer equally important, placing them at the top of the Balance Scorecard.

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<sup>45</sup> Kaplan R. S., “*Strategic Performance Measurement and Management in Nonprofit Organizations*”, John Wiley & Sons Inc., USA, 2011.

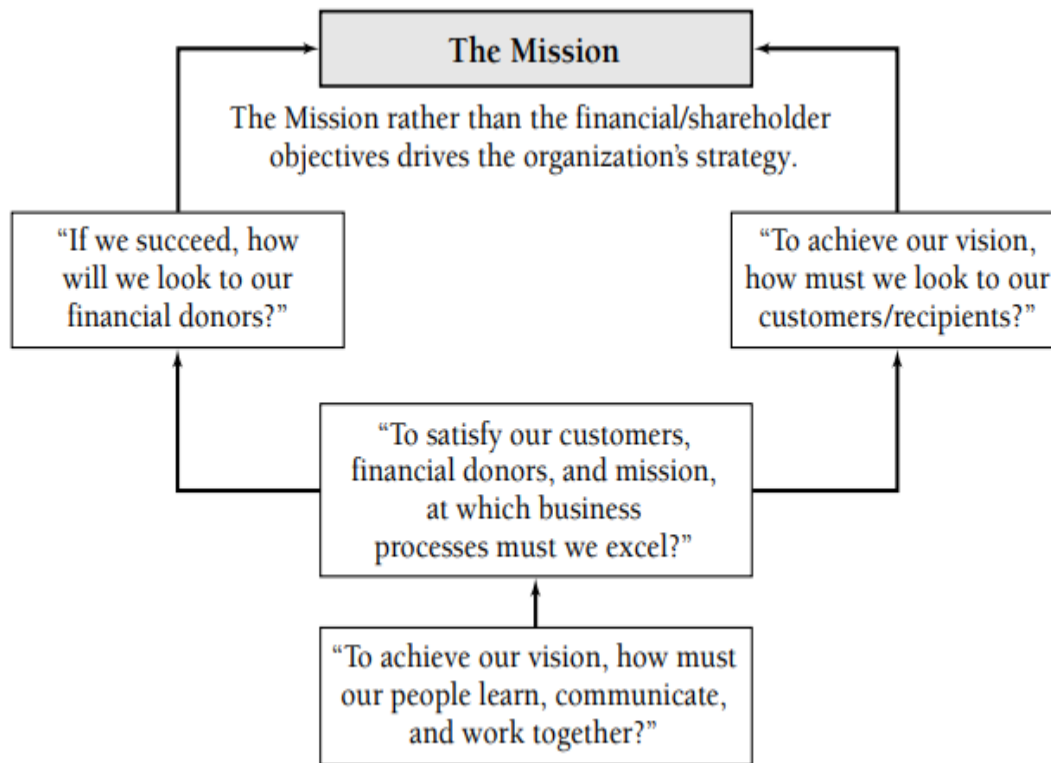


Fig. 3 Non Profit Balanced Scorecard, by Kaplan R. S., 2011.

For both sectors, while making organisational changes to increase performance is required to focus on the company strategy rather than on the division of roles, so that staff efforts are directed towards achieving it.

Consequently, this tool is useful in the Non-Profit Sector in order to align the organizations' *mission* and strategy, since it defines them precisely to guide the actions implemented every day.

The *mission* of an NGO means “..to work towards the attainment of the national Development goals within the framework of the articulated and enunciated Government policies and priorities and in partnership with the Government and with the local communities at large.”<sup>46</sup>

The measurement of performance has to be based on the output that the Entity produces at the end of each project and the benefits it brings to the target communities. This helps to have clear objectives rather than a multitude of projects that are impossible to complete.

Finally, BS is essential to understand all resources to be used to achieve company's goals.

<sup>46</sup> Benett Y., “The Report on NGOs’ Performance Standards”, Educational Research Network for West and Central Africa, 2012.

### 1.4.3 Financial measures to evaluate performance in NGOs

Performance measurement is essential to determine the efficiency and effectiveness of an activity. The extent to which stakeholder' needs are met is efficiency, while effectiveness expresses the way resources are allocated or whether it achieves efficiency standards (Neely et al., 1995).<sup>47</sup>

For this reason, even if the financial aspect is not the main one, it is still important to understand how best manage economic resources and therefore it should be paid attention to financial indicators.<sup>48</sup>

This means using measures such as operating income, return on capital and added value produced by the management of the business. Therefore, just as in the for-profit sector, leadership must keep financial aspects such as the management of monetary resources and the measurement of costs incurred in providing services under control. In this way one can be aware of whether the financial strategy implemented can reduce costs and increase profitability.

Niven states that the *Balance Scorecard model* is essential in both the for-profit and the Non-Profit Sector, as it is central to have an overview of the financial situation in order to implement interventions and meet stakeholder' needs.

Financial performance can be defined in several ways. For example, it can be understood as financial accountability, i.e. transparency and honesty.

Ritchie and Kolodinsky (2003) identify three perspectives for defining the efficiency of financial performance, namely efficient fundraising management, fiscal performance and community support.

A further approach is called *performance based Budgeting* and involves the link between *mission* and strategy through the definition of strategic programs and the relation of the Organization's strategic objectives with goals achieved, through the use of performance plans.

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<sup>47</sup> Beamon B.M., Balcik B., “*Performance measurement in humanitarian relief chains*”, International Journal of Public Sector Management, Washington, 2008.

<sup>48</sup> Ouko N. A., Nyonje R., Okeyo D.O., “*Financial Domain as a Tool in Measuring Non-Governmental Organizations (NGOs) Performance in Kenya*”, University of Nairobi, Kenya, 2017.

It also presupposes the use of the Budget to monitor the performance and to develop priority programmes.

Obviously, NGOs are not income-generating, but they must be transparent in the management of the funds they receive. Consequently, financial indicators are necessary to judge the performance of the NGO.

Some researchers from the University of Nairobi, conducted a study to find out which dimensions are decisive for a good financial performance.<sup>49</sup>

The study, which reports the opinion of 64 managers, puts in the forefront the "*accounting processes*" necessary to demonstrate to donors that financial resources are used with transparency to achieve the set objectives.

The second variable in order of importance is "*audit processes*". It would be good to use sources inside and outside the Organisation to obtain opinions on financial performance and to ascertain that the accounting processes used are effective. Moreover, the audit is also essential to improve fundraising. The direct beneficiaries of the audit system are donors and those who receive the services of the Organisation.

Another key area for financial performance management is "*procurement and asset acquisition*". If an NGO has high procurement of assets and asset turnover, it is able to carry out more activities and projects, compared to one that has low levels of the same.

The last perspective is "*Budget flexibilities and adjustments*", which is linked to the "*performance based Budgeting*" approach, where funds are used according to priorities. This way of managing resources promotes flexibility and the possibility of meeting imminent needs, thus increasing the opportunity to achieve good performance.

It is important to underline that despite the fundamental use of financial indicators, higher revenues do not correspond to an improvement in the quality of services produced and distributed by Organisations.

Therefore, the fundamental role for a high performance in the Non-Profit Sector is represented by the efficiency and effectiveness of the social impact produced by NGOs.

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<sup>49</sup> Ibid, note 44.

## ***1.5 How performance management can help NGOs' operations?***

The measurement of performance through multidimensional tools is essential for the survival of NGOs, as they are able to demonstrate transparently to their stakeholder the use of resources and the results obtained.

It is useful to dwell on the internal and operational understanding of the systems and indicators used by the Organisation, analysing the areas on which the data and information collected, influence and bring about qualitative and quantitative improvements.

### ***1.5.1 External and internal motivators for Performance Measurement Systems***

In general, performance management is essential for the survival and success of Organizations, as it helps them to live up to their *vision, mission* and objectives.<sup>50</sup>

According to the study conducted by Zimmermann and Stevens, the adoption of performance measurement tools is mainly due to showing to their stakeholder whether or not they are able to achieve their organisational goals.<sup>51</sup>

The second factor for which Institutions strive to prove their performance is the increase in efficiency and transparency. Finally, measurement systems are equally useful to increase the pool of resources and the quality of services produced.

A further benefit is represented by the fact that the aims of the actions implemented are detailed, explaining why the Organization undertakes that project.

A negative aspect that emerges is the increased workload created by performance measurement.

With regard to the internal motivations for using measurement systems, we find a study conducted by Sawhill and Williamson, which shows that Organizations benefit from such systems. In fact they are able to monitor the commitment and work of employee to direct their efforts towards achieving the *mission* of the Organization.<sup>52</sup>

In addition they help to set well-defined goals with standards that are actually achievable and to determine high productivity strategies. Moreover, the authors argue

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<sup>50</sup> Yap P., Ferreira A., *"The Complex and Multifaceted World of Performance Management in NGOs: A Case Study"*, Monash University, Australia, 2010.

<sup>51</sup> Zimmermann M., Stevens B. W., *"The Use of Performance Measurement in South Carolina Nonprofits"*, Wiley Periodicals Inc., USA, 2006.

<sup>52</sup> Sawhill J. C., Williamson D., *"Mission Impossible? Measuring Success in Nonprofit Organizations"*, John Wiley & Sons Inc., USA, 2001.

that these systems can be used as "marketing" tools to increase the visibility of the Organization, since the current trends are those of transparency and clear demonstration of performance.

In conclusion, the authors claim that measures must be easy to communicate and that one cannot fail to have an alignment between strategy and organizational *mission*, otherwise any measurement tool would not produce benefits.

In summary, the importance of performance measurement can be expressed as follows: “*effective performance measurement system can help Non-Profit managers make better decisions, improve performance and provide accountability. Moreover, when they are designed and implemented effectively, performance measures provide feedback on agency performance, and motivate managers and employees to work harder and smarter to improve performance. They can also help allocate resources more effectively, evaluate the efficacy of alternative approaches and gain greater control over operations, even while allowing increased flexibility at the operating level.*” (Poister, 2003)<sup>53</sup>

Therefore, five areas for improvement can be identified through the use of performance monitoring and evaluation systems<sup>54</sup>:

1. *transparency and accountability*: through the definition of indicators and data concerning the performance of activities it is possible to keep stakeholder informed on a daily basis;

2. *project performance*: it is possible to define measurable and truly feasible objectives; the needs of the project beneficiaries can be determined on time and through monitoring and it is possible to verify whether the impact achieved through the projects reflects the standards that were intended to be reached or to apply corrections to the actions taken, if they are not fulfilled.

3. *resource allocation*: through the use of the Budget and monitoring systems, it is possible to determine the amount of resources to be allocated to each project, the

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<sup>53</sup> Beamon B.M., Balcik B., “*Performance measurement in humanitarian relief chains*”, International Journal of Public Sector Management, Washington, 2008.

<sup>54</sup> “5 reasons why monitoring & evaluation is good for NGOs”, 2019  
<https://www.toladata.com/blog/why-is-monitoring-evaluation-good-for-ngos/>



value of the project itself and its impact, and to understand whether more resources should be invested in one activity than in another.

4. *evidence-based learning and decision-making*: better evidence-based decisions can be made through the collection of data and information. Therefore, one can learn from the past to implement present actions, thus understanding what to replicate and what to change.

5. *organisation management*: through monitoring and evaluation systems, it is possible to improve the quality of internal operations and therefore, one can enhance performance, innovation and learning from mistakes. In addition, the relationship between organisational units can be improved.

The monitoring and evaluation of activities, if carried out in a timely and credible manner, are even useful to conduct daily operations.

However, understanding how to reliably collect and use data takes time and for some people, there is still distrust about the improvements that can be made by performance management systems.<sup>55</sup>

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<sup>55</sup> Newcomer K., El Baradei L., Garcia S., “*Expectations and capacity of performance measurement in NGOs in the development context*”, Wiley Online Library, USA, 2012.

## *Chapter 2: Financial measurement and performance management in NGOs*

### *2.1 Indicators used by NGOs for financial measurement and outcome estimation*

As the environment in which NGOs operate changes, one can see the growing complexity of the challenges they face. What is more, stakeholder appear to be increasingly demanding and they want to be constantly informed about the impact produced by the organizations.

Therefore, in order to face the new social problems, to obtain a high degree of stakeholder satisfaction and to operate efficiently and effectively, Third Sector Organizations must use results measurement tools similar to those of the profit sector.

It is therefore necessary to specify a clear and defined strategy and achievable standards; it is necessary to draw up accounting documents and use indicators that are useful and reliable.

#### *2.1.1 Vision, mission and values*

In order to comply with stakeholder's requests and achieve its goals, an organisation (profit or not) needs to define a well-structured strategy. The latter should take into account the short and long term objectives and the actions that need to be taken in order to achieve them; it should determine the skills required to fulfil the objectives and it should define whether the organisation's work is financially sustainable.

There are therefore multiple advantages in establishing the strategy, as the objectives and *value proposition* are clarified, the volunteer staff is more motivated and the allocation of resources is defined efficiently.<sup>56</sup>

In order to determine a strategy that is comprehensive and that specifies how and what it is to be achieved in the future, the organisation's *vision, mission* and *values* must be established.

The *vision* is used to define what changes the organisation has in mind to achieve through its work. For this reason, it is essential to describe the identity of the organisation and to achieve its future objectives.

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<sup>56</sup> National Council for Voluntary Organisations, "Definition of strategy"  
<https://knowhow.ncvo.org.uk/organisation/strategy/whatis/definition>

Therefore it defines the starting and finishing point, it has to be easy to understand and remember, it has to be able to motivate and it has to maintain a degree of flexibility in order to be modified in the course of time.<sup>57</sup>

The *mission* instead defines the actions to be taken in order to fulfil the *vision*. It therefore indicates the values that guide the organization's work, the chosen target, the needs it wants to fulfil and the resources it employs. So it is necessary to describe why the organization is born.

The *values* differ from the *vision* and *mission*, since they indicate the philosophy shared by the members of the organization and they guide their actions towards meeting the needs of the stakeholder.

These three elements clarify where the organization wants to go and they are therefore useful to define the strategy. Further the latter gives the possibility to outline the *value proposition*, that is: “*the full mix of benefits on which a brand is differentiated and positioned*”<sup>58</sup>. It therefore specifies what differentiates the organisation from others and what it offers to meet certain needs.

In the Organizations of the Third Sector the definition of the strategy and therefore of the *value proposition* has a conspicuous value, since through it, it is possible to determine the social impact produced by the Organization.<sup>59</sup>

With the strategy, the Organization defines the social problem it is preparing to solve and the actions it will take to achieve its objectives.

Through the *value proposition*, it is possible to observe how the Organization is intervening on social problems and what changes it is making in the lives of the communities of reference.

Therefore, through these components it is possible to identify and explain to donors what is the point of arrival and therefore, what are the long-term goals of the NGO. The *Theory of Change*, which is illustrated in paragraph 5, represents one of the main methodologies for determining institutional strategic planning.

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<sup>57</sup> Papulova Z., “*The Significance of Vision and Mission Development for Enterprises in Slovak Republic*”, Journal of Economics, Business and Management, 2014.

<sup>58</sup> Kotler P., Armstrong G. M., “*Principles of Marketing*”, Pearson Prentice Hall, New Jersey, 2012.

<sup>59</sup> Saba B., “*Guida pratica per il Terzo Settore*”, Human Foundation, 2017.

In conclusion, once the *value proposition* takes shape, it must be explained to stakeholder. For this reason, the concept of accountability is closely linked to it.

*Accountability* is useful in order to provide information about the progress of projects and therefore the achievement of results. Communication must be transparent, reliable, impartial and comprehensive of all important data.

### 2.1.2 What indicators are and why use them in the Third Sector

A KPI (*Key Performance Indicator*) is a measurable and not abstract data, which gives the possibility to reliably estimate if the Organization is performing effectively and effectively.<sup>60</sup>

NGOs use different KPIs according to their *mission* and for each activity, in order to estimate the achievement of the standards they had set themselves.

Therefore, the indicators help the Organisation to have a general picture of the situation, which helps to understand if the staff's efforts are directed to the achievement of the objectives and if corrective actions have to be taken to improve the accomplishment of the organisational goals.

In addition, NGOs find themselves operating in an increasingly complex and articulated context, having to adapt more and more quickly and having to take increasingly complex decisions. For this reason, indicators are a source of data and information, useful to interface in a turbulent environment.

