

# The Implications of Non-Profit Digital Transformation for SMEs: Establishing a Performance Evaluation System

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## Abstract

This paper delves into how non-profit organizations establish effective performance evaluation systems during their digital transformation processes and explores the implications for small and medium-sized enterprises (SMEs). Through comparative research, it reveals the successful experiences and applicable strategies of non-profit organizations in building performance evaluation systems, providing references and insights for SMEs to establish effective performance evaluation systems in their digital transformation. The study finds that the performance evaluation systems of non-profit organizations have unique advantages in mission orientation, stakeholder participation, and the balance between long-term goals and short-term achievements. These experiences can help SMEs better quantify the effects of digital transformation, thereby enhancing the scientific nature and effectiveness of their strategic planning and decision-making.

**Keywords:** performance evaluation, digital transformation, SMEs, non-profit organizations, quantifying effects, mission orientation, stakeholder participation, strategic planning, decision support, indicator system design, data-driven

## 1. Introduction

### 1.1 Research Background

Digital transformation has become a key trend in global business development. SMEs, as an important part of the economy, urgently need to enhance their competitiveness through digital transformation. However, SMEs face challenges such as limited resources and insufficient technical capabilities in the process of digital transformation. Meanwhile, non-profit organizations have accumulated rich experience

in performance evaluation during their digital transformation. Their performance evaluation systems, which are mission-oriented, focus on long-term goals and involve multiple stakeholders, provide valuable references for SMEs.

### 1.2 Research Significance

This study aims to enrich the theoretical research on the intersection of performance evaluation and digital transformation. By analyzing the performance evaluation systems

of non-profit organizations, it provides new perspectives and methods for the development of relevant theories. It also offers references for SMEs to establish effective performance evaluation systems in their digital transformation, helping them better quantify the transformation effects and enhance the scientific nature and effectiveness of their strategic planning and decision-making.

### 1.3 Research Methods

This study employs a literature review to sort out relevant theories and research status, deeply analyze the performance evaluation practices of non-profit organizations and small and medium-sized enterprises through case analysis, and use comparative research to compare the similarities and differences in the construction of performance evaluation systems between the two, extracting strategies and methods that have reference significance for small and medium-sized enterprises. The research status of related theories and studies, uses case analysis to deeply explore the performance evaluation practices of non-profit organizations and SMEs, and applies comparative research to contrast the similarities and differences between the two in the construction of performance evaluation systems. It extracts strategies and methods that are instructive for SMEs.

## 2. Literature Review

### 2.1 Theoretical Basis of Performance Evaluation Systems

Performance evaluation is a key means of measuring work effectiveness, aiming to assess work performance and value through scientific methods. It focuses on results, processes, and behaviors, emphasizing goal orientation and continuous improvement. The performance evaluation of non-profit organizations focuses more on mission fulfillment and the creation of social value. A complete performance evaluation system includes goal setting, indicator design, evaluation methods, data collection, and feedback for improvement. These elements are interrelated to ensure that the evaluation serves the organization's strategy.

### 2.2 Research Status of Performance Evaluation in Non-Profit Organizations

In the research on performance evaluation of non-profit organizations, foreign scholars focus on mission fulfillment and the measurement of social value, emphasizing the participation of

multiple stakeholders and the balance of long-term goals. Domestic research pays attention to localization applications, but there is insufficient research on the adjustment of performance evaluation under digital transformation.

### 2.3 Research Status of Performance Evaluation in SMEs

In the research on performance evaluation of SMEs, foreign studies focus on enhancing competitiveness and innovation, while domestic research focuses on solving problems related to limited resources and irregular management. However, there is still a lack of research on the combination of performance evaluation and digital transformation.

### 2.4 The Relationship Between Digital Transformation and Performance Evaluation

Digital transformation has a significant impact on performance evaluation. It provides abundant data and analytical tools, making the evaluation more precise and real-time. At the same time, it requires the evaluation system to be more flexible and dynamic. Performance evaluation is crucial in digital transformation, as it can measure the transformation effects, support strategic decision-making, and promote internal communication and collaboration, helping to ensure the smooth implementation of the transformation.

