Using the **Power of Information** to Create a **Healthy Social Sector**

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Philanthropy Tomorrow

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Preface

When philanthropists give money, goods, services or time to fulfill societal needs, they're drawn to organizations that ignite a sense of charitable passion. After all, passion about the cause is a key driver in donors' choice of which nonprofit programs they support, and to what financial end. But to keep that spark alive, such passion must be fed by ongoing, trusted information about specific programs and how well they're being managed.

So where do you turn for information on the performance of your funded nonprofits and the programs they operate? Direct mail and annual appeals have clogged our mailboxes and left our heads spinning around a menu of charitable options -- only to tell us high-level details about the organization, and not the "meat" of what is actually happening at the project level. What's more, the availability of online research tools can provide financial details (like the amount of money raised, spent, and even the CEO's salary) at the organization level, but they cannot tell you whether or not a program is really working.

Because the only data currently available for donors to assess their charities is based on financial ratios, more harm than good is actually being done. Evaluations on last year's tax forms are forcing nonprofits to concentrate on massaging their numbers to make the grade – rather than focusing on making a difference, and reporting impact to constituents. As a result, donor attrition rates average more than 40 percent after the first year of giving to an organization,[1] signifying the need for a shift in how nonprofits communicate with their grantors.

This lack of meaningful communication is important because it's hindering the progress of the social sector. Its primary supporters, the donors, are feeling less confidence and trust than ever in existing programs and as a result, are beginning to reduce their funding. Much needed programs are suffering amidst the noise of changing donor expectations because nonprofits are simply ill-equipped to respond. Consequently, the entire social sector is experiencing a chaotic blend of market forces: new donor expectations, revised grant request processes, more stringent reporting requirements, and less funding.

Now is the time to address this communication and information gap with a standard platform that connects donors to their nonprofits' long-term, meaningful outcomes. Such a platform will enable donors to reward nonprofits that overcome challenges, exhibit organizational effectiveness and efficiency, and generate sustainable results – thereby not only establishing a structure and standard for meaningful information, but also creating innovation in the marketplace. This innovation requires a major investment and commitment by donors, foundations, governments, wealth advisors, consultants, and nonprofits. It is this fundamental focus on information, however, that will improve social programs and create a healthier sector overall. The following discussion reveals what it might take to make the transition happen.

Preparing Today's Nonprofits for Tomorrow

The majority of today's nonprofit organizations are in a rut. Amidst this new rocky economy filled with skeptical supporters, nonprofits are still implementing traditional, often ineffective marketing approaches that worked in the past. They are spinning their wheels trying to attract a solid base of new donors that will help them survive in the future.

Donor acquisition and mass marketing used to be a winning focus for thriving nonprofits. But in light of the current financial crisis – with grantors having less money earmarked for charity and more concern about how it's being used – the former tactics that proved successful for nonprofits are no longer working. Instead of allocating big budgets for marketing to recruit new donors, forward-thinking nonprofits should instead focus on the donors they already have and give them what they've been wanting for years…information about how they're making a difference – information about impact.

By refocusing marketing as a means to tie donors to programs (instead of just marketing the organization at-large), nonprofits can connect their supporters to the day-to-day results of the impact their gifts are making. And instead of hiring more development staff, marketers and fundraisers, nonprofits can tap an already-existing resource: their own program staff working passionately in the field, who typically operate in a silo with little or no connection to the people telling their story. Through program staff, nonprofits can glean the most meaningful information from the people who know it best. Nonprofits can truly learn what's working and what's not, and convey that information to the very donors making their work possible – thereby connecting people to projects, and projects to people. This direct access to results gives donors a greater sense of emotional connection, ownership and commitment for the projects they support.

> *According to a recent study by Bank of America, "only 6.1% of donors believe they're making significant contributions to the improvement of society." Imagine what could happen if more people knew they were making a difference.*
>
> *- Bank of America's Study of High Net-Worth Philanthropy, November 2008*

The Economy's Effects on Philanthropy

Let's take a quick look at today's global economy. A substantial credit crisis has led to the bankruptcy of large and well-established investment banks, as well as a significant deterioration in U.S. commercial banks and in various nations around the world. And if that weren't enough, unemployment rates, health care costs, energy prices, and inflation numbers are up; while housing values, consumer spending and stock markets are down.[2]

As you can expect, this fiscal downfall also affects nonprofit programs and people in need of aid around the globe. The cruel irony is that while we're knee-deep in an economic recession, charities across the nation are left with no option but to cut back on programs during a time when their services are needed most.