KPIs have some characteristics that make them really useful, i.e. they are simple to calculate and determine, they are represented by easily quantifiable elements; the information produced can be used to understand the achievement of results; it is necessary to use them periodically to be able to challenge correct decisions.<sup>61</sup>

Therefore, it is not enough to determine some indicators, but it is essential to define the right indicators, mostly taking into account the objectives and *mission* and being faithful to the *vision* and the *value proposition*. It is also essential to use KPIs to monitor performance on a regular basis.

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<sup>60</sup> Ibrisevic I., "20 KPIs For Your Nonprofit To Track", 2018  
<https://donorbox.org/nonprofit-blog/kpis-for-your-nonprofit/>

<sup>61</sup> Enkel, Key Performance Indicators of a Healthy Not-for-Profit Organization  
<https://www.enkel.ca/blog/accounting/not-for-profit-key-performance-indicator/>

A correct use of them can be crucial in understanding if you are able to achieve results and what needs to be improved; they simplify the decision-making process and enhance relations with donors, who are better able to understand the general situation of the Organization.

For a for-profit organization, KPIs help to understand which areas should be improved in order to increase profit; for NGOs, on the other hand, they are useful in order to encourage donors and therefore, in order to increase revenues from donations, to carry out as many projects as possible and thus fulfil their *mission*.

### 2.1.3 Why NGOs have to analyse Balance Sheet and Income Statement

The Balance Sheet indicates all the assets and liabilities held by the organisation at a given time.

The Income Statement shows the company's income and expenses after deducting transactions that have not yet taken place or that have not been incurred during the period considered.

Therefore, the financial analysis “*entails planning, organising, controlling and monitoring the financial resources of an organisation in order to achieve objectives*”.<sup>62</sup>

The financial analysis dates back to the 15th century and it has the task to provide to stakeholder information about the financial stability of the Organization.<sup>63</sup>

While it is useful for for-profit organizations to allocate resources in the best possible way to increase profitability, it is also indispensable for Non-Profit Organizations to better understand how to use funds even in the absence of the objective of making a profit.

The data and information provided must be truthful and relevant and they are useful to compare the performance of previous years with the current performance and with that of competitors.

Therefore the use of financial analysis in NGOs has the same purpose as its use in for-profit organisations.

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<sup>62</sup> Lewis T., “*Financial Management Essentials. A Handbook for NGOs*”, Mango, Oxford, 2013.

<sup>63</sup> Zdanovskis K., Pilvere I., “*Methods of financial statement analysis for non-governmental organisations*”, Latvia University of Live Sciences and Technologies, Latvia, 2019.

In addition, Third Sector entities have to face the interests of a multitude of stakeholder. For example, governments and donors want to be sure that the funds made available to the NGO have been used for the intended purpose. Members of the Organisation want to know if their contribution, both monetary and labour, is producing the expected results.<sup>64</sup>

Therefore NGOs need to analyse income and expenditure to track their performance over time, to see if they are achieving their objectives and if the use of resources is correct.<sup>65</sup>

The financial analysis is also useful to observe whether the costs incurred by the NGO in organizing events with the objective of raising money, are lower or higher than the revenues obtained.

Finally, in order to ascertain the financial reliability of the Organization it is useful to estimate the value of everything that composes it and if necessary, that can be quickly converted into money.

Therefore a correct management of the financial analysis is useful for the proper functioning of the NGO and it helps the NGO to be credible to donors, communities and governments. It is also useful to comply with current regulations and therefore to produce accounting records, in order to show transparently the use of resources and thus reduce fraud. Moreover, it is convenient to ascertain the presence of sufficient resources to continue the activity of the Entity in the long term and achieve its *mission*.

Through the preparation of the Budget it is possible to implement a better decision making process, as it is based on precise information and to obtain more donations, as it improves the reliability of the Organisation.

Therefore, financial analysis is not only essential for an efficient management of resources, but at the same time it serves to determine the personality and reliability of the Organisation.

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<sup>64</sup> Canadian Institute of Chartered Accountants, “*A Guide to Financial Statements of Non-For-Profit Organizations*”, Toronto, 2012.

<sup>65</sup> Sandilands T., “How to Evaluate the Financial Statements of Nonprofit Organizations”  
<https://smallbusiness.chron.com/evaluate-financial-statements-nonprofit-organizations-68019.html>

## 2.2 Why use indicators in NGOs?

NGOs, in the same way as for-profit organisations, need to be able to understand how the various organisational areas work, what they are improving and what they are achieving through their actions.

There are a multitude of indicators useful to track the organisation's performance in fundraising, marketing, finance and in general, they help to understand the impact generated by the projects undertaken.

The important thing is to choose some of them that are in line with the *mission* and objectives and use them frequently.

### 2.2.1 Useful KPIs

On the basis of the activity carried out by the Entity, we find some useful indicators to track its work. For example, as far as fundraising is concerned, the Organization can estimate how many gifts it obtains in a given period of time and can also segment donors and observe from which group they obtain the most.<sup>66</sup>

The *growth of donors* can be then estimated calculating the delta between two years (subtracting from the total number of donors of the current year, the total number of donors of the previous year, all divided by the number of donors of the previous year).

In addition, the *donor retention rate* can be used to assess the portion of donors who have already donated in the past and who continue to donate. The *retention rate* is calculated as the ratio of donors already active in the previous year, who also contributed in the current year, divided by the number of donors in the previous year. This KPI has a high value because if the people who donate are always different there is a retention problem. Moreover, the acquisition of new donors is a cost, so those already active are more profitable for the Organization.

As for profit companies, it is essential to estimate the ROI (return on investment), i.e. the amount of Euros you get for every Euros invested and for Third Sector entities the ROI is calculated on the fundraising activity as total advertising

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<sup>66</sup> Ibid, note 58.

cost, divided by the number of donors obtained through the campaign. It is useful to understand whether the desired objectives are being achieved through fundraising, or corrective action needs to be taken. Finally, it is possible to estimate how many people act when solicited by the NGO.

Nowadays, marketing and social media are a key part of the NGO's work.

Therefore, KPIs should be used to monitor the number of users visiting the Association's page, the number of people who read the emails and click on the links contained within them. The greater the number of people interacting with the Organisation through the web-page and emails, the greater the possibility of people being called to action, synonymous of a well-functioning NGO.

It is therefore useful to calculate how many donors make a donation after visiting the page, dividing the total number of people who have looked at the donation page by the total number of donations and multiplying the result by 100 to obtain the rate.

It is of fundamental importance to monitor the functioning and progress of the socials, through likes, comments, post shares, but above all through the interaction that the Entity is able to have with its "followers". The greater the influence on socials, the greater the possibility of attracting new donors and preserving those already acquired.

Some of the most significant KPIs obviously concern what the Organization has been able to produce after completing a project.

First of all, it is important to understand the rate of individuals that the Organization has achieved through its work and the rate of beneficiaries who have participated in the events organized.

Then, as in the profit sector, it is necessary to evaluate the satisfaction of the beneficiaries, for example through surveys and in case of negative answers, it is necessary that the Organization thinks about solutions in order to reach its *mission*.

In conclusion, it is necessary to understand the benefits that the Organization's activity has provided to the communities of reference, with regard to the skills, abilities and behaviour of individuals. In this regard, questionnaires can be used at



the beginning and at the end of the action, observing whether it is making positive changes.

As far as human resources management is concerned, it is valid to estimate the rate at which volunteers leave the Organisation, which is linked to the concept of worker satisfaction. To realize this, i.e. if the worker is motivated and proud to work with the Organization, one can ask some questions with scales from 1 to 10 (to obtain quantitative data), and/or have informal chats (to obtain qualitative data).

The absenteeism rate is another motivational indicator and high rates of it indicate low motivation from volunteers.

Finally, there are financial indicators, which serve, for example, to track annual growth by comparing the percentage of revenue growth with that of the previous year.

Observing the *surplus* or operational loss one can understand whether the financial means are flexible to fulfil one's *mission*.

Through the *Liquid Unrestricted Net Asset indicator*, it is also essential to know the portion of *Net Assets* that can be quickly transformed into money. In addition, by comparing unrestricted revenues (money immediately expendable) to total expenditure, it is useful to understand how much the Organization can cover costs with revenues. The higher the ratio, the greater is its financial stability.<sup>67</sup>

Finally, in order to show the efficiency with which operations are conducted, it is necessary to compare the expense sustained for the implementation of a programme with the total expenditure.<sup>68</sup>

There are also other financial indicators to control and hence to increase revenues and to make the best use of them in the various activities.

The *Gross receipts period over period*, which is given by the ratio between the total revenues obtained in the current period and the total revenues obtained in

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<sup>67</sup> LGA, "Key Performance Indicators (KPI's) for Nonprofit Organizations"  
<https://www.lgallp.com/resources/key-performance-indicators-nonprofit-organizations/>

<sup>68</sup> Ibid, note 58

the previous period, it is useful to understand the trend of revenues, in order to investigate which fundraising activities are more productive.<sup>69</sup>

The *Cash runway* obtained by comparing the liquid assets available in the current period with the average monthly expenditure, it is used to observe how long the NGO can carry out its operations with the money it owns.

Both having too much money and having too little is a symptom of bad management of resources; in the first case because it indicates that the NGO does not obtain enough income, in the second because it does not invest enough money in its projects.

Last but not least, it is to relate income and expenses to those prepared in the Budget, a financial document developed to allocate the available funds adequately.

In this way it is possible to observe if there has been a deviation from what was prepared in the Budget, which were the causes of the variance and consequently define *ad hoc* solutions to reduce the difference as much as possible.

### 2.2.2 Financial versus Non-Financial Indicators

Financial analysis is also fundamental in the Non-Profit Sector, as stakeholder must receive correct and transparent information on the achievement of the set standards, in order to trust the NGO and continue to support it economically.<sup>70</sup>

In addition, Third Sector Associations receive funding and benefits from Governments and thus, making the management of the operations and consequently the resources received quantifiable, increases their credibility and ensures the continuity of subsidies.

The financial analysis sees three different types of indicators; those concerning *liquidity*, *profitability* and *solvency*.<sup>71</sup>

Through the first category of indicators it is possible to study the composition of the Entity's assets and to understand the ability to convert them into expendable

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<sup>69</sup> Ibid, note 59.

<sup>70</sup> Ibid, note 60.

<sup>71</sup> Bobb R., "Financial Statement Analysis For Non-Profit", 2015  
[file:///C:/Users/Amministrador/Downloads/Financial%20Management%20for%20Non-Profits%20\(4\).pdf](file:///C:/Users/Amministrador/Downloads/Financial%20Management%20for%20Non-Profits%20(4).pdf)

cash to cover short-term debts. This class of indicators is derived from the items included in the Balance Sheet.

Therefore, the denominator can be either the *current liabilities* item, to indicate the amount of expenditures that may occur in a year; or the *average expenditures* incurred for daily operations (which is obtained by subtracting non-cash expenses - such as depreciation - from total expenses and then dividing everything by 365).

The BS is also useful to understand the degree of solvency of the Organisation, observing how it finds money. If the revenues of the Organisation come from unstable sources (i.e. the Government, which can change its policies and no longer provide subsidies), it means that there could be problems in the ability of the Organisation to continue its operations.

Finally, through the *Income Statement*, we examine the profitability of the Entity and therefore whether its revenues are able to cover its operating expenses, observing the changes in *Net Asset*.<sup>72</sup>

In addition, another category of indicators (shown in blue in Fig.4) are those of efficiency. Through them, an NGO can express how efficiently it is collecting money and using resources optimally.

Below there is a table summarising all the financial indicators used in NGOs. Their usefulness is specified, as well as the values that the ratios can assume (which are optimal or should be kept under control):

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<sup>72</sup> For further information on the accounting records and the items that make up them, see paragraph 2.4.3.

Ratio	Indicates	Answers Which Question(s)?	Formula	Rule of Thumb	Needs Attention If
Current Ratio	Liquidity	Will current resources cover current liabilities?	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	> 2	< 1
Days of Liquid Net Assets	Liquidity	Are there enough liquid resources to cover typical operating expenses?	$\frac{\text{Unrestricted Net Assets} - (\text{Total Expenses} - \text{Bad Debt Expense} - \text{Depreciation Expense}) / 365}{}$	> 180 days	< 90 days
Quick Ratio	Liquidity	Will the most liquid assets cover current liabilities?	$\frac{(\text{Cash} + \text{Marketable Securities} + \text{Receivables})}{\text{Current Liabilities}}$	> 1	< .25
Days of Cash on Hand	Liquidity	Is there enough cash to cover typical operating expenses?	$\frac{(\text{Cash} + \text{Marketable Securities}) - (\text{Total Expenses} - \text{Bad Debt Expense} - \text{Depreciation Expense}) / 365}{}$	> 90 days	< 30 days
Operating Margin	Profitability	Do typical operating revenues cover typical operating expenses?	$\frac{(\text{Current Year Unrestricted Net Assets} + \text{Previous Year Unrestricted Net Assets})}{\text{Unrestricted Revenue and Other Support}}$	> +5%	decreasing
Net Asset Growth	Profitability	Is profitability improving?	$\frac{(\text{Current Year Total Net Assets} - \text{Previous Year Total Net Assets})}{\text{Previous Year Total Net Assets}}$	> +5%	decreasing
Contributions Ratio	Solvency	How much does this organization depend on donors?	$\frac{\text{Contributions}}{\text{Total Revenue}}$	> 10%	> 75%
Government Revenue Ratio	Solvency	How much does this organization depend on government money?	$\frac{\text{Government Revenues}}{\text{Total Revenue}}$	< 25%	> 75%
Debt to Assets	Solvency	What percentage of assets were financed with debt?	$\frac{\text{Total Debt}}{\text{Total Assets}}$	< 1	> 2
Fundraising Efficiency	Effectiveness	What does it cost this organization to produce contributions?	$\frac{\text{Total Contributions}}{\text{Fundraising Expenses}}$	> 2	< 1
Program Expense Ratio	Effectiveness	What percentage of typical expenses are in "core" programs?	$\frac{\text{Program Expenses}}{\text{Total Expenses}}$	> 75%	< 65%

Fig. 4: Typical Non-Profit Financial Statement Ratios, by R. Bobb.

The importance of financial indicators can also be observed in the Non-Profit Sector. However, often and willingly, too much weight is given to these economic measures, losing sight of the true objective of Non-Profit Organizations.

Their aim is to promote the development of populations and regions, it concerns the improvement of skills and the modification of the behaviour of the target group.

So how to quantify their results in order to make their work and efforts aimed at a sustainable impact which is understandable and comparable?

First of all, one need to clarify the meaning of the term *sustainable* and so, according to the 1992 UN Conference, the latter is composed of the consumption side, which in turn is defined by population and individual consumption, and the productivity side, which is composed of (nation's) resources and resource productivity.<sup>73</sup>

The preservation of the cultural heritage of each population benefiting from NGO interventions, also needs to be incorporated into the term.

Hence, in order to be sustainable, one variable must not be given more value than another, but the following equality must be respected:

$$population \times consumption = resources \times \frac{productivity}{resource}$$

Too many Organizations are losing sight of what really needs to be measured, using indicators such as *Gross Domestic Product (GDP)*<sup>74</sup>, which its increase is not always a symptom of development and improvement in population conditions.

Thus, measures such as this are not true, but rather inappropriate, since they do not take into account the transformations that occur in relation to the cultural, institutional and behavioural spheres of the beneficiary populations.

A tool to understand and measure the results obtained through the work of NGOs (and useful for conducting *Social Impact Analysis*, analysed in the next paragraphs) is the *Social Return On Investment (SROI)*.<sup>75</sup>

This indicator is born from the concept of ROI (*Return On Investment*), which however only evaluates the return in economic terms of an investment.

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<sup>73</sup> Lempert D., Nguyen H., “*A sustainable development indicator for NGOs and international organisations*”, Inderscience Publishers, Ginevra, 2008.

<sup>74</sup> Gross Domestic Product: the total value of goods and services produced by a country in a year. Definition by Cambridge Dictionary. <https://dictionary.cambridge.org/it/dizionario/inglese/gdp>

<sup>75</sup> Nicholls J., Lawlor E., Neitzert E., Goodspeed T., “*A guide to Social Return on Investment*”, Cabinet Office, London, 2012.

To calculate the return in social terms, the *monetization process* has been developed, through which it is possible to express numerically the social value produced.

This obviously only in order to compare the social performance of NGOs.

The usefulness of the reference model is that, it underlines both the positive and negative results of the project; it defines the environmental, social and economic value of the measures on the basis of money invested; it highlights the strengths and what to improve in each project; it gives the possibility of transmitting the results to the beneficiaries of the actions while complying with the principle of accountability to its stakeholder.

