



The Nonprofit
Marketplace
**Bridging the
Information Gap
in Philanthropy**

Front cover

Cruz Martinez is shown here painting a ceramic sculpture he made in the Mattie Rhodes Art Center's Visual Arts After School Program, which serves urban elementary school students in Kansas City, Missouri, and participates in the Greater Kansas City Community Foundation's online tool, DonorEdge. According to Mattie Rhodes' Executive Director, John Fierro, "DonorEdge offers us an online platform that ensures a level of transparency that we can't accomplish anywhere else. We also go the extra mile to have our profile reviewed by our community foundation because we know donors are becoming more deliberate with their giving and they are looking for organizations that meet their high standards."

Photo © Jennifer Mendez

THE WILLIAM AND FLORA
HEWLETT
FOUNDATION

McKinsey&Company

Copyright © 2008

The Nonprofit
Marketplace
**Bridging the
Information Gap
in Philanthropy**



The nonprofit marketplace

Bridging the information gap in philanthropy

Preface

The Hewlett Foundation's Philanthropy Program is committed to increasing the social impact achieved by nonprofit organizations and their donors. Over the past year, the Foundation and McKinsey & Company have been developing a roadmap to a nonprofit marketplace in which high-quality information about the performance and impact of nonprofit organizations flows freely among all stakeholders.

Our hypothesis is that access to high-quality information will lead donors to allocate funds more strategically to organizations doing the best work. We also believe that having better performance information will help nonprofit organizations operate more effectively and better fulfill their missions. Lastly, we believe that shared information will help all nonprofit sector stakeholders to engage in constructive conversations about organizational performance and social impact.

As part of our work to assess the current situation, identify best practices, and develop potential solutions to bridge the information gap, we

- Surveyed recent articles, books, and research papers on the U.S. nonprofit sector
- Examined hundreds of websites of nonprofit, for profit, and intermediary organizations

- Developed case studies of online marketplace development in the travel and financial sectors
- Reviewed lessons learned from the grants the Hewlett Foundation has made to strengthen the practice of philanthropy
- Conducted more than 50 interviews with donors, nonprofit leaders, foundation executives, and leading thinkers and observers of the nonprofit arena
- Held working sessions with key opinion leaders to generate ideas and test findings; these discussions are ongoing.

This discussion paper summarizes our perspectives on how the nonprofit sector might improve the flow of information over the next 5 to 10 years. We hope this paper will spur a lively dialogue among nonprofit organizations, foundations, individual donors, and the many intermediaries supporting the sector. Making the kinds of changes we are proposing is a huge, multi-year challenge and one that will require significant collaboration among a variety of stakeholders.

We recognize that pressure for better performance information and greater accountability will raise concerns that work that is not easily and quickly measured will be discounted. However, we firmly believe that improving the availability and quality of information can have an enormous positive impact on nonprofit organizations' ability to accomplish their goals.

We invite your feedback and welcome your active participation in an ongoing dialogue about the ideas and suggestions put forth in this paper. Simply go to www.givingmarketplaces.org and share your thoughts. We look forward to hearing from you.

Maisie O'Flanagan, McKinsey & Company
maisie_oflanagan@mckinsey.com

Jacob Harold and Paul Brest, William and Flora Hewlett Foundation
philanthropy@hewlett.org

Contents

	<i>page</i>
Executive summary	1
Introduction	7
Chapter 1: Improving information supply	13
Chapter 2: Increasing demand for information	23
Chapter 3: Strengthening intermediaries and interactions	33
Chapter 4: Jump-starting change	51
Closing thoughts	57

Executive summary

Each year, about \$300 billion in philanthropic giving is distributed to more than one million nonprofit organizations in the United States. While these organizations address some of the most challenging issues of our time and provide essential services to those in need, there is no way to gauge if resources are going to the highest performers. Giving decisions often flow as much from the heart as from the head, and donors typically have limited information about social issues and how best to address them. This paper aims to increase our understanding of the information available today, and to identify opportunities to improve information transparency, access, quality, and utility.

The nonprofit marketplace lacks the robust flow of timely, accurate information that is a hallmark of high-performing markets such as stock exchanges, commodity markets, or eBay. To bridge this gap, the sector must capture, analyze, distribute, and use information on nonprofit organizational performance and social impact more effectively. This is no small task. Data measuring outcomes for beneficiaries are notoriously difficult to capture. Moreover, there is no uniformly accepted way to measure social impact, and no single repository for information about nonprofit activities and results. This information-poor environment makes it difficult to have honest conversations about performance, limiting opportunities for learning and improvement.

The good news is that progress is happening. We see increasing agreement among nonprofit organizations on how to define and measure performance and impact, and increasing use of tools to measure, manage, and communicate progress and results. A growing number of nonprofits share this information online. High-net-worth donors and foundations are asking more questions about results and engaging in meaningful dialogue with their grantees about their work and aspirations. Intermediaries are aggregating nonprofit information and adding more value through interpretation and

benchmarking. And private-sector players like banks, search engines, and financial advisors indicate growing interest in philanthropy.

Creating an effective and efficient nonprofit marketplace requires commitment, continuing collaboration, and well-executed strategies. Participants must work together to make the transformation happen. To accelerate these changes, we suggest the following framework for action:

- Improving the supply of information assessing nonprofit organizational and operational performance (how well is the organization run?) and social impact (to what extent is the organization achieving its intended goals and outcomes?)
- Increasing donor demand for nonprofit performance and impact information
- Strengthening intermediary organizations that facilitate interactions between donors and nonprofits, provide value-adding services, and help improve donor decision-making and nonprofit performance.

Following is a summary of our perspective on each of these dimensions and our suggestions for improvement.

Improving the supply of information

In an ideal market, robust information about performance and impact would flow easily among nonprofits, donors, and intermediaries, supporting decisions about how to invest scarce resources for maximum effect and building a common understanding of what it takes to achieve lasting social outcomes. While nonprofits have made progress in recent years—with many embracing performance metrics and better communicating what they do and how well they are doing it—there is still much room for improvement:

- **Strive for outcomes data whenever possible, but use proxy information as well.** In the absence of quantitative, long-term impact studies, other types of information can provide meaningful insight into performance. For example:
 - Clear descriptions of the organization’s mission, strategies, and goals
 - Articulation of the logic connecting what the organization does with what it seeks to accomplish
 - Quantitative data on inputs, activities, outputs, and outcomes
 - Qualitative perspectives of volunteers, employees, beneficiaries, donors, and community members.
- **Actively use this information to drive performance and underpin candid, fact-based conversations about impact.** It is not enough to gather the right kinds of information; nonprofit leaders need to use that information to drive performance and make decisions that lead to greater social impact. They also need to share that information with colleagues and peers so that they and others can learn and improve.

- **Build nonprofits’ performance measurement and communication capabilities.** We need standards for performance assessment that are accepted across the nonprofit sector and capacity development to ensure all that stakeholders can utilize these standards. We also need better tools and frameworks for tracking and supporting nonprofit performance. Most of the available software is focused on fundraising, and impact-oriented software is often plagued with jargon or awkward user interfaces, and is poorly linked to nonprofit systems.

Increasing donor demand for information

Our work suggests a trend toward increasingly “strategic” or “outcome-oriented” philanthropy among some affluent donors, i.e., those with annual household incomes of \$200,000 or more. This group appears to be more likely to research causes online and more likely to work with intermediaries (e.g., financial and philanthropic advisors, donor-advised funds), thus making them easier to reach at scale.

There is good reason to believe that better information would result in more impactful choices—particularly among affluent donors and potentially across the board. Following are suggestions for increasing the demand for and use of performance information. In some cases, nonprofit organizations and intermediaries will need to take the lead in implementing these suggestions; in other cases, foundation leadership will be critical.

- **Support donor education, engagement, and networking.** Recognizing that philanthropy is both an art and a science, an increasing number of donors are willing to spend time and money to learn about good practices. Some donors also want to connect with their peers and experts. Several new programs are meeting this need by combining peer-based learning with expert advice, and encouraging collaboration, idea exchange, and active discussion of performance.
- **Better equip donors and their advisors with performance information.** The easier it is for donors to obtain good information, the more likely they are to use it to inform their giving decisions. To that end, we must make it more convenient to access this information; minimize the cost for donors and advisors; and help people understand how to use performance information.
- **Better connect donors and beneficiaries.** Recent research shows that a subset of donors wants greater engagement with beneficiaries and feedback on the impact of their gifts. Some nonprofits are responding to this desire by connecting donors directly with beneficiaries through online platforms.
- **Make it easier for donors to shift specific giving decisions to knowledgeable philanthropic portfolio managers.** Donors that lack the time or inclination to research causes and worthy organizations can leverage professional advisors or channel their giving through thoughtfully managed philanthropic portfolios.

- **Leverage foundation resources to influence donor behavior.** By publishing the information they use to make decisions about what social issues to address, how best to address them, and which nonprofits to fund, large foundations and federated giving organizations can help other donors think more strategically.
- **Invest in research that clarifies donors' motivations, needs, and decision-making criteria.** Surprisingly little is known about how to help donors make good decisions. A small investment in research would provide valuable insight on how nonprofits and intermediaries can best inform and engage donors.

Strengthening intermediaries and interactions

A diverse array of market intermediaries constitutes the infrastructure that connects nonprofit organizations and donors, helping the former to raise funds and improve their effectiveness and helping the latter to make decisions. These organizations are well positioned to strengthen the flow of performance information and funds, provided they can overcome scale constraints, facilitate information sharing and collaboration, and provide objective assessments of what works and what doesn't.

- **Aggregate and synthesize programmatic and performance information on nonprofit organizations.** Intermediaries should collaborate with nonprofits to determine the most relevant information to collect and a common set of performance metrics to track, and then support nonprofits in aggregating and analyzing that information. They should display social impact and organization performance information (including proxies) in addition to financial metrics, and also incorporate opinions from nonprofit beneficiaries, donors, employees, and experts. Lastly, they should make funding and revenue sources transparent, and allow users to sort and organize content in ways that they find useful. Segmentation of nonprofits by issue, geography, size, life stage, and goals will be essential both to enable meaningful performance comparisons and to create a level playing field for large and small as well as older and newer nonprofits.
- **Push this information to places where donors are already seeking information and managing their money.** It is possible to reach donors at scale through their financial advisors' offices, online banking platforms, search engines, and social networking sites.
- **Offer innovative, value-adding products and services that leverage the expertise of experienced funders.** The world's best foundations and federated giving organizations invest in building rich situation assessments, sound theories of change, and insightful due diligence into potential grantees. Finding ways to disseminate their insights to inform the decisions of "the rest of us" would have great value in steering funds to the best nonprofits.
- **"Make the call" on performance.** Unlocking the power of qualitative judgments from nonprofit beneficiaries and other stakeholders represents another opportunity

for intermediaries. Expert opinions and ratings have proved to be a helpful source of guidance in other sectors, with intermediaries aggregating perspectives into imperfect but highly useful indicators.

* * *

The actions highlighted above (and detailed in Chapters 1-3) will require collective action across the nonprofit marketplace as well as efforts by individual stakeholder groups. Chapter 4 lays out an action plan for various stakeholder groups—nonprofit organizations, individual donors, foundations, and nonprofit and for-profit intermediaries.

Our hope is that this paper will contribute to a rich dialogue on how we can best collectively improve the nonprofit marketplace. The challenges and opportunities before us require a robust exchange of ideas, and we welcome your input at www.givingmarketplaces.org.

Introduction

Nonprofit organizations tackle some of the great challenges of our time. They help feed the hungry, house the homeless, prevent AIDS and other diseases, narrow the achievement gap among disadvantaged youth, and protect vital ecosystems. By converting philanthropic donations of money, labor, and material into positive outcomes through sound strategies and hard work, the sector creates enormous value for society.

Recognizing the parallels with the capital markets in terms of information and investment flows, many observers have described philanthropy as the investment capital of the “nonprofit marketplace.”¹ In this marketplace, donors (the equivalent of investors) connect with nonprofit organizations (suppliers) to serve beneficiaries (end consumers), often with assistance from a variety of market intermediaries that provide information, transaction support, advice, education, and networks.²

The efficiency and effectiveness of this market is the subject of much debate. The market is highly fragmented, comprising roughly 1.1 million 501(c)(3) nonprofit organizations, many of which are dedicated to tackling similar problems. For example, as of 2005, people looking to support education in Des Moines, Iowa had 330 nonprofits to choose from. San Francisco givers who wanted to help the city’s homeless had more than 125 possibilities. And

1 Other names include the “social capital market,” “giving marketplace,” “philanthropic capital markets,” and “nonprofit capital market.” It is worth noting that Robert Putnam defines social capital more broadly as “features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit” in “Bowling Alone: America’s Declining Social Capital,” *Journal of Democracy* 6 (January 1995): 65-78.

2 This concept of the nonprofit sector as a marketplace is explored in greater depth in the following sources, among others: Michael E. Porter and Mark R. Kramer, “Philanthropy’s New Agenda: Creating Value,” *Harvard Business Review*, November-December 1999; Lucy Bernholz, *Creating Philanthropic Capital Markets: The Deliberate Evolution* (New York: John Wiley & Sons, Inc., 2004); William F. Meehan, Derek Kilmer, and Maisie O’Flanagan, “Investing in Society,” *Stanford Social Innovation Review*, Spring 2004; and Paul Brest, “Creating an Online Marketplace for Giving,” President’s Statement, The William and Flora Hewlett Foundation’06 Annual Report: <http://annualreport.hewlett.org/statement/index.asp>.

Snapshot of the social capital marketplace

How many stakeholders?	How much money?	How concentrated?
<ul style="list-style-type: none"> • 1.1 million 501(c)(3) nonprofit charities including religious organizations • 40 million individual donors • 70,000 independent, corporate, and community foundations • 400,000 corporate donors 	<p>Nonprofit charities received about \$306 billion in 2007</p> <ul style="list-style-type: none"> • Individuals contributed ~\$229 billion • Foundations contributed ~\$38 billion • Bequests contributed ~\$23 billion • Corporations contributed ~\$16 billion 	<ul style="list-style-type: none"> • 59% of individual giving from top 5% of donors • 58% of total revenues concentrated in largest 7% of nonprofits • 56% of donor-advised fund assets held by 10 community foundations and financial service companies

Source: Giving USA 2008; Foundation Center; Nonprofit Almanac 2008; National Center for Charitable Statistics

Portland, Maine had more than 450 charities focused on helping children.³ The potential for duplication and waste of human and financial resources is clear. Further, the cost of fundraising in the nonprofit sector, estimated at 24 cents per dollar, is very high compared with for-profit fundraising costs of 3 to 10 cents per dollar raised.⁴ A more serious critique, however, is that many believe funds are not consistently flowing to organizations that are most effective and have the greatest social impact.

