

Bearing More Risk for Results: Performance Accountability and Nonprofit Relational Work

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ABSTRACT

Performance accountability systems require nonprofits to bear more risk for achieving results. Although a growing body of work has examined nonprofit accountability, less attention has been given to the concept of risk. This article points to a potential conflict between performance accountability frameworks and nonprofit work. This conflict can be best understood as a one between managing risk in task-driven relationships, in which relationships are formed simply to achieve desirable results, and managing risk in developmentally driven relationships, in which performing a task is intended not only to achieve desirable results but also to build enduring capacity to take action on common problems.

KEYWORDS:

nonprofits; accountability; performance measurement; social capital

Scholarly work on risk has increased tremendously in recent years. Sociologists have suggested that we live in a “risk society” in which we face unavoidable risks that cannot be estimated or managed (Beck, 1992; Dean, 1999; Giddens, 1999; Wilkinson, 2001). Anthropologists have argued that the labels “risky” and “non-risky” have become contemporary society’s way of managing boundaries between groups (Douglas, 1992). For their part, psychologists and management theorists have examined the complex relationship between risk and decision making (March & Shapira, 1987; Sitkin & Pablo, 1992; Tversky & Kahneman, 1986). Scholars in fields from accounting to philosophy have considered how declining public trust and perceptions of increased risk have fueled the widespread adoption of organizational control techniques such as audits and performance-based contracts (Garland, 2003; Hood & Rothstein, 2001; O’Neill, 2002; Power, 1997).

Although this work seems unrelated and far removed from the concerns of nonprofit organizations, this article argues that risk is an important but largely neglected concept in scholarly discussions about nonprofit accountability. Professional guides do exist to help nonprofit directors manage the risks associated with running an organization (see Herman, 2005; Herman, Head, Jackson, & Fogarty, 2004), but this article focuses on the use of performance accountability systems to redistribute risk in a given set of relationships. Not only is risk important in understanding demands for nonprofit accountability, but also managing risk is one central aim of accountability systems. Who bears the risk for specified results, and how much risk, are central questions organizations face when using performance accountability systems (Hendry, 2002; Jensen & Meckling, 1976; Marschke, 2001). This article proposes that the consequences of the widespread adoption of performance accountability frameworks in the nonprofit sector will be better understood by considering

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how these accountability systems distribute risks in a given set of relationships and the consequences of such arrangements for nonprofit practice.

To this end, this article examines performance accountability as a risk management strategy and describes the performance frameworks developed in two specific cases. Comparing these two frameworks in the context of the literature on risk, this article makes three arguments. First, desirable outcomes require that nonprofits are not only technically competent to deliver products and services but that they also build positive mutual relationships with those they serve. Although the form and purpose of these relationships vary across nonprofits, for the organizations discussed here, building relationships meant developing the enduring capacity of marginalized communities to take action on common problems.¹ Second, performance accountability requirements may conflict with what it takes for nonprofits to do this work well. And this conflict can be understood as a conflict between managing risk in task-driven relationships, where relationships are formed simply to achieve desirable results, and managing risk in developmentally driven relationships where performing a task is not only intended to achieve desirable results but also to build enduring capacity of marginalized communities to take action on common problems.

This article is organized into four sections. The first examines the concept of risk in principal agent theory, the theory that informs the use of performance accountability frameworks, and situates it in the existing literature on nonprofit accountability.² The second describes the methodology used for the larger study in which these cases were a part. The third describes the two selected case studies, focusing specifically on the performance frameworks developed in each case. The fourth section compares the two frameworks and describes the conflict between performance accountability requirements and nonprofit relational work. The article concludes by exploring the implications of the findings for issues of risk and accountability in nonprofit practice.

USING PERFORMANCE ACCOUNTABILITY TO MANAGE RISK

Risk is defined as the probability of gain or loss associated with a particular decision (Bernstein, 1996; Douglas, 1992; March & Shapira, 1987). This loss or gain may be related to physical well-being, economic security, or social acceptance. We face risks when we have choices to make and the outcomes of these choices are not predetermined (Bernstein, 1996; Chiles & McMackin, 1996; Garland, 2003; Giddens, 1991).³ Managing risk requires addressing three questions: What is a risk (e.g., buying savings bonds, investing in stocks)? How significant is the risk and what can we do given the risks that we face?

Once risk has been identified and assessed, the literature identifies four strategies to manage risk: (a) Risk can be avoided, foregoing possible beneficial results; (b) retained, accepting the possibility of loss; (c) reduced using mitigation strategies; or (d) transferred, using results-based contracts (Dorfman, 2005; Herman, 2005).⁴ The modern concept of risk developed with breakthroughs in probability theory and beliefs that the future could be controlled by calculating the likelihood of results from choices made in the present (Bernstein, 1996). Today, this concept of risk is no longer confined to domains where the probability of results can be technically calculated. Recent work, across a range of disciplines, emphasizes the social, cultural, and historical context of risk and demonstrates how we weigh the likelihood of positive and negative results before making decisions even if we do not literally calculate the probability of those results (Lupton, 1999, March & Shapira, 1987).