The evaluation carried out using the SROI involves four phases.

The first phase determines the objectives, the time frame, the type of analysis to adopt, the stakeholder to consider and the strategies in order to include them.

Through the second phase and with the help of the stakeholder, the results that the measures have had on the lives of the target populations are evaluated.

The third phase, the most important, is aimed at transforming the qualitative data produced by the interventions into quantitative data.

Finally, through the fourth phase we estimate the change that could have occurred even without the implementation of the project (*deadweight*); the outcome attributable to subjects other than the Organization (*attribution*) and the weakening of the impact due to the time passing (*drop-off*).

This methodology is linked to the *Theory of Change* because it identifies the activities performed to achieve the objectives, it defines the indicators to be used to monitor the results and it involves stakeholder in all phases.

The measurement of the performance and impact of the projects through this tool allows to identify the evolution of the needs of the target groups, to carry out a medium/long term strategic planning, to predict the negative effects of the project and to correct them, but above all to estimate the value of the social impact produced by the Entity.

Finally, the SROI is useful to overcome the lack of credibility between the Third Sector and its public and private donors. In fact, through its use, the SROI can

demonstrate the results of the Organization and thus increase the amount of donations.<sup>76</sup>

### ***2.3 Difficulties arising from measuring performance and using indicators in NGOs and possible solutions***

So far, priority has been given to the analysis of the benefits that measuring performance through financial and non-financial indicators brings to the Third Sector.

It is a fact that for every process, there is the presence of those who have contrary visions, highlighting possible problems.

Hence, we find in literature some authors who point out the difficulties related to the methodologies used in the Non-Profit Sector for the estimation of the results produced, given the prohibition to produce profits and the high difference among the various NGOs.

In conclusion, also the structure of the Entity is determinant in the definition of the instruments to be used to measure results.

#### ***2.3.1 Theoretical views about problems in measuring performance***

After analysing the various indicators, financial and non-financial, it could be said that many instruments used for the profit sector can also be used for the Non-Profit Sector.

In fact, various financial measures are applied regardless of the sector analysed.

There are some authors in the literature, including Kaplan, who are against this. In fact, the same argues that NGOs must estimate other aspects of their activity, such as the level of satisfaction of the needs of their stakeholder.<sup>77</sup>

Sawhill and Williamson, on the other hand, make a more general point, which actually focuses on the most widespread issue of performance measurement in the

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<sup>76</sup> Arvidson M., Lyon F., Mckay S., Moro D., “*Valuing the Social? The Nature and Controversies of Measuring Social Return on Investment (SROI)*”, Bristol University Press, Bristol, 2013.

<sup>77</sup> Ibid, note 44.

Third Sector.<sup>78</sup> In fact, the authors underline the impossibility of using a single framework and so the mistake of using the same indicators, since each NGO has a different *mission*, *vision* and *values* and therefore, the measurement must be done by choosing models and measures that are in line with its objectives.

Knapp and Kendal argue that, each NGO has a set of stakeholder who have different interests and visions about its role and who have different ideas about the indicators to use, hence the difficulty of defining a single performance measurement approach for all NGOs.<sup>79</sup>

The authors cited state the difficulty of measuring performance in NGOs, due to the complexity of the environment in which they operate and the differences among NGOs.

### 2.3.2 Aspects that influence NGOs' Performance

The different dimensions of the Organisation affect the determination of performance, both positively and negatively.

The factors are the *structure* of the Entity, the definition of *governance*, the *planning process* and the *culture*.<sup>80</sup>

As far as the *structure* is concerned, there are more rigid, more regulated Organisations in which roles are strictly defined; conversely, flatter structures are characterised by more autonomy in roles, control and regulations.

Reacting to internal and external demand and stimuli means success, hence it is necessary to define a degree of Organisation that is able to comply with this objective.

Non-Profit Organizations are often characterized as poorly organized structures in terms of regulation, strategy and response to exogenous impulses. In any case, it is not possible to think of a highly bureaucratic Third Sector Organization, since it must be able to evolve, it must be flexible and ready to modify its internal processes to meet external needs.

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<sup>78</sup> Ibid, note 50.

<sup>79</sup> Kendall J., Knapp M., "*Measuring the Performance of Voluntary Organizations*", Taylor & Francis Ltd, Abingdon, 2000.

<sup>80</sup> Garcia C., "*The impact of the degree of organization in NGOs performance*", United State International University, USA, 2014.



Therefore, each Organization should identify the appropriate degree of structuring for its *mission*, in order to achieve high performance.

For example, large NGOs should have a flatter structure, while smaller ones should have a more rigid structure. It may happen, however, that a lightening in regulations and in definition of roles and responsibilities leads to an impoverishment in performance.

Similarly, the definition of powers (*governance*) within the Organisation may lead to a reduction in performance, as the Board of Directors may lack capacity or time to manage the Organisation's activities. For this reason the staff has to react to decision-making situations without the support of the Board. This can lead to an impoverishment of the decision-making process and once again of performance.

The difficulty of *strategic planning* also affects the results of an NGO. In addition to the increasing complexity in the environment in which they operate, Third Sector Organizations interface with constantly changing needs, therefore long-term objectives are difficult to define in a timely manner and effective planning requires the use of time and resources.

Moreover, the Organizations are economically dependent on other subjects, which at times may have a different vision from the one of the NGO (e.g. on what the most imminent actions to be implemented are)

Last but not least, the influx of different *cultures* within the Organization leads to the establishment of weak relationships and one of the consequences may be a lack of dialogue. Thus, if staff do not accept and incorporate the *values*, standards and objectives, they will not implement voluntary behaviour that can define high performance for the Organisation.

In conclusion, it can be said that there are several barriers to the achievement of high performance of an NGO and its measurement. The diversity among the Agencies, according to their *mission* and objectives, the large pool of stakeholder owned by each one, having different needs and visions, the difficulty in defining the power, structure

and motivation of the volunteer staff within the Organization, make it difficult to achieve the desired results and consequently also to estimate them.

First of all, in order to overcome these obstacles, the Organization is required to begin by defining a clear strategy composed of *mission*, *vision* and *values* to direct actions towards achieving the desired goals and then it is necessary to map the stakeholder and their interests, in order to resolve conflicts and create a single action plan. Finally, after answering the questions "who is the Organization?", "why was it born?", "who are the people interested in its work?", it is useful to define a methodology for measuring results, choosing the indicators that best suit the case of the Organization.

In this way it is possible to keep under control the achievement of the predisposed standards and the corrective actions to be taken in case they are not reached.

#### ***2.4 Analyse the accounting records of an NGO***

Legislation requires that accounting records are also prepared in the Third Sector, without any difference from the profit sector. This is because the amount of money managed by NGOs is considerable and therefore fraud or mismanagement of resources could be implemented by them.

The accounting records are therefore useful to understand the management of an Organisation's revenues, to estimate the outputs and outcomes achieved and to make the performance of different Entities comparable.

Obviously donors have the right to understand how their money is employed, whether it is used for the predefined purposes and thus to understand if they should continue to support the NGO or not.

The documents drawn up are the same as the for-profit sector, with the exception of the *Statement of Functional Expenses*. Clearly even if the records are the same, some of the items they contain are different and highlight the non-profit nature of the sector.

##### ***2.4.1 Who is responsible of Organizational and Financial management***

As with a for-profit organization, NGOs need to define how decisions are to be made and by whom the day-to-day operations are to be carried out.

The Board of Directors or known as the Governing Body, is legally responsible for the work of the Organization. It is composed of volunteers, it has the task of defining policies and strategies, it must keep the Organization's finance and assets under control, it must support the CEO to make decisions and to defend the interests of stakeholder.<sup>81</sup>

In the Board there may be honorary members who hold certain positions; there is the Chairperson, the contact point between the Governing Body and the CEO and he/she is the NGO's main representative in external relations; finally there is the Treasurer, who monitors the financial resources of the NGO.

The Board delegates the power to make daily decisions to the CEO, who in turn delegates responsibilities and duties to the staff. In addition, it determines monitoring systems to ensure that the Organization's management methods are put in place.

Obviously, the staff as a whole is responsible for the financial management of the Organization, since through diligent behaviour, it must make efficient use of the resources available and thus carry out the *mission*.

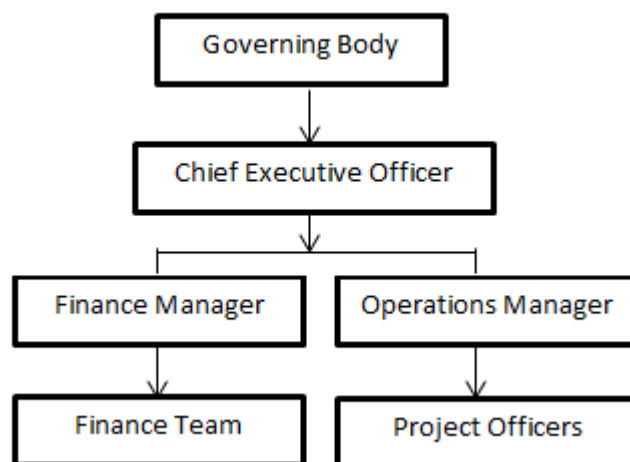


Fig. 4 NGO staff structure and how the Board delegates authority, table adapted from “A Handbook for NGOs”, by T.Lewis.

#### 2.4.2 The articulation of Financial Management

Financial management can be conducted differently by each NGO. In general, however, some practices can be defined as useful for conducting an efficient financial analysis, which gives the possibility of managing resources correctly.

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<sup>81</sup> Ibid, note 60.

First of all, accounting records are essential to demonstrate how funds are used, whether the management of the organization is optimal and whether objectives are being achieved.

Strategic planning, through the use of the Budget, makes it possible to monitor the deviation between the results obtained and those expected.

By monitoring the accounting records and the Budget, it is possible to produce reports to inform each stakeholder and to draw up internal reports useful to managers to monitor the progress of projects and specifically also the assets of the organization and the risks it faces.

Therefore, the accounting records, strategic planning, monitoring and internal control represent the minimum practices to be implemented to achieve proper financial management.<sup>82</sup>

#### 2.4.3 Documents of Financial Reporting

The most important financial documents to monitor the allocation of resources, the organization's revenue and to compare the performance achieved with those expected are: the *Budget*, the *Balance Sheet*, the *Income Statement* and the *Cash Flow Statement*.

The Budget is a forecast of the operating performance obtained by the management, precisely: “*A Budget describes an amount of money that an organisation plans to raise and spend for a set purpose over a given period of time.*”<sup>83</sup>

This document is essential to implement a new project, taking it into account at every stage.

In the first phase, which is planning, the Budget is used in order to understand the amount of costs to be incurred, to make sure that there is enough money to implement the project and to control the use of resources.

In the fundraising phase, it is essential to demonstrate to donors the use of the money they have received and the objectives that will be achieved.

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<sup>82</sup> Ibid, note 60.

<sup>83</sup> Ibid, note 60.

When the project has been implemented, so in the project implementation phase, the Budget makes it possible to compare the expenses actually incurred with those prepared in the document. In case of change, the Budget must be revised.

In the final phase of monitoring and evaluation, the document shows whether the work of the Organization has been useful to achieve the objectives.

In order to draw up an efficient Budget it is necessary to take into account in a fairly detailed way, all useful information, costs and revenues; it must be easy to use and understand and it must present notes where additional explanations are needed.

The Budget is defined and approved by the Board and reviewed periodically by the CEO.

The different types of existing Budgets are *Income and Expenditure Budget*; *Capital Budget*; *Cash Flow forecast*.

The first type is useful to obtain all the information on income and expenses of an activity, of a project or of the whole Organization. It is used to see if there is enough money to cover the costs and how the funds will be raised in the planning phase; in the implementation phase it is broken down to monitor periodic income and expenses.

The *Capital Budget*, on the other hand, takes into account all the major cash expenditures incurred to acquire fixed assets, which will last for years. It is important to keep the accounting of these investments separate, as they have a huge impact on the Organization's assets. We are talking about infrastructure, vehicles, equipment of all kinds.

*Cash Flow forecast* are used to understand when financial resources are going to be scarce and to understand the amount of money that the Organization holds and that has to be invested. This document is composed of all the monthly income and expenses of the Organization, so as to observe deficits and surpluses of money.

The Budget has different definition criteria and the Entity must choose the one that best suits its needs.

It is preferred the *Incremental Budgeting* for pretty static projects, in which the level of resources and operations does not differ from one year to the other. Thus the Budget of year 2 will be based on the one of year 1 and so on. The benefit is the

simplicity of definition; while the main disadvantages are: the increase of the possibility to carry the errors over time and the reduction of innovation.

The *Zero-Based Budgeting* on the other hand, is much more detailed and it is used for those projects exposed to sudden changes. For this reason the Budget of the following year will be completely different compared to the ones of previous year. It is preferred by stakeholder because it is very precise in the indication of the use of resources and in addition, it can be changed quickly. The disadvantage is that being so accurate, it requires a lot of time and information to be defined.

A particular category of *Zero-Based Budgeting* is *Activity-Based Budgeting*, widely used in the Non-Profit Sector, because it gives the possibility to quantify in detail, through a Budget Worksheet, all the resources needed to carry out each project.

This approach involves eight different phases. The first two phases are the identification of the objectives of the project and the activities to be carried out to achieve each objective; once this is done, it is necessary to analyse each activity, to determine the necessary resources and to accurately estimate the cost of each of them (third and fourth phase). The fifth phase is represented from the definition of the methods of supplying in order to finance the job and at this point, it is possible to create the *Budget Worksheet* (sixth phase). After that, it is essential to review the final results in order to ascertain that errors have not been committed in the estimation of costs and in calculations and that, all the resources have been considered (seventh phase). Finally, the eighth phase foresees to draw through the *Budget Worksheet*, different statements depending on the use (i.e. internal use, donor Budget, ...), giving a code to each element inserted in the table (*account code*).

Example of a *Budget Worksheet*:

						Currency:	USD		
Line ref.	Description	Unit Type	No. Units	No. times	Unit Cost	Total	Notes	Account code	
<b>A</b>	<b>Recruit and train one metalwork skills trainer</b>					<b>15,195</b>			
A1	Job advertisement in newspaper	Entry	1	2	250	250	1 advert entry for 2 weeks	4020	
A2	Metalwork trainer salary	Month	12	1	888	10,650	1 x half-time post	4030	
A3	Employer's taxes	Month	12	1	107	1,278	Approx. 12% of salary	4030	
A4	Medical insurance	Year	1	1	2,130	2,130	20% of gross salary	4030	
A5	Technical training course fee	Person	1	1	850	850	5 days, includes meals/accommodation	4010	
A6	Per diem allowance	Day	5	1	5	25		4040	
A7	Travel to/from training centre	Trip	2	1	6	12	Bus fare	4040	
<b>B</b>	<b>Deliver 4 metalwork skills workshops (5 days duration) in regional locations, for 18 trainees each</b>					<b>41,140</b>			
B1	Fuel for mobile training vehicle	Kilometer	500	4	0.50	1,000	Estimate based on previous experience	5010	
B2	Insurance for vehicle	Lumpsum	1	1	3,580	3,580	50% as shared with Building Trades Dept	5020	
B3	Vehicle maintenance/repairs	Quarter	4	1	1,800	7,200	50% as shared with Building Trades Dept	5030	
B4	Publicity on community radio	Slot	5	6	40	1,200	5 slots per week for 6 weeks	3050	
B5	Guest tutor's fees	Day	5	4	180	3,600	One guest tutor per day, per workshop	6010	
B6	Lunch and refreshments	Person	20	4	12	960	18 trainees plus 2 trainers, per workshop	6020	
B7	Workshop supplies/raw materials	Lumpsum	1	4	1,780	7,120	As per supplier quotation	6030	
B8	Protective clothing	Person	20	4	35	2,800	18 trainees plus 2 spares as contingency	6030	
B9	Tools set for trainees	Set	18	4	190	13,680	As per supplier quotation	6030	
<b>C</b>	<b>Provide one-to-one post-training support to 40 trainees</b>					<b>5,210</b>			

Fig. 5 Budget Worksheet example: Rural Skills Training Project; Project period: 1 January to 31 December [year], by T. Lewis.

This working tool is useful because it is very flexible, in fact, as anticipated, through the *account codes* it is possible to summarize the Budget, in order to make it practical for voluntary staff and donors.