The donor side is equally fragmented. In 2007, U.S. giving totaled \$306 billion, of which nearly 75 percent came from individuals/households and more than 12 percent from roughly 70,000 foundations.⁵ Despite the large number of donors, funders, and nonprofits, capital flows are highly concentrated: the top 5 percent of donors account for 59 percent of all giving, 56 percent of the assets invested in donor-advised funds are held by the top 10 providers, and the largest 7 percent of nonprofit organizations command 58 percent of revenues.⁶ This concentration suggests that influencing the largest nonprofit organizations and affluent donors is a good place to start.

One can best consider the efficiency of the nonprofit sector as compared with other markets. McKinsey analysis of efficient markets suggests that they share five main characteristics:⁷

- 3 "Too many ways to divide donations?," *The Christian Science Monitor*, June 20, 2005.
- 4 Nonprofit comparable: The Center of Philanthropy at Indiana University <http://www.philanthropy.iupui.edu/Research/fundraising-administration.aspx>. For-profit comparable: Average 2007 issuing costs of 3% (corporate bonds at 0.7%, IPOs at 6.6% and secondary issuances at 4.6% - *Dealogic*). Fully loaded cost of capital for S&P500 of 9.4% including expected rate of return for investors (2008 WACC for non financial S&P 500 companies, *Bloomberg*). One could argue that Sales and Marketing costs are more comparable: Dartnell estimated average costs across 30 industries to be 10% of revenues (*Dartnell's Sales Force Survey 1999*) while McKinsey's Consumer Packaged Goods Survey 2006 estimated total marketing costs for CPG companies to be 7.7% of revenues.
- 5 Giving USA 2008: The Annual Report on Philanthropy for the Year 2007.
- 6 Giving USA; Nonprofit Almanac 2008; National Center for Charitable Statistics.
- 7 Meehan, Kilmer, and O'Flanagan, "Investing in Society," *Stanford Social Innovation Review*.

- Robust information flows that provide investors with timely, accurate data and analysis of performance, benefits, and risks
- A rational allocation process, whereby participants direct their capital to stronger performers
- Cost-efficient processes that keep transaction costs low
- A broad range of investment mechanisms appropriate for different stages of growth and different risk appetites
- Flexible entry and exit, allowing participants to react quickly to market changes.

Our interviews and research revealed extensive opportunities to strengthen the nonprofit marketplace at the intersection of the first two characteristics described above: how information flows and capital allocated. While the three remaining characteristics could also be strengthened, this paper focuses on and attempts to initiate a dialogue around the first two opportunities.

WHAT TYPES OF INFORMATION MOVE THE NONPROFIT MARKETPLACE?

Social issues research	Information about problems in the social sector—root causes, proven solutions, context, and background
Social impact data	Results information to help measure whether a program intervention has achieved its targeted social impact and outcome(s)
Performance management data	Organizational and operational performance information to help measure the internal operations of a nonprofit or foundation—e.g., staff turnover, unrestricted net assets, and revenue diversification
Strategies	Descriptions of program strategies applied by donors and nonprofits (including goals, initiatives, metrics, targets, and timelines), which reflect lessons learned from past experience and opportunities for increased impact
Benchmarks	Analysis and data to help assess a program intervention or organization relative to comparable programs or peers
Best practices	Recommendations on “what works” in managing nonprofits or foundations; suggestions on how to develop and execute successful program interventions
Tools and templates	Models, checklists, dashboards, scorecards, and other guides that assist nonprofits, foundations, and donors in assessing their progress and strengthening their approaches

What would a highly efficient and effective nonprofit marketplace look like? Imagine a world where candid dialogue on nonprofits' successes and failures is the norm. Where individual and institutional donors, armed with better data and insights, have confidence in their ability to make wise choices and see their gifts lead to positive outcomes. Where hard-working, high-performing nonprofit organizations are rewarded for their excellence with stronger inflows that enable them to scale their best programs. Where intermediaries are better equipped to offer innovative services and products, build nonprofit and donor capabilities, and facilitate market interactions. And where all of these stakeholders openly address the issue of performance and collaborate to address complex issues.

Simply put, a more efficient and effective nonprofit market would direct more funds to solving the world's social problems faster and at a lower cost, thereby helping more people sooner. Reallocating just 10 percent of the current \$300 billion annual fund flow to the best performers would have a similar effect as raising billions in new funds—with nowhere near the same cost in fundraising time and energy.

Why now? Any discussion of movement toward a more efficient and effective nonprofit marketplace must recognize that the sector has lagged other industries and markets in terms of efficiency since its inception. Why do we believe that the market has the potential to evolve more rapidly in today's environment? Several factors—including better availability of information on nonprofit performance, a trend among affluent donors toward more demand for and use of information, more innovative and higher-value-added intermediaries, the power of the Internet to share information and foster networks focused on social issues, greater private-sector engagement in the nonprofit marketplace, and the emergence of high-profile strategic philanthropists such as Bill and Melinda Gates—suggest that the current environment is ripe for the acceleration of market efficiency and effectiveness.

What will it take to achieve this vision? This paper focuses on three drivers of better philanthropic capital allocation: the supply of information; the demand for information; and the presence of effective market intermediaries and interactions that link supply and demand (Exhibit 2). In addition to diagnosing the nonprofit marketplace's strengths and weaknesses in each of these areas, we highlight best practices and propose strategies for bridging the information gap.

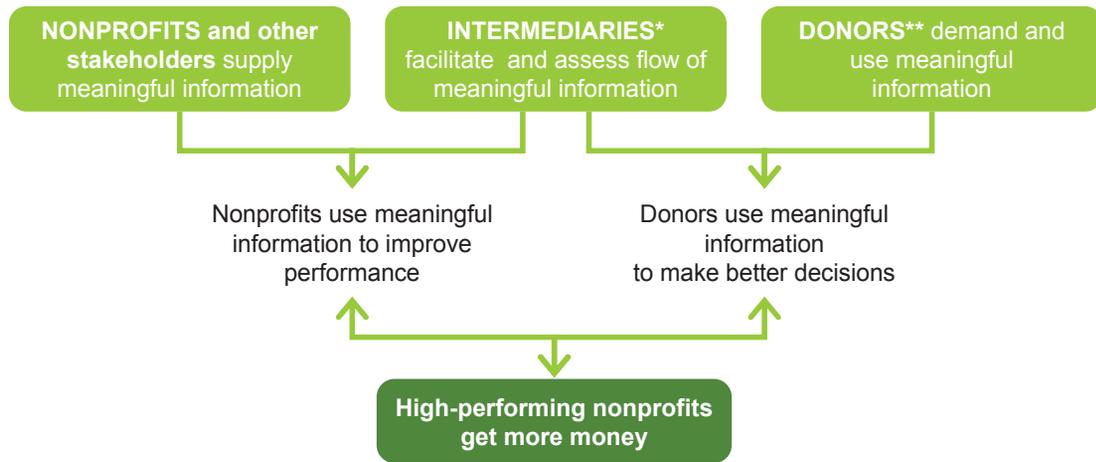
Chapters 1-3 focus on the current supply of, demand for, and exchange of information and offer suggestions for improvement along each dimension. Chapter 4, organized by stakeholder group, highlights the steps that nonprofit organizations, individual donors, foundations, intermediaries, and others can take to jump-start improvement in the quality and quantity of information. By design, this chapter is repetitive with the preceding chapters, but it is meant to provoke discussion about specific stakeholder priorities.

While we acknowledge that government contributions to the nonprofit sector are significant, we do not address the role of government in this paper. In many ways, government agencies

could function in a similar role as foundations in helping to improve information transparency. Nor do we specifically address innovations in funding vehicles (e.g., grants, program-related investments, low-interest loans) that offer potential to improve the efficiency of the market.

Exhibit 2

Nonprofit marketplace information framework



* Includes information providers, transaction providers, advisory services, education services, networks

** Includes individuals; independent, community, and corporate foundations; federated giving organizations; and government funders

Chapter 1

Improving information supply

In an ideal market, robust performance information would flow easily among nonprofits, donors, and intermediaries, supporting decisions about how to invest scarce resources for maximum impact and building a common understanding of what it takes to achieve tangible social outcomes. While some nonprofits have made progress in recent years—in terms of recognizing the value of performance metrics, defining the components of a performance measurement system, and better communicating what they do and how well they are doing it—there is still much room for improvement. This chapter describes the performance measurement challenge, assesses the current state of play, and offers recommendations for increasing the supply and quality of information on nonprofit organizational performance and social impact.

The challenge of performance measurement

When we talk about measuring performance in the nonprofit sector, we are referring to two things: (1) measuring the social impact of a nonprofit organization and (2) measuring the organizational performance of that entity. To assess social impact, we need evidence that the work done by a nonprofit links directly to achievement of its intended goals and outcomes. To assess organizational performance, we need evidence of how well a nonprofit is run.

Measuring outcomes and social impact is challenging. It can take years—or even generations—to see the real impact of a social capital investment. Moreover, it is extremely difficult to isolate the effect of one program from that of other factors and to establish true causality (i.e., whether an intervention directly causes an outcome, is merely one contributing factor among many, or is not related at all). For example, the effect of preschool attendance on high school graduation rates cannot be measured until a dozen years later. And many other factors—including the student’s academic experience

beyond preschool and his or her home environment—can contribute significantly to higher or lower graduation rates.

Even under the best of circumstances, measuring organizational performance is difficult as well. Leanly staffed and budgeted nonprofit groups often lack the capabilities, manpower, and money to gather, interpret, and act on performance information. While some nonprofits are tackling the challenge directly, others consider lessons or tools from the private or public sector to measure performance as not valuable or tough to “translate.” Nonprofit leaders appropriately assert that any investment in generating organizational performance information must yield better operations, higher revenue, and more social impact.

Lack of meaningful public data

There is no uniformly accepted way to measure social impact. Similarly, there is no standard for tracking underlying input, activity, and intermediate output data, and no single repository for information about nonprofit activities and results. Because these standards and resources do not exist, nonprofit stakeholders have defaulted to looking at what does exist: the information nonprofits submit annually to the Internal Revenue Service.

All 501(c)(3) nonprofits with gross receipts of more than \$25,000 are required to submit Form 990 to the IRS each year.⁸ The Form 990 is meant to reveal whether nonprofits are meeting the minimum requirements for tax-exempt status. It contains information about the organization’s operations, such as income, expense, vendors, top employees, and members of the board of directors.

The data reported in the Form 990 have limited value in terms of measuring organizational performance, and there is not enough information to allow readers to contextualize the data. For example, if a nonprofit reports high administrative costs, that in itself might be a sign of inefficiency. But it might also mean that the organization is investing wisely in strategic planning, evaluation systems, or staff training. There is no way to distinguish this from the Form 990 alone. Furthermore, nonprofits use different accounting methods to calculate and categorize operating expenses and different standards for accounting for fundraising. For example, the Nonprofit Fundraising and Administrative Cost Project found that 37 percent of nonprofit organizations with private contributions of \$50,000 or more reported no fundraising or special event costs on their 2000 Form 990s.

Yet the Form 990 is the only publicly available source of data for all nonprofits. GuideStar, a nonprofit itself, provides free online access to all 990s.⁹ Other nonprofit intermediary organiza-

8 According to the National Council of Nonprofit Associations’ 2006 report on “The United States Nonprofit Sector,” as of 2003 there were 288,150 501(c)(3) organizations—both charitable nonprofits and private foundations—with gross receipts over \$25,000. 94% of these were nonreligious organizations.

9 The Nonprofit Fundraising and Administrative Cost Project (joint initiative of Center on Nonprofits and Philanthropy, Urban Institute and Center on Philanthropy, Indiana University) “What We Know About Overhead Costs in the Nonprofit Sector,” February 2004.

tions depend on that data as a primary source. In the absence of better information, individual donors, foundations, advisors, and the news media tend to fixate on operating expenses and fundraising ratios or reports of financial abuses or scandals at unrelated nonprofits¹⁰ to form their perceptions of nonprofit fiscal responsibility.

The newly revised Form 990, which will be required as of tax year 2008, provides much more context than the old form, including information about the mission and work of the organization, as well as details about its governance practices. Even with these improvements, however, the Form 990 will not be an adequate source for robust analysis of the quality of an organization or its social impact.

Pockets of progress

Despite the lack of a standard for evaluating nonprofit success and the lack of meaningful, comparable performance information, we do see two positive trends. First, there is increasing alignment on how to define and measure organizational performance and social impact. Second, a growing number of nonprofit organizations are using better understood and proven tools to measure, manage, and communicate their results.

Increasing agreement on how to define and measure performance and impact

Our interviews reflected growing agreement in the field on how to define performance measurement concepts and related terms (e.g., inputs, activities, outputs, and outcomes) and tools (e.g., impact models, dashboards, and scorecards).¹¹ Donors and

A CALL FOR BETTER INFORMATION

“Even simple measures are not widely reported, like we got X donations, and we took care of 1,000 children at a cost of \$80 a child, which is less than \$120 a child spent by comparable organizations. Even that amount of reporting would be very useful, but it is not the norm.”

—Kash Rangan, *Cofounder, Harvard Business School Social Enterprise Initiative*, quoted in *HBS Bulletin*, June 2008

“When we looked at traditional measures of nonprofit efficiency, such as ratings on Charity Navigator, many of these groups [12 of the highest-performing nonprofits in the sector] didn’t score so well. A few garnered only one or two stars out of five. These ratings Web sites can tell you which groups have the lowest overhead ratios, but they can’t tell you which have had the most impact.”

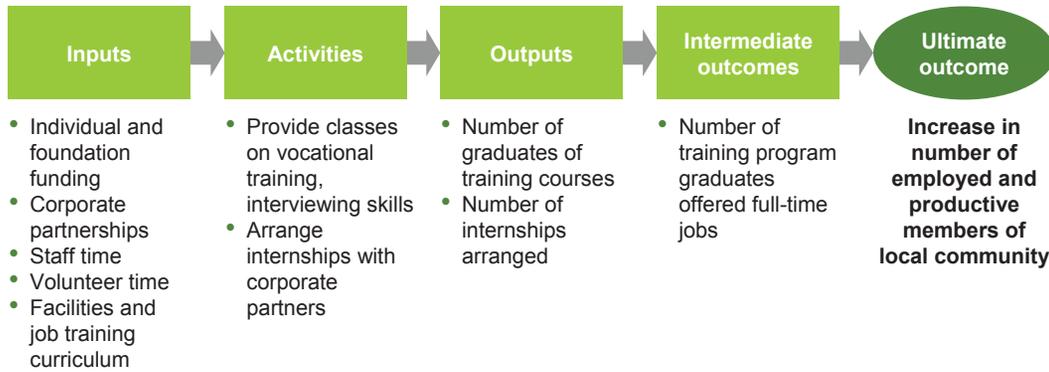
—Leslie Crutchfield and Heather McLeod Grant, *Forces for Good: The Six Practices of High-Impact Nonprofits*, Jossey-Bass, 2008

10 Notably, the United Way CEO’s fraud conviction in the early 1990s; see “William Aramony Is Back on the Streets,” *The Non-Profit Times*, March 1, 2002.