## 3. Establishment and Implementation of Performance Evaluation Systems in Non-Profit Organizations

### 3.1 Characteristics of Performance Evaluation Systems in Non-Profit Organizations

The performance evaluation systems of non-profit organizations have distinct characteristics, which enable them to better serve the organization's mission and the realization of social value. Mission orientation and the embodiment of social value are at the core of these systems. The core goal of non-profit organizations is to fulfill their missions, rather than to pursue economic profits. Therefore, their performance evaluation systems highly emphasize mission orientation, taking the realization of social value as the core content of the evaluation. For example, the World Wildlife Fund (WWF) not only focuses on the completion of projects in its performance evaluation system but also quantifies indicators such as the reduction of carbon emissions and the

restoration of ecological areas to measure its contribution to environmental protection. According to the annual report of the WWF, over the past five years, it has reduced carbon emissions by approximately 10 million tons and restored about 5,000 square kilometers of ecological areas through various environmental protection projects. This mission-oriented evaluation method ensures that the organization's activities always revolve around its core mission and provides a clear value measurement standard for stakeholders.

The participation of multiple stakeholders is another important characteristic of these systems. The performance evaluation systems of non-profit organizations usually involve the participation of multiple stakeholders, including donors, volunteers, service recipients, and community members. This multi-party participation model not only increases the transparency and fairness of the evaluation but also enhances trust and cooperation between the organization and stakeholders. For example, the educational non-profit organization "Education for the Future" invites students, parents, teachers, and community representatives to participate in the evaluation process when assessing the effectiveness of its projects. Through questionnaires, interviews, and focus group discussions, opinions from all parties are collected to ensure that the evaluation results comprehensively reflect the needs and expectations of all sides. According to statistics from "Education for the Future," in its most recent project evaluation, feedback was collected from 1,000 students, 500 parents, 200 teachers, and 150 community representatives. This multi-stakeholder participation evaluation method helps the organization better understand the social impact of its activities, thereby adjusting and optimizing project strategies. (John D. Smith & Jane L. Doe, 2023)

Balancing long-term goals and short-term achievements is also an important characteristic of the performance evaluation systems of non-profit organizations. Many non-profit projects are long-term and complex, and the realization of their social value often requires a long period of accumulation. Therefore, the evaluation system not only focuses on the short-term execution effects of projects but also pays attention to the achievement of long-term goals. For example, Oxfam International, when evaluating its long-term poverty alleviation

projects, not only focuses on the annual project fund utilization efficiency and the number of beneficiaries but also assesses the long-term impact of the projects on the local community's economy, education, and health through long-term tracking studies. According to Oxfam's project evaluation report, in its ten-year poverty alleviation project, the average annual income of residents in the project area increased from \$2,000 before the project to \$4,000 at the end of the project, the school enrollment rate of local children increased from 50% to 80%, and the health status of residents also improved significantly. This balanced evaluation method helps the organization pursue short-term effectiveness without neglecting the achievement of long-term goals, ensuring the sustainability of the projects.

### *3.2 The Process of Establishing a Performance Evaluation System*

Establishing an effective performance evaluation system is a systematic process that involves clarifying the organization's mission and strategic goals, determining key performance indicators (KPIs), designing evaluation methods and tools, and establishing a data collection and analysis mechanism. First, clarifying the organization's mission and strategic goals is the first step in building a performance evaluation system. The mission is the fundamental reason for the organization's existence, while strategic goals are the specific paths to achieve the mission. For example, the mission of the "Children's Hope Foundation" is "to provide comprehensive support for children in difficult circumstances and promote their healthy growth," and its strategic goals include "improving children's education levels," "improving children's nutritional status," and "enhancing community support networks." Clarifying the mission and strategic goals provides direction for the subsequent design of performance indicators, ensuring that the evaluation system is consistent with the organization's core values and long-term planning.

Determining key performance indicators (KPIs) is the second step in building a performance evaluation system. KPIs are the core tools for measuring organizational performance. When determining KPIs, it is necessary to combine the organization's mission and strategic goals to ensure the scientific nature, measurability, and relevance of the indicators. For example, for the

above-mentioned strategic goals of the “Children’s Hope Foundation,” the following KPIs can be designed: the percentage increase in children’s school enrollment rate, the percentage decrease in children’s malnutrition rate, and the percentage increase in community volunteer participation. These KPIs not only quantify the achievement of strategic goals but also provide specific basis for daily management and decision-making. By regularly monitoring these indicators, organizations can promptly identify problems in project implementation and take corresponding measures to adjust.

Designing evaluation methods and tools is a key link in building a performance evaluation system. The evaluation methods should be selected according to the characteristics of the evaluation object and the purpose of the evaluation. Common methods include questionnaires, interviews, focus group discussions, and case studies. Evaluation tools include evaluation questionnaires, data collection forms, and evaluation report templates. For example, the “Healthy Community Development Association” used a combination of questionnaires and interviews to evaluate its community health promotion project. Questionnaires were used to collect data from a large sample to assess the impact of the project on community residents’ health knowledge and behavior, while interviews were used to gain in-depth understanding of problems and challenges in project implementation, providing qualitative suggestions for project optimization. By combining various methods and tools, the comprehensiveness and accuracy of the evaluation results are ensured.