RISK IN PRINCIPAL–AGENT THEORY

Risk is a central concern in the principal–agent theory (Beatty & Zajac, 1994; Hendry, 2002; Marschke, 2001; Speckbacher, 2003). Here, a principal delegates a task to an agent and is now dependent on that agent for the achievement of a desired objective. Assuming the agent is self-interested and that the agent's interests may not align with the principal's interests, and that the principal cannot observe the agent's effort, the principal faces two problems: (a) agent problems and (b) risk-sharing problems (Eisenhardt, 1985). The agent problems include adverse selection and moral hazard. Adverse selection refers to the risk that the agent will misrepresent her abilities to deliver specified results (Hendry, 2002). Moral hazard refers to the risk that the agent will put in less effort than agreed toward achieving the principal's desired results (Hendry, 2002; Jensen & Meckling, 1976; Miller, 2002). The risk sharing problem results from addressing these agent problems.

As Eisenhardt (1985) has noted, principals can address their agent problems by investing in information systems to better monitor agents' actions to ensure that they are putting in the effort or by setting up incentive systems, basically results-based contracts, so that the agent's interests align with the principal's. Although both options have costs and conditions that make them feasible, results-based contracts create another problem for the principal: the problem of risk sharing. By transferring risk from the principal to the agent, results-based contracts now require the agent to bear at least some risk or responsibility for results, thereby motivating the agent to put in more effort to achieve the principal's goals. But because these results are only partly under the agent's control and the agent is assumed to be risk-averse, this new risksharing arrangement requires the principal to pay the agent more for bearing these risks (Eisenhardt, 1985, 1989; Marschke, 2001).

At the same time, transferring risk to agents in an effort to address their potential opportunism is not as straightforward as it may seem. As March and Olsen (1995) have found, if agents bears more risk for results, it is assumed that they will work harder to achieve those outcomes desired by the principal, but bearing more risk may also encourage them to choose courses of action in which the outcomes are suboptimal but more certain over outcomes that are less certain but more optimal.

Sitkin and Pablo (1992) also address the complex relationship between risk bearing and decision making. They outline several determinants of risk behavior in addition to outcome-based incentives, including individual risk preferences (Wiseman & Gomez-Mejia, 1998), previous experience of success in achieving specific results (March & Shapira, 1987), problem framing (Tversky & Kahneman, 1986), social influences such as organizational culture, and the familiarity of the problem domain to the decision maker. Each of these factors shapes agents' risk assessment, their willingness to bear risk, and the actions they take given the risks they bear.

In sum, risk is an organizing concern in principal agent theory. The principal faces the risk that the optimal outcome might not be achieved because the agent may be opportunistic. The principal can manage agent opportunism by using incentives to transfer some risk to the agent, so that the agent's interests are aligned with the principal's own. Transferring risk to the agent may motivate the agent to achieve the principal's desired results, but the principal must also pay the agent more to bear those risks. At the same time, the principal cannot be sure how the agent will respond to bearing more risk, because the relationship between risk bearing and action is mediated by many factors.

NONPROFIT ACCOUNTABILITY AND RISK

Neither the public administration literature nor the nonprofit literature has specifically examined the consequences of transferring risk to nonprofits for their ability to build positive relationships with their beneficiaries. The public administration literature has examined how to best design contracts using performance incentives to distribute risk among a network of institutional actors to achieve desired public policy objectives (e.g., Donahue, 1989; Goldsmith & Eggers, 2004; Johnston & Romzek, 1999; Stoker, 1991). Although this work has examined the difficulties of transferring risk, including to nonprofit contractors, it has focused on the consequences for achieving public policy objectives, not the consequences for nonprofit practice.

In the scholarly literature on nonprofit accountability, the concept of risk has received little direct attention. Scholars have examined the concrete benefits and limitations of measuring performance, especially outcomes, for nonprofit organizations, including (a) the challenge of measuring specific aspects of nonprofit work, (b) the lack of nonprofit capacity to collect reliable data, (c) the difficulty of holding nonprofits accountable for desirable outcomes, especially when those outcomes are only partly a result of the nonprofit's work, and (d) the potential that outcome measurement may discourage organizational learning when it is collected to meet funding requirements (Campbell, 2002; Ebrahim, 2003b; Hofer, 2000; Poole, Davis, Reisman, & Nelson, 2001). Others have argued that holding organizations accountable for results can also increase staff motivation; focus and coordinate staff, board, and volunteers around important goals; and contribute to organizational learning and improve performance (Durst & Newell, 2001; Frumkin, 2001; Hatry, 1999; Plantz, Greenway, & Hendricks, 1997; Sawhill & Williamson, 2001).

A few scholars have looked specifically at the applicability of the principal agent theory to nonprofit organizations. In this literature, scholars have pointed to the questionable assumption of opportunistic behavior on the part of the agent; the multiple principal-agent relationships that nonprofits must navigate; the role of the principal in the successful achievement of outcomes; and the

Insert Table 1

difficulty of developing a set of incentives that not only account for the multitasking nature of nonprofit work but fully capture nonprofit outcomes to avoid goal displacement, creaming, or gaming (Bogart, 1995; Ebrahim, 2003a; Miller, 2002; Speckbacher, 2003). This article seeks to contribute to this work by directly addressing the issue of risk and examining how funders' performance accountability requirements that require nonprofits to bear more risk may conflict with what it takes for nonprofits to do their work well.