An example of this process is expressed in the following table:

Account code	Budget description		Total USD
3060	Admin	Publicity	1,200
4010	Personnel	Staff training	850
4020		Recruitment	250
4030		Salaries & benefits	14,058
4040		Travel & subsistence	3,247
5010		Vehicle Running	Fuel
5020	Vehicle Insurance/tax		3,580
5030	Vehicle maintenance		7,200
6010	Project inputs	Consultants fees	3,600
6020		Food & accommodation	960
6030		Training materials	25,600
	<b>TOTAL</b>		<b>61,545</b>

Fig. 6 Summary Budget; 1 January to 31 December [year], by T. Lewis.

After analysing the various types of Budgets and their usefulness, however, it is necessary to understand through which accounting records, the Organisation is actually able to demonstrate the use of resources.

The *Balance Sheet* is “..a list of all assets and liabilities on one particular date and provides a 'snapshot' of the financial position of an organisation.”<sup>84</sup>

The BS must follow the *Accounting Equation*:

$$\text{Asset} = \text{Liabilities} + \text{Net Asset}$$

According to the same, the Organisation must constantly present a balance between the value held and the sum of the portion of debts and of own resources. The *Net Asset* (i.e. total assets less total liabilities) in the Non-Profit Sector is defined by all the funds of the Organisation (while in the profit sector it is determined by *shareholders' equity*).

The assets of an NGO, defined on the basis of the time needed to transform them into cash, are:

- *Cash and cash equivalents*: they represent liquid funds or safe securities.
- *Pledges or Grants Receivables*: sums of money that donors still owe to the Organisation.
- *Prepaid Expenses*: costs that have already been incurred for services not yet received. The value of these assets decreases as the benefit associated to the cost decreases and there is an outflow.
- *Investments*: includes the value of shares and bonds held.
- *Fixed Assets*: this item expresses the value of long-term assets (e.g. land), net of depreciation (i.e. the reduction in value of the asset due to its use).
- *Collections*: some NGOs have historical or artistic objects that do not lose value and they must define a method to record them in the Balance Sheet.

Liabilities include:

- *Accounts Payable*: expenses that the Organisation still has to pay (i.e. taxes).
- *Grants Payable*: contributions that the Organisation owes to people or other NGOs.

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<sup>84</sup> Ibid, note 60.



- *Deferred Revenues*: donations received that have not been recorded as income, because some conditions are missing.
- *Long Term Debt*: the amount of long-term debt (e.g. bank debt) and interest due.

*Net Assets* is divided into three items:

- *Unrestricted items*: the amount of *Net Asset* that is not subject to restrictions imposed by donors. It is positive when the total amount of donations is greater than the expenditure, vice versa it is negative.
- *Temporarily Restricted items*: portion of *Net Asset* subject to restrictions which can be eliminated under donors consensus or through specific actions taken by the Entity.
- *Permanently Restricted items*: portion of *Net Asset* for which the restrictions will never be removed (i.e. endowment<sup>85</sup>).

An example of BS:

<b>Assets</b>		
Cash	\$ 200,000	142,000
Pledges Receivable (net)	120,000	65,000
Investments	755,000	700,000
Prepaid Expenses	15,000	13,000
Fixed Assets (net)	220,000	40,000
<b>Total Assets</b>	<b>\$ 1,310,000</b>	<b>\$ 960,000</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts Payable	50,000	60,000
Grants Payable	25,000	
Refundable Advances	20,000	
Long Term Debt	200,000	-
<b>Total Liabilities</b>	<b>\$ 295,000</b>	<b>\$ 60,000</b>
<b>Net Assets</b>		
Unrestricted	\$ 325,000	\$ 300,000
Temporarily Restricted	45,000	-
Permanently Restricted	645,000	600,000
<b>Total Net Assets</b>	<b>\$ 1,015,000</b>	<b>\$ 900,000</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,310,000</b>	<b>\$ 960,000</b>

Fig. 8: Statement of Financial Condition, E. Keating.

<sup>85</sup> A complex of assets constituting the original patrimony of foundations.  
Definition by Treccani.  
<http://www.treccani.it/vocabolario/dotazione/>

Through the following BS example it is possible to calculate the *Net Asset* as the difference between Total Assets and Total Liabilities:

$$\text{\$ 1,310,000} - \text{\$ 295,000} = \text{\$ 1,015,000}$$

It should also be noted that, the result of the *Income Statement* is reported in the BS under *Net Asset*.

The BS is prepared once a year, but in larger NGOs it is also drawn up every four months or every month.

However, the *Accounting Equation* does not take into account the reasons that influence the change in Assets, Liabilities and *Net Assets*. For this motivation, the *Income Statement* is prepared, which takes into account changes in *Net Assets*, which increases when income is recorded and decreases when expenditures are recorded:

$$\text{Revenues} - \text{Expenses} = \text{Change in Net Assets}$$

Through this document you are aware of all resources coming in and going out.

NGOs, however, do not operate according to the logic of the capitalist market and therefore this document is called *Statements of Activities* instead of *Income Statement* (as will be seen in the Amka case).

It is divided into *unrestricted*, *temporarily restricted* and *permanently restricted assets*.

Revenues are made up of:

- *Contributions*: sums of money voluntarily donated to NGOs or debts of the Entity that have been eliminated. To be catalogued as revenue, they require the support of appropriate documentation. Contributions, as mentioned above, may be subject to limitations by donors and therefore recorded under temporary restricted or permanently restricted income. When donors approval is received, the restriction is removed and they are moved to unrestricted income.

On the other hand, if the money is received in advance and the Entity has to carry out activities in order to lift the restriction, then it is categorized as liability and once the conditions are met, it is converted as a revenue.

In addition, non-cash assets also fall into this category, because NGOs try to include them in their revenue estimation.

- *Program Service Revenues*: amount of revenue obtained for the provision of services by the NGO to third parties.
- *Membership Dues*: payment of fees by members in exchange for obtaining certain services from the NGO.
- *Special Events Revenue*: amount of money generated as a result of events, which are distinguished from contributions.
- *Investment Income*: income generated by interest on bonds or dividends on shares.

Expenses are divided into:

- *Program Expenses*: are costs incurred to implement projects and distribute goods and services to beneficiaries.
- *Fundraising Expenses*: include all costs incurred for fundraising activities, both online and offline (i.e. organisation of events).
- *Administrative Expenses*: general and management costs of the Organisation (i.e. Budgeting).<sup>86</sup>

An example of *Statement of Activities*:

<b>Changes in Unrestricted Net Assets:</b>	<b>Temporarily</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Restricted</b>	<b>Restricted</b>	
<b>Revenues and Gains:</b>				
Public Contributions (net)	\$ 800,000	\$ 165,000	\$ 45,000	\$ 1,010,000
Program Service Revenue	46,000			46,000
Investment Income	42,000	5,000		47,000
Net Assets Released from Restrictions	125,000	(125,000)		0
<b>Total Revenues, Gains, Other Support</b>	<b>\$ 1,013,000</b>	<b>\$ 45,000</b>	<b>\$ 45,000</b>	<b>\$ 1,103,000</b>
<b>Expenses and Losses:</b>				
Program Services	\$ 676,000			\$ 676,000
General Administration	197,000			197,000
Fund-Raising	115,000			115,000
<b>Total Expenses and Losses</b>	<b>\$ 988,000</b>			<b>\$ 988,000</b>
<b>Increase in Net Assets</b>	<b>\$ 25,000</b>	<b>\$ 45,000</b>	<b>\$ 45,000</b>	<b>\$ 115,000</b>
Net Assets at Beginning of Year	300,000	0	600,000	900,000
Net Assets at End of Year	\$325,000	\$45,000	\$645,000	\$1,015,000

Fig. 9: Statement of Activities, Keating E., 2008.

<sup>86</sup> Keating E., "How to Assess Nonprofit Financial Performance", Northwest University, Evanston, 2008.

Through the following example of *Statements of Activities* it is possible to observe how it is calculated (a, b):

a) *Increase in Net Asset =*

*Total Revenues, Gains, Other Support – Total Expenses and Losses*

1) Unrestricted: \$ 1,013,000 – \$ 988,000 = \$ 25,000

Temporarily Restricted: \$ 45,000 – \$ 0 = \$ 45,000

Permanently Restricted: \$ 45,000 – \$ 0 = \$ 45,000

2) *Tot Increase in Net Asset =*

*Unrestricted + Temporarily Restricted +*

*Permanently Restricted*

$\$ 25,000 + \$ 45,000 + \$ 45,000 = \$ 115,000$

b) *Net Asset at the End of Year =*

*Increase in Net Asset + Net Asset at Beginning of Year*

1) Unrestricted: \$ 25,000 + \$ 300,000 = \$ 325,000

Temporarily Restricted: \$ 45,000 + \$ 0 = \$ 45,000

Permanently Restricted: \$ 45,000 + \$ 600,000 = \$ 645,000

2) *Tot Increase in Net Asset =*

*Unrestricted + Temporarily Restricted +*

*Permanently Restricted*

$\$ 325,000 + \$ 45,000 + \$ 645,000 = \$ \mathbf{1,015,000}$

These financial documents must be concise and easy to understand; they must include all the activities of the Organisations; they must be comparable between years and with other documents, such as the Budget in order to make decisions; they must be drawn up regularly.<sup>87</sup>

In addition to the three main financial statements (*Balance Sheet, Income Statement and Cash Flow Statement*), for NGOs there is also the *Statement of Functional Expenses*.

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<sup>87</sup> Bourgeois K., “*Nonprofit Financial Statements*”, University of Oregon, US, 2003.

The *Statement of Functional Expenses* is a report prepared only by NGOs, but it is not mandatory; it is useful to divide the costs into three categories: *Salaries*, *Occupancy costs* and *Depreciation*. In addition, some Organisations differentiate between costs attributable to the programme and costs attributable to programme support services.

An example of *Statement of Functional Expense*:

	Program Services		Supporting Services		Total Expenses
	Educational/ Scholarships	Recreational Programs	General Administration	Fund- Raising	
Salaries	\$ 65,000	\$ 88,000	\$ 82,000	\$ 15,000	\$ 250,000
Employee Benefits	15,000	22,000	20,000	3,000	60,000
Payroll Taxes	7,000	11,000	10,000	1,500	29,500
Total Personnel Costs	\$ 87,000	\$ 121,000	\$ 112,000	\$ 19,500	\$ 339,500
Professional Fees	-	-	-	45,500	45,500
Supplies	45,000	10,000	8,000	8,000	71,000
Telephone	10,000	15,000	7,000	7,000	39,000
Postage	10,000	5,000	5,000	3,000	23,000
Occupancy Costs	20,000	20,000	15,000	3,000	58,000
Equipment Rental and Maintenance	5,000	5,000	20,000	-	30,000
Printing and Publications	20,000	45,000	\$ 2,000	26,000	93,000
Travel	40,000	40,000	\$ 1,000	3,000	84,000
Conferences and Meetings	20,000	15,000	7,500	-	42,500
Scholarships	143,000	-	-	-	143,000
Interest	-	-	14,500	-	14,500
Total before Depreciation	\$ 400,000	\$ 276,000	\$ 192,000	\$ 115,000	\$ 983,000
Depreciation	-	-	5,000	-	5,000
Total Expenses	400,000	276,000	197,000	115,000	\$ 988,000

Fig. 10: Statement of Functional Expenses, Keating E., 2008.

The *Cash Flow Statement* is useful to catalogue from which activity the income and expenses derive. For this reason we have CF from *operating activities* (income and expenditure *unrestricted* or *temporarily restricted*, deriving from the raising of resources and the implementation of projects), from *investing activities* (purchase or sale of long-term assets) and from *financing activities* (income and expenditure classified as *permanently restricted*).<sup>88</sup>

Through the CF, the Organisation is able to observe if it is obtaining sufficient income to cover its expenses over a given period and it can understand from which activities the losses come from.<sup>89</sup>

<sup>88</sup> Ibid, note 78.

<sup>89</sup> Ibid, note 82.

An example of CF:

<b>Cash Flows from Operating Activities:</b>	
Cash Received from Unrestricted and Temporarily Restricted Contributors	\$ 930,000
Cash Received from Service Recipients	46,000
Grants Paid	(118,000)
Cash paid to Employees and Suppliers	(837,500)
Interest Paid	(14,500)
Interest and Dividends Received	37,000
Net Cash from Operating Activities	<u>\$ 43,000</u>
<b>Cash Flows from Investing Activities:</b>	
Purchase of Investments	\$ (45,000)
Fixed Asset Purchases	(185,000)
Net Cash Used for Investing Activities	<u>\$ (230,000)</u>
<b>Cash Flows from Financing Activities:</b>	
Addition to Endowment	\$ 45,000
Issuance of Long Term Debt	200,000
Net Cash from Financing Activities	<u>\$ 245,000</u>
Net Increase in Cash	\$ 58,000
Beginning Cash Balance	142,000
Ending Cash Balance	<u>\$ 200,000</u>

Fig. 11: Statement of Cash Flows, 2008, Keating E.

During the operations, the Budget is compared with other accounting documents and therefore it is possible to evaluate the difference between the expected results and those achieved. In this way the Board can become aware of the use of resources and in situations where there is a high degree of variance, it must modify the strategic plan in order to avoid crises.<sup>90</sup>

Accounting means taking into consideration the financial transactions that occur during the year. The only problem is the temporal one, i.e. at which moment record the transaction.

Through the *Cash Accounting method*, the recording of the transaction is based on the actual exchange of money and therefore when the fees for the provision of services are received or when the NGO pays the expenses. Furthermore, this system does not take account of non-cash transactions.

For each period through *Cash Accounting*, a *Receipts and Payments Account Document* is produced.

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<sup>90</sup> Ibid, note 62.

In contrast, *Accrual Accounting* does not take into account when the exchange of money takes place, but when the transaction takes place, consequently, it also keeps track of receipts not yet received and of expenses not yet paid.

Through this system the BS and IS are produced.<sup>91</sup>

Some NGOs use a hybrid approach, as they use the first approach during the year and eventually convert the final figures using the second method, also for greater transparency of the documents to be audited.<sup>92</sup>

The *audit* concerns the periodic verification of the truthfulness and transparency with which the financial documents have been drawn up. If the documents are drawn up correctly, the auditor expresses an *unqualified* opinion, otherwise through a *qualified* opinion he indicates the reasons why the documents have not been drawn up in accordance with the accounting principles.<sup>93</sup>

### ***2.5 Theory of Change and Social Impact Management & Evaluation***

For a Non-Profit Organisation it is of fundamental importance to define a methodology through which reflect on the implementation of a policy from all points of view. It is necessary to determine the inputs, the actions to be implemented, the outputs, the long term changes (outcome) and to observe why these occur.

One must be able to think about alternative ways of acting in order to achieve the objectives and corrective actions, in case of unexpected negative events.

There is no single methodology to examine the various phases of a project and its results. What is important is its application, which must be consistent with the *mission* and *vision* of the Organisation and must be carried out with the right expertise.

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<sup>91</sup> Ibid, note 60.

<sup>92</sup> An audit is an independent examination of records, procedures and activities of an organisation, resulting in a report on the findings.  
Definition by Lewis T., Mango (Ibid, note 60).

<sup>93</sup> Ibid, note 81.

### 2.5.1 Theory of Change and Logical Framework comparison

The *Theory of Change* is defined by Davies as “*the description of a sequence of events that is expected to lead to a particular desired outcome*”<sup>94</sup>.

Through it, it is possible to define what will be the result of the project (therefore the long-term objective) and through which actions those objectives will be achieved. For this reason, the long-term goals will be set first, and then one should go back and determine all the actions to be carried out to achieve them and the relationship between the actions.<sup>95</sup>

Therefore with the use of the ToC it is possible to define the needs that one wishes to satisfy, the change that one seeks to achieve and the activities through which it will be achieved.<sup>96</sup>

The ToC can be catalogued as an evaluation tool and therefore linked to *programming theories*, which have been developed since 1960.

Therefore this theory is far from new, as the above mentioned methodologies have always been used by project developers to observe the relationship between inputs and objectives, to improve impact performance and measurement of results.

More specifically the ToC is a way to focus on possible future objectives; it is a set of assumptions about what results an activity can produce in the short term and what conditions must be determined in order to produce the expected result.

Therefore the ToC is a tool through which it is possible to keep under control the activities carried out and their relationship with the results. Moreover, it strongly takes into account the opinion of stakeholder, increasing the criticality with which interventions are planned, as there are multiple points of view.

By defining long-term objectives the ToC helps the Organisation to determine a suitable strategy for its objectives and it supports donors and volunteers to focus on the *mission* and actions performed to achieve the desired outcomes. In addition, resources can be best allocated to each activity.