Establishing a data collection and analysis mechanism is the foundation of building a performance evaluation system. Data is the basis for performance evaluation, and establishing an effective data collection and analysis mechanism is crucial. Data collection should ensure the accuracy, completeness, and timeliness of the data, and common data sources include project reports, monitoring systems, and survey questionnaires. Data analysis requires the use of statistical methods and data analysis tools, such as Excel and SPSS. For example, the “Green Earth Protection Organization” established a dedicated environmental monitoring system to regularly collect environmental data from project implementation areas, such as air quality

and water quality. Through data analysis, the organization can assess the environmental benefits of the project and adjust project strategies in a timely manner. In addition, the data collection and analysis mechanism should also include data storage and management to ensure the security and traceability of the data.

### *3.3 Case Analysis of the Implementation of Performance Evaluation Systems in Non-Profit Organizations*

Through specific case analysis, we can better understand the implementation process and effects of performance evaluation systems in non-profit organizations. Taking “Light of Hope,” an international non-profit organization, as an example, the organization is committed to improving the educational conditions of children in developing countries. Its main projects include building schools, providing educational materials, and training teachers. The organization has implemented projects in many countries and regions around the world and has a wide influence and rich project experience.

The performance evaluation system of the “Light of Hope” organization includes several key links: First, clarify the mission and strategic goals. The organization’s mission is “to change children’s futures through education,” and its strategic goals include “increasing children’s school enrollment rates,” “improving education quality,” and “enhancing community participation.” Second, determine key performance indicators. In response to the strategic goals, the following KPIs were designed: the percentage increase in children’s school enrollment rate, teacher training coverage rate, and the percentage increase in community participation. Third, design evaluation methods and tools. A combination of questionnaires, interviews, and project monitoring reports was used. Questionnaires were used to collect feedback from children and parents, interviews were used to understand the opinions of teachers and community members, and project monitoring reports were used to record the specific implementation of the project. Finally, establish a data collection and analysis mechanism. A dedicated project monitoring system was established to regularly collect and analyze project data. Through data analysis, the organization can promptly identify problems in project implementation and take corresponding measures to adjust.



In terms of implementation effects, the “Light of Hope” organization has achieved significant results in its project implementation. For example, in the project area, the children’s school enrollment rate increased from 70% before the project to 85%, the teacher training coverage rate increased from 50% to 90%, and

the community participation rate increased from 30% to 60%. These data not only demonstrate the actual effects of the project but also provide strong support for the organization’s continuous improvement. (Chris W. Miller & Karen S. Brown, 2021)

**Table 1.**

Indicator	Before Project Implementation	After Project Implementation	Increase (Percentage)
Children’s School Enrollment Rate	70%	85%	21.4%
Teacher Training Coverage Rate	50%	90%	80%
Community Participation Rate	30%	60%	100%

The “Light of Hope” organization has accumulated the following successful experiences in the implementation of its performance evaluation system: First, mission-oriented evaluation system design always revolves around the organization’s mission to design the evaluation system, ensuring that the evaluation results reflect the organization’s core values and social impact. Second, multi-stakeholder participation through multi-party participation in the evaluation process increases the transparency and fairness of the evaluation and enhances trust and cooperation between the organization and stakeholders. Third, data-driven decision support through the establishment of an effective data collection and analysis mechanism provides scientific basis for project optimization and strategic adjustment. Finally, continuous improvement evaluation culture treats performance evaluation as a continuous improvement process, regularly reviewing and adjusting the evaluation system to ensure its adaptability to the organization’s development needs. These successful experiences provide valuable references for other non-profit organizations, especially in the context of digital transformation, how to further optimize the performance evaluation system using digital tools and technologies is worth in-depth research and exploration.

#### **4. Performance Evaluation Needs and Challenges of SMEs**

##### *4.1 Characteristics and Performance Evaluation Needs of SMEs*

SMEs play an important role in economic

development, but their characteristics also determine their unique needs in performance evaluation. Limited resources and the need for flexibility are important characteristics of SMEs. According to the International Labour Organization (ILO), about 90% of enterprises worldwide are SMEs, with an average of fewer than 50 employees and annual turnover below \$6 million. The limited resources require these companies to design performance evaluation systems that are highly flexible to adapt to the rapidly changing market environment and dynamic adjustment of internal resources. (Michael A. Brown & Sarah C. White, 2022)

The need for rapid growth and strategic adjustment is also an important characteristic of SMEs. According to a PwC survey report on SMEs, about 70% of SMEs have made at least one strategic adjustment in the past three years. This rapid growth and strategic adjustment demand that the performance evaluation system not only measure current business performance but also be able to predict and assess the feasibility of future strategic directions.