11 The Edna McConnell Clark Foundation shares its approach to performance measurement, along with specific assessments of results for all its grantees, at <http://www.emcf.org/results/index.htm>. The WK Kellogg Foundation’s Evaluation Handbook describes the foundation’s philosophy and approach to performance measurement and social impact measurement, and its Logic Model Development Guide offers guidance on developing theories of change and logic models: <http://www.wkkf.org/default.aspx?tabid=75&CID=281&NID=61&LanguageID=0>. In addition, see the Rockefeller Foundation’s “Double Bottom Line Project Report: Assessing Social Impact in Double Bottom Line Ventures” (<http://www.rockfound.org/library/0104double.pdf>) and the Redstone Strategy Group’s “Making an Impact: Formalizing Outcome-Driven Grantmaking: Lessons from the Hewlett Population Program” (<http://redstonestrategy.com/documents/Making%20an%20Impact.pdf>).

A simplified nonprofit logic model: job training example

A logic model* articulates a nonprofit's proposed activities, outputs, and desired impact



* Alternatively termed an impact model or theory of change

their grantees increasingly understand the key characteristics of useful performance data—measurable, meaningful, actionable, and affordable. Having this shared viewpoint and vocabulary is critical, noted one of our interviewees: “At least we are no longer debating what a mission, output, and outcome are. We have agreement on what we are trying to achieve and are focused on moving the needle.”

Exhibit 3 provides a simple example of a nonprofit logic model (also called an impact model or theory of change), which illustrates the chain that links an organization’s interventions to the outcomes it seeks to accomplish. The logic model is the equivalent of a for-profit company’s customer value proposition—namely, what the organization does that is unique and meaningful and why. The more tested the logic model, the sounder its use as a basis for strategy.¹² In this simplified case, the nonprofit provides job training to high school students in order to help ensure that they can land gainful employment upon graduation and ultimately become productive members of society.

Growing use of tools to measure, manage, and communicate results

The United Way, Boys and Girls Clubs of America, College Summit, and KaBOOM! are among the growing number of nonprofits using dashboards or scorecards to measure their results and communicate with key stakeholders. Performance dashboards are not “one size fits all”: every organization needs to track metrics that are relevant to its own mission, activities, output and outcomes. However, effective dashboards share the following characteristics:

12 Paul Brest and Hal Harvey, *Money Well Spent: A Strategic Plan for Smart Philanthropy* (New York: Bloomberg Press, 2008).

- They contain meaningful, timely, accurate data
- They are rich with information but not overwhelming
- They help nonprofit organizations make short- to medium-term operational decisions with a clear eye toward improving long-term outcomes
- They flag issues or problems as well as accomplishments.

DASHBOARD EXAMPLE: COLLEGE SUMMIT

College Summit, which works with high schools to increase college enrollment among low-income students, rigorously tracks program inputs and outputs as well as outcomes. Since college enrollment can only be tracked annually, College Summit provides its school partners with monthly data on key indicators (such as the percentage of the senior class completing college lists, personal statements, and sending applications).

The organization shares much of its dashboard data at an aggregate level on its website, including:

- Output measures
 - Percent of students sending college applications
 - College enrollment rates for student peer influencers trained by College Summit vs. national average for low-income students
- Evidence of reach and growth activity
 - Number of students served
 - Number of teachers and counselors trained
 - Alumni volunteer participation rates
 - Growth in volunteer hours
- Examples of specific results achieved in partner high schools.

Source: <http://www.collegesummit.org/about/results-and-metrics/>

The key factor in designing a dashboard is deciding what kind of data to collect and how to use it. According to Jason Saul, author of *Benchmarking for Nonprofits: How to Measure, Manage, and Improve Performance*: “A dashboard could just be a fancy report that says nothing if the data isn’t meaningful. It’s easy to create a database and plug in numbers. It’s much harder to create performance metrics that can be measured against desired results and used to make real-time programmatic, financial, or managerial decisions.”¹³

13 Quoted in “Checking the Dashboard,” by Debra E. Blum, *The Chronicle of Philanthropy*, October 12, 2006: <http://philanthropy.com/free/articles/v19/i01/01mg0601.htm>.

The set of metrics an organization uses internally to measure performance and impact will typically be broader and more detailed than those it chooses to communicate with donors and the public at large. Still, we are seeing greater transparency by nonprofits in their external communications. Of the top 200 U.S. nonprofit organizations (ranked by revenues), more than 60 percent offer some information about performance and impact, although the quality of that information varies considerably.¹⁴

Suggestions for improvement

While these developments are encouraging, we still have a long way to go in terms of the breadth and depth of information collected, analyzed, and published and the quality of insights derived from the data. Following are some broad suggestions for improvement.

Strive for outcomes data, but use proxy information as well

Nonprofit organizations should strive for the “gold standard” of evidence-based research on outcomes and social impact whenever possible (Exhibit 4). When that’s impossible, however, they should aim for the “silver standard” of targeted organizational performance and proxy information. Going back to the preschool example cited earlier, it is possible to track students’ elementary and middle school performance as proxies or interim measures of academic success while waiting for eventual data on high school graduation rates.

Exhibit 4

Performance information: gold vs. silver standard



14 Team analysis based on random sampling of 150 of *Forbes* Top 200 charities (http://www.forbes.com/philanthropy/2007/11/20/largest-charities-investing-pf-philo-07charities-cx_wb_1121charity.html) and on data from *Forbes*, GuideStar, and individual websites.

Useful proxies include both financial and nonfinancial factors—thereby providing more insight than the Form 990 alone. Ideally, organizations should communicate both their targets and their actual performance against those targets. Examples of proxies include the following (see also the sidebar on types of information in the Introduction):

- Descriptions of an organization’s mission, strategy, goals, and impact model
- Descriptions of the inputs and activities or programs sponsored by the organization and the outputs thereof (e.g., number of beneficiaries served)
- Financial metrics (e.g., fundraising costs per dollar raised, unit cost for each charitable good or service provided)
- Organizational metrics (e.g., staff size, volunteer pool) and profiles of partners, the management team, and funders)
- Survey and assessment data from beneficiaries, peers, field experts, and donors.

Simply setting, tracking, and communicating these metrics and targets does not necessarily mean that an organization is effective. However, the absence of such information suggests an inadequate focus on performance improvement and driving social impact

Exhibit 5 illustrates a broad range of potential proxy information and the extent to which it is “knowable,” “publicly available,” “easy to get,” and “analyzed.” Our research revealed that proxy information is surprisingly knowable: by investing modest time and energy, a nonprofit organization can develop helpful data. Further, much information is publicly available—that is, it exists and is possible to track down in annual reports or online. However, despite advances by GuideStar and other organizations, far less information has been aggregated and made easy to access through a common source. Most difficult of all is surfacing data that have been synthesized and analyzed to yield insights about performance or impact. In this last case, what’s needed is an independent third-party judgment on whether the data are high quality and reflect strong performance.

Availability, accessibility, and quality of proxy information

● Yes
● No

	Type of information	Is the information . . .			
		Knowable?	Publicly available? ¹	Easy to get? ²	Analyzed? ³
Program and goals	Mission	●	●	●	●
	Strategy	●	●	●	●
	Logic model ⁴	●	●	●	●
Management and support	Management team/board	●	●	●	●
	Peer networks	●	●	●	●
	Funders	●	●	●	●
Feedback	Beneficiary feedback	●	●	●	●
	Expert/peer/donor ratings	●	●	●	●
	Awards	●	●	●	●
Metrics	Output metrics (e.g., # of meals served)	●	●	●	●
	Organization metrics (e.g., staff size, turnover)	●	●	●	●
	Financial metrics (e.g., fundraising costs)	●	●	●	●

¹ Publicly available through a nonprofit's annual report or website
² Searchable and easy to get online through aggregated website(s)
³ An independent third party has analyzed the information
⁴ Alternatively termed an impact model or theory of change

Actively use information to drive performance and underpin fact-based conversations about impact

It is not enough to gather the right kinds of information; nonprofit leaders need to use that information to drive performance and make decisions that lead to greater social impact. Every nonprofit should have a robust performance management system. A good system sets annual targets, gathers data on how well those targets are being met, triggers periodic discussions on what needs to be done to address emerging shortfalls, and rewards leaders that achieve goals important to the mission. A periodic review of the strategies underlying the targets is an equally essential element of a performance-oriented culture.

Nonprofits should also use this information to engage with stakeholders in a candid dialogue about successes, failures, and lessons learned. Just as for-profit companies typically track a broad range of metrics to drive operational performance and a subset of metrics to report

to shareholders or investors, nonprofits should manage to a broader set of metrics than they communicate externally. While certain metrics are very useful in managing programs (e.g., per-intervention cost, beneficiary satisfaction), others are most helpful for managing the organization (e.g., staff turnover, supplier information).

More knowledge about how nonprofits work and how well they are achieving their mission can help donors allocate scarce philanthropic resources to where they will do the most good. For example, questions about operating expense should focus on how dollars drive impact, not just on financial operating ratios. And donors should be open to higher operating expenses when that investment translates into greater impact over time.

In fact, a recent study by the Center for High Impact Philanthropy at the University of Pennsylvania found that the majority of the high-net-worth philanthropists interviewed were reluctant to ask nonprofits for data on their effectiveness: “Pre-allocation, they fear raising expectations that they will donate before they’ve even had time to assess the organization. Post-allocation, they fear being labeled ‘high maintenance’ or distrustful of the executive director or senior staff with whom they often have a relationship.”¹⁵ To fully play their part in creating the kind of results-focused donors that will help good nonprofits achieve their missions, nonprofits should go out of their way to make inquisitive donors feel comfortable asking impact-oriented questions.

Build nonprofits’ performance measurement and communication capabilities

While efforts by individual nonprofits and donors to capture performance and impact information are encouraging, we need two things to really move forward: standards for performance assessment that are widely accepted across the nonprofit sector and capacity development to ensure all that stakeholders can utilize these standards. Here are a few examples of organizations that, with funder support, are helping to build nonprofit strategic planning and performance measurement capabilities:

- **The Urban Institute** partnered with the **Center for What Works** to produce a framework for tracking nonprofit performance through their Outcome Indicators Project. They created a taxonomy of outcomes for 14 program areas, ranging from affordable housing to prisoner re-entry. For each program area, there is a sample mission statement, an outcome sequence chart, a table of candidate program-specific outcomes, and data collection strategies with suggested data sources. The goal: to support a shared understanding of what ought to be measured and reported.¹⁶

15 Kathleen Noonan and Katherina Rosqueta, “I’m Not Rockefeller: 33 High Net Worth Philanthropists Discuss Their Approach to Giving” (The Center for High Impact Philanthropy, School of Social Policy & Practice, University of Pennsylvania, September 2008). This report defines HNW philanthropists as those with the capacity to give \$1 million/year.

16 <http://www.urban.org/center/cnp/Projects/outcomeindicators.cfm>. See also “Building a Common Outcome Framework to Measure Nonprofit Performance,” December 2006 at http://www.urban.org/UploadedPDF/411404_Nonprofit_Performance.pdf

- **Keystone**, which describes itself as “committed to enhancing the effectiveness of organizations working to solve important social and environmental problems,” helps nonprofits to plan, monitor, evaluate, and communicate their work. Keystone’s tools for “Impact Planning and Learning” help nonprofits clarify their theory of change, design outcome-based strategies and indicators of success, collect quantitative data and qualitative feedback from constituents, and report to stakeholders about their learning and impact.¹⁷
- The **Continuous Progress Strategic Services**, a consulting practice within the Aspen Institute’s Global Interdependence Initiative, helps foundations and nonprofits plan and evaluate policy advocacy efforts. Its Web-based guides help practitioners make realistic predictions about what they can accomplish, capture information and make mid-course corrections, and craft effective messages.
- **Nonprofit consultants** (such as Blueprint R+D, the Bridgespan Group, Compass Point, FSG Social Impact Advisors, Root Cause, and Wellspring), and practices within for-profit consulting firms help nonprofit clients develop strategies, business plans, and performance management tools and systems. While these firms vary in their approaches, they all help nonprofits allocate their human and financial resources against concrete goals, strategies, and outcomes and better communicate that focus externally. Several make an effort to disseminate their lessons learned, best practices, and tools broadly through their websites.

17 Keystone shares these tools at its website: <http://www.keystoneaccountability.org/tools>.

Chapter 2

Increasing demand for information

“There are different kinds of donors and many different types of donor behavior. At what point in their decision-making process do these various groups of donors seek more information? What kinds of information do they need? What tools and functionality are important to them? What are the barriers before they act on their decision? We have a lot to learn.”

– Bob Ottenhoff, *GuideStar*

Individual donors give for a variety of reasons, often based on their emotional response to a social challenge, or their relationships, experiences, and affinities. Our research suggests a trend toward increasingly “strategic” or “outcome-oriented” philanthropy among affluent donors, who account for nearly one-third of all giving.¹⁸ This group is more likely to research causes online and more likely to work with intermediaries (e.g., financial and philanthropic advisors, donor-advised funds). Moreover, some affluent donors appear to be increasingly inclined to take an investor’s perspective of the nonprofit marketplace and to be influenced by high-quality performance information. Our hypothesis, therefore, is that while performance information has the opportunity to influence all donors, targeting affluent donors is a good place to start.

This chapter briefly reviews what we know about donor motivations and decision-making processes and highlights the need for more up-to-date research. It then describes recent evidence that a subset of affluent donors—along with financial institutions

18 Strategic philanthropy is characterized by clarity about one’s goals and the desire to have impact in achieving them. This requires specifying indicators of success before beginning a philanthropic project, designing and then implementing an empirically based plan commensurate with the resources committed to it, and attending to milestones to determine whether one is on the path to success in order to make midcourse corrections. See Paul Brest and Hal Harvey, *Money Well Spent: A Strategic Plan for Smart Philanthropy* (New York: Bloomberg Press, 2008). In this paper we define affluent donors as those with household incomes of \$200,000 or more. Data from Giving USA 2007: The Annual Report on Philanthropy for the Year 2006

“There are three ways to think about how donors might change their behavior with greater access to performance information: (1) all donors will become exclusively rational givers across their portfolio, which is unlikely; (2) some donors will become rational givers across their portfolio; or (3) more donors will become more rational about part of their portfolio. Where are we going to end up? My guess is [some combination of] 2 and 3, which can deliver huge value for the sector.”