METHOD

This article draws on findings from a larger study and examines the performance frameworks developed in two case studies. The purpose of the larger study was to understand the implications of performance accountability for nonprofit practice by examining the adoption and implementation of a performance measurement framework in three cases that each included a funder and a set of grantees. Each case examined the impetus for the adoption of the framework, how it was implemented, and how the adoption of performance measurement shaped the practice of the grantees and funders in significant ways. This article focuses on the

performance measurement models developed in two of the three cases. It examines the difference between the performance measurement framework developed in each case, both of which diverged from the common performance measurement framework (see Figure 1 in next section). Table 1 summarizes the two cases, including the number of interviews conducted and documents reviewed. The third case is excluded from this analysis because the funder used the basic performance measurement framework.

Insert Figure 1

SAMPLING APPROACH

These cases were selected according to two criteria: the funder was systematically implementing performance measurement, and the funders and grantees were wrestling with this process. In each case, all the funding staff concerned with the adoption and implementation of the performance measurement framework were interviewed. At the grantee level, the executive director or staff person working with the performance measurement framework were interviewed for at least 10 grantees in each case. In the grassroots organizing case, only 10 grantees participated in the evaluation initiative, all of which were interviewed. In the other case, the grantees were selected using a maximum variation sampling strategy: organizations that were meeting the new performance measurement requirements and those that were struggling to meet the new requirements. This sampling approach ensured that similar themes that emerged across these divergent organizations would provide strong evidence for the theme (Patton, 1990).

DATA COLLECTION

The semistructured interview guide constructed for the study focused on four areas: (a) for funder interviews only, the impetus behind the move to a performance measurement framework, (b) the initial response of both the funding staff and the grantees to the framework, (c) their experience as the framework was implemented, and (d) whether this experience had changed the organization in significant or important ways. Documents were collected from the funders in each case (e.g., funder annual reports, funding application and review criteria, performance training material, grantee performance reports, strategic plans, and performance measurement models), which filled out the details of the case and helped corroborate the interview findings. Finally, in the grassroots organizing case in which the outcome measurement process was just getting underway, I observed 3 out of 10 outcome training sessions for grantees.

ANALYSIS

Four specific analysis strategies were used for the cases. First, an active research log was maintained to examine emergent themes during the course of the research. Second, a case chronology was developed to form a case narrative from the interviews and documents to the case narrative, and follow-up interviews were conducted to fill in missing pieces of information and clarify contradictions. Third, the interview transcripts were thematically coded through an emergent analysis process using ATLAS ti, a qualitative analysis software program. Finally, a cross-case thematic table was developed to identify common patterns across the cases (Patton, 1990; Ryan & Bernard, 2000).

DATA QUALITY

This study relied on multiple data sources and used internal member checks and a divergent sampling approach. In a member check, the researcher checks working hypotheses and interpretations with research participants in the course of data collection. To triangulate the data, divergent perspectives on the same process were also sought by interviewing several funding staff and several directors of nonprofit grantees about the same performance measurement process (Denzin, 1978; Patton, 1990).

PERFORMANCE ACCOUNTABILITY AND RISK: CONSIDERING TWO CASES⁶

Two funders introduced a performance framework to their grantees, with the hope of improving their grantees' effectiveness. In both cases, the funders were intermediary organizations: They raised money every year from individuals and larger institutional donors and then redistributed that money to their grantees. In the first case, the funder was a community development intermediary, and in the second case, the funder was a public charity. The grantees in both cases worked with marginalized communities. In the first case, the grantees worked to revitalize neighborhoods by building and rehabilitating affordable housing, commercial areas, and community facilities, and in the second case, grantees worked to change policy by building coalitions and organizing around issues like living wages, environmental justice, and immigrant worker rights.

The performance framework developed in both cases deviated from the basic framework (shown in Figure 1), which asks nonprofits to identify the outcomes resulting from the products and services that they provide. The alternative framework developed in each case recognized that desirable outcomes require that grantees are not only technically competent to deliver instrumental results (e.g., products, services) but are able to build positive mutual relationships with those they serve. For the organizations discussed in this article, building relationships with marginalized communities was intended to develop the enduring capacity of these communities to take action on common problems, such as forming neighborhood crime watches, conducting living wage campaigns, seeking amnesty for undocumented immigrants, and campaigning for health care for the uninsured.

But the two funders took different approaches to working with the performance framework that comparing the cases helps us understand the potential conflict between this framework and grantees' relational work. In the first case, the funder developed a performance framework that assessed the risk of investing in each grantee and required grantees to bear more risk for results. In the second case, the funder did not develop a framework to manage risk by using results-based incentives, although demonstrating accountability was one of the stated purposes of developing the framework. Instead, the funder wanted a framework that would build the capacity of its grantees to achieve long-term outcomes. But these grantees examined the conflict between the basic performance measurement framework and their work, so the case offers insight into what might be at stake when we use performance accountability systems.

CASE 1—NEIGHBORHOOD DEVELOPMENT

This case was set in a mid-size metropolitan area. The funder had been raising money from local foundations and corporations to support nonprofits working on neighborhood development and community revitalization for several years. These nonprofit grantees developed and rehabbed affordable housing, commercial, and community facility space;

made loans to individuals for home purchase or home repair; delivered social services; and organized residents to address neighborhood problems. This funder not only provided grants, loans, and equity investments to its grantees but also sought to build the capacity of its grantees through training, hands-on technical assistance, and the provision of educational opportunities.