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<sup>94</sup> Davies R., Criteria for assessing the evaluability of “Theories of change”, 2012  
<http://mandenews.blogspot.com/2012/04/criteria-for-assessing-evaluability-of.html>

<sup>95</sup> Centro Studi Lang – Fondazione Lang Italia, Manuale operativo per la Theory of Change, 2017  
[https://www.fondazione-langitalia.it/wp-content/uploads/2017/10/Philanthropy-Insights-n\\_5.pdf](https://www.fondazione-langitalia.it/wp-content/uploads/2017/10/Philanthropy-Insights-n_5.pdf)

<sup>96</sup> Ibid, note 57.



The ToC is useful in the planning, design and evaluation phase of a project. It is developed first of all by defining the outcome (long-term objectives); then (going backwards) it takes place the definition of the short-medium term objectives and the actions used to achieve them; after which, the hypotheses - which indicate why a certain change could occur - on which the project is based are defined; then the activities to be carried out to produce the expected impact and the indicators to estimate the results are defined; finally a document must be drawn up, which expresses the motivation for the work of the Organisation.

The indicators must measure both the outcomes, which represent long-term changes, and the outputs, which are the short-term quantitative changes that occur thanks to the project. They must be determined on the basis of what needs to be estimated, they must be relevant and at the same time not too expensive to use. Obviously indicators are fundamental to measure the impact actually produced, so their determination is crucial.

To be effective the ToC must not contain unrealistic outcomes, which are similar to each other or for which no distinctive features are specified. Finally, the connections between the activities, that generate changes, must be well expressed.<sup>97</sup>

Also the *Logical Framework* (LF) is part of the *programming theories*.<sup>98</sup>

The *Logical Framework Approach* (LFA) was developed for the first time in the USA by the consulting firm Practical Concepts Inc., for the *United States Agency for International Development* (USAID) in order to define projects with a clear vision.

The first generation of LF has a very static vision of the project, emphasizing that the project must not change for its entire duration. The second generation recognises the importance to listen and to understand the needs of stakeholder for the definition of the project. The third generation, on the other hand, recognises the variability in the Entity's work and therefore the possibility of deviations in the project during its implementation. Thus, the last generation of this approach is much more dynamic; it defines the project objectives and the activities to be carried out to achieve them, it takes into account the needs of stakeholder, keeping them involved in

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<sup>97</sup> Ibid, note 57.

<sup>98</sup> Vogel I., "Review of the use of 'Theory of Change' in international development", UK Department for International Development, 2012.

discussions and decisions; it identifies potential risks and indicators to monitor the project outcomes and, through a report, it expresses in a compact and easy to understand form all the information related to the Organization's work.

However, this tool creates confusion between the terminology it uses and the terminology adopted in the Institutions; the indicators to determine the success of an initiative are still difficult to define and the LFA cannot be easily integrated with other project management tools.<sup>99</sup>

In addition, other authors claim that many Organisations make misuse of this approach, using it as a means to increase donations rather than for the evaluation of measures.<sup>100</sup>

The *Logical Framework* is therefore a model that lists a series of elements for the realization of a project. On the other hand, the *Theory of Change* is a more critical methodology, which highlights what may be the difficulties to achieve change, what actions to take and the relationships between them.

It can therefore be assumed that the LF is a more static model, while the ToC is more dynamic. Therefore, in a sector like Non-Profit, where there is a sudden change in the needs of the target populations, flexible tools have to be adopted, which can change at any time.

In addition, it is necessary to define precise indicators for qualitative and quantitative measurement of social impact produced by a project, which are able to define the success or the failure of the project and which are necessary to understand the corrective actions to be taken in case the objectives are not achieved.

Therefore the ToC, if implemented correctly, can simultaneously meet all the needs for successful interventions.

### 2.5.2 Social Impact Management & Evaluation

Through the evaluation it is possible to create a judgement on the work of an organisation (profit or not), which is pretty objective because it is determined through rigorous methods. The evaluation is used first and foremost to understand whether the

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<sup>99</sup> Couillard J., Garon S., Riznic J., “*The Logical Framework Approach– Millennium*”, Wiley InterScience, New Jersey, 2009.

<sup>100</sup> Bakewell O. & Garbutt A., “The use and abuse of the logical framework approach”, SEKA, 2005.  
[http://pdf2.hegoa.efaber.net/entry/content/909/the\\_use\\_and\\_abuse\\_SIDA.pdf](http://pdf2.hegoa.efaber.net/entry/content/909/the_use_and_abuse_SIDA.pdf)

effects produced have met the needs of the target audience and to estimate the variation of actual results from those expected.

It is a process through which organisations inform stakeholder about the status of the activities carried out.

Therefore the evaluation helps to make the best use of resources, to observe critically the results achieved through the actions implemented and it is useful to estimate the results produced and to communicate them to stakeholder.

The impact assessment has almost the same characteristics as the other types of assessment, but it has significant differences to analyse. First of all, it is necessary to carry out a *counterfactual analysis*, i.e. not only to compare the initial situation with the final one, but also to study what the scenario would have been in the absence of the measure.<sup>101</sup>

By impact is meant the improvement that beneficiaries achieve in their lifestyle as a result of an intervention, therefore it is about long-term changes, which can sometimes be unexpected. In fact, it is possible that through the combination of different projects implemented by an Organisation, a catalytic effect is generated through which unexpected events occur. Moreover, one must be aware that the impact can also be negative, as exogenous variables can interfere or the intervention itself is poorly planned.

Therefore the impact assessment examines the long-term sustainable change that occurs as a result of a project.<sup>102</sup>

The expected change is the modification of the condition of poverty, human rights, behaviour towards diversity (race, gender), children, people with disabilities and the environment.

The analysis of the social impact produced is a legal requirement and not something occasional; for this reason it must be applied throughout the life cycle of a project.<sup>103</sup>

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<sup>101</sup> Ibid, note 57.

<sup>102</sup> Adams J., “*NGOs and Impact Assessment*”, INTRAC, 2001

<sup>103</sup> Nicaise I., Holman K., “*Social Impact Assessment*”, Directorate-Generale for Employment, Social Affairs and Equal Opportunities of the European Commission, Belgium, 2008.

In fact, the evaluation must take place ex-ante (using research of the feasibility of the intervention); during the course of the project (if deviations from the action plan are detected); and ex-post (evaluation of the results).<sup>104</sup> It is a common thought that there are no changes in the initial phase of a project, but in reality even considerable changes can occur when people only become aware of the project.

Therefore it is necessary to estimate the social impact produced on individuals and hence on the community, on social relations and institutions and on resources (political and social).

Taylor identified five spheres which undergo transformations thanks to the work of the Institutions: community, lifestyle, attitudes, values and beliefs, and social institutions.

Bruge also identified five areas that are affected: population, community and institutions formed by it, conflicts that are generated between local inhabitants and newcomers, individuals and families as a whole and collective needs.

Branch on the other hand, identifies four categories on which to estimate the changes: resources used by the intervention, resources of the community, social organisations and the indicators of social and individual well-being.

The SIA (*Social Impact Analysis*) must follow certain phases in order to be well implemented. First of all, it is necessary to analyse who are the beneficiaries of the project and to involve them, in order to question them ordinarily and collect information.<sup>105</sup>

In this first step it is necessary to determine the degree of stakeholder participation, bearing in mind that the greater the involvement, the greater the time needed to conduct analysis. Their participation can be consultative, cooperative, collaborative or collegial, and it is useful to define the spheres of impact of the project and to use the results of the latter.<sup>106</sup>

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<sup>104</sup> Ibid, note 57.

<sup>105</sup> The Interorganizational Committee on Guidelines and Principles for Social Impact Assessment , “Guidelines and Principles For Social Impact Assessment”, 1994.  
[https://www.iaia.org/pdf/IAIAMemberDocuments/Publications/Guidelines\\_Principles/SIA%20Guide.PDF](https://www.iaia.org/pdf/IAIAMemberDocuments/Publications/Guidelines_Principles/SIA%20Guide.PDF)

<sup>106</sup> Ibid, note 96.

After having identified the beneficiary groups, it is necessary to conduct an analysis of the *baseline conditions* of all the variables on which the measure will impact.

The criteria used in order to define the impact are based on the probability that the expected events will occur, on the number of people involved, on the duration of the effects, on the costs and benefits produced, on the extent to which the results can be modified and on the probability that unexpected events will occur.

It is also necessary to estimate the impact in advance, calculating the difference between the hypothetical future scenario of what it would happen with the implementation of the project and what it would be observed in the absence of the project and to simplify this process, data from past experience is examined.

Following the implementation of the intervention, it is necessary not only to observe changes in the behaviour of individuals, but also the indirect and cumulative impact produced. The latter indicates the changes that occur as a result of the accumulation of projects implemented in the past and present.

Through the SIA one is also responsible for predicting negative events and preparing corrective actions to be taken in case of any such events.

At the same time, it is necessary to define monitoring tools which are able to estimate the variation between the actions actually made and those initially proposed, in order to assess the difference between the expected impact and the one achieved. Monitoring is particularly useful for programmes with a high degree of uncertainty.<sup>107</sup>

In short, four steps can be followed to define an effective SIA. The first is the definition of the relationships between input and outcome and the process for achieving the latter (*Theory of Change*). The second is represented by the selection of evaluation methodologies that best suit the type of project. Then the analysis of the basic conditions is carried out and finally, the impact analysis is performed, determining the variables with which to estimate the change, the necessary data, times and costs needed.

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<sup>107</sup> Refer to the next paragraph for more details on the concepts of Evaluation and Monitoring.

The techniques for data collection and analysis, range from qualitative approaches (*focus groups, interviews, case studies, questionnaires*) to quantitative approaches (*structured surveys and clinical, sociometric and institutional data analyses*).<sup>108</sup>

However, there are no better or worse techniques, so it is preferred *triangulation*, i.e. the combined use of tools and methodologies, to obtain the most accurate possible (objective and subjective) perspectives.

It is advisable to use structured and flexible systems at the same time, so as not to anchor oneself only to the use of analytical methodologies.

The problems, encountered in the definition of impact measurement tools, are given by the confusion between the process of estimating results and the long-term impact assessment; they emerge in the phase of determining data collection techniques and monitoring systems; difficulties are also encountered in the definition of qualitative and quantitative impact.

For these reasons it is necessary to ascertain the validity and credibility of the analysis conducted so as not to incur into *bias*; it is necessary to use a simple methodology and employ personnel with the right analysis skills.

A well conducted impact assessment is also valid for planning future projects and it is required the dissemination of the results found through it.<sup>109</sup>

### 2.5.3 Differences between Monitoring and Social Impact Evaluation

As mentioned in the previous paragraph, the assessment of immediate objectives is often confused with long-term objectives.

Therefore monitoring and impact assessment are concepts that are easily overlapped.

In reality, monitoring is a periodic internal activity, carried out through the use of regularly collected data, which is based on actions and outputs of individual activities. It observes changes based on a small number of indicators and it is therefore

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<sup>108</sup> Ibid, note 57.

<sup>109</sup> Ibid, note 96.

quantitative. It is not used to estimate the impact, as it does not take into account the *causal links* between actions and results.

On the other hand, impact assessment is much more detailed and therefore less frequent. It is conducted mainly outside the Organisation and it is based on *counterfactual analysis* and on *causality linkages*. It thus provides the opportunity to study the long-term impact which has actually been achieved.<sup>110</sup>

#### 2.5.4 Comparing CSR and Social Impact Analysis

The SIA method is necessary to analyse, to monitor and to manage the social effects (positive and negative) produced by a policy measure. Information is obtained about the costs and benefits of the project and consequently, it is learnt whether to continue, to apply corrective actions on it or to block it completely. In addition, when negative effects are produced, plans must be defined to mitigate their impact.

The SIA process always starts with the identification of the *baseline conditions* of the target populations and the definition of the subjects that will benefit from the measure. It is then necessary to establish alternative and corrective actions and use a monitoring and management system for short and long term results.

*Corporate Social Responsibility*, on the other hand, indicates the set of voluntary actions that companies take in relation to the environment and society, during the course of their activities. Today, companies have incorporated the concept of sustainable development into their strategy and hence, they include CSR initiatives in their annual reports. Organizations have established teams to define policies, strategic plans, objectives and Budgets to carry out their CSR projects. Being socially responsible improves relations with stakeholder, it increases innovation, it helps to attract talent from the labour market and it increases employee satisfaction.

A win-win solution can therefore be defined, which only brings benefits if implemented correctly.<sup>111</sup>

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<sup>110</sup> Ibid, note 57.

<sup>111</sup> Manohar E., “*Essential Alignment: Corporate Social Responsibility And Social Impact Assessment For Sustainable Development-An Empirical Study*”, IAEME Publication, 2019.

However, there is still a great deal of uncertainty about socially responsible behaviour and the meaning of CSR, in fact, for some people, it is not possible to give a definition that does not contain *bias*, while for others there is not even a proper one. What is more, some believe that there are too many definitions of it, influenced by different interests.

Yet it is essential that a precise explanation of CSR is established, as the objectives it fulfils, are of crucial importance for companies and for community.<sup>112</sup>

SIA and CSR are related to the concept of Sustainable Development, which is defined in the 1987 Report of the World Commission on Environment and Development, as: “*development that meets the needs of the present without compromising the ability of the future generations to meet their own needs*”(WCED, 1987).<sup>113</sup>

The concept of CSR is also defined as the attention to three different spheres: environment, economy and equity. The second refers to business continuity (governance, risk and personnel management, profit creation, etc.), while equity refers to improving community conditions and stakeholder satisfaction.<sup>114</sup>

CSR must be seen as a set of voluntary actions towards the community, the stakeholder, the environment and the economy, which go beyond what is required by legislation.

SIA and CSR have the same fundamental values and objectives, concerning the definition of the impact produced by the organisation's activities on well-being and lifestyle of the community, the human rights and the inclusion of the beneficiaries of the measures in decision-making processes.

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<sup>112</sup> Sheehy B., “*Defining CSR: Problems and Solutions*”, Springer, Berlin, 2014.

<sup>113</sup> “1987: Brundtland Report”  
<https://www.are.admin.ch/are/en/home/sustainable-development/international-cooperation/2030agenda/un-2030-milestones-in-sustainable-development/1987--brundtland-report.html>

<sup>114</sup> Székely N., Brocke J., “What can we learn from corporate sustainability reporting? deriving propositions for research and practice from over 9,500 corporate sustainability reports published between 1999 and 2015 using topic modelling technique”, 2017  
<https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0174807>



Often CSR implementation programmes are defined in a way that do not take into account the real needs of the population and thus create a discrepancy between policies and practices. In addition, it is difficult to use the information obtained through the SIA for CSR practices. If this obstacle could be overcome, the quality of CSR programmes would increase and they could be better defined according to the needs of the community.<sup>115</sup>

There are some strategies to match SIA and CSR, such as the alignment between organizational activities and the desired impact; the focus on outputs through the provision of short-term monitoring systems; the measurement and the analysis of the results obtained in the long term (outcome), to determine future strategies and objectives; the determination of systems to measure outputs and outcomes that produce changes at social level. By listening to the beneficiaries of the projects, an attempt is made to understand all the spheres that have undergone transformations as a result of the measures, in order to be able to have a holistic view of the impact produced.

Through SIA an CSR alignment, it is possible to improve the implementation of the latter, because it is produced an increase in the skills and knowledge of the business areas concerned and an increase in the well-being of individuals.<sup>116</sup>

Nonprofit Organizations can support corporations in reducing the negative impact produced by their activities. However, it is often the case that NGOs are treated as second-class stakeholder.

Moreover, corporations believe that it is not fair that NGOs are involved in decision-making processes, while NGOs argue that it is their right to set standards for the implementation of CSR.

Consequently, the conflicting relationships between the for-profit and Non-Profit Sector act as a barrier to the incorporation of CSR into companies' strategic plans.

The winning solution is to establish partnerships between Third Sector Organisations and corporations, so as to create synergies to improve the environmental and social impact of their work, to define common methodologies for measuring

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<sup>115</sup> Bice S., *“Bridging corporate social responsibility and social impact assessment”*, Taylor & Francis, Oxfordshire, 2014.

<sup>116</sup> Ibid, note 107.

results and to create efficient CSR implementation standards and systems for monitoring it.<sup>117</sup>

Clearly both NGOs and for-profit enterprises benefit from this relationship. A Non-Profit entity sees an increase of its revenues, thanks to the help of the for-profit corporation. A for-profit organisation, on the other hand, increases the trust that stakeholder have in the CSR measures implemented by it, thanks to the NGO's image and experience.