– *Philanthropy service professional*

“Currently, accessibility, not quality, drives the use of information by high-net-worth philanthropists. When deciding where to give, most [of our interviewees] got their information from the easiest sources to access: their personal acquaintances and the mainstream media, neither of which is especially well positioned to provide reliable data on effectiveness. Many organizations that have enjoyed good buzz and press coverage have later been shown to under-deliver on results. Conversely, many effective programs labor in relative obscurity.”

– *Kathleen Noonan and Katherina Rosqueta, Center for High Impact Philanthropy, “I’m Not Rockefeller: 33 High Net Worth Philanthropists Discuss Their Approach to Giving,” University of Pennsylvania, 2008*

that serve them—are looking for more and better performance information from nonprofits. Lastly, it proposes several strategies for supporting continued growth in the demand for and use of such information.

What motivates donors is not well understood

The most comprehensive analysis of what motivates individual donors, conducted 14 years ago, suggests that the most donors are less concerned with maximizing the social impact of their capital than with other factors. As shown in Exhibit 6, *The Seven Faces of Philanthropy* study grouped individual donors into seven attitudinal segments.¹⁹ Only 15 percent of donors—called “investors”—identify the “best” investment option by researching and comparing nonprofits’ performance, as they would if they were picking a stock.

Recent evidence suggests affluent donors want to know more about impact

Some donor segments will likely always allocate all or part of their charitable portfolios based on emotion. However, recent studies, along with anecdotal evidence, seem to suggest that affluent donors would value more information about nonprofit performance and the impact of their giving. According to a 2006 study conducted by the Center on Philanthropy at Indiana University and sponsored by Bank of America, the desire to meet critical needs, give back to society, and achieve impact all rank highly for affluent donors (Exhibit 7)²⁰ In particular, donors say that their decision to make subsequent donations depends heavily on their ability to determine the impact of their gift and achieve a better return on their social investment. Another survey, conducted by the Better Business Bureau’s Wise Giving Alliance, found that 80 percent of respondents with incomes of \$100,000 or more view a nonprofit’s willingness to provide performance information as a “very important” factor in their decision to give.²¹

19 Russ Allen Prince and Karen Maru File, *The Seven Faces of Philanthropy: A New Approach to Cultivating Major Donors* (Jossey-Bass, 1994).

20 The Center of Philanthropy at Indiana University, Bank of America Study of High Net-Worth Philanthropy: Initial Report (October 2006), 6-7.

21 BBB Wise Giving Alliance, Donor Expectations Survey (Princeton, NJ: Princeton Survey Research Associates International, September 2001).

Donor segmentation: the seven faces of philanthropy

Percent of all individual donors

Communitarian	<ul style="list-style-type: none"> • Gives to “charities that affect my community” • Appreciates personal recognition for effort 		26
Devotee	<ul style="list-style-type: none"> • Gives primarily to religious organizations • Engages with organizations that share moral outlook 		21
Investor	<ul style="list-style-type: none"> • Gives to impact-oriented entities • Conducts research prior to giving 		15
Socialite	<ul style="list-style-type: none"> • Gives to charities based on peer network • Craves social opportunities but less interested in day-to-day operations 		11
Repayer	<ul style="list-style-type: none"> • Gives to charities they have directly benefited from • Appreciates opportunity to honor someone important to them 		10
Altruist	<ul style="list-style-type: none"> • Gives according to compelling social causes • Responds to urgency but not interested in active role 		9
Dynast	<ul style="list-style-type: none"> • Gives to well-run charities that provide information and interaction with donors • Seeks to be influential in areas outside parents' interest 		8

Source: *The Seven Faces of Philanthropy*, Prince and File, 1994

Our interviews with philanthropy service professionals, foundation officers, and financial institutions also reflect a growing appetite among donors for performance-related information, as well as frustration with what is available today (see sidebar). Indeed, recent research on 33 high-net-worth philanthropists indicated that many “expressed confusion around how to assess the impact of their gifts. On the one hand, they rated the importance of impact data as high. On the other hand, those who had seen evaluations did not find them useful, possibly indicating the limitations of current practices for assessing nonprofit effectiveness.”²²

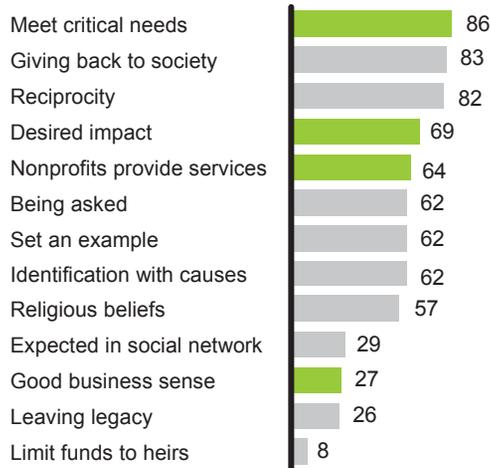
22 Kathleen Noonan and Katherina Rosqueta, “I’m Not Rockefeller: 33 High Net Worth Philanthropists Discuss Their Approach to Giving” (The Center for High Impact Philanthropy, School of Social Policy & Practice, University of Pennsylvania, September 2008).

What motivates high-net-worth donors?*

■ Impact-driven

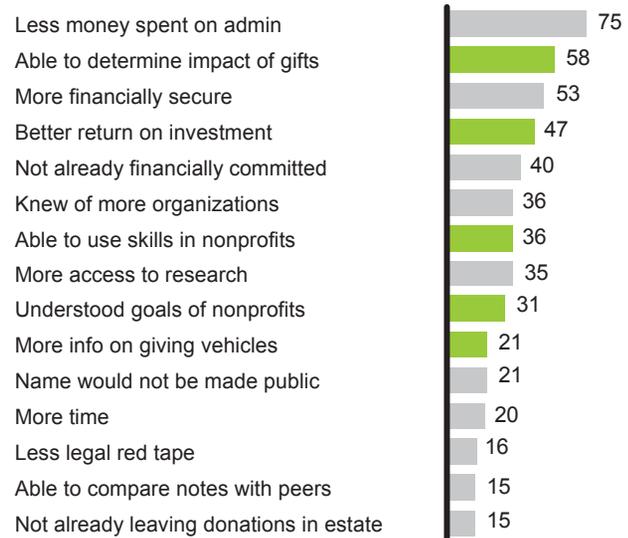
Why give?

Important motivations for charitable giving by HNW households (percent)



Why give again?

Percentage of HNW households reporting that they would give more to charity if the following occurred



* Defined as households with incomes greater than \$200,000 or assets in excess of \$1 million
 Source: The Center on Philanthropy at Indiana University, *Bank of America Study of High Net Worth Individuals: Initial Report, 2006*

In light of this demand for more and better performance information, financial institutions with significant donor services—including JP Morgan Chase, Wells Fargo, Bank of America, UBS, and Schwab Charitable—are expanding their philanthropy-related products and advisory services, offering more donor education forums, collecting nonprofit performance information, and/or adding professional staff with nonprofit expertise. Several financial executives interviewed were enthusiastic about partnering with nonprofit-sector intermediaries and foundations in an effort to gain access to more information on nonprofits and better serve their high-net-worth customer base.²³

Suggestions for improvement

There is good reason to believe that better information would result in more impactful choices by individual donors. As one financial services professional put it, “I believe performance information is like e-mail was in the ’80s. Donors don’t know they want it because they can’t imagine it, but they will find it very useful once it’s widely available.”

²³ As this paper was published, a severe credit crisis was roiling the financial markets. While it is impossible to predict how the crisis will play out, it may reduce the near-term capacity of some financial institutions to expand their philanthropic services.

Following are broad suggestions for fueling donor demand for performance information. In some cases, nonprofit organizations and intermediaries will need to take the lead in implementing these suggestions; in other cases, foundation leadership will be critical.

Support donor education, engagement, and networking

Recognizing that philanthropy is both an art and a science, an increasing number of donors are willing to spend time and money to learn about good practices. In addition to seeking better information, some also want to connect with their peers and experts. One philanthropy services professional told us, “The #1 thing clients share with me is how isolated and disconnected they feel—isolated from credible information and thought partners.” According to the Center for High Impact Philanthropy’s recent research, high-net-worth participants “obtain the majority of information related to giving from peer networks of friends, business associates, and, most importantly, other philanthropists.”²⁴

Several programs meet this need by facilitating peer learning, collaboration, idea exchange, and feedback on nonprofit performance. Among the many organizations helping to educate donors are the Institute for Philanthropy, The Philanthropy Workshop West (TPW West), Social Venture Partners (SVP), the Global Philanthropists Circle of Synergos Institute, Environmental Entrepreneurs (E2), The Global Philanthropy Forum, and the Women Donors Network.²⁵ These groups bring donors together in workshops, seminars, and networking sessions to learn from experts and one another how to strengthen their philanthropy.

The feedback on these programs is generally positive. As one donor told us, “Before joining TPW West, I was starved for knowledge and tips for how to become more strategic. I gave to a friend’s projects and people who asked, but wasn’t moving the needle.” Another said, “I didn’t even know what questions to ask of a nonprofit before joining SVP. I used to go to board meetings and add no value. Now I am better educated on the

PERSPECTIVES ON HOW DONOR MOTIVATIONS ARE CHANGING

“One thing is clear, there is a trend toward more thoughtful giving....Clients are much more interested than ever before in seeing that the money they are giving is being given well.”

“The days of giving a dollar to your church and saying ‘I’m sure you’ll do fine with it’ are gone. Donors want to know where their money is going.”

“Donors want to go deeper and are asking us to help them have impact, not just write a check.”

“After the tsunami, people wondered, ‘Where did my money go? Did it help anyone?’ And they’re not going to give again because they never heard from those charities again.”

– Interviews with philanthropy service professionals, foundation officers, and financial service providers

24 Noonan and Rosqueta, “I’m Not Rockefeller.”

25 Others include the Association of Small Foundations and the National Center for Family Philanthropy.

DONORS AND INTERMEDIARIES WANT EASY ACCESS TO INFORMATION

“As a donor, I would love the ability to get online, search for my issue, say autism, and have a one-stop shop where I can quickly see the best organizations in the country and what their impact has been.”

“We are a long way off from (a) having impact metrics and (b) having people care. So if we can find things that are mass customizable and that donors already care about—for example, how they are treated when they make a donation—you would immediately have a massive amount of information.”

“It is critical that we give donors the power to flip the funnel and make it a megaphone, and put the megaphone in the hands in the donor.”

—Interviews with individual donors and market intermediaries

obstacles nonprofits face and better equipped to help them in a meaningful way.” According to the authors of the aforementioned research from the Center for High Impact Philanthropy, one fundamental finding was that nonprofits and intermediaries have to make it easier to ask about performance and donors need to be better equipped and more confident to do so.

Better equip donors and their advisors with performance information

The easier it is for donors to obtain good information, the more likely they are to use it to inform their giving decisions. Our interviews suggest that an increasing number of donors and their advisors (e.g., estate attorneys, financial planners, accountants, philanthropic advisors, and family office managers) would welcome ready access to comprehensive, comparative data through online search engines. Many donors and donor advisors expressed frustration that information was hard to access or inadequate.

Here are examples of intermediaries that provide high-quality information to assist donors:

- **DonorEdge**, an online resource designed by the Greater Kansas City Community Foundation, has compiled a rich set of meaningful information, with the aim of connecting donors to the causes that are important to them. DonorEdge asks participating nonprofits to define short- and long-term success, describe how they monitor progress, and provide evidence of past success. It provides training and direct support to nonprofit leaders in filling out these fields. Because DonorEdge is an important channel to funders, nonprofits have a strong incentive to provide high-quality information. In addition, DonorEdge staff help to “close the loop” by training donors on how to use this information and give donors feedback on their portfolios and the performance of their “investments.”
- **Acumen Fund**, a global nonprofit venture fund that uses entrepreneurial approaches to solve the problems of global poverty, has announced the 2009 launch of a **Portfolio Data Management System** designed to help foundations and grant makers measure social impact.

This new information platform aggregates and benchmarks financial, operating, social, and environmental performance metrics at the portfolio and sector level, allowing for meaningful time-series comparisons of peer organizations.²⁶

- **Social Impact Research (SIR)**, a division of the nonprofit **Root Cause**, aggregates, analyzes, and disseminates information about social issues and the performance of nonprofit organizations so that donors and their advisors can make better-informed decisions. Modeled on private-sector equity research firms, SIR leverages research from government agencies, grant-making organizations, consultancies, and think tanks, as well as inputs from academic and practitioner experts. It reaches donors primarily through relationships with advisors.
- Financial services firms such as **Wells Fargo** and **JP Morgan Chase** and nonprofits like **Rockefeller Philanthropy Advisors** offer their high-net-worth clients advisory services such as research on social issues, due diligence on potential grantees, confirmation of grantees' 501(c)(3) nonprofit status, and advice on a donor's giving strategy. These advisory services supplement the money management and operations support (e.g., grant payment processing, tax filing, record-keeping) these firms already provide their clients. This "one-stop shopping" enables clients to maintain their donor-advised funds or small private foundations at the same institution that manages their personal assets. It also facilitates consolidated asset management and tax planning, and provides an attractive alternative to staffing a foundation.

Better connect donors and beneficiaries

Recognizing donors' desire for greater engagement and feedback on the impact of their gifts, a new breed of nonprofit organizations is connecting donors directly with beneficiaries, particularly through online platforms. While the two organizations cited here deal with very small donations and do not go so far as to provide evidence of their ultimate social impact, they do provide information and interactions with beneficiaries that donors seem to value and therefore represent a step in the right direction. Their success, as well as our interviews, seems to suggest that creating tangible connections with beneficiaries increases donors' trust, passion, and willingness to give.

- **Kiva** is a nonprofit person-to-person micro-lending website that enables donors to make loans of as little as \$25 directly to entrepreneurs in developing countries. Kiva donors have loaned over \$42 million to entrepreneurs, with a 99.7 percent repayment rate. Donors are able to view the entrepreneur's progress in an online e-mail journal and track repayment schedules.
- **DonorsChoose** brings together teachers in need of classroom resources with those willing to fund specific projects or purchases (e.g., \$25 buys pencils for 6 months). It requires recipients to provide feedback to donors: the donor receives a personal

26 Claire Cain Miller, "A New Tool for Venture Philanthropists," *The New York Times*, September 25, 2008.

note with photos from the teacher and students. This encourages repeat giving and connection with the “impact” of the work. Moreover, such transparency is rewarded: DonorsChoose has found that 90 percent of donors are willing to pay an optional “fulfillment fee” to cover the cost of its matchmaking services.