The funder's decision to adopt a performance framework grew out of three interrelated concerns of the staff. First, the funder was concerned that its grantees lacked the capacity and skills to successfully manage their multifamily housing assets, leading to a potential loss of millions of dollars. Second, past investments in grantee capacity showed mixed results. As one program officer explained, "Some grantees made terrific use of the money, and some hardly did anything." Third, the grantees had mixed reputations in the city, being "perceived as doing good work but inefficiently." Consequently, the intermediary funder found it difficult to raise money to support the work of its particular grantees.

The funder developed its performance framework over the course of a few years, in consultation with the larger institutional donors in the city and its grantees. (See Table 2 for an example from the 12-page framework.) The final framework assessed grantee performance along six operational and programmatic criteria: board governance, planning, resource development, internal management, community connection, and program delivery. Each of the six criteria had subcriteria. For example, community connection included community engagement, neighborhood associations, leadership development, advocacy, and capacity building. Each criterion was given an overall weight and subcriteria were also weighted. Finally each subcriterion specified evidence for what was considered high-performing, mid-performing, low-performing, and poor-performing practice. For example, under community connection, the subcriteria-capacity building, a low-performing organization was one that made 10 or fewer contacts with neighborhood blocks, and a high-performing organization was one that organized at least 15 new neighborhood blocks and a majority of the previously organized blocks achieved its planned goals around crime prevention, neighborhood beautification, and youth and elderly engagement.

Insert Table 2

The implementation of the performance framework took the grantees through three steps. First, the funder wanted to be able to "assess the risk of investing in its grantees on the front end" so it could provide some reassurance to larger institutional donors that its funding decisions made sense and would yield the greatest results. To do this, the funder needed to understand the strengths and weaknesses of the grantees, or as one program officer explained, to get behind the "smoke and mirrors" that characterized many funder-grantee relationships. So, with the consent of the grantees, the funder brought in consultants to conduct in-depth organizational assessments.

Second, based on the assessment findings, the grantees were asked to develop a strategic plan with targets and milestones to improve their performance in the six areas. In the strategic plan, grantees provided a long-term outcome statement for the neighborhood, specified projected targets (basically a mix of output and short-term outcome goals), and set milestones, critical steps that indicated whether the grantees were on track to achieve their targets. The strategic plan functioned like a contract. Grantees reported on the achievement of targets annually and the achievement of milestones quarterly. The funder and grantees used

the milestones to monitor progress, and the funder would intervene with assistance if it looked like the grantees might not achieve their targets.

Finally, this new framework transferred the risk for achieving results from the funder to the grantees. In the past, the grantees bore little risk for results, as the funding was largely the same for all of the organizations, a situation that several interviewees described as an entitlement environment.

The new framework required grantees to bear more risk by receiving funding based on their performance metric score and projected targets. The metric score was an assessment of the likelihood that grantees would deliver on promised results. The score “brought one yardstick to the grantees” and enabled the funders to allocate their money to ensure the greatest results: Those grantees with a higher metric score and higher projected targets received more money. If the grantee did not meet agreed-upon targets, its metric score would drop, lowering its funding, or the funder would set some conditions for milestone achievement before releasing all the money.

The adoption of this new framework, with the significant resource consequences for poor performance, motivated and focused grantees.⁷ An independent evaluation of the new performance-funding system conducted at the end of 2003 reported that housing production (single-family and multi-family) increased more than four times against the baseline in 2 years; almost a third of grantee board members were new, resulting in greater racial and skill diversity; and grantees had expanded the number of community building initiatives (e.g., community organizing, homebuyer education, and safety initiatives) by 64%.

Yet the inclusion of grantees’ relational work in this performance framework was not as straightforward. Although the framework did motivate grantees to reach out to new residents and put more effort into this work, tensions surfaced as both grantees and funding staff raised concerns that this relational work was shallow and scripted. One interviewee explained, “Is [the funder] actually attempting to engage in social engineering by saying you have to have an organizer and the organizer has to do X, Y, and Z and they have to engage the residents to X, Y, and Z . . . ?” Or as another executive director explained,

Take an area like neighborhood leadership development. I think it just made us more tenacious. For example, we set out an outcome that we were going to have X number of neighborhood leaders experience this particular leadership [development training], will graduate with this certificate, and produce X result in their neighborhood. The downside of that is staff gets too focused on just producing the number. Because they want to say they’ve achieved their plan.

The funder wrestled with this tension. As one program officer explained, “I mean those organizers could be out there saying ‘Sign this petition’ and ‘Here’s a plan, sign it and hand it into me’ and it could be a block organized. I don’t allow that. . . . I knew that there was some shenanigans going on. I talked to them about that.”

This case demonstrated one funder’s earnest attempt to ensure results and accountability using a performance measurement framework. The funder designed a performance accountability framework that “assessed the front end risk of the investment” and required grantees to bear greater responsibility for agreed-upon results. This led both to grantees’

achieving desired results and to some tension between those results and grantees' relational work.

CASE 2—GRASSROOTS ORGANIZING

The second case suggests that this tension may represent a conflict between managing risk in task-driven relationships, where relationships are formed simply to achieve desirable results, and in developmentally driven relationships, where performing a task is intended not only to achieve desirable results but also to build enduring capacity for taking action on common problems.

This case was set in a major metropolitan area. The funder had been supporting nonprofits in this city since the mid-1970s, providing grants as well as technical assistance. The initial founders believed that “the solutions to social problems came from those who directly experienced the problem,” and thus the funder supported grassroots organizations that challenged racial and economic injustice experienced by urban communities, worked toward a more just distribution of resources and power, and developed grassroots activism and leadership.