In conclusion, in order to create positive effects, partnerships must produce value for both parties.<sup>118</sup>

## ***2.6 Difference between the Financial and Performance Measurement of a Social Organization and of a Company***

The Third Sector is increasingly tending to homologate with the profit sector about bookkeeping and management aspects. In fact, the methodology for the preparation of the accounting records is almost the same, with the exception of a few different items that illustrate the Non-Profit nature of the Organisation.

The real differences between these two spheres are the organisation's *mission*, *value proposition* and objectives. While in Profit, everything is more defined, realistic and easily quantifiable, in Non-Profit, the abstract nature of the aims and therefore the difficulty of their quantification prevails.

Moreover, in the latter sector there is a gap between those who pay for services and those who receive them, meaning that people do not pay to make exclusive use of the good or service, but to fulfil the common good.

### ***2.6.1 Main differences between For-Profit and Non-Profit Organizations***

One of the main differences between Non-Profit and for-profit organisations is the type of revenues. For the former, revenues are represented by voluntary donations

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<sup>117</sup> Arenas D., Lozano J. M., Albareda L, “ *The role of NGOs in CSR: Mutual perceptions among stakeholder*”, Springer, Berlin, 2009.

<sup>118</sup> Rim H., Yang S., Lee J, “*Strategic partnerships with nonprofits in corporate social responsibility (CSR): The mediating role of perceived altruism and organizational identification.*”, Elsevier, Amsterdam, 2016.

(made by individuals or companies), government grants, non-cash donations, fundraising activities and sale of goods and services. Those who donate sums of money do not ask for counter-performance and above all, the income cannot be redistributed among the members of the Organisation.

On the contrary, the income of for-profit companies comes from the sale of goods and services they produce, which are purchased by people who will use them for their own benefit.<sup>119</sup>

Corporations have a clear and defined objective which is to maximise value for their shareholders<sup>120</sup>, hence all decisions and actions taken will be aimed at increasing profit. On the other hand, NGOs do not produce and redistribute income, but they meet the needs of the community through the income generated and for this reason, the objectives are less concrete to outline and the decisions are aimed at carrying out activities that produce the greatest possible social impact.<sup>121</sup>

*“In the public sector enterprises, money is the means to a desired social end. In the private sector, the products and services delivered are the means to the end of making money.”*(Moore, 2000). However, this does not mean that financial management is not important for NGOs, but only that it is not their primary objective.

The stakeholder of companies are consumers, workers, suppliers, retailers and they are characterized by a shared interest, i.e. the proper management of the company by managers. Conversely, in an NGO the stakeholder are donors, staff, volunteers and those who receive the services. It should be stressed that in Third Sector Organisations, the person who gets the service is not the same person as the one who pays for the service, consequently, the interests of these stakeholder are different and the Organisation often has to resolve conflict situations.

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<sup>119</sup> Ibid, note 46.

<sup>120</sup> Shareholder value is the value enjoyed by a shareholder by possessing shares of a company. It is the value delivered by the company to the shareholder.

Definition by The Economic Times

<https://economictimes.indiatimes.com/definition/shareholder-value>

<sup>121</sup> Anheier H.K., *“Nonprofit Organizations: Theory, management, policy”*, Taylor & Francis Group, London and NY, 2005.

Obviously also the performance measurement systems differ between the two sectors, given the above-mentioned disparities. It can be said that the ease of estimating the results achieved in the profit sector is greater, as they can be demonstrated through the use of financial indicators. In NGOs, the abstract nature of the services offered, the *mission* and the outcomes, as well as the difference in stakeholder' interests, make everything more complicated. In any case, even in the presence of such difficulties, it is now vitally important to measure performance in the Third Sector, given the high level of competition among NGOs and the large pool of resources they have to manage. Thus, Non-Profit managers use evaluation techniques similar to those used by for-profit managers, changing them according to the Organisation's *mission*.<sup>122</sup>

### 2.6.2 Financial Performance Indicators Comparison

When an investment in a company has to be undertaken, an analysis has to be carried out by quantifying the return that can be obtained, so it is necessary to assess whether the profit is greater than the costs incurred through the use of indicators.

In NGOs this procedure is more complex because the value of the return on money used in new projects is not commercialized in the private market and therefore, there is no "price". However, various methodologies have been studied to allow to "monetize" the return on an investment and among the most used ones, it can be found the SROI method (discussed above).<sup>123</sup>

Regardless of their Non-Profit nature, Third Sector Organisations need to know their financial situation, using indices that let them to control the frequency of revenues and the costs of their activities.<sup>124</sup>

NGOs, as already mentioned, carry out *liquidity*, *profitability* and *solvency* analyses just like for-profit companies.<sup>125</sup>

Through the first, it is possible to estimate the organization's ability to meet its short-term debts with the resources it owns.

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<sup>122</sup> Ibid, note 46.

<sup>123</sup> Ibid, note 74.

<sup>124</sup> Ibid, note 47.

<sup>125</sup> Ibid, note 69 and 60.

For both sectors the most common indicators are:

1. The *Current Ratio*: its purpose is to assess the ability to pay current payables through current assets.
2. The *Quick Ratio*: it concerns the ability to meet short-term debt through the most liquid assets.
3. The *Net Working Capital*: it is a key indicator in order to understand the possibility of coping with operational activity.

In NGOs, in order to observe for how many days the Entity can carry out its activity, facing its expenses through the resources it owns, there are two indicators: the *Days of Liquid Net Assets* and the *Days of Cash on Hand*. On the other hand, in profit organisations it is important to calculate the time the company takes in order to obtain payment for its services through the *Days Sales Outstanding*.

The *solvency analysis* is useful to understand the value of the company, which the latter is defined as solvent when the amount of what it owns is greater than what it owes. In both sectors the ratio of *Debt to Assets* is used to understand the percentage of debt used to finance the assets.

In the profit sector, the *Debt to Equity ratio* is used to estimate the financial leverage, i.e. the degree of indebtedness of the company.<sup>126</sup>

In the Third Sector, on the other hand, it can be observed how much the Entity depends on the funds obtained by donors and how much on those obtained by the State, comparing the contributions (obtained from individuals or from the State) to the total revenues.<sup>127</sup>

Finally, the analysis of *profitability* in the for-profit sector takes on greater significance, since the main purpose of companies is to make profit. Through this analysis it is possible to analyse the income, expenditure and so the profit generated by current projects and to make future forecasts on the profitability of the company, also providing information on most profitable areas, consumers and products. Companies

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<sup>126</sup> Investopedia Staff, "Solvency Ratios vs. Liquidity Ratios: What's the Difference?"  
<https://www.investopedia.com/articles/investing/100313/financial-analysis-solvency-vs-liquidity-ratios.asp>

<sup>127</sup> Ibid, note 69.

are consequently able to maximise profit and profitable opportunities for their business.<sup>128</sup>

The most common ways to carry out the analysis are:

1. The use of indicators on the margin produced by comparing Gross Profit, Operating Income and Net Income to Sales.
2. The calculation of the *Break Even Point*, i.e. the point where expenses equal income. It indicates what the loss may be before you can no longer make a profit.
3. The estimate of ROI (*Return On Investment*), ROA (*Return On Assets*) and ROS (*Return On Sales*), which are used to compare respectively Operating Income to Investments, Assets and Sales.
4. The reclassification of the BS, the IS and the CF, with which it is possible to distinguish between assets used in daily operations of the company (*operating assets*: trade receivables, inventory and property, plant and equipment), to those not used daily (*financial assets*: deposits and marketable securities) and equally for liabilities generated by daily operations (*operating liabilities*: accounts payable, accrued expenses, deferred revenue, restructuring liabilities and pension liabilities), from those used for the management of operations (*financial liabilities*: bank loans, short-term commercial paper and bonds). By means of the reclassification it is possible to calculate the ROCE (*Return On Capital Employed*), through which to estimate the profit generated by the company, taking into account the part of equity and debt held by the same, and the RNOA (*Return on Net Operating Assets*), for the estimate of the profitability generated by Operating Assets and it indicates the efficiency of the use of capital invested in the company.

With regard to Non-Profit, the most used indicators are:<sup>129</sup>

1. The *Operating Margin*: useful to understand if the Operating Revenues are present in a sufficient quantity to cover the Operating Expenses.

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<sup>128</sup> Nissim D., Penman S. H., “*Financial Statement Analysis of Leverage and How It Informs About Profitability and Price-to-Book Ratios*”, School of Business Columbia University, NY, 2003.

<sup>129</sup> Ibid, note 69.

2. *Net Asset Growth*: essential to understand if revenues are increasing.

### 2.6.3 Differences between Non-Profit and For-Profit Accounting Records

NGOs and for-profit organisations draw up the BS to account for the value of the organisation's assets and liabilities.

*Accounting equation* is valid for both sectors, which means that Assets must always equal the sum of Liabilities and *Net Asset*.

The main difference lies in the composition of the *Net Asset*. In an NGO it is given by the *unrestricted Net Asset* (i.e. the operating result obtained by the *Statements of Activities* as the difference between income and expenses), the *institution's endowment fund* and the *restricted assets*; while in a profit organisation it is made up of *shareholders' equity* (*outstanding shares, retained earnings, treasury stock, profit/loss for the period*), which indicates the amount of money that would be due to the shareholders, if all the assets were liquidated and all debts were paid.<sup>130</sup>

About assets, the composition of them is almost the same for the two sectors. However, unlike NGOs, for-profit companies present higher amount for the *inventory* item, i.e. all the assets that have to be sold, which generate income and represent a source of income in the event of financial instability.<sup>131</sup>

The IS (and better to call it *Statement of Activities* in NGOs) is drawn up to take account of all income and expenditure and to assess the financial performance. It serves to estimate the surplus/deficit given by the difference between income and expenditure and in both types of organisations, it is then reported in the BS under liabilities, recorded as *Profit/Loss for the Period* in for-profit and as *Unrestricted Net Assets* in NGOs.

The revenues of an NGO are essentially made up of government subsidies, donations from private individuals and contributions from the members of the NGO; in the profit, on the other hand, there is the income from the sale of goods and services and interests.

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<sup>130</sup> Sultana R., “*Comparative Analysis between Ngo & Company Financial Statements*”, American Scientific Research Journal for Engineering, Technology, and Sciences, Dhaka, 2018.

<sup>131</sup> Ibid, note 61.

The expenses for an NGO are represented by the costs for services provided to the community and other costs related to projects; for corporations, indeed, they are represented by expenditures for the purchase of raw materials, by the payment of taxes and by manufacturing costs.

As far as taxes are concerned, the Third Sector is exempt from their payment and for this reason it is not possible to determine the surplus given by it. In the profit sector, on the other hand, it is necessary to determine the income after taxes.

Finally, the difference between revenues and costs (Operating Income) must necessarily be used for other activities in NGOs, while in a corporation it can be redistributed among the right holders.

There is no substantial difference between the CF in an NGO and in a profit organization, being defined by *operating*, *investing* and *financing activities* in both organisations.<sup>132</sup>

The aim of the two previous chapters was to define a general idea about the Third Sector.

Various strands of thought about the nature and classification of NGOs were analysed, examining the main theories and their points in common.

A legislative *excursus* was then carried out, through the first laws on the Sector to modern reforms which bring about major changes in the Non-Profit sphere.

NGOs find themselves operating in a turbulent environment, which confronts them with unexpected challenges and increasing competition. This change, combined with the legislative transformation, creates a greater need to obtain detailed information about the performance of NGOs.

An attempt has been made to explain the meaning of performance of an NGO, which it has nothing to do with profit maximisation objectives, but rather with the creation of the greatest possible social impact.

New methodologies and indicators have been created to ensure that Organisations produce reliable and comparable data (to compare over time and with those of other NGOs).

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<sup>132</sup> Ibid, note 128.



The keeping of accounts is an obligation that no NGOs can avoid and with which the Organization, tries to give an accurate picture of the Assets, Liabilities, Income and Expenditure, even if they are not always easy to detect.

The importance of the Third Sector in the economy is increasing and the distance between the profit and Non-Profit sphere, tends to decrease drastically. As a result, the two sectors find themselves sharing more and more aspects, while keeping distinct the fundamental traits for which they are born.

The Amka case, representing a case of *best practice* in its field, will serve to provide concrete application of the theoretical concepts discussed so far.

## *Chapter 3: Amka Association Case*

### *3.1 Who is Amka?*

The AMKA case study is chosen because it represents a medium-small reality, ideal to carry out a performance analysis of an NGO.

It is a relatively young Association, which is growing exponentially over the years. This is thanks to the commitment and dedication of the President, employees and all the volunteers who support its activities over time.

Even with limited capital availability, AMKA implements a package of activities that can have a positive impact on people's lives and it is able to optimize resources, also thanks to the use of the Budget and accounting records.

#### *3.1.1 AMKA's History*

AMKA was founded in 2001 to contribute to the improvement of the living conditions of the populations in which it operates.<sup>133</sup>

AMKA in Swahili language means wake up, get up. It is a name chosen to encourage people to take action, starting from the awareness of the existence of realities completely different from ours.

It takes the denomination of ONLUS, which will be modified on 30 October following the change of statute due to the entry into force of the reform (discussed in paragraph 1.2.3). One of the legal configurations provided by the legislative text will therefore be adopted (voluntary organisations, social promotion associations, philanthropic bodies, social enterprises, including social cooperatives, associative networks and mutual aid societies).

The founders had relationships with Congolese people and willing to help them, their loved ones and other people living in that difficult reality, they started their activity on the territory of Congo. They then expanded it to Guatemala.

The association deals with all the essential aspects of people's lives, namely access to essential goods (water and food), health, work and education.

AMKA focuses its work on the integrated development of projects, i.e. it defines its activities with the help of local inhabitants, in order to fully understand their needs and to ensure that the future is defined by the community.

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<sup>133</sup> AMKA's History  
<https://www.amka.it/chi-siamo/>

It also employs qualified people such as teachers, doctors, craftsmen and local agronomists to carry out its work effectively and to achieve sustainable and real results.

In Congo, it works with local institutions and thanks to AMKA Katanga has strengthened its presence in the area. Funding from international funds is limited, so being more present in this area helps to build relationships and increases the possibility of receiving resources from, for example, other NGOs in the country and local foundations.

In Guatemala, it is more concerned with agricultural development and food security and thanks to the empowerment of local staff it is possible to carry out a joint definition of objectives and strategies. The funding comes from private individuals, but also from the European Union with which a partnership contract has been signed.

3.1.2 Governance and Organizational Structure

The *Governance* of the Association will be modified following the entry into force of the reform which modifies some aspects of the Third Sector Entities.<sup>134</sup>

In fact, the *Control Body* and the *Auditing of Accounts*, which are not provided in the current *Governance Bodies*, will be added.

*Governance* is structured as follows:

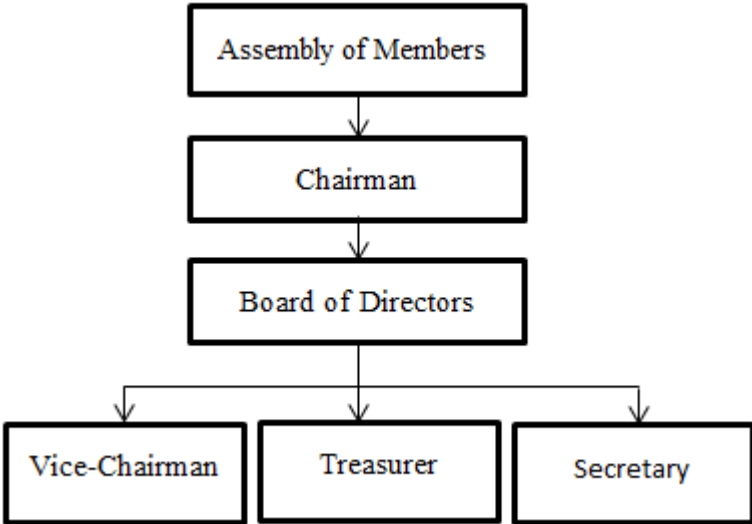


Fig. 12 Governance structure, adapted from AMKA’s Statute, 2019.

<sup>134</sup> AMKA Onlus’ Statute [https://www.amka.it/wp-content/uploads/2018/07/statuto\\_AMKA.pdf](https://www.amka.it/wp-content/uploads/2018/07/statuto_AMKA.pdf)

The Assembly of Members represents all AMKA members (89 in total in 2019) and it has the task to approve the *Balance Sheet*, the *Statement of Profit and Loss* and the *Mission Report* drawn up by the Chairman. Its resolutions are valid if approved by the majority and the meetings are chaired by the Chairman.