Make it easier for donors to shift specific giving decisions to knowledgeable philanthropic portfolio managers

In addition to demanding more performance information, donors have the opportunity to leverage professional advisors or channel their giving through thoughtfully managed philanthropic portfolios.

- **Field-of-interest funds** allow donors to create a fund, designate an area of charitable interest, and then delegate due diligence, grantee selection, and monitoring to a community foundation. Program officers with deep sector expertise research and prepare a strategy and grant spending plan, and the board of the community foundation confirms that proposed grants meet the fund’s purpose and any other guidelines set by the donor. Grants are made in the name of the specific fund. Federated givers such as the United Way offer similar opportunities for donors to support specific issues in a given geography. Gifts are pooled and then allocated by knowledgeable program staff to a portfolio of grants supporting local nonprofits working on the chosen issue.
- **Acumen Fund** invests in enterprises serving low-income people on behalf of more than 130 donor “partners” who have donated \$10,000 or more. Donors can elect to have their funds deployed by sector (health, water, housing, and energy) or geography (India, East and South Africa, Pakistan). Donations are managed as a portfolio. Knowledgeable portfolio managers conduct due diligence, structure the funding relationship, and monitor progress against specific performance metrics. Donors do not receive a financial return on funds contributed; all returns revert to the Acumen Fund for future charitable investment. However, donors receive quarterly reports on portfolio strategy, specific recipients, and performance, just as they would from a money manager.
- **Ploughshares Fund** is a public grant-making foundation²⁷ that pools contributions from individuals and directs those funds to initiatives aimed at preventing the spread of nuclear weapons. Large and small donors benefit from having their contributions deployed by “the smartest people with the best ideas for building a safer, more peaceful world.” In addition to having experts guide grant-making in a complex program area, the Ploughshares structure allows individual donors to make fully tax

27 Legally classified as “public charities,” public foundations are publicly supported nonprofit organizations predominantly funded by contributions from individuals, corporations, governmental units, and private foundations. In contrast to most public charities, public foundations focus more on grant-making than on providing direct charitable services.

deductible gifts while supporting direct and grassroots lobbying, make grants globally, and support individuals as well as organizations.

- A new crop of organizations—including **SeaChange Capital Partners**, **NFF Capital Partners**, and the **Growth Philanthropy Network**—are helping nonprofits to raise funds so they can take their work to scale. These firms hold the potential to model best practices for strategic philanthropy, given their view that donors should make long-term financial commitments, support strategic growth, and review nonprofit results as the basis for future gifts.

Leverage foundation resources to influence donor behavior

Given their size and clout, large, independent foundations, such as the Bill & Melinda Gates Foundation and the David and Lucile Packard Foundation, community foundations such as The New York Community Trust and Silicon Valley Community Foundation, and federated giving organizations, such as United Way and Catholic Charities, can play a pivotal role in supporting a more strategic approach to giving among individual donors.²⁸ Their potential to influence donor behavior stems from their ability to:

- Share their analyses of social issues and rationale underpinning program strategies and grant-making
- Share their due diligence criteria and process, plus targeted information on the nonprofits they fund
- Provide frameworks and fund research to advance the field
- Foster cross-sector collaboration and sharing of best practices.

By sharing the information they use to make decisions, foundations can model social investing behaviors that may help other market participants start to think more strategically. Foundations have the significant opportunity—and some would say the responsibility—to make their information

FOUNDATIONS AT A GLANCE

There are more than 70,000 foundations in the U.S., of which ~3,000 have professional program staff.

Foundations give over \$35 billion to nonprofits per year.

The top 10 independent foundations allocate \$5 billion annually.

—*Giving USA 2007; The Foundation Center, 2008*

²⁸ Many high-net-worth individuals have small foundations; however, these function quite differently from large foundations and have little or no staff. For the purposes of this paper, we treat these small foundations as high-net-worth donors.

BETTER INFORMATION SHARING BY FOUNDATIONS CAN HELP NONPROFITS AS WELL AS DONORS

Better communication of foundation goals, strategies and decision-making processes would benefit nonprofit grantees as well as donors. The Center for Effective Philanthropy (CEP) prepares “perception reports” that capture the opinions that grantees and grant applicants have of foundations. According to a CEP report on what’s important to grantees, the clarity of communications about a foundation’s goals and strategy ranks very highly. Moreover, grant recipients believe that foundations are at their best when they use their knowledge and resources to create impact in ways that go beyond simply distributing money.

—*Perception reports for foundations are available as a group at <http://www.effectivephilanthropy.org>; results for individual foundations are available on their websites. “Listening to Grantees: What Nonprofits Value in Their Foundation Funders” (April 2004) is downloadable at http://www.effectivephilanthropy.org/images/pdfs/ListeningToGrantees_reprint.pdf.*

and lessons learned more accessible. For example, foundations routinely uncover great nonprofits and ideas that they pass up for funding because they don’t fit their own strategy; they could pass on these leads to other donors.

Invest in research on donors

While we acknowledge that philanthropic funds are best spent directly helping beneficiaries, a small investment in research could go a long way toward deepening our understanding of what motivates people to give, and to whom. Such research would provide valuable insight on how to improve the effectiveness and efficiency of the nonprofit market by shaping how nonprofits and intermediaries inform and engage donors.

Specifically, the sector would benefit from qualitative and quantitative research that addresses the following questions:

- Do donors fall into clear segments in terms of how they think about performance information? How large are the segments, and which ones are growing?
- What characterizes donors who want performance information (demographic characteristics, levels of wealth, professions, geographies, and giving channels)?
- What data are donors most interested in? In what format? How do they want to access this information? Is there such a thing as too much information?
- Whose opinions do donors trust? Those of experts, other donors, volunteers, nonprofit employees, beneficiaries, or others?
- How often do donors distinguish between proactive (goal-oriented) giving and reactive giving (in response to requests from friends or family)?
- What is the role of community networks in influencing donor decision-making?

Chapter 3

Strengthening intermediaries and interactions

“The diversity among proposals and ideas out there is unbelievable. There is incredible power, creativity, and innovation in the nonprofit space.”

– *Global Giving*

In a well-functioning market, intermediaries reduce market friction and increase transparency. Intermediaries and their interactions are the infrastructure that link buyers and suppliers; they provide visibility into the performance of organizations and create value-added products and services. Our work suggests great promise for intermediaries to strengthen the flow of performance information and funds, provided these organizations can achieve the scale needed to have significant impact and survive financially.

Intermediaries include nonprofit organizations, for-profit companies, and informal communities. Exhibit 8 provides an overview of the five main types of intermediaries (information, transaction, advice, education, and networks), describes their services, and gives examples of each. Many intermediaries provide multiple functions across this typology—for example, providing both advice and networks, or education and transactions. For illustrative purposes, we grouped organizations according to their perceived primary focus.

Formal research on nonprofit intermediaries is limited, but our review of the sector revealed a host of new players and promising innovations. However, many intermediaries remain subscale, isolated, and not as effective as they could be. This chapter describes recent innovations and growth, explores the barriers to greater scale and impact, and offers suggestions for overcoming those barriers. Specifically, we see opportunities for intermediaries to provide more meaningful information and make it accessible to many more users, offer innovative value-added products and services, and demonstrate increased willingness to “make the call” on what works and what doesn’t.

Overview of nonprofit marketplace intermediaries

Type of intermediary	Description	Examples
Information	<ul style="list-style-type: none"> • Provide information and /or analysis about specific NGOs and foundations • Facilitate discussion of trends and topics in the nonprofit sector and philanthropy 	<ul style="list-style-type: none"> • GuideStar • New Philanthropy Capital • Stanford Social Innovation Review • The Foundation Center
Transaction	<ul style="list-style-type: none"> • Source prospective grantees by sector and geography • Facilitate charitable gifts and below-market loans • Offer tax-advantaged giving options (e.g., donor-advised funds) 	<ul style="list-style-type: none"> • Global Giving • Kiva • Fidelity Charitable Gift Fund • New York Community Trust • Schwab Charitable Fund
Advice	<ul style="list-style-type: none"> • Provide strategic, organizational, and fund-raising advice and services to nonprofits • Provide strategic, organizational, and program design advice, grantee due diligence, and back-office services for donors 	<ul style="list-style-type: none"> • JP Morgan • Nonprofit Finance Fund • Rockefeller Philanthropy Advisors • Root Cause
Education	<ul style="list-style-type: none"> • Offer education and training for and build the capabilities of nonprofit professionals or donors 	<ul style="list-style-type: none"> • CompassPoint • Resource Generation • Aspen Institute • The Philanthropy Workshop West
Networks	<ul style="list-style-type: none"> • Support opportunities for learning, discussion, and collaboration 	<ul style="list-style-type: none"> • Care2 • Global Philanthropy Forum • Leadership Learning Community • Social Venture Partners

Note: Many intermediaries function across this typology (e.g., community foundations such as the New York Community Trust offer advice and networks as well as transactions; donor networks such as Social Venture Partners offer donors educational opportunities and source collaborative transactions). For illustrative purposes, we grouped organizations according to perceived primary focus.

Intermediary innovation and growth

We see three key trends in the intermediary landscape: (1) improvements in access to and aggregation of information; (2) the creation of platforms—both online and offline—that better connect nonprofits and donors and combine giving opportunities with networking, information sharing, and community building; and (3) the potential for online giving to become a much more important channel for reaching and influencing affluent donors.

Better access to and aggregation of information

Perhaps the biggest change has been the improvement in online access to and aggregation of information on nonprofit organizations and foundations. In addition to efforts by individual nonprofits to strengthen their presence on the Web, several intermediaries are playing a key role in building central repositories of information:

- **GuideStar** is the single largest—and arguably the most important—database of information about nonprofits. It houses information on 1.7 million organizations, mostly financial data gleaned from the IRS Form 990. GuideStar is making investments to gather more information beyond the 990 and improve its usage, impact, and scale (see description of Guidestar and another sector leader, DonorEdge, in sidebar).
- **Charity Navigator**, which describes itself as “America’s premier independent charity evaluator,” ranks more than 5,300 large nonprofits based primarily on their operating efficiency and financial ratios. Nonprofits, community foundations, financial services firms, donor advisors and donors accessed its database over 4 million times in 2007. Many of our interviewees use Charity Navigator but view its overreliance on financial ratios as simplistic and counterproductive.
- **The Foundation Center**, whose mission is to “strengthen the nonprofit sector by advancing knowledge of U.S. philanthropy,” houses a database of grant makers and their grants to nonprofits that is searchable by social issue or by foundation. It also publishes a foundation directory and is a national source of job listings, requests for proposals, and guidance on fundraising trends. These resources are currently structured for use by grant-seeking nonprofits, but they could be immensely valuable for affluent donors as well.
- The Better Business Bureau’s **Wise Giving Alliance** provides a widely recognized “charity accountability seal” which certifies that a nonprofit has met a set of 20 strict financial and governance standards. This seal is used by many of the nation’s largest nonprofits, several of which have been working with the Wise Giving Alliance to integrate discussions of effectiveness into its online platform and potentially into future standards.

- **Social Actions** is a “mash-up” website that aggregates information from 30 nonprofit-related websites including Change.org, GiveMeaning.org, and ChangingThePresent.org. It goes beyond providing a channel for philanthropic contributions to publicizing volunteer opportunities, job openings, and other “social actions.”

GUIDESTAR AIMS TO INCREASE USAGE, IMPACT, AND SCALE

GuideStar’s leadership is working to transform it from being the primary repository of financial information about nonprofits into being the home for multiple types of information about nonprofits. This change will allow GuideStar to shift from simply facilitating transparency to enhancing performance. To do so, GuideStar will need to gather information from sources beyond the IRS. So far, about 127,000 organizations (roughly 7 percent of the organizations covered in GuideStar) have signed up to provide programmatic and organizational information that goes beyond what’s included in the Form 990, although the quality of the data they provide is uneven. And a new partnership will soon make reviews from GreatNonprofits.org available on GuideStar.org.

GuideStar is the leader among online sources of nonprofit information, with 1.5 million unique visitors (for 10.8 million hits) in 2007. However, it get much less traffic than comparable private-sector sites. For example, Kelly Blue Book—another site a user might visit only a couple times a year—gets 126 million visits a year, while Consumer Reports gets about 43 million.

To increase its usage and impact, GuideStar is beginning to move away from being a destination website to providing baseline data to intermediaries with established constituencies. Already, GuideStar provides background financial data for donor-advised fund holders at the \$4.6 billion Fidelity Charitable Gift Fund and the \$1.8 billion Schwab Charitable Gift Fund.

Recently, GuideStar announced that it will provide a technology platform that allows community foundations to provide donors with better information about local nonprofits. This effort is in partnership with the Greater Kansas City Community Foundation and its DonorEdge platform. DonorEdge offers rich programmatic information about 700 nonprofits in the Greater Kansas City area—and similar platforms are thriving at several other community foundations across the country, including the Columbus Foundation in Ohio and the Foundation for Enhancing Communities in south central Pennsylvania. This work has an added benefit: not only does it provide a way to share more information locally, it provides a channel to aggregate local information at a national level.

New platforms for connecting and building community

The second key trend in the intermediary space is the emergence of new platforms for networking, information sharing, and community building among like-minded philanthropists. This is happening both online and face to face. The growing popularity of these platforms offers nonprofits the potential to reach many more prospective donors at a relatively low cost, to disseminate information about their activities and impact, and to offer increasingly personalized experiences.

Recent advancements in Web technical capabilities have ushered in a host of new online business models that go beyond transaction processing to create more interactive experiences, including

real-time information exchange and peer-to-peer community-building. These new capabilities have sparked the explosion of social networking through community-oriented websites like YouTube, MySpace, and Facebook, which represent the fastest-growing online segment by far.²⁹

These sites allow users to update and share information in real time, self-select the types of information they find relevant, write and post reflections, and seek out the perspectives of others, giving rise to affinity groups that deepen the sense of community among members, however virtual they might be. Here are two examples:

- **Causes**, an application available through both Facebook and MySpace, allows members of these social networking sites to create a cause, recruit members, post appeals for donations, and keep everyone up to date on progress. Exhibit 9 shows a snapshot of the Causes application on Facebook along with two similar sites, Sixdegrees.org and Change.org.
- **Care2** is an online social network with over 9 million members and a mission to “help people make the world a better place by connecting them with the individuals,

Exhibit 9

Online philanthropy sites focused on community

Facebook Causes

Create a cause, recruit friends, or donate to any Guidestar charity through Facebook



Sixdegrees.org

Kevin Bacon's site to form communities, connect people around causes, and contribute



Change.org

Connect with like-minded people to worthy causes around the world



Source: Causes Facebook site and Facebook application agreement; www.sixdegrees.org; www.change.org

29 McKinsey analysis of page views of the top 100 Web brands between 2005 and 2007 using Nielsen/Net ratings as of May 2005, January 2006, and January 2007.

organizations, and responsible businesses making an impact.” Care2 supports member networking and activism on a range of social issues such as “green living” and “health and wellness.” It is launching a set of “causes” that will provide information on and build community around targeted issues including animal welfare, health policy, human rights, and the environment.