Like the funder in the neighborhood development case, this funder was interested in adopting a framework that could build the capacity of its grantees to better effect change. At the time, the foundation also felt some pressure from larger institutional donors to demonstrate the impact of their grantees' work. However, the funder had experienced tremendous growth over the past 5 years and consequently was not facing the same financial pressure as was the funder in the first case.

The funding staff believed that most evaluation frameworks assumed that nonprofits provided social services and consequently were inadequate for their grantees, which instead worked to “change the institutions, practices and policies that created inequality.” The funding staff had searched for a framework that would fit grassroots organizing work but in the end concluded that one did not exist. As a result, the funder hired a consultant to develop a framework with the grantees. As one funding staff person explained, “We decided that we don't know the answers. It's clear that no one has the answer to evaluating social change work. So we're just going to try to develop it ourselves. . . . We thought the best way to do it is to try to develop it with our grantees.”

Insert Figure 2

The consultant developed a series of training sessions for grantees with the stated goal of developing a model that would help grantees assess progress, establish benchmarks, recognize and address barriers to effectiveness, and be accountable to stakeholders. The consultant introduced a program outcome logic model, which the grantees worked with and refashioned during monthly meetings for almost a year. Between meetings, the grantees worked with the framework in the context of their own organizations and, based on this work, suggested changes so that the framework better reflected their work. As one executive director explained, “The nice thing is that [the funding] folks weren't invested in it—so we could rip it apart.”

Grantees made three changes to the model, which they ended up representing as a rocket, as shown in Figure 2. First, the grantees separated strategies from activities. Strategies were

overall approaches or methods of work used in social change, and activities constituted the specific tasks needed to implement the strategy. The identified strategies or methods of social change work included action research, advocacy and/or lobbying, coalition building, consciousness raising, constituency organizing, cultural work, direct action, economic organizing, education, leadership development, media–public awareness, organizer training, social service provision, and technical assistance.

Second, grantees reordered the elements of the model so that the inputs and resources followed the strategies and activities. For the grantees, the resources and inputs were informed by the strategies: You identify first the goal, then the strategies needed to achieve the goal, and then the resources and activities necessary to carry out those strategies.

Third, grantees split the outcomes into two components: concrete external change and capacity building and/or organizing. This change in the model was made after one grantee gave an account of her work in the training session: Social change work means constantly building new leaders. If we were concerned only about achieving the outcome, it would be easier to give a task to [an experienced leader] who will do it right and can ensure the results. Yet, social change work means giving it to an emerging leader who will need to learn by trial and error like everyone else.⁸

One foundation staff member, reflecting on this grantee’s comment, added

I think people were frustrated, but they couldn’t quite articulate what it was or what was missing. Then she finally articulated that whole community organizing piece. [You can’t] assume that it will just be incorporated in the existing model. . . . You run the risk of leaving it out.

The grantees wanted a framework that conveyed a change in their constituent base: Constituents were not just mobilized to take particular actions but were also organized; they built the relationships, the knowledge, the skills, and the confidence to take action repeatedly over time on a variety of issues. Grantees noted that leadership development, as a social change strategy, includes “opportunities for constituents to develop and take risks.”

Grantees also discussed evidence of individual capacity, including “taking risks (e.g., getting arrested, being public, speaking out, challenging authority), taking charge, mobilizing others, and facilitating solidarity.”

This case presents one funder’s attempt to develop a performance framework that would support the work of the grassroots social change organizations it supported. The funder’s historical relationship with its grantees and its belief that traditional evaluation frameworks assumed a social service model led the funder to take a more experimental approach and to develop an original framework with its grantees. As grantees considered the basic performance framework in the context of their own work, they talked about the necessity of accepting greater risks for technical results to develop grassroots leadership in which emerging leaders took on new tasks and challenges and about public risk taking as evidence of individual capacity.

PERFORMANCE ACCOUNTABILITY AND NONPROFIT RELATIONAL WORK

Determining who bears the risk for specified results, and how much risk, is central to designing performance accountability systems. The performance frameworks developed in the two cases presented above suggest that risk deserves more attention in scholarly discussions about nonprofit accountability. First, the cases remind us that the relationships that nonprofits build with those they serve are equally important for the long-term outcome as nonprofit's technical competence in delivering products and services. In both cases, interviewees believed that this relational work needed to be captured separately from the more easily measured outputs and outcomes, affirming a common observation that nonprofit action has important benefits beyond the delivery of products and services, an observation echoed broadly in an extensive literature on social capital and civil society (e.g., B. Edwards, Foley, & Diani, 2001; Eickenberry & Kluverf, 2004; Fielding, 2001; Frumkin, 2002; Putnam, 1995; Rankin, 2002; Skocpol, 2003).⁹

Second, the cases also suggest that performance accountability requirements may conflict with what it takes for nonprofits to do this work well. In the first case, the funder developed a framework that assessed the risk of investing in grantees and required grantees to bear more risk. Requiring grantees to bear responsibility for the results of their community-building work motivated grantees to put more effort into establishing relationships with residents, but also threatened the quality of this relational work. Although the hope was that the performance framework would lead grantees to build stronger relationships with residents and develop strong resident-led organizations; instead, the case findings show that organizers started treating this relationship building instrumentally, as something necessary to achieve their targets. In the second case, the grantees suggested that focusing solely on instrumental results would lead them to take courses of action with more certainty, like giving the task to an experienced leader, but that this course of action conflicted with what they were trying to do: build new leaders.