The Secretary draws up the report, which is then countersigned by the Chairman.

The Board of Directors consists of a minimum of four to a maximum of eleven members. It has the task of deciding on all the initiatives of the Organization, on the convocation of the Assembly and on the determination of the fees that the members pay annually. Its resolutions are decided by an absolute majority of voters.

The President, on the other hand, has the function of legal representation outside the Association, he convenes and chairs the Board of Directors and the Assembly of Members and he submits the Organization's accounting documents to the vote of the Assembly of Members.

In case of dissolution, the Extraordinary Assembly that designates the liquidators is convened. The liquidators shall realise the assets and pay the liabilities, they draw up the final Balance Sheet to be approved by the Extraordinary Assembly and, in the presence of residual assets, they devolve it to other Non-Profit Organisations.

AMKA uses a functional structure:

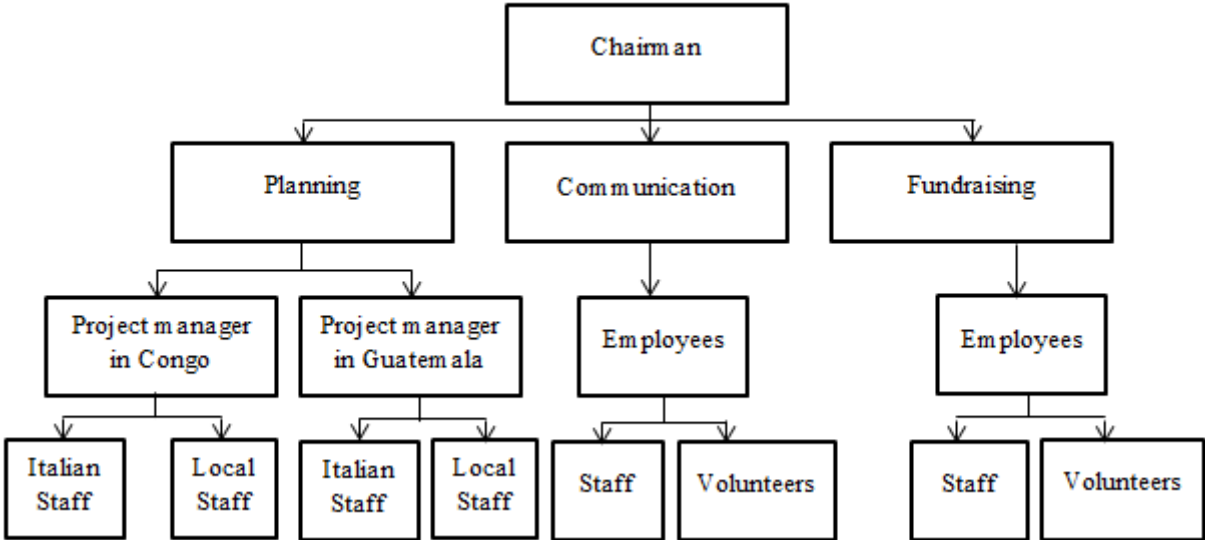


Fig. 13 Organizational Structure, adapted from Amka’s statute, 2019.

The planning office is responsible for the projects in Congo and in Guatemala, which in turn coordinate the Italian and local staff.

Employees depend on the communication and fundraising office and in turn, staff and volunteers (99 in total in 2019) depend from employees.

Before carrying out fundraising activities and missions in Congo and in Guatemala, volunteers must attend a training course, during which projects are defined according to the needs of local population.

By dividing the Organization into three areas, planning, communication and fundraising, AMKA has the opportunity to achieve high project performance, increasing coordination internally and with local people.

### ***3.2 Accounting System and Financial Reporting***

Like all Third Sector Organisations, AMKA draws up the accounting records essential for legislative purposes and for the continuation of its activities.

Thanks to the documents published on the website, it has been possible to extrapolate fundamental information about the activity of the Organisation and to understand its solvency, profitability, liquidity and effectiveness.

Using some indicators it is possible to define that the Organisation is able to survive in the turbulent environment of NGOs, being able to face unexpected situations.

#### ***3.2.1 Accounting Documents***

The Organisation prepares annually the *Balance Sheet*, the *Statement of Income and Expenses*, the *Cash Flow*, the *Mission Report* and the *Supplementary Notes*.<sup>135</sup>

The scheme adopted follows the one established by the Non-profit Companies Commission of the National Council of Chartered Accountants, but will change after the reform comes into force.

In order to comply with the principles of prudence and certainty in the financial statements, the Expenses are correlated to the Income on the basis of the cause-effect ratio:

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<sup>135</sup> AMKA's Final Balance Sheet  
[https://www.amka.it/wp-content/uploads/2020/07/AMKA\\_Bilancio\\_2019.pdf](https://www.amka.it/wp-content/uploads/2020/07/AMKA_Bilancio_2019.pdf)

- Receivables are accounted at their realisable value;
- cash and cash equivalents are recorded at nominal value;
- Net Asset is made up of free assets;
- payables are quantified at nominal value;
- expenses are accounted in accordance with the accrual basis of accounting.

AMKA ONLUS BALANCE SHEET					
at December 31, 2019					
ASSET	31/12/2019	31/12/2018	LIABILITIES & NET ASSET	31/12/2019	31/12/2018
Inventory	€ 2,000.00	€ 2,000.00	<i>Current Liabilities</i>	€ 65,959.58	€ 55,374.80
Receivables	€ 150,918.22	€ 30,131.00			
Cash	€ 4,404.13	€ 6,878.74	<i>Non-Current Liabilities</i>	€ 181,892.66	€ 203,400.34
<i>Current Asset</i>	€ 157,322.35	€ 39,009.74	<b>TOT LIABILITIES</b>	€ 247,852.24	€ 258,775.14
<i>Non-Current Asset</i>	€ 109,008.00	€ 236,449.00	Capital Reserves	€ 16,683.60	€ 11,277.83
			Operating (Unrestricted) Income	€ 1,794.49	€ 5,405.77
			<b>TOT NET ASSET</b>	€ 18,478.09	€ 16,683.60
<b>TOT ASSET</b>	<b>€ 266,330.35</b>	<b>€ 275,458.74</b>	<b>TOT LIABILITIES &amp; NET INCOME</b>	<b>€ 266,330.33</b>	<b>€ 275,458.74</b>

Fig. 14 Balance Sheet, adapted from Amka's Final Balance Sheet, 2019.

AMKAONLUS STATEMENT OF ACTIVITIES		
at December 31, 2019		
Tot income from typical activities	€ 6,725.00	€ 3,175.00
Tot income for contribution from third parties	€ 351,514.50	€ 259,521.53
Tot other income	€ 4.67	€ 11.03
Tot inventory	€ 2,000.00	€ 2,000.00
Tot extraordinary income	€ 75,478.50	€ 40,491.33
<b>TOT INCOME</b>	<b>€ 435,722.67</b>	<b>€ 305,198.89</b>
Tot project costs	€ 329,723.86	€ 237,241.91
Tot costs from typical activities	€ 38,603.06	€ 23,225.63
Tot costs from particular activities	€ 24,027.71	€ 13,004.06
Tot general support costs	€ 3,325.21	€ 2,499.80
Tot costs for general services	€ 6,440.84	€ 5,654.71
Tot costs for professional services	€ 25,000.00	€ 10,000.00
Personnel costs	€ 32.00	€ 0.00
Other operating costs	€ 5,235.20	€ 4,857.62
Financial costs	€ 1,540.30	€ 3,021.39
General services costs	€ 0.00	€ 288.00
<b>TOT COSTS</b>	<b>€ 433,928.18</b>	<b>€ 299,793.12</b>
<b>OPERATING INCOME</b>	<b>€ 1,794.49</b>	<b>€ 5,405.77</b>

Fig. 15 Statement of income and expenses, adapted from Amka's Final Balance Sheet, 2019.

The difference between Asset and Liabilities respects the Accounting Equation, as it is equal to Net Asset:

$$€ 266,330.35 - € 247,852.24 = € 18,478.11$$

In addition, the *Net Asset* is obtained from the sum of Capital Reserves and the Net Profit for the Year, result of the *Statement of Activities* (€ 1.794.49).

A reduction in the Operating Income can be observed from 2018 to 2019. This is because cost items are higher than the previous year, but this is due to a higher portion of contributions, which allowed AMKA to expand its operations.

### 3.2.2 Analysing AMKA's Accounting Documents

It is necessary to estimate some indexes in order to understand the *liquidity*, *solvency*, *profitability* and *effectiveness* of the Entity.

The *Current Ratio* (1) and the *Quick Ratio* (2) have been calculated for the liquidity analysis. The former indicates whether the company is able to meet its short-term debt. It shows a value of 2.39 in 2019 and 0.70 in 2018. The differential between the values is 1.68, given by the increase in Current Assets in 2019. The growth of this item is due to the exponential increase in Receivables from others, which in 2018 amounted to € 30,131 and in 2019 rose to € 150,918.22. This is because due to the new legislation, AMKA had to include in its *Balance Sheet* the value of winning public tenders, which it was not supposed to be recorded in 2018. From next year, this problem of calculating the gap between the indicators will no longer arise, since the value of the items Receivables from others will be comparable; for now, it is possible to "clean up" the Current Assets from the effect of the legislation, obtaining the values in green in the table below, as expressed:

- it is calculated the growth of Assets from 2017 to 2018 [(credits 2018 - credits 2017) / credits 2017 = (30,131.00 – 16,090.57) / 16,090.57 = 87%];
- receivables in 2018 are multiplied by the percentage obtained (30,131.00 \* 87%);
- the increase in the value of credits is added to the credits of 2018, to obtain the credits of 2019 (31,013.00 + 26,291.93 = 56,422.93);
- the new value of Current Assets is calculated, adding the value of receivables "cleaned up" by the effect of legislation, to the other items of current assets obtaining 62,827.06;
- finally, the index (Current Asset / Current Liabilities = 62.827.06 / 65.959.58 = 0.95) and the differential between 2019 and 2018 (0.95 - 0.7 = 0.25) are estimated.

Through the *Quick Ratio* it is possible to realize the possibility of paying off short-term debts with the most liquid assets. It amounts to 2.35 in 2019 and 0.67 in 2018. The delta between the values is 1.69, an increase to be attributed to the item Receivables from others. In the same way it is possible to apply the above procedure for this index, in order to "clean up" the increase in the value caused by the entry into force of the new legislative text, thus obtaining a *Quick Ratio* of 0.92 in 2019 and a gap of 0.25 (values in green in the table).



The *Operating Margin* (3) and *Net Asset Growth* (4) were chosen for the profitability analysis.

The former amounts to 10% in 2019 and 11% in 2018 and the differential is -1%. The decrease of this index is due to the increase in third party contribution revenues. In 2018 the latter item is €259,521.53 while in 2019 it rises to €351,514.50, following a strong growth in spontaneous donations.

The second is worth 11% in 2019 and 48% in 2018. The trend is a reduction of -37%, due to the increase in *Total Net Asset* (index denominator). In fact, in 2018 it assumes a value of € 16,683.60, while in 2017 it is € 11,277.83. The high growth in Net Asset is attributable to an increase in Operating Income, which in 2017 is €244.85, while in 2018 it is €5,405.77.

These figures reflect a profitable business, because operating revenues can be used to cover operating expenses and because *Net Asset* is growing. In addition, both ratios reflect the values of the general rule, which for both is  $>+5\%$ .

To perform the *solvency analysis*, the *Contribution Ratio* (5) and the *Debt to Asset* (6) were calculated.

Through the first one it is estimated the percentage of dependence of the Organization on the resources obtained by donors. In 2019 it amounts to 81% and in 2018 to 85%. The delta between the two values is -4%, since both items that make up the index have increased between one year and the other, but total revenues (denominator) have increased more than revenues from contributions (numerator). The value of the index is quite high because the revenues from Government are really small and so the Organization relies on contribution from privates.

By using the *Debt to Asset ratio*, it has been estimated the percentage through which, the Entity finances the Assets using the Debt. It amounts to 0.93 in 2019 and 0.94 in 2018. The value remains almost unchanged, in fact the delta is -0.01. Therefore the indicator reflects the standards of an Institution without solvency problems, since according to the general rule, the value must be  $<1$ .

Finally, an *effectiveness analysis* has been carried out to determine whether AMKA is making the best use of its resources. In order to estimate this, the *Program*

*Expense Ratio (7)* has been calculated, which has a value of 76% in 2019 and of 79% in 2018. The delta is -3%, due to an increase in costs. In fact in 2018 the Total Costs are € 299,793.12, while in 2019 they are € 433,928.18. Despite a reduction in value, the index complies with the general rule of >75%.

Below a table summarises the calculated indices, including the formulas used, the values obtained for 2019 and for 2018, the trend between the two years and the minimum and maximum value they can assume.

	INDEX	FORMULA	VALUES 2019	VALUES 2018	Δ	VALUES WHICH REFLECT THE RULE OF THUMB	VALUES WHICH NEED ATTENTION
1	Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	€ 157,322.35 € 65,959.58 = 2.39 0.95	€ 55,374.80 € 55,374.80 = 0.70	1,68 0,25	>2	<1
2	Quick Ratio	$\frac{\text{Receivables} + \text{Cash}}{\text{Current Liabilities}}$	€ 4,404.13 + € 15,0918.22 € 65,959.58 = 2.35 0.92	€ 6,878.74 + € 30,131 € 55,374.80 = 0.67	1,69 0,25	>1	<0.25
3	Operating Margin	$\frac{\text{Net Asset } T + \text{Net Asset } T - 1}{\text{Unrestricted Income } T}$ (from typical activities, contribution, other income)	€ 18,478.09 + €16,683.6 €6,725 + €351,514.5 + €4.7 = 10%	€ 16,683.6 +€11,277.83 €3,175 + €259,521.53 + €11,03 = 11%	-1%	>+5%	Decreasing
4	Net Asset Growth	$\frac{\text{Net Asset } T - \text{Net Asset } T - 1}{\text{Net Asset } T - 1}$	€ 18,478.09 -€ 16,683.6 € 16,683.6 = 11%	€ 16,683.6 - €11,277 € 11,277 = 48%	-37%	>+5%	Decreasing
5	Contribution Ratio	$\frac{\text{Revenues from Contribution}}{\text{Tot Revenues}}$	€ 351,514.50 € 435,722.67 = 81%	€ 259,521.53 € 305,198.89 = 85%	-4%	>10%	>75%
6	Debt to Asset	$\frac{\text{Total Liabilities}}{\text{TotalAssets}}$	€ 247,852.24 € 266,330.35 = 0.93	€ 258,775.14 € 275,458.74 = 0.94	-0.01	<1	>2
7	Program Expense Ratio	$\frac{\text{Total Projects Expenses}}{\text{Total Expenses}}$	€ 329,723.86 € 433,928.18 = 76%	€ 237,241.91 € 299,793.12 = 79%	-3%	>75%	<65%

### ***3.3 Logical Framework and Monitoring & Evaluation system***

Before starting to operate, any organisation, whether profit or non-profit, has the duty to define in a concrete and precise way the elements that compose its strategic plan.

The Vision, Mission and Value proposition is discussed and the importance of these three factors for the definition of activities can be seen from the Entity in question.

Therefore, having clear the direction of operations, objectives and outcomes, it is possible to proceed with the creation and implementation of projects.

Thanks to the various theoretical frameworks, but especially the one provided by the Decree of 23 July 2019, projects are "unpacked" in activities, inputs, outputs and outcomes.

By extrapolating the information included in the *Final Financial Statements* of AMKA and following the above-mentioned framework, three tables have been created that illustrate all the project components of the interventions in Congo, in Guatemala and in Italy.

#### ***3.3.1 Mission Report: Vision, Mission and Values***

By preparing the *Mission Report* (which is part of the accounting documents prepared by the Organisation), the Entity is able to estimate the results achieved by the projects and to make them known to external parties.

It thus represents the quantitative/qualitative tool to express the degree to which short/medium-term objectives and long-term outcomes are achieved. Moreover, AMKA uses it to monitor year after year the cohesion of its work with the principles on which it is based and to understand the strengths and weaknesses of each project.

As pointed out in the previous chapter, a well-defined strategy must be formed by the *vision*, *mission* and *values* of the Organisation.

The *vision* concerns the outcome to be produced through the initiatives.

The *mission* indicates the motivation for the birth of the Organisation.