Networking around philanthropic issues is happening offline as well. These offline communities, on occasion supported by online mechanisms, offer learning opportunities and facilitate peer feedback and collaboration. Here are three examples:

- **Social Venture Partners (SVP)** seeks to catalyze significant long-term change in its communities by educating individuals to be well-informed, effective, and engaged philanthropists and by investing its “partner” members’ time, expertise, and money in innovative nonprofits. Headquartered in Seattle, SVP has chapters in 20 cities and actively promotes strategic philanthropy through partner education and engagement with nonprofits and with one another.
- **Global Philanthropy Forum** aims to build a learning community of donors committed to international causes—and to inform, enable, and enhance the strategic nature of their giving and social investing.. Its members include high-net-worth individuals as well as family, private, and corporate foundations. The forum hosts a series of educational events that seek to build members’ interest in international development topics, channel private donor support into tangible projects, and provide an opportunity for donors to engage directly with their peers and with social entrepreneurs.
- **Women’s Funding Network** is an umbrella organization of 132 women’s funds on six continents that directs \$50 million per year in global investments supporting women and girls. Formed in 1985, it includes tens of thousands of donors and thought leaders. Each individual fund in the network is self-governed, focusing primarily on local community needs. The network shares tools, connections, and best practices, hosts an annual conference, and provides training and other services.

The growing promise of online philanthropy

The third important trend is the increase in online philanthropy. Between 2000 and 2005, online giving by individuals grew exponentially, from \$250 million to nearly \$5 billion. However, it still represents only a tiny share of total giving—an estimated 2-3 percent at best (Exhibit 10).³⁰ By contrast, more than 40 percent of U.S. households use online banking and/or bill payment services each month, and e-commerce transactions account for 27 percent of all travel arrange-

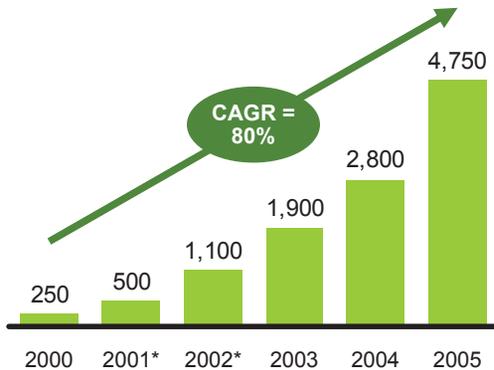
30 ePhilanthropy Foundation, cited in Network for Good 2007 report, “The Young and the Generous: A Study of \$100 Million in Online Giving to 23,000 Charities”: <http://www.fundraising123.org/article/young-and-generous-study-100-million-online-giving>.

ments in revenue terms.³¹ In both banking and travel, it took less than 5 years to increase online penetration from 1 percent to more than 10 percent.³²

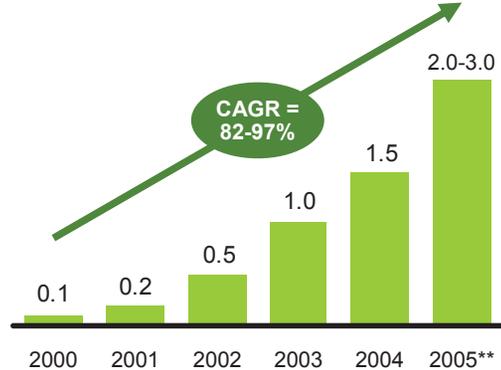
Exhibit 10

Online giving trends

Online giving by individuals is growing rapidly...
\$ Millions



...but it still represents a very small share of overall giving
Percent



* Estimate

** Other sources, such as the Pew Charitable Trust, estimate this number at just 1%

Source: ePhilanthropy Foundation; Network for Good; Giving USA

While it is unclear if online philanthropy will ever reach the penetration levels seen in other industries, research suggests that affluent donors are already active Internet users and have great potential to shift more of their giving online. Studies conducted in 2006 found that Americans earning annual incomes of \$85,000 or more use the Internet an average of 13.2 hours per week and that at least one-third of affluent individuals over age 65 are online participants.³³ Notably, higher incomes are correlated with higher usage of online channels to manage travel, banking, and investments, make purchases, and gather information about potential purchases (Exhibit 11).

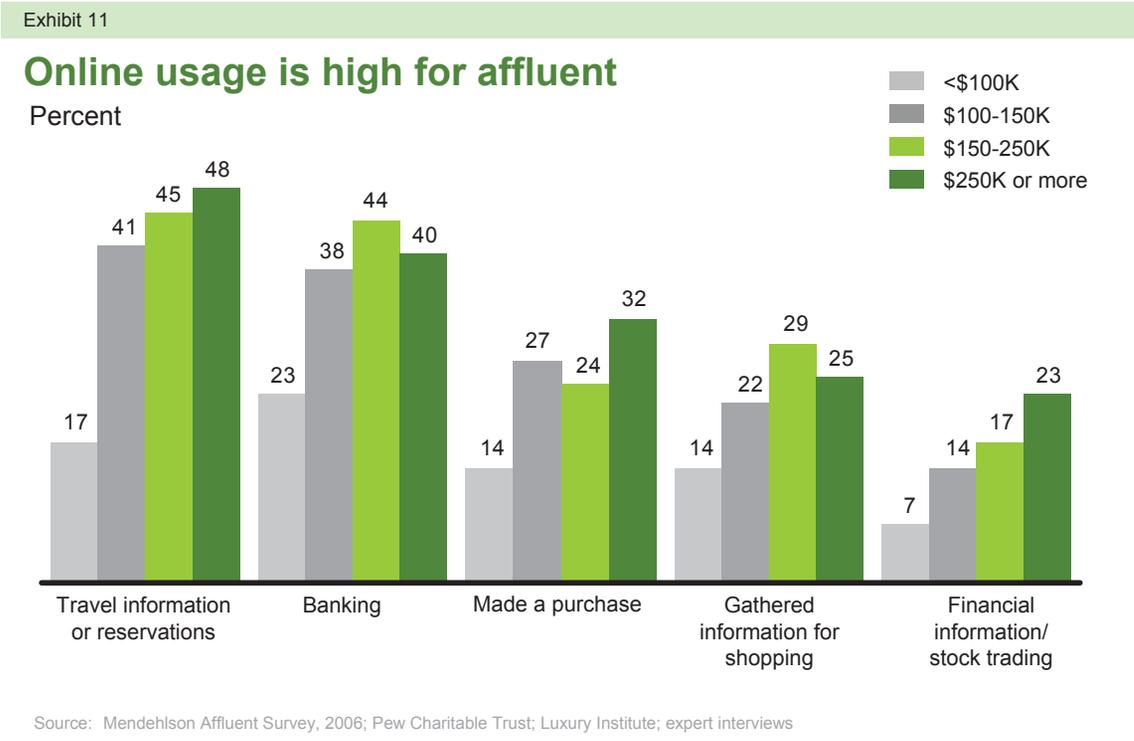
According to a 2008 survey of 3,443 donors who had made gifts of at least \$1,000 to a single cause in the prior 18 months and donated an average of more than \$10,896 per year to charities, the Internet is becoming a more attractive channel. Of those surveyed, 64 percent were age 45 to 64, and 57 percent had incomes of at least \$100,000. Four out of five donors said they had made a charitable gift online, and 51 percent said they prefer to use the Internet for their

31 Banking data from Checkfree Corporation, 2008 Consumer Banking and Billpay Survey; travel data from U.S. Census Bureau 2006 Service Annual Survey.

32 Online Financial Innovations (January 2008); Online Banking Report; PhoCusWright. (October 2005); U.S. Online Travel Overview.

33 Mendelsohn Affluent Survey, 2006; Pew Internet & American Life Project; Luxury Institute; expert interviews.

donations. Looking forward, 46 percent said that they expect to make a greater percentage of their charitable gifts online within the next 5 years.³⁴ While our focus in this paper is on more affluent donors, this trend is certainly encouraging and supports our belief that online platforms will increasingly be an effective channel.



Barriers to greater impact

While the trends described above are promising, nonprofit market intermediaries have yet to realize their full potential. Many intermediary organizations are subscale and offer limited products, services, and value. They could be doing much more to disseminate the valuable information generated by foundations and others and to facilitate collaboration and partnerships. Lastly, intermediaries could add significant value to the nonprofit market by shining an objective light on nonprofit performance.

Insufficient scale

The nonprofit marketplace is served by hundreds of intermediary organizations. With few exceptions, they tend to operate as unconnected islands—despite the fact that intermediaries by definition are meant to help connect those who are not yet connected. We believe that

34 Convio, Sea Change Strategies, and Edge Research, “The Wired Wealthy: Using the Internet to Connect with Your Middle and Major Donors,” March 24, 2008.

intermediaries need to systematically link together through data-sharing, partnerships, and even mergers, in order to deliver increased value.

The proliferation of intermediaries has led to brand fracturing so often seen in provision of nonprofit services. Consumers cannot be expected to be familiar with all of these different organizations. These intermediaries also face the high fixed costs of running separate organizations, despite the fact that their back-end needs are often the same.

But the biggest weakness is lack of scale. As shown in Exhibit 12, nonprofit information and transaction intermediaries are tiny in comparison with for-profit companies that play similar roles. Intermediaries need scale to have impact: databases are not very useful until they are full of data; mechanisms to connect nonprofits to donors are not appealing to nonprofits until enough donors use them; standardized reporting formats are only helpful if many institutions adopt them. For intermediaries to reach their potential, the “system of intermediaries” must become a whole greater than the sum of its parts, which will require further communications, cooperation, and transparency.

Exhibit 12

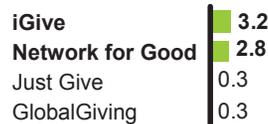
Scale comparison of nonprofit intermediaries and private-sector peers

Annual Web visits (millions)*

Information intermediaries**



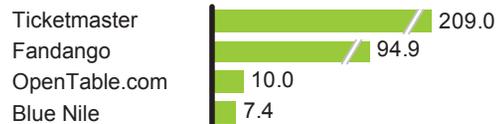
Transaction intermediaries



For-profit comparisons (intermittent purchases)



For-profit comparisons



* June 2006-June 2007

** Geneva Global, Donor Edge, and Charity Navigator have <100,000 visits annually

Source: Complete.com, based on sampling of 2 million users (decreased accuracy with lower volume of traffic)

Insufficient information sharing and collaboration

Intermediaries have a tremendous opportunity to help foundations, researchers, consultants, nonprofit leaders, and high-net-worth donors actively share what they know. Squirreled away in filing cabinets is a huge volume of social issue research, sample strategic plans, evaluation data, and lessons on what works in areas such as homelessness and education. While these materials probably vary in quality, they are uniformly hard to access and underleveraged.

For example, one foundation did extensive research on fragile environmental “hotspots,” identifying more than 20 high-impact opportunities to address with foundation funding. The foundation evaluated the hotspots against a range of criteria and chose to fund several of those opportunities, but decided not to share its research more broadly, which might have attracted funding for the remaining opportunities. If there were a suitable intermediary channel for disseminating this kind of information, perhaps another donor or group of donors could have stepped in.

The reluctance to share the rationale for funding or not funding a particular nonprofit represents a real loss for the sector, but it is easy to understand. A program officer may decide not to fund a nonprofit based on intuitive judgment after meeting its leadership team or visiting a site. Alternatively, the fit with the foundation’s programmatic focus might be weak or the foundation might already have obligations to existing grantees in the same arena. Regardless, the rationale might not apply to other potential funders, and foundations too often hesitate to inform the decision-making of others. The opportunity therefore is to figure out what research, analysis, and portions of funder due diligence would be worth sharing with other social investors.

Many trying to build relationships or partnerships with nonprofits or foundations have expressed frustration with perceived resistance. The founders of GiveWell, former financial-industry employees, describe their difficulty in researching nonprofits so they could decide where to donate: “As a group of eight friends...we discovered that the issues charities address—from fighting disease in Africa to improving education in the U.S.—are extremely complex, yet useful information about what different charities do and whether it works isn’t publicly available anywhere. When we asked private foundations to share what they’d found and help us with our decisions, they refused.”³⁵ Our interviews revealed almost universal concern that the sector wastes too much time and money recapturing what is already known—time and money that could be focused, with better collaboration, on delivering more social impact.

Insufficient performance scrutiny

Intermediaries could add significant value to the nonprofit market by providing more objective assessments of nonprofit performance, much as Kelley Blue Book and Consumer Reports do for shoppers. Our research and interviews suggest a broad reluctance to compare nonprofits

35 <http://www.givewell.net/story>.

and to separate the high performers from the rest of the pack. In the words of one sector leader, “Someone needs to step out and say who is good and who is not performing, but the first organization to do that will get punished by the sector.” While publications such as Forbes and SmartMoney have taken the step of ranking nonprofits, they have done so primarily based on financial ratios, not performance and impact. There is marked resistance to “making the call” on performance and sharing more detailed information on organizational performance, beneficiary satisfaction, effective strategies, and social impact.

In addition to a culture that shies away from performance differentiation, we recognize that there is a Catch-22 at work here. Given the supply shortcomings discussed in Chapter 1, intermediaries need better data from nonprofits before they can start to add value in the aggregation, analysis, and distribution of performance information. At the same time, many nonprofits and other constituents are unwilling or unable to invest resources to obtain that data until donors shift their decision-making as a result and intermediaries prove critical in facilitating that shift.

Suggestions for improvement

We see many opportunities for intermediaries—both nonprofit and for-profit—to improve the flow, quality, and utility of information and to create value-adding products and services for donors and nonprofits.