Nonprofits around the country are wondering how they will weather the economically turbulent days ahead…Charities can expect to see their contributions decline along with the incomes of the individuals and companies that fund them. Economists estimate that a 10% income decline causes a drop in giving between 4% and 8%. Government funds can't cover the shortfall as budget-balancing states also face cut backs.[3]

- Forbes.com, October 2008

Dissatisfaction During a "Golden Age"

The promise of a multi-trillion dollar wealth transfer over the coming generation (according to Boston College's Paul Schervish) has more money than ever flowing to charities – calling this the "Golden Age of Philanthropy." In 2006, nearly $300 billion was contributed to more than 1.8 million charitable organizations in the U.S. This was an increase from $260 billion in 2005, and is expected to continue rising an estimated 7.4% annually, exceeding $415 billion in giving by 2010.[4] This data was compiled before the current fiscal downturn, which in part leaves high-wealth donors and foundations to express less trust and confidence in philanthropy.

Add that dissatisfaction to the current economic climate, which is creating even more insecurity in the social sector and further making the case for fundamental change. In times like these, how do we serve more people with fewer dollars? How can nonprofits take the dollars they do have and stretch them further?

Hard Times Call for New Measures

Today's risk-averse, results-demanding donors are increasingly treating their charitable contributions like any other investment by bringing a business-oriented perspective to philanthropy – with expectations of nonprofit transparency, regular updates on the outcomes of their charitable funding, and a visible "return" on their investment (ROI).

"Donors are demanding greater levels of accountability, stewardship and transparency, and they want more direct involvement in deciding how nonprofits spend their money," says Kay Sprinkel Grace (renowned speaker, writer and thinker in nonprofit organizational behavior and founder of Transforming Philanthropy, LLC)[5]. "Part of transparency is understanding what you can and cannot do. Too many gifts in philanthropy have been taken in full knowledge that they would not be spent as the donor wished. We have passed that time in philanthropy. That is no longer conceivable or possible. The donor is looking for an ROI."

Today's Donors Want to See Results

Amidst these elevated expectations, the stark reality is that while today's donors initially give to the causes that match their charitable interests and passions, what inspires them to continue giving is proof that their generosity is having an impact on the societal problems they strive to address.

*A recent survey shows that **87% of donors** cite two key elements that build loyalty and long-term giving: acknowledgement of a gift and information about measurable outcomes before being asked for another gift.*[6]

But unlike the private sector, nonprofits are ill-equipped to provide their "investors" with transparency. That explains why, in today's information-driven economy, a void for useful, meaningful information is being filled with traditional mass marketing tactics, like glossy brochures and high-end annual reports. As a result, donors are left feeling skeptical, unappreciated and dissatisfied in their giving; and foundations are left questioning the performance of their grants and leery of future funding.

With this growing demand for personalized communication and honest information (from ultra-high-net-worth donors and everyday donors alike), nonprofits' marketing approaches are often driving donors further away and giving them a feeling of disconnectedness. Because donors want hard facts and real measurements in exchange for their support, nonprofits need to shift from being marketing organizations, which identifies today's majority, to being information organizations.

Where We Stand Today

With the dawn of customer relationship management (CRM) tools in the 1990s came streamlined, scalable approaches to donor management and direct marketing. This spurred a new level of growth for those organizations that mastered their marketing messages. And while CRM made it possible for charities to regulate, manage, and track donor activity in relation to their marketing efforts (a groundbreaking approach at the time) the mass-communication strategy is ultimately falling short of where we need to be today.

Nonprofits are motivated by the question:
What offer or proposition secures donors' highest and most generous response at the lowest cost? How can our organization market the most powerful message to the largest amount of people?

And donors are left wondering:
How effectively are nonprofits using my money? Are the programs I support generating outcomes? How can I be sure my dollars are helping make the world a better place?

CRM's original purpose of managing and delivering traditional marketing communication should be revisited. By reverting back to its traditional function as a medium for one-to-many contact, nonprofits can take advantage of CRM in combination with other sources of communication management. To serve the needs of today's donor, CRM can be transitioned to act as a vehicle for delivering information.

However, even with mechanisms in place (like CRM) to deliver the information that donors want, we still lack the infrastructure to identify, measure and communicate that information. Imagine what such an infrastructure would do for philanthropy and the entire social sector. The accessibility of information alone would attract new players, not to mention further draw those in who already play a part.

If nonprofits simply shift their marketing efforts to focus on showing donors the true impact of their giving in a more personalized manner, they could easily and cost-effectively cultivate their existing donor base. For this to happen, nonprofits and donors must understand that in order to "show impact," the organization must first achieve impact—and that can result in a major contraction in the marketplace.