Third, the two cases together help us see that this tension can be understood as a conflict between managing risk in task driven relationships, where relationships are formed simply to achieve desirable results, and managing risk in developmentally driven relationships where performing a task is intended to not only achieve desirable results but also to build the enduring capacity of communities to take action on common problems. In the first case, the intent was to build resident-led organizations that could address neighborhood problems, and in the second case the intent was to build strong community-controlled organizations that had the capacity to take public action repeatedly over time to ensure that policies were equally responsive to the concerns of marginalized communities.

Insert Table 3

The comments of the grantees in the second case remind us that building strong community leaders requires accepting greater risks by taking courses of action with less certain results (e.g., giving the task to emerging leaders). The grantees echo the observations of social scientists who have studied similar grassroots organizations: that performing tasks is as much about building what Gecan (2002) calls public relationships as it is about getting something done, that this relational work is absolutely critical for the longterm outcomes, and that these nonprofits are always making decisions that require attention to both technical and relational results (Belenky, Bond, & Weinstock, 1997; Chaskin, Brown, Venkatesh, & Vidal, 2001; Evans & Boyte, 1992; Fisher, 1994; Gittell & Vidal, 1998; Smock, 2004; Warren, 2001). Table 3 suggests the possible association between the relationship purpose and the risk-management strategy and then consequences for nonprofit practice.

Building on the work of others who have explored the applicability of principal agent theory in the nonprofit context (Bogart, 1995; Ebrahim, 2003a; Miller, 2002; Speckbacher, 2003), this article suggests that the relationships examined in principal–agent theory, where one party contracts with another party to achieve some objective, may not be reflective of all nonprofit work. It is important to remember that the principal–agent relationship is task-driven and task-defined. The principal has a task and seeks specific results. The principal wants agents who will deliver those results, or at least make their best effort to do so (Eisenhardt, 1985, 1989; Hendry, 2002; Jensen & Meckling, 1976).

Nonprofit organizations certainly do form task-driven and task-defined relationships, but they also build relationships with those that they serve to define their tasks, such as to tailor services based on the experiences of clients, to set organizational goals based on the concerns and priorities of communities, to redefine problems based on the critical perspectives of marginalized groups. Indeed responsiveness—nonprofits’ defining their tasks through the process of building relationships with those they serve—is one of the most common reasons given for why nonprofit organizations should solve social problems instead of government (M. Edwards & Hulme, 1996).

Moreover, for nonprofits such as those in the cases, the task is not only defined in the process of building relationships with those served, but may also be used to build the capacity of those served to take collective action to address some problem. Once again, it is helpful to make a distinction between relationships in which the purpose is to accomplish some task and those in which the tasks are defined by and intended to build these relationships (Fielding, 2001; MacMurray, 1970; McIntosh, 2004).

The point here is that using performance incentives when the purpose of the relationship is not primarily task driven and task defined may be counterproductive. Of course, an argument could be made that the tension revealed in these cases is really just a measurement or multitasking problem— that is, if we could just figure out how to measure high-quality relationships, we could develop an appropriate set of incentives and avoid such problems.

Certainly an important part of being able to use performance measurement is developing a set of adequate measures, but (as Sheppard & Sherman, 1998, note) placing too much emphasis on measurement can lead organizations to look for quantification or specification solutions, blinding them to ways in which risk perception, assessment, and management may vary depending on the purpose of the relationship. The two cases described here suggest that managing risk by using results-based incentives may be misguided when the long-term outcome requires that the agent build relationships that are not simply task-defined and task-driven.

IMPLICATIONS

These cases suggest that if we ask nonprofits to bear more risk for achieving results, nonprofits may take courses of action that make it difficult to develop more substantive relationships with those that they serve. Thus the effect of performance accountability systems on nonprofit relational work certainly deserves more empirical attention. Although a number of public administration scholars have identified conflicts between accountability requirements intended to ensure results and those intended to ensure that government agencies treat citizens fairly and equitably (e.g., Behn, 2001), other empirical work finds that

performance accountability can encourage nonprofits to pay closer attention to the needs of their beneficiaries (e.g. Frumkin, 2001).

Undoubtedly, the impact of performance accountability systems on nonprofit relational work will depend on the purpose of the nonprofit's work, the historical relationship between nonprofits and their beneficiaries, and the capacity that the nonprofit seeks to build (e.g., the capacity of beneficiaries to take individual action on some problem, such as leave an abusive relationship, or to collectively define and take action on a public problem). Regardless, as Fielding (2001) has argued, acknowledging the importance of this relational work does not mean retreating into a form of sentimentality in which technical results do not matter, in which we idealize nonprofits or the relationships they build, or in which we are satisfied simply knowing that nonprofits do good work. After all, nonprofit beneficiaries are the ones who bear the most risk for nonprofit performance.¹⁰

But by acknowledging the importance of this relational work to the long-term outcome and recognizing that managing risk is a central aim of performance accountability systems, we might begin to explore a different set of questions that go beyond measurement. What results are better secured, not by transferring risk, but by accepting it? How does requiring nonprofits to bear more responsibility for results strengthen their relationship with those they serve, and how might it make this work more difficult? Can or should we design accountability frameworks that not only reward technical competence but also consider the quality of relational work? Remembering that risk is the probability of gain or loss, how do performance accountability systems, which are intended to prevent loss by ensuring the effective use of scarce resources, constrain what draws us to the sector in the first place, what Clohesy explains is “the possibility of a good that can be achieved and conceived only by persons thinking and acting together” (2000, p. 239)?