Aggregate and synthesize information on nonprofit organizations

Perhaps the largest opportunity for intermediaries lies in the provision of compelling performance metrics and comparable information for a range of nonprofit organizations. To be useful, the next generation of intermediaries needs to incorporate the following design principles:

- Collaborate with nonprofits to determine the most relevant information to collect and a common set of performance metrics to track
- Support nonprofits in the aggregation and analysis of that information

A FEW PROMISING EXAMPLES OF INFORMATION SHARING

IssueLab is an online platform of research by and about nonprofits. It collects research from sources ranging from DC think tanks to small grassroots organizations and makes it searchable for users throughout the nonprofit sector. Over time, IssueLab may begin to systematically post other types of nonprofit documents (strategic plans, evaluations, dashboards, and templates).

Grants Managers Network (GMN) is an association of professional staff who manage the operational side of grant-making. It has launched an initiative to streamline the process of applying for grants for nonprofits, aimed at improving market efficiency. A recent GMN report, “Drowning in Paperwork, Distracted from Purpose,” argues that aligning and streamlining the application processes of foundations would allow nonprofits to focus their resources on creating impact.

The Robert Wood Johnson Foundation, James Irvine Foundation, and Edna McConnell Clark Foundation (EMCF) lead the field in providing information about their evaluation approach, reports, and tools on their websites. EMCF, for example, shares its theory of change, selection criteria, investment approach, and performance measurement philosophy, as well as specific measures of grantee results.

- Display social impact and organization performance information (including proxies) in addition to financial metrics
- Incorporate nonprofit beneficiary, donor, employee, and expert opinions
- Make funding and revenue sources transparent
- Allow users to sort and organize the content in ways that they find useful.

In order to determine what metrics to track and how to sort content, intermediaries will need to identify and work with nonprofits segmented in various ways:

- By issue (e.g., autism, climate change, homelessness)
- By geography (e.g., Atlanta, India, global)
- By the organization's size and stage of life (e.g., start-up, multi-local federation)
- By the nature of the organization's goals—tackling long-term challenges (like finding a cure for diabetes) vs. addressing immediate needs (e.g., for Meals on Wheels, educational supplies, or micro-finance loans).

“Given the emphasis in foundations these days on communication, transparency and accountability, it just seems to me that you aren't going to be credible if all you talk about is your successes.”

– James Canales, president and CEO, The James Irvine Foundation, talking about a report describing the failure of the foundation's \$60 million effort to improve after-school programs in California

This sort of segmentation is essential both to enable meaningful performance comparisons—because the metrics that are most useful to a homeless shelter may not be relevant to a cancer advocacy organization—and to create a level playing field for large and small as well as older and newer nonprofits.

Intermediaries can link to online marketplaces that provide centralized, accessible, segmented, and compelling organizational performance and social impact information. Exhibit 13 depicts what a screen shot for a nonprofit online marketplace might look like. This design reflects feedback from our interviews and illustrates the different types of information that can help donors make decisions—including nonprofits' key activity areas, strategic plans, evaluation systems, basic financial data, and stakeholder feedback. Each profiled organization would have a summary page like this one, with multiple links that enable users to delve deeper if they want to learn more.

Online marketplace vision

Design principles

- Compile information from multiple sources
- Prioritize information that can be a proxy for impact
- Incorporate stakeholders' opinions
- Allow user to organize content
- Provide overview but make detail available
- Offer immediate engagement opportunities

A website could compile available information and look like this:

Mission and programs	Strategy, activities, and results	Organization and Finances	Stakeholder feedback
<p>MISSION Rainforest Action Network campaigns to break America's oil and coal addictions, protect endangered forests and Indigenous rights, and stop destructive investments around the world through education, grassroots organizing, and nonviolent direct action.</p> <p>PROGRAMS</p> <ul style="list-style-type: none"> • Freedom from Oil • Old Growth Forests • Global Finance Rainforest Agribusiness <p>PHOTOS VIDEOS</p> <p>NEWS</p> <p><i>Click here to see academic studies on RAN</i></p>	<p>STRATEGY <i>Click here to see RAN's Theory of Change</i></p> <p>ACTIVITIES & OUTPUTS Major direct action events: 19 Local direct actions: 180 Total participants: 5000 <i>Click here to see RAN's dashboard</i></p> <p>RESULTS Recent campaign victories:</p> <ul style="list-style-type: none"> • 256M acres protected in Ontario's boreal forest • Protected Whiskey Jack forest • 50% reduction in use of Tasmanian wood pulp in Japanese market 	<p>ORGANIZATION Employees: 43 Offices: 2 HQ: San Francisco CEO: Michael Brune <i>Click here to see list of board of directors</i></p> <p>FINANCES Revenue: \$4.3M (2008) Costs: \$4.0M (2008) Net assets: \$1.6M (2007) <i>Click here to see IRS Form 990</i> <i>Click here to see annual report</i></p> <p>DONATE NOW</p> <p>VOLUNTEER NOW</p>	<p>EXPERTS ★★★★★ <i>Click here to see experts' reviews</i></p> <p>VOLUNTEERS ★★★★★ <i>Click here to see volunteers' reviews</i></p> <p>PEER ORGANIZATIONS ★★★★★ <i>Click here to see peers' reviews</i></p> <p>BENEFICIARIES ★★★★★ <i>Click here to see beneficiaries' reviews</i></p> <p>ADD A COMMENT</p>

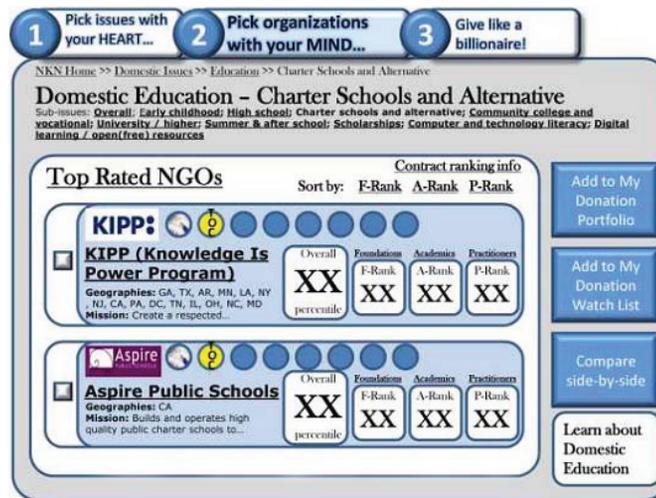
Important note: this example is based on actual information from a real organization, but the stakeholder feedback is for illustrative purposes only

Ultimately, intermediaries should provide robust comparative information on nonprofits. The Nonprofit Knowledge Network, currently in development by students at Stanford Graduate School of Business, is an early initiative to provide comparative performance information and ratings of nonprofit organizations from foundation program staff, academics, and practitioners.³⁶ Exhibit 14 shows a sample design mock-up comparing several charter school providers.

36 <http://www.nonprofitkn.org/>

Design mockup for Nonprofit Knowledge Network, an online portal that surveys stakeholders

Find out top-rated NGOs for an issue in which you are interested



Source: Business idea currently in development by several students at Stanford Graduate School of Business; <http://www.nonprofitkn.org/>

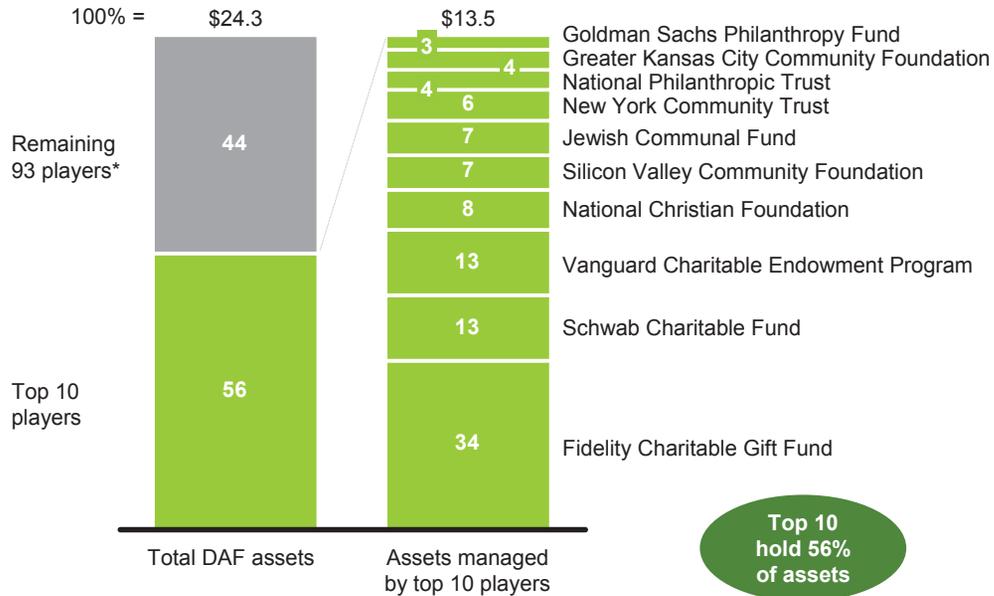
Facilitate information flows to a critical mass of users—go where the money is

One of the challenges facing nonprofits and the intermediaries that serve them is how to make information easily accessible to the largest number of users in the most efficient way. It's not enough to update individual websites and hope that people will come and find it. Intermediaries have to provide timely, accurate information where the potential donors are. In the spirit of Willie Sutton's reported response when asked why he robbed banks—"Because that's where the money is"—nonprofit intermediaries need to go where donors already are: at their financial advisor's office, on their bank's online interface, or using Google.

Google, Yahoo, and a range of meta-search engines serve as the point of entry for millions to the Web. They leverage complex algorithms to broker access to a range of specific and comparative information about organizations and issues. As discussed earlier, affluent individuals already use the Internet extensively for research and transactions across a range of industries. They should be able to conduct the same kind of "one-stop shopping" for information about nonprofit causes and organizations. The sector needs to either broker partnerships with these meta-search engines to enable useful vertical searches (e.g., AIDS organizations in Africa) or partner with new organizations to create those platforms. At least one online giving platform recognizes the need to "go to where the traffic is." According to its CEO, the organization "is never going to become a destination site. People are spending time on sites like Google, LinkedIn, and Facebook, so our strategy is to become linked to or an integral part of those platforms."

Concentration of players in donor-advised fund market

Percent; \$ Billions



* Includes national and religious organizations
 Source: Chronicle of Philanthropy, 2007

Top 10 hold 56% of assets

Partnerships with financial institutions and large community foundations offer additional avenues for going “wholesale” (i.e., where the money is) vs. retail. These institutions already have huge captive audiences through their donor-advised funds.³⁷ The top 10 providers in the donor-advised fund market—including Fidelity Charitable Gift Fund, Schwab Charitable Fund, and Vanguard Charitable Endowment Program—hold more than half of the assets (Exhibit 15), and they and others would benefit from being able to offer their clients more value-added information. GuideStar and others are already partnering with several of these institutions, which is a good first step, but it will be critical to that these partnerships rest on high-quality information. In addition to the large firms, individuals such as financial planners, estate attorneys, philanthropic advisors, and accountants represent a key access point to their donor clients.

“There are three opportunities to influence donor behavior through information and infrastructure. First, we can enable existing behavior. The donor just wants to give; we need to make it easy. Second, we can leverage latent moments to give—for example, when someone reads a newspaper story on Yahoo and wants to act. Third, we can try and change behavior, e.g., when an individual arrives at a donor website and doesn’t know what to do.”

– Network for Good

37 A donor-advised fund is a charitable giving vehicle that offers a tax advantage as compared with establishing a foundation and provides flexibility for donors in the timing of their grant-making.

Finally, the growing popularity of Facebook, MySpace, and other social networks is clearly a force to be reckoned with. Nonprofits need to fuel these sites with good performance information and not just let the “buzz” rule.

Offer innovative, value-adding products and services that leverage the expertise of experienced funders

As described earlier, the world’s best foundations, individual donors, and federated giving organizations invest in building rich situation assessments, sound theories of change and strategies, and insightful due diligence into potential grantees. Finding ways to disseminate these insights to inform decision-making by “the rest of us” could help steer funds to the best nonprofits. Here are some emerging ideas for making foundation funding decisions more accessible to and replicable by other social investors:³⁸

- **The Foundation Center** tracks and aggregates foundation grants. However, because the center relies on tax returns and voluntary foundation transparency it often takes a year or more to publish the grant information. A new effort, **GrantsFire**, aims to address this problem by using RSS feeds to announce grants immediately—which could then be aggregated or presented by anyone.³⁹ When Warren Buffett makes an investment, other investors pay attention; donors deserve the same benefit when smart philanthropists make big donations.
- **“Side-by-side funds”** would enable individual donors to mirror the funding strategies of large foundations that have invested in strategic and due diligence resources. At the same time, they would help foundations to raise awareness of their work and channel more funds to good causes. Side-by-side funds could allow donors to mimic grant-making in a specific foundation program area. For example, working in partnership with an intermediary, a program officer at the Bill & Melinda Gates Foundation might share information about Gates’ investments in malarial prevention programs in Africa and why it has chosen to fund those particular programs. The intermediary could invite donors that agreed with the logic to contribute to a portfolio that mirrored the Gates malaria grants. Another possibility is to create focused investment funds that would complement, rather than mimic, foundations’ strategies (e.g., invest in malarial treatment to complement foundation investment in prevention).

One financial services interviewee told us, “Many in the sector would be shocked to hear this, but I predict that we will actively partner with community foundations where they provide advice, and get paid for it, and we manage donors’ funds.” The next era in intermediary development should find these nontraditional partnerships the norm, rather than the exception.

38 See also earlier examples of supporting donor education, engagement, and networking in Chapter 2, including references to Acumen and field-of-interest funds.

39 For more information, see http://www.mott.org/sitecore/content/Globals/Grants/2008/200800804_GrantsFire.aspx. and <http://www.solpath.org/>.

“Make the call” on performance

Unlocking the power of judgments from nonprofit beneficiaries and other stakeholders represents another opportunity for intermediaries. Expert opinions and ratings have proved to be a helpful source of guidance in other sectors, as evidenced by the success of Morningstar’s mutual fund rankings, Consumer Reports’ product ratings, and US News & World Report’s rankings of colleges and universities. For example, Morningstar reports that an initial five-star rating results in an average six-month flow of \$26 million, 53 percent above normal expected flow.⁴⁰ High-impact peer-review examples include Rotten Tomatoes in cinema, Yelp and Zagat restaurant reviews, and sellers’ ratings on eBay. Each of these mechanisms aggregates perspectives into imperfect, but highly useful, results.