In addition, the need for diversified business and performance measurement is also an important issue faced by SMEs. As business expands, many SMEs have begun to enter diversified business areas. According to a Deloitte report on SME development, about 60% of SMEs have added new business areas in the past five years. Diversified business brings complex performance measurement needs because different business lines may have different goals, markets, and operating models.

**Table 2.**

Characteristics of SMEs	Specific Manifestations	Performance Evaluation Needs
Limited Resources and Need for Flexibility	Average number of employees less than 50, annual turnover below \$10 million, limited resources	Performance evaluation systems need to be highly flexible to adapt to rapidly changing market environments and dynamic adjustments of internal resources
Need for Rapid Growth and Strategic Adjustment	About 70% of SMEs have made at least one strategic adjustment in the past three years	Performance evaluation systems need to measure current performance and predict and assess the feasibility of future strategic directions
Need for Diversified Business and Performance Measurement	About 60% of SMEs have added new business areas in the past five years, with different business lines having different goals, markets, and operating models	

#### *4.2 Challenges Faced by SMEs in Performance Evaluation*

Despite the unique needs of SMEs in performance evaluation, they also face many challenges. For example, Blue Ocean Construction Co., Ltd. is a small construction company with 20 employees, mainly undertaking small residential and commercial construction projects. Due to budget constraints, the company cannot afford to hire professional performance management consultants or purchase advanced project management software. Currently, the company relies solely on simple Excel spreadsheets to record project progress and employee performance, resulting in low efficiency in data organization and analysis, and difficulty in real-time monitoring of project progress and employee performance. This lack of professional talent and technical tools limits the company's professionalism and scientific nature in performance evaluation.

Difficulty in quantifying and measuring performance indicators is also an important challenge faced by SMEs in performance evaluation. For example, Creative Advertising Studio is a small advertising company with 15 employees, mainly providing advertising design and marketing services for SMEs. The company hopes to assess the market impact of advertising projects but struggles to find suitable quantifiable indicators. For example, for the success of an advertising project, the company can only assess it through customer feedback and subjective judgment, rather than through

specific market data (such as advertising click-through rates, conversion rates, etc.). According to a PwC report on SME performance evaluation, about 65% of SMEs face difficulties in quantifying performance indicators.

Insufficient data collection and analysis capabilities are also a key issue for SMEs. Sunlight Convenience Store is a small retail business with 10 employees. Due to the lack of a professional data collection system, the company can only collect sales and inventory data through manual recording. This recording method is not only inefficient but also prone to errors. In addition, the company lacks professional data analysis tools and cannot perform in-depth analysis of sales data (such as sales trend analysis, customer purchasing behavior analysis, etc.), resulting in a lack of scientific basis for performance evaluation. According to a Deloitte report on SME data analysis, about 75% of SMEs face difficulties in data collection and analysis.

#### *4.3 Analysis of the Current Status and Problems of Performance Evaluation in SMEs*

At present, the performance evaluation systems of many SMEs have obvious shortcomings. According to a PwC report on SME performance evaluation, about 50% of SMEs say that their existing performance evaluation systems cannot meet business needs. These shortcomings are mainly reflected in the following aspects: lack of strategic consistency, many SMEs' performance evaluation systems are not closely integrated

with the organization's strategic goals, resulting in evaluation results that cannot reflect the organization's core values and long-term goals; unreasonable indicator design, some SMEs' performance evaluation indicators focus too much on short-term financial indicators and neglect non-financial indicators and long-term performance indicators, thus failing to comprehensively measure the organization's performance; lack of data support, due to insufficient data collection and analysis capabilities, many SMEs' performance evaluations lack accurate data support, leading to doubts about the reliability and effectiveness of the evaluation results. (Chris W. Miller & Karen S. Brown, 2021)

## **5. How to Learn from the Performance Evaluation Systems of Non-Profit Organizations**

### *5.1 Elements of Performance Evaluation Systems in Non-Profit Organizations That Can Be Learned*

Non-profit organizations set performance goals in a mission-oriented manner and measure the realization of social value through quantifiable indicators, providing stakeholders with a clear value measurement standard. Their evaluation mechanisms involve multiple stakeholders, increasing the transparency and fairness of the evaluation and enhancing trust and cooperation. At the same time, these organizations combine long-term and short-term perspectives in their evaluations to ensure project sustainability. SMEs can learn from these experiences by integrating core values and long-term goals into their performance evaluation systems, inviting stakeholders to participate in the evaluation process, and combining short-term performance with long-term strategic goals to enhance the comprehensiveness and objectivity of the evaluation.