Moreover, examining performance accountability as a risk-management strategy can enlarge the conversation between funders and nonprofit grantees by addressing three important issues. First, funders and grantees can examine the trade-offs involved in using performance accountability frameworks. For example, we know that bearing more risk for technical results may work very well to focus and motivate grantee staff and volunteers to achieve these results. Yet asking nonprofit grantees to bear more risk for results may make it more difficult to achieve results that depend on building open, attentive, and responsive relationships with beneficiaries.

Second, funders and grantees can explore whether results may be better secured by asking nonprofit grantees to bear more risk for technical results or by accepting greater risks to these results. For example, when would it be acceptable for grantees to take courses of action that have a higher rate of failure in achieving some short-term outcome but are important for other reasons? Finally, funders and grantees could experiment with alternative accountability strategies that elevate the value of this relational work. Public administration scholars have given much attention to the advantages and disadvantages of ensuring accountability through hierarchy or by incentives coupled with competition, but perhaps nonprofit organizations require an accountability approach that recognizes the distinct work they do in building relationships. In the end, the findings presented here suggest that the function of relationships assumed in principal agent theory may be too narrow to account for relationships nonprofits form to do their work.¹¹

CONCLUSION

This article suggests that the risk management deserves more direct attention in discussions about nonprofit accountability generally and performance accountability specifically. This article makes three points. First, it claims that nonprofit work requires more than technical competence to deliver products and services that lead to desired outcomes. The achievement of longer-term outcomes also requires relational work. For some nonprofits, the longer-term outcomes—building the enduring capacity of communities to take action on a variety of public problems—required building positive and mutual relationships within marginalized communities.

Second, it suggests that performance accountability requirements may conflict with what it takes for nonprofits to do this work well. And third, the paper suggests that this tension may represent a conflict between managing risk in task-driven relationships, where relationships are formed simply to achieve desirable results, and managing risk in developmentally driven relationships where performing a task is not only intended to achieve desirable results but also to build enduring capacity to take action on common problems.

Here, we see that the failure to achieve results may not be a sign of technical incompetence, unexpected environmental changes, self-interested behavior, or misspecified objectives but rather a consequence of the choice to accept technical risks for relational work. In the end, this argument suggests that we will better understand the implications of performance accountability frameworks for nonprofit organizations if we examine how this framework is used to manage and redistribute risk in a given set of relationships.

NOTES

1. For many nonprofits, building mutual positive relationships with those they serve is essential. In some cases, building relationships may be necessary for the recipient to accept the product or service offered by the nonprofits. In other cases, building relationships with those served may help the nonprofit adjust their existing products and services to the specific circumstances of that recipient or community. Still for other nonprofits, like the grantees in these two cases, building relationships may be necessary to support marginalized communities in taking action around particular problems.
2. In this article I use the term *results* to refer to both measurable outputs and outcomes. I use the term *performance framework* to refer to the specification of measurable outputs and outcomes, with the intent of using these measures to demonstrate accountability and/or ensure accountability. I refer to the *basic* performance framework as the specification of inputs, activities, outputs, and short-term, intermediate, and long-term outcomes in a logical framework (see Figure 1). I use the term *performance accountability* to refer to systems where compensation is linked to the achievement of results. *Performance measurement* refers to the ongoing process of defining, monitoring, and using performance indicators to improve organizational effectiveness and efficiency (Poister, 2003, p. 1). Holding organizations accountable for measurable results is just one use for performance data.
3. For a more detailed discussion of risk and its conceptual relation to uncertainty, danger, trust, and hazard see Chiles & McMackin, 1996; Fischhoff, Watson, & Hope, 1990; Garland, 2003.

4. Dorfman (2005, p. 200) distinguishes between two mitigation strategies: loss prevention and loss reduction. Loss prevention is when certain strategies are used to reduce the frequency of losses and loss reduction is when strategies are intended to reduce the severity of the loss.

5. Ideally the principal would pay the agent for the amount of effort exerted, or what is called the first best solution. However, agency theory focuses on principal–agent relationships where the principal cannot observe the agent’s efforts (i.e., information asymmetry) and cannot assume the agent’s interests are aligned with her own. In this setting, the principal’s task is to design a contract that encourages the agent to maximize effort toward the principal’s desired goals. But scholars have considered the implications for contracting under different conditions, including the extent to which the interests of the principal and agent are aligned, the extent of information asymmetry, the complexity and verifiability of the principal’s goals, the risk preferences of the principal and agent, and so on (Beatty & Zajac, 1994; Eisenhardt, 1989; Pratt & Zeckhauser, 1991; Waterman & Meier, 1998).

6. To maintain confidentiality, the names of the cities and organizations in the study are not revealed.

7. Grantees’ improved performance resulted from the combination of clear expectations, consequences for nonperformance, and resources to support capacity building.