While none has yet reached critical mass, several—including GreatNonprofits, Keystone, and One Economy—are beginning to collect and aggregate opinions from donors, volunteers, beneficiaries, and other nonprofit stakeholders. For example:

- **GreatNonprofits** posts reviews of nonprofit organizations written by volunteers, donors, program beneficiaries, and others that have direct experience with these organizations. It operates like other websites that feature travel, restaurant, and book reviews and ratings contributed by consumers. Thanks to a new partnership, reviews posted on GreatNonprofits.org will soon be available on GuideStar.org.
- **GiveWell** is an independent, nonprofit charity evaluator that describes its goals as directing as much funding as possible to the best charities, and to create a global, public, open conversation about how best to help people. GiveWell’s review process focuses on social impact as well as budgetary indicators of performance and begins by inviting nonprofits working on a specific cause to apply for grants. The strongest applications are studied in depth and rank ordered. GiveWell openly shares its assessment—and the reasoning behind it—and invites feedback from the public.⁴¹

In addition to these formal (and admittedly imperfect) mechanisms, the sector has the opportunity, and some would say mandate, to increase and improve its dialogue on performance. Better acknowledging and sharing what is working and what is not working is the first step to improving performance. Foundation and donor partnership with nonprofits to address underperformance and not leave a funding relationship when it occurs is a necessary reinforcing step.

40 Diane Del Guercio and Paula Tkac, “Star Power: The Effect of Morningstar Ratings on Mutual Funds Flows” (Federal Reserve Bank of Atlanta, 2001).

41 GiveWell has also been controversial: see <http://www.givewell.net/node/185>.

Chapter 4

Jump-starting change

The preceding chapters provided broad suggestions for action, organized by supply, demand, and market intermediaries and interactions. By contrast, we structured this chapter by stakeholders: nonprofit organizations, individual donors, foundations and nonprofit and for profit intermediaries. This format highlights some of the steps that each stakeholder can take to improve the use of information and the effectiveness of the nonprofit market. By design, it is repetitive with prior sections but seeks to provoke discussion around the roles of market participants.⁴²

Nonprofits—drive performance and share information

Nonprofits can lead the way by adopting a performance-driven mindset and building the capabilities to support that mindset. They can collect and share social impact data and organizational performance information. Given capability and capacity constraints, nonprofits will need significant support from foundations, donors, and intermediaries. In addition, the market needs to reward nonprofits for sharing failures and lessons learned as well as successes. Specifically, nonprofits can:

- **Set goals and use performance metrics and tools to plan, execute, and reflect.** Setting clear social impact and organizational performance targets and managing against them is critical to measuring success and refining strategies. Performance measurement need not require costly state-of-the-art technologies. Nonprofits can use simple tools to track activities, outputs,

⁴² As noted in the introduction, this paper does not address the role that government can play in improving the efficiency and effectiveness of the nonprofit market. Many of the foundation strategies outlined in this chapter could apply to government funding agencies as well. Further, the paper does not explicitly address the role of the media. We welcome feedback on how these institutions can help strengthen the nonprofit marketplace.

and outcomes. It is critical to integrate performance management into day-to-day activities—and to keep it affordable, feasible, and meaningful.

- **Educate donors about how to assess nonprofit performance.** Nonprofits can better engage donors as partners and educate them on what they are trying to achieve and why it is important. They can better communicate why the simplistic measurement of administrative costs is not a good proxy for effectiveness and share not only their goals and activities with donors, but let them know how they measure themselves. As the information gap starts to close, nonprofits need to be ready to answer more questions about how they are doing, welcome these inquiries, and have a system for responding.
- **Share information about social impact and organizational performance.** By sharing their theory of change (or impact model) and outcomes with the field, nonprofits can create a richer, more honest dialogue around performance. In the absence of outcomes data, information on activities and outputs, as well as beneficiary and staff feedback—however imperfect, incomplete, or negative—can represent a big step in the right direction.

Individual donors—demand and act on information

Incentives for improving information will be insufficient until individual donors start demanding more informative data and acting based on what they learn. Donors can start by accessing available data, highlighting gaps in terms of quality and helpfulness, and making charitable decisions based on better information. Specifically, we would urge donors to

- **Adopt more of an investment mindset.** This can start with a simple shift in language: from “giving to charity” to “investing in high-performing nonprofits.” But a true investment mindset goes beyond semantics: it implies a move toward active engagement and high expectations.
- **Seek information and education.** Donors have the opportunity to leverage research on social issues and nonprofit strategies through online platforms such as Guidestar and GreatNonprofits. They can join communities such as the Global Philanthropy Forum or The Philanthropy Workshop West that invest to educate their partner members. Donors should still follow their passions, but do so with more information.
- **Make donation decisions based on performance and impact information.** No other step will have as much power as simply making donation decisions based on results. This requires asking sophisticated questions around nonprofit impact and clearly communicating (in person, on websites, through advisors) that performance data and transparency will affect donations.

Foundations—fund and facilitate change

Foundations contribute more than \$35 billion a year to philanthropic causes. Their funds are a lifeline for nonprofits, and their thought leadership frames key debates. Following are some steps foundations can take to help advance information flow and effectiveness:⁴³

- **Share research on “what works” in addressing social issues, communicate the theory of change underpinning foundation strategies, and increase transparency around grant-making criteria and rationale.** Better sharing of these insights would help educate donors and strengthen the effectiveness of the sector. Donors would learn how well-resourced organizations think about grant-making, and nonprofits would better understand what makes an effective proposal. Placing due diligence criteria and grant information on an open database with RSS feeds would make the process much more transparent.
- **Fund efforts to improve the effectiveness of the overall marketplace.** Foundations can advance the sector by underwriting efforts to build key intermediaries and market infrastructure, develop nonprofit and donor capabilities, and conduct research to better understand donor behavior. For example, foundations can fund organizations that help nonprofits build their performance management capabilities, develop and disseminate strategic planning and performance management tools, and create instructional guides on effective giving for donors. Perhaps most importantly, funders should support their grantees’ efforts to collect and share performance information and build performance management capabilities.
- **Create or support the development of side-by-side funds.** As described in Chapter 3, foundations could support the creation of side-by-side funds and enable donors to piggyback on foundations’ capabilities and capacity. Donors would capitalize on the research, foundations would be able to attract additional support for their strategies, and donor support would provide a valuable “market test” of whether strategies seem sound and inspiring to independent donors.
- **Align application and reporting systems across foundations.** The common online application that most colleges and universities use is a good example. Nonprofits would need to craft targeted proposals in many cases (just as students craft “extra essays”), but the administrative burden on nonprofits would be greatly reduced, allowing them to devote more attention to goal-setting, strategic planning, and performance management. Foundations could also agree on a common set of performance metrics (e.g., such as those developed by the Urban Institute) and use those with their respective grantees.

43 These actions might also be taken by federated giving organizations such as the United Way and by government funding agencies.

Intermediaries—facilitate connection, conversation, and collaboration

In a fragmented marketplace, intermediaries can be catalysts for transformation, by facilitating connections and collaboration among market participants. For intermediaries to thrive, they need to justify their existence by providing value-added services, reducing costs and other sources of friction in the market, and eliciting increased “willingness to pay” for their services.

We suggest the following priorities for intermediaries:

- **Aggregate information about nonprofit performance and impact, and share it through “wholesale” channels.** Donors will be most likely to use performance information if they can access it easily through their preferred bank, financial advisor, social networking site, or search engine. Information must be well organized and presented in a way that is flexible and usable, so donors can easily find and sort data relevant to them.
- **Provide tools to track and analyze performance.** Intermediaries are well placed to help nonprofits develop performance metrics, targets and dashboards provide templates, software, lessons learned, and frameworks to advance the effectiveness of donors, foundations and nonprofits.
- **Cooperate to establish sector-wide “meta-data” standards for information about nonprofits.** Many institutions—the IRS, banks, researchers, foundations, and nonprofits themselves—are collecting data, but there is no easy way to share it in order to facilitate research on a particular organization. Sector-wide standards for “meta-data” could improve communication across intermediaries, donors, and nonprofits (see sidebar).
- **Facilitate conversations about performance.** Intermediaries can facilitate these conversations by providing online and offline forums (e.g., donor education programs, social networking sites dedicated to addressing targeted social issues) that support constructive, honest dialogue among donors, nonprofits, and other stakeholders.
- **Educate broader constituencies on the role of performance information.** Intermediaries such as Independent Sector can take on the task of educating broader constituencies like lawmakers, civic opinion leaders, and the public at large on the importance and use of performance information.
- **Create business models that cover the costs of providing products and services.** Intermediaries need to be forthright about their financial needs and creative in building sustainable revenue streams. Donors, foundations, banks, and financial advisors need to be prepared to pay a fair share of these costs.

Nonprofit/for-profit partnerships—build scale and leverage expertise

Partnerships with for-profit companies may offer something that is now lacking in the nonprofit information marketplace: scale. Large banks, search engines, and social networking sites operate with millions of people and billions of dollars. In addition, they have know-how, technology, brand loyalty, and funding that could prove crucial to the next stage of the market's growth. The essential mission-driven character of the nonprofit sector must be preserved, yet targeted partnerships with the private sector should be able to enhance that mission, not distract from it.

- **Mass-market banks** can provide better information about philanthropy, social issues, and individual nonprofits to their customers. Ideally, they would integrate this data and service into existing platforms and familiar interfaces. The first banks to provide these features will differentiate themselves from their competitors in an area with rapidly increasing consumer demand.
- **Private banks, wealth managers, estate attorneys, and accountants** can provide customized philanthropic advisory services to their clients, recognizing that these added services may be a source of competitive advantage. In addition, these advisors need to be willing to pay the costs of gathering and organizing this information.
- **Search engines** can aggregate information about nonprofit performance more effectively. When a searcher looks up a nonprofit or an issue, the results could include tailored links to relevant data.
- **E-commerce platforms** can use their expertise and systems to improve online giving, facilitate better communication in the marketplace, and improve access to and use of performance information.
- **Social networking sites** can offer improved mechanisms for their community members to discuss nonprofit performance—and can then make that information available to donors, nonprofits, and intermediaries.

BASIC INFORMATION TECHNOLOGY TOOLS CAN HELP CREATE A BETTER INFORMED MARKETPLACE

Assign unique identifiers for each nonprofit to standardize information. The nonprofit's employer identification number (EIN) is the logical choice as it is already public and commonly used. If each piece of nonprofit information had the EIN attached to it, data collection and synthesis would be much easier.

Employ real-time distribution mechanisms make new data immediately available. For instance, GrantsFire uses RSS feeds to announce donor decisions as soon as they are made.

Use mechanisms that add new data automatically and enable others to “remix” data so they can use it more effectively. For example, a sociologist researching nonprofits could automatically upload her findings to a database where others could access them. Individuals could then extract and present the information differently, combining it with other data when appropriate. For instance, GlobalGiving experimented with an application programming interface (API) that let the public access its entire project database.

Tag nonprofit websites with keywords that search engines understand. Better tagging (e.g., using XML “microformats”) would lead to better search engine results, allowing nonprofits to reach prospective donors more effectively.

All stakeholders—collaborate to increase impact and scale

Collaboration in the form of formal partnerships, information sharing, and performance dialogue is critical to improving the nonprofit marketplace. Beyond what each type of stakeholder needs to do on its own, we see huge opportunities for collaboration within and across each of these groups. Specifically, all stakeholders can:

- Try to use the same language when discussing data and performance
- Agree on basic standards and ways of measuring performance
- Open up their databases and file cabinets and share relevant information
- Share back-office systems and reporting mechanisms where relevant
- Play to each other's strengths (e.g., leverage private-sector access to donors and community foundations' local knowledge)
- Collaborate in funding and in addressing social issues (consider co-funding as well as nonprofit mergers or joint ventures)
- Share successes and failures as well as lessons learned.

A NOTE ON UNINTENDED CONSEQUENCES

We are confident that the suggestions outlined in this paper will lead to a more efficient market that better serves nonprofits and donors, and addresses the social issues they care about. We recognize, however, that any sort of significant change brings with it the chance of unintended consequences.

Here are some consequences we should strive to avoid:

- Large, established nonprofits with significant marketing resources choose to “game the system” rather than honestly measure and learn from their performance.
- New nonprofits are unable to demonstrate a history of impact and are shut out of funding opportunities.
- Nonprofits that operate on long time horizons (e.g., preventative medicine) or with indirect theories of change (e.g., libraries) are unable to show proof of impact and lose funding.
- The easy availability of imperfect “proxy” data removes the incentive to gather outcome or social impact data.
- The introduction of an open conversation about performance degenerates into unproductive arguments and leads to ad hominem attacks.
- Partnerships with actors like banks lead to a “capture” of the nonprofit sector by the private sector and weaken the mission-driven culture of the nonprofit community.

We believe that the sector can mitigate or avoid these unintended consequences through:

- A sector-wide commitment to learning, where publication of suboptimal performance and lessons learned, coupled with a commitment to improve, is rewarded and not punished.
- The development of metrics and targets that are relevant for segments of nonprofits (e.g., by issue area, by size) and provide the basis for relevant evaluation and comparison.
- The rapid introduction of stakeholder feedback on the both the effectiveness of nonprofits and donors.
- Ongoing dialogue on the effectiveness of the nonprofit marketplace and how innovation and the introduction of more and better information is advancing or harming the sector.
- The development of a culture that defaults to transparency. Although there are times when it is appropriate to maintain confidentiality, the standard in the sector should be openness.

Closing thoughts

The social challenges of our time—climate change, poverty, the educational achievement gap—are too big and complex for us to rely on ad hoc giving. Strong nonprofits deserve to be rewarded for performance; donors deserve to have high expectations met; and, most importantly, the people and causes served by nonprofits deserve smart, thoughtful giving.

The nonprofit marketplace is already making strides toward becoming more efficient and effective. But market participants must close remaining information gaps if they want to solidify and sustain this progress. Performance information needs to be more accurate, more accessible, and easier to use if it is going to accelerate donors' transformation from givers to investors. Once a wider range of facts and insights are available, donors, intermediaries, and nonprofits will become more sharply focused on performance and impact.

The strategies outlined in this paper can make this vision a reality. As nonprofits improve the supply of information, they will not only make better decisions themselves but whet donors' hunger for more insights. Armed with better information, donors will have a more holistic picture of a nonprofit's impact—and be able to make better decisions that yield greater social impact. Intermediaries will go beyond serving as information providers and start facilitating performance-based dialogues among stakeholders.

We hope that this paper serves as a starting point for transforming the nonprofit information marketplace, laying out possible avenues that donors, nonprofits, foundations, and intermediaries can build upon. Each market participant—including interested for-profits—faces important opportunities. By working together, donors, nonprofits, foundations, intermediaries, and others can increase their social impact dramatically and create a more effective, efficient sector.

Back cover

Back cover photo shows patrons shopping
at the Kansas City farmers market.

Photo © Susan McSpadden