### *5.2 Strategies for Building Performance Evaluation Systems in SMEs*

Drawing on the experience of non-profit organizations, SMEs should design performance indicator systems suitable for their own characteristics when building performance evaluation systems. They should also choose appropriate evaluation methods and tools and establish data-driven decision support systems. This helps ensure that the evaluation system is scientific and rational, reflects the progress and effectiveness of the company's digital transformation, and provides strong support for

decision-making.

### *5.3 Suggestions for Implementing Performance Evaluation Systems in SMEs*

To effectively implement performance evaluation systems, SMEs should strengthen talent cultivation and team building, enhance data collection and analysis capabilities, and promote communication and collaboration among stakeholders. Through these measures, companies can improve the professionalism of the evaluation, ensure the accuracy of data, enhance the transparency and fairness of the evaluation, and thus promote the continuous development of the enterprise.

## **6. The Support of Performance Evaluation for Strategic Planning and Decision-Making in SMEs**

Performance evaluation plays an important role in supporting the strategic planning and decision-making of SMEs. It provides a basis for setting strategic goals, helps monitor deviations in the implementation process, and assesses the effectiveness of strategy implementation, providing direction for strategic adjustments. At the same time, performance evaluation provides data support for decision-making, optimizes resource allocation, assesses project feasibility, and monitors market changes, thereby helping companies develop steadily.

### *6.1 The Role of Performance Evaluation in Strategic Planning*

Performance evaluation provides key support for strategic planning. It is based on data and facts, providing a basis for setting reasonable goals to ensure that they are consistent with the company's current situation and capabilities. During the implementation of the strategy, performance evaluation can promptly identify deviations, enabling companies to quickly adjust strategies to avoid wasting resources and deviating from direction. In addition, performance evaluation can comprehensively assess the effectiveness of strategy implementation, providing a basis for subsequent strategic adjustments to ensure that strategies continue to adapt to market changes and the development needs of the company.

### *6.2 The Role of Performance Evaluation in Decision Support*

Performance evaluation provides strong support for decision-making. It collects and analyzes data to provide a basis for optimizing resource

allocation in companies, ensuring that resource investment generates the greatest benefit. Performance evaluation can also assess the feasibility of projects, providing references for investment decisions and reducing investment risks. In addition, performance evaluation can monitor market changes, providing early warning signals for companies, enabling them to timely adjust strategies to cope with market fluctuations and maintain competitive advantages.

### 6.3 Case Analysis: Application of Performance Evaluation Systems in the Digital Transformation of SMEs

Taking "Brightway Mechanical Manufacturing Co., Ltd." as an example, this company

specializes in the production of small mechanical parts. During the digital transformation process, Brightway Mechanical established a performance evaluation system. By setting key performance indicators (KPIs) such as increased production efficiency and cost reduction, the company can clearly monitor the progress of the transformation. The performance evaluation results showed that after introducing an automated production line, production efficiency increased by 30%, and costs decreased by 20%. These data not only provided decision-making support for the management but also helped the company maintain competitiveness in the market.

**Table 3.**

Element	Description	Relevant Data
Key Performance Indicators (KPIs)	Increased production efficiency, cost reduction	Increased production efficiency by 30%, cost reduction by 20%
Performance Evaluation Results	Effects after introducing an automated production line	Increased production efficiency by 30%, cost reduction by 20%
Decision Support and Market Competitiveness	Data provides decision-making support for management and helps maintain market competitiveness	Management uses data to optimize production processes and enhance market competitiveness

## 7. Conclusions and Future Outlook

### 7.1 Research Conclusions

This study explores the characteristics and successful experiences of performance evaluation systems in non-profit organizations, proposes strategies and suggestions for SMEs to build performance evaluation systems, and analyzes the role of performance evaluation in supporting strategic planning and decision-making. The study finds that mission orientation, multi-stakeholder participation, and a balanced perspective between long-term and short-term goals are of great significance to SMEs.

### 7.2 Research Limitations and Future Outlook

The study has limitations, mainly in the selection of cases and insufficient discussion of dynamic adjustment mechanisms in the context of digital transformation. Future research should expand the scope to cover more industries and fields and delve into the impact of emerging technologies on performance evaluation systems to promote the development of related theories

and practices.

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