The *value proposition* indicates the features that differentiate the Organisation from others.

Therefore AMKA defines it as follows:

1) the *vision*: “*We dream a fairer world where every person is respected in his or her dignity and who can plan his or her future.*”

2) The *mission*: “*We work with passion to mobilize resources, consensus and commitment to promote sustainable development in the poorest areas of the world.*”

3) The *value proposition*: “*We promote direct interventions that involve young people and awaken consciences.*”

In addition, the Organization stands out for its values based on an autonomous and sustainable development process, solidarity and active participation in the lives of those involved without distinction.

Moreover, before implementing any measure, it comes into contact with the social reality it will have to face, understanding the real problems and structuring activities according to them.

The objectives on which the three-year plan (2018-2021), approved by the Board of Directors, is based are:

- 1) Congo: primary school coverage; improvement of health facilities; increase in activities aimed at developing living conditions.
- 2) Guatemala: increase in areas of intervention.
- 3) Italy: increase awareness and visibility of the Organization.

### *3.3.2 Logical Framework in order to analyse and evaluate projects*

The Association operates in Guatemala, Congo and also in Italy.

In the first two countries it uses a partnership approach with local populations, aiming at creating conditions to improve their level of well-being.

To achieve this goal, they pursue a philosophy of “*Development as Freedom*”.

Freedom is understood as the individual freedom of the person, which concerns the protection of: health, nutrition, education, work, social inclusion and gender discrimination.

All these components of an individual's life should be protected, but this security is lost when one is in a state of misery, which is a violation of human rights.

Therefore, the outcome that the Entity aims to achieve is the reduction of the condition of misery, since it prevents human development.

The projects implemented in Congo, in Guatemala and the work carried out in Italy are summarised in the following tables, using the framework presented by Decree 23 July 2019 ("*Guidelines for the implementation of systems for evaluating the social impact of the activities carried out by Third Sector entities*"), which gives the possibility to specify the activities carried out, the inputs used, the short/medium term objectives and the final outcome of each intervention.

<b>CONGO 2019</b>	<b>COORDINATION AND GENERAL MANAGEMENT</b>	<b>HEALTH PROJECT</b>	<b>EDUCATION AND LITERACY PROJECT</b>	<b>MALNUTRITION PROJECT</b>	<b>SUPPORT FOR PRODUCTIVE ACTIVITIES</b>
<b>ACTIVITIES</b>	-Enhance the role and responsibilities of Amka Katanga staff;	-Provide primary and disease-related care (e.g. malaria, gastroenteritis); -help women to give birth; -inform about AIDS and other diseases transmission; -offer of hospitalisation services; -prenatal consultation;	-Strengthen and stabilisation of the teaching staff; -expansion and improvement of the structural conditions of the structures; -creation of synergy with the territorial institutions competent in the education sector; -promotion of community structures and dynamics for the strengthening of the role of school and education; -carry out analyses on the territory to	-Investigation activities on the territory to measure the state of malnutrition of children; -increase local capacity building activities for the early diagnosis of malnutrition cases, as well as for prevention and management of cases of chronic malnutrition;	-Theoretical and practical courses (of agriculture and breeding) to promote the start-up of income-generating activities;

			<p>identify and study the factors affecting the levels of schooling;</p> <p>-carry out pre-schooling activities to encourage the increase in enrolment rates and student success at school;</p>		
<b>INPUT</b>	<p>-Financial: € 25,863.71;</p> <p>-Human: AMKA Italy;</p>	<p>-Financial: € 26,725.15;</p> <p>-Human: AMKA Italy and Amka Katanga; medical and nursing staff; a doctor;</p>	<p>-Financial: € 61,490.41;</p> <p>-Human: AMKA Italy;</p>	<p>-Financial: € 42,169.54;</p> <p>-Human: AMKA Italy;</p>	<p>-Financial: € 21,720.60;</p> <p>-Human: AMKA Italy; a specialised veterinarian and an agronomist;</p>
<b>SHORT-TERM OUTPUT</b>	<p>-More stable and structured work organization;</p> <p>-intervention in the Mabaya area with 34 villages and 9000 inhabitants;</p>	<p>-Construction of an Health Centre which provides an average of 70 health services every week; 12 ordinary vaccination campaigns and 90 % of the target children (0-5 years) received vaccination coverage;</p> <p>-several vaccination campaigns extraordinary against polio and measles have been carried out;</p> <p>-monthly about 80 pregnant women are followed with regular and periodic checks by the qualified personnel;</p> <p>-mobile clinic system has been used in order to reach remote areas;</p>	<p>-Management of four schools and access to education for 750 children;</p> <p>-educational growth of students finishing primary school;</p> <p>-adult literacy enabling the education of about 300 people;</p> <p>-increase school participation and improve its quality;</p>	<p>-Construction of the National Therapeutic Unit specialised in the treatment of malnutrition (during 2019, 20 children a week were cured);</p> <p>-strengthen the skills of the population and the presence of local reference committees;</p>	<p>-Creation of a demonstration garden;</p> <p>-50 people received the materials to start production</p>
<b>MEDIUM-TERM OUTPUT</b>	<p>-greater attention to the measurement and to the evaluation of the impact of</p>	<p>-Offer higher standards of care to a greater number of beneficiaries;</p>	<p>-Further development of educational services that will also lead to a greater</p>	<p>-New, more significant and effective actions in order to reduce child malnutrition;</p>	<p>-The development of this sector will be further strengthened as it is linked to food security, to the</p>

	actions;		commitment in the secondary education sector;	-nutritional support directly in the villages, in favour of children at risk of malnutrition, and a programme of home visits;	improvement of the population's income conditions and to the sustainability of all the intervention programmes promoted by Amka;
<b>OUTCOME</b>	-Improve education and health level in order to contribute to the reduction of poverty.	-Improve education and health level in order to contribute to the reduction of poverty.	-Improve education and health level in order to contribute to the reduction of poverty.	-Improve education and health level in order to contribute to the reduction of poverty.	-Improve education and health level in order to contribute to the reduction of poverty.

Fig. 16 Projects developed in Congo and their impact, adapted from AMKA's Final Balance Sheet, 2019.

<b>GUATEMALA 2019</b>	<b>COORDINATION AND GENERAL MANAGEMENT</b>	<b>PLANT NURSERY PROJECT NUEVO HORIZONTE</b>	<b>SUPPORT FOR PRODUCTIVE ACTIVITIES</b>	<b>COMMUNITY TRAINING</b>	<b>POPULAR EDUCATION PROJECT</b>
<b>ACTIVITIES</b>	-Enhancement of the role and the responsibilities of local staff; -activities for the creation of new territorial partnerships, to launch food security projects and initiatives to promote the coffee sector and crop diversification;	-Spread of agroforestry systems, reforestation of wooded areas; -dissemination of agricultural techniques based on the use of natural fertilizers; -launch of a food education initiative;	-Implementation of collective production projects for the cultivation of vegetables; -promotion of product marketing channels;	-Technical-productive training courses and transversal themes such as: project analysis, recognition of individual responsibilities and common objectives, understanding the exploitation of the opportunities generated by the project, the challenges of production: sustainable agricultural techniques, food security or sovereignty, healthy eating, the role of women in the management of	-Produce books consistent with the local teaching approach;

				community development processes, leadership, identity and sustainable management of resources;	
<b>INPUT</b>	-Financial: € 7,508.81; -Human: AMKA Italy and local staff;	-Financial: € 27,282.10; -Human: AMKA Italy; Nuevo Horizonte Cooperative; Ministry of Agriculture, Livestock and Food; San Carlo University of Guatemala;	-Financial: € 16,805.27; -Human: AMKA Italy; local Ministry of Agriculture;	-Financial: € 1,051.11; -Human: AMKA Italy;	-Financial: € 4,201.32; -Human: AMKA Italy; popular school of Nuevo Horizonte; local and expatriate staff;
<b>SHORT-TERM OUTPUT</b>	-More stable and structured work Organisation in the places concerned; -collaboration with some local actors;	-Production of about 15,000 fruit trees and forest plants at the Nuevo Horizonte plant nursery and distribution in favour of 9 beneficiary communities, for a total of about 400 families and 2,000 people; -creation of cocoa plantations in two communities in Petén for a total of 7,000 cocoa plants and 2,000 forest plants to provide shade to the plantations; -reduction of carbon dioxide levels thanks to the planting of trees; -job creation for the management of the project;	-Creation of vegetable gardens and domestic breeding;	-Increase in technical agricultural knowledge and skills;	-Elaborated and printed 5 didactic texts;
<b>MEDIUM-TERM OUTPUT</b>	-Continuing the structure of food safety projects; -promotion of the coffee sector;	-Increase the production of trees, the reduction of carbon dioxide level and job creation;	-Improve the socio-economic conditions of local populations and food security levels;	-Start individual and collective empowerment paths to make the local population able to self-manage development	-Monitor the use of texts introduced in the school, verifying their impact in terms of improving the teaching methodologies and



				processes;	learning skills; -increase the number of texts published to respond to the programmes of the different classes;
<b>OUTCOME</b>	-Food safety in order to contribute to the reduction of poverty.	-Food safety in order to contribute to the reduction of poverty.	-Food safety in order to contribute to the reduction of poverty.	-Food safety in order to contribute to the reduction of poverty.	-Increase educational level in order to contribute to the reduction of poverty.

Fig. 17 Projects developed in Guatemala and their impact, adapted from AMKA's Final Balance Sheet,2019.

<b>ITALY 2019</b>	<b>ACTION IN THE COUNTRY OF RESIDENCE</b>
<b>ACTIVITIES</b>	-Critical consumption, ethical finance, fair trade; -organisation of events aimed not only at fundraising but above all at providing concrete and fundamental opportunities to raise awareness; -offer internships or assistance in the elaboration of thesis of university students; -International Volunteering Training Workshops;
<b>INPUT</b>	-Human: AMKA staff and volunteers; -Online: Website, newsletter and spot news;
<b>SHORT-TERM OUTPUT</b>	-Through the International Volunteer Training Workshops an increase in awareness has been generated and proposal spaces have been created, in-depth studies have been carried out and activities for young people and adults have been generated;
<b>OUTCOME</b>	-Spread useful information to make known the reality of the South of the world so that, one becomes more responsible for his or her lifestyle; - development education.

Fig. 18 Projects developed in Italy and their impact, adapted from AMKA's Final Balance Sheet, 2019.

### ***3.4 How improve the efficiency and effectiveness of the impact analysis?***

In view of the entry into force of the reform on Third Sector, it is necessary that Organisations refine the techniques used to observe the impact produced by their measures. This is because Non-Profit Organizations are created to deal with social problems and not to sell goods or services. Therefore, even if the keeping of accounting records and the analysis of cash in-flow and out-flow are of fundamental importance, the ultimate goal of NGOs is not to make profit, but to produce changes in the lives of people affected by the interventions.

It is clear that it is difficult to make precise measurements of these transformations, since they concern intangible and subjective aspects.

Nevertheless, there is a vast literature that uses frameworks such as the ToC and the LFA to understand the various stages of problem-study and project development, as a basis for impact assessment.

Furthermore, the science of Social Impact Management explains in detail the characteristics of impact analysis and its components. In addition, thanks also to the Legislative Decree of 23 July 2019, NGOs benefit from a structure with which to estimate the impact of their projects.

Specifically, AMKA carries out an annual qualitative description of the progress of its projects through tools such as questionnaires, focus groups, used at the end of the measure.

However, in order to carry out an accurate analysis, AMKA would need to estimate the *baseline condition* in qualitative/quantitative terms. In this way it would be possible to understand in depth the objectives and the aspects to be improved.

In addition, as a starting point, it is useful to interface intensively with the population and other interested stakeholder, in order to be able to understand what the most relevant issues are, rather than spending resources on solving aspects that are not of general interest.

Once the project has been implemented, as it has been said repeatedly, it is essential to create indicators that are appropriate for the aim to be achieved. The identification of these indicators can be complex and costly, in terms of time and

money. Nevertheless, it is essential to identify different indicators for monitoring and impact assessment.

A further change must be made to the Governance of the Organisation, which must take on a specific structure to carry out the impact analysis. The legislative reform on this aspect introduces the Monitoring Committee. However, this body is not sufficient to create the necessary conditions for a timely assessment. Thus, the Organisation must also change its structure, introducing areas with the necessary skills to manage databases in order to carry out complex analyses.

In conclusion, a modification of the Organisation's approach is needed, starting from the study of the condition of the realities in which it operates, in order to fully examine the urgent needs of the population, creating a strong coordination with the community.

Once the project has been defined and implemented, it is necessary to collect the right data, in order to obtain the necessary information to carry out in-depth analyses and impact assessments.

This is a further change that the Third Sector must be ready to face and AMKA on its side, is already working to equip itself with the necessary resources and skills to cope with it.

## **Conclusion**

The aim of this paper is to detect the importance of NGOs within the economic system, to understand how the performance analysis of the Entities is carried out and to analyse the differences between the for-profit and Non-Profit Sector.

The birth of NGOs is attributed to the last century, when the resolution of social problems also began to be the responsibility of Non-Governmental Organisations, being made up of people who offered to increase collective wellbeing, even without remuneration.

The events that determine the sharing of the goal of increasing the well-being of population, are to be attributed to the Industrial Revolution, Globalization and other situations, which have created new social problems, for which Governments had neither time nor money to deal with them.

The Third Sector, made up of private, Non-Profit Organisations with the objective of satisfying social needs, is on some fronts an alternative to the Market and the State. For this reason its importance increases and consequently, the legislative body that regulates it must be more detailed.

In fact the reform launched in Italy on the Sector, provides the refinement of the methods of drawing up the Balance Sheet and the use of techniques for the estimation of the social impact produced by the Organisation.

In addition, the life cycle of the Entities is similar to the one of corporations, starting from birth and reaching the phase of *decline* or *rebirth*. In order to remain "competitive", given also the reduction of Government resources in their favour and the increase in the number of Organizations present in the territory, the NGOs must create strong conditions for survival. The priorities for the creation of a strong image are the definition of the *value proposition*, the culture and the organisational structure and infrastructure.

NGOs aim at changing social variables, in order to increase the economic, social and political development of the most disadvantaged areas of the world. The purpose just described is not easy to measure and thus multiple qualitative-quantitative methodologies have to be used by NGOs. It is necessary to use frameworks that include the description of the projects and their phases, the starting conditions and the effects that may occur, by comparing them with those that actually occur and the techniques for measuring outputs and outcomes.

Accounting records help to carry out *solvency, profitability, liquidity and effectiveness* analysis of resource management; while methods such as the SROI (*Social Return on Investment*), the *Theory of Change* and the *Impact Social Impact Assessment*, are more focused on estimating the social impact of the Entity.

For for-profit organisations, the calculation of results appears much easier and more objective, given the main purpose of achieving profit, which can be measured through concrete and objective data.

The main difference between the two sectors therefore lies in the reasons why they are created, in the measurement of performance and in the use of the operating result (which in NGOs must be obligatorily reused in other activities); on the other hand, as far as the keeping of accounting records is concerned, there is a tendency towards homologation. The main discrepancy lies in the composition of the *Net Asset*, which in the for-profit sector is made up of *shareholders' equity*, while in the Non-Profit Sector it is made up of unrestricted assets, of Entity's endowment fund and of restricted assets.

The AMKA case gives a practical understanding of how an NGO sets its *mission, vision, values* and thus, how it forms its *value proposition*; it clarifies the items that make up the accounting documents of an NGO and the usefulness of financial indicators also in the Non-Profit Sector, but above all it demonstrates the real application of a methodology in order to estimate the social impact produced.

Finally it can be said that the management control is therefore indispensable also for NGOs, so that the situation of income and expenditure generated is always clear, increasing the transparency with which activities are carried out and forming a reliable reputation for its stakeholder.

The ultimate objective of the analysis of NGOs' performance, even if estimated from a financial point of view, is to understand the impact generated by the operations of the Entity in a given area.

The most efficient strategy would be to use qualitative and quantitative techniques, through which to demonstrate the variations with respect to the starting scenario.

In conclusion, it can be noted that even in the presence of a vast literature on the subject, the latter is still not very well studied. With the entry into force of the new Decree, however, NGOs are required to implement techniques with which to explain their activities in detail and therefore, given the increase in the number of people who will focus on the topic, an improvement in methodologies for impact assessment is expected. Nevertheless, for a correct and transparent management of the Organisation, it remains of fundamental importance to evaluate the performance with the most appropriate means available for each Entity.

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