8. This is not an exact quote from an interview but a transcribed statement from an observation of a training session.

9. This article echoes the broad sentiments of the social capital literature: Relationship building is important (Field, 2003). At the same time, the article makes two distinct and specific points about relationship building: (a) that long-term outcomes nonprofits and funders seek depend not only on technical proficiency in delivering some good or service but on the quality of the relationships nonprofits build with those they serve, whether this involves building strong community-led organizations, to tailor services based on the experiences of clients, to identify organizational goals based on the concerns and priorities of communities, or to redefine the problem, strategies, or assumptions of existing policies or practices; (b) that the long-term outcomes nonprofits seek may require accepting risk to build relationships. Although empirical studies look at the relationship between social capital and risk these studies focus on how increases in social capital reduce the downside of risk or the likelihood of negative outcomes, not the necessity of risk taking in developing stronger relationships.

10. In the nonprofit sector, the role of principal is usually split between funders who pay the nonprofit agent for certain results and the beneficiaries who bear the risk for nonprofit performance. This does not negate the point here, which is that some long-term outcomes depend not only on the nonprofit’s technical competence but on the quality of relational work.

11. Interesting work in this area is unfolding overseas (see, for example, www.keystone.org)

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Table 1
Case Summary

	Case 1	Case 2
Community development approach	Developing physical infrastructure and building populations to seek change at the policy level	Mobilizing marginalized community to seek change at the neighborhood level
Number of interviewees Funding staff	6 out of 10 total staff	4 out of 4 staff involved in the initiative out of a larger staff of 20
Grantees	11 out of 17 executive Directors	10 out of 10 grantee Participants

Figure 1
Basic Performance Framework

What will be done?			What are the Results?			
<i>Inputs</i> (Resources)	⇒	<i>Strategies</i> (Activities)	⇒	<i>Outputs</i> (Effort)	⇒	<i>Outcomes</i> (Effect)
Money Partners Relationships Facilities Materials, equipment		A collection of actions, which have a reasoned chance of improving results or outcomes.		Units of service Quantity (what we did) Quality (how well we did it)		Impact Improvements over time (how much change and quality of change)

Table 2
Case 1 Portion of the Performance Framework
 Performance Metric: Community Building (weight = 15)

Community engagement (weight = 4)	Community feedback on programs' strategic plan, communicates regularly with community stakeholders
Neighborhood association & leadership (weight = 4)	Supports neighborhood association with action development plans, residents graduate from leadership Programs
Advocacy (weight = 3)	Identifies needs and advocates through letter writing and personal meetings
Capacity building (weight = 3)	Organizes blocks, with blocks achieving planned goals

Note: Internal Organizational Document.

Figure 2
Revised Performance Framework

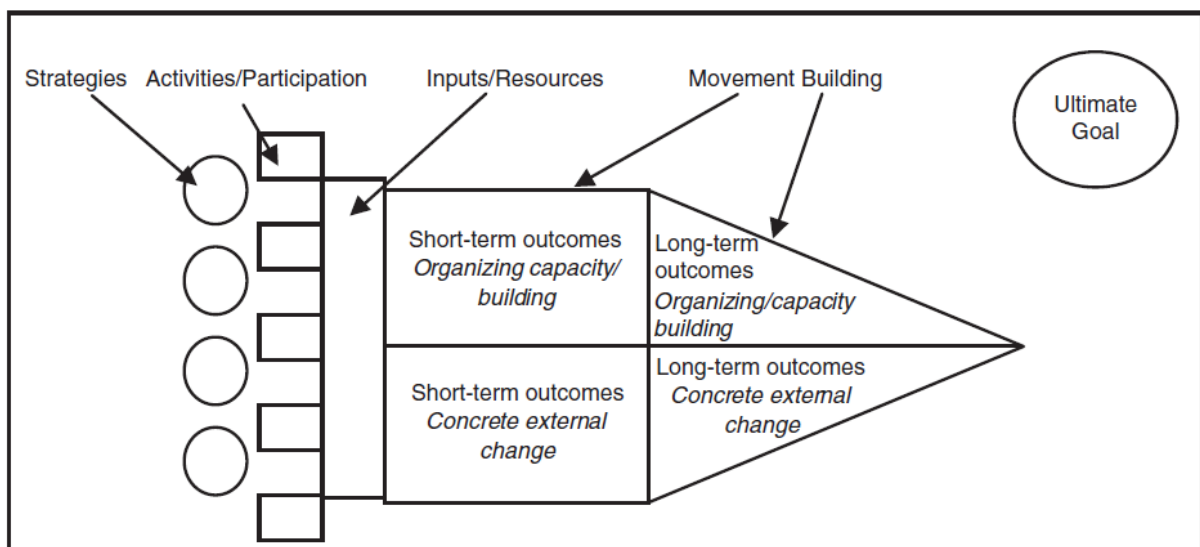


Table 3
Managing Risk Given the Purpose of Relationships

Nonprofit Grantees Work (MacMurray, 1970/ McIntosh, 2004)	Funder's Risk Management Strategy	Implications for Nonprofit Practice?
Tasks drive relationships Relationships built to accomplish tasks	Funder's Risk Management Strategy Funder transfers risk so the nonprofit bears at least some risk for results	1. Motivated nonprofits to achieve results 2. Lead nonprofits to take courses of action with more certain results
Relationships drive tasks Tasks accomplished to build relationships	Funder willing to accept technical risks to support nonprofit relational work	1. Offer nonprofits the space to build positive, mutual relationships 2. Offer nonprofits the space to take courses of action with less certain results