According to Cygnus Applied Research, the seven primary reasons donors stop giving include:

- *Poor or lack of information (46%)*
- *Mismanagement of funds (37%)*
- *Multiple solicitations (38% turned off; 28% not likely to give again)*
- *No progress in the mission (28%)*
- *High overhead (15%)*
- *Negative media (14%)*
- *Aggressive fundraising (12%)*

When you analyze the big-picture reasons why donors stop giving, two major themes stand out:

1. *The donor did not see progress or information on the program to which they gave money.*
2. *The donor felt like a source of cash versus a true partner.*

A Marketplace Contraction and a Healthy Social Sector

According to *The Christian Science Monitor*, the number of U.S. nonprofits has tripled over the last two decades, and with the government scaling back in these uncertain economic times and our nation's current financial crisis, charities are expected to do more of society's heavy lifting – whether in social services, education or health care. Plus, as a new generation of philanthropists eyes places to put its wealth, the demands on nonprofits are increasing for greater accountability and effectiveness.[7]

Due to nonprofits' lack of solutions and resources to meet their grantors' increased expectations, a "gap" exists whereby only a fraction of the potential good that could be accomplished is attained. This challenge calls for a solution that could ultimately create a contraction in the marketplace that brings out the "best of the best" in the industry – leaving no doubt for which programs are worthwhile and worth dollars. As a result, the industry would become more efficient since only successful nonprofit programs would survive and receive more well-earned money for their efforts – ultimately maximizing overall impact. What would ensue is the uniting of the philanthropy community, bringing all constituents together with a shared vision of impact to create a healthy social sector.

As we have seen with so many other industries, this contraction would most likely be facilitated through a groundbreaking technology solution. In this case, the solution must facilitate the communication of genuine, trusted information among key constituents in the philanthropy market, including nonprofits, donors, foundations, financial groups, government and more.

Such technology would enable nonprofits to finally replace inefficient reporting and program-tracking methods (like one-off manually-created reports, complex spreadsheets, and even the old pen-and-paper routine) with streamlined capabilities. In today's information age (where consumer reviews, product data and manufacturer assessments are available at the touch of a button or the click or a mouse), nonprofits should be able to quickly and easily satisfy donor requests for more information.

The best part is if donors demand this information from their nonprofits AND also help position them for success by directly investing in the very infrastructure that will make the creation and availability of information possible, charities will be able to do more with less.

What does a philanthropy industry focused on outcomes and impact look like?

With the right technology and a standard platform for identifying, measuring and communicating programs, nonprofits will have the resources to be more effective and accountable. This leads to gratified donors who will show their support with more money and resources; and ultimately will result in the greatest impact for those who need it most.

All Eyes and Ears on Impact

"Impact." It's become a buzzword in the philanthropy industry, at the core of nonprofit goals and mission statements, essential to donor communication, and key to project monitoring and evaluation – but what exactly does it mean?

Some within the marketplace classify philanthropic impact as "the process by which a philanthropist makes the biggest difference possible, given the amount of capital invested." Other people boil down the definition to "getting the most bang for your philanthropic buck." While others stand by the notion of impact representing the "fundamental measure of any philanthropic investment, assessed by social change and cost," also often referred to as the "social return on investment" (SROI).[9]

And yet with the pool of descriptions and muddied interpretations of impact-based philanthropy, one all-encompassing definition exists:

Philanthropic impact is a long-term, significant, discernible difference in the condition of people, society or environment as a result of charitable work.

If this seems like a robust, complex definition, it's because it is. Improving lives is complicated work and needs to be approached, measured and supported as such. But it is only by defining impact that nonprofits can figure out how to achieve it, and high-wealth donors can figure out which organizations are most worthy of their support.

Seven Steps to Achieve Impact

An organization on the road to impact must first start with the framework on the inside, and then communicate the results of those processes to stakeholders on the outside. As nonprofits prepare for the journey toward impact-based philanthropy, the following seven steps, if followed closely, can be a highly effective guide. This process can also benefit the donor by giving them an understanding of the nonprofit's strategic plan for achieving their mission and how they plan to get there.

1) **Identify PROBLEM:** In order to understand how to address any cause, a nonprofit must first lay the foundation for a specific project by identifying: what is the problem our organization is trying to solve, and why does it exist? For the donor, this is an essential first evaluative point as it begins to identify the "why" and sets the stage for the entire project.

2) **Define SOLUTION:** Consequently, the nonprofit answers: how are we going to solve the problem at hand? While most nonprofits post a mission statement, not all have one for each project, nor do they specifically address the problem. The donor should evaluate the solution by these criteria.

3) **Explain CASE STATEMENT**: The nonprofit identifies why their particular solution will be effective, and how it adds value to current efforts underway. With the right case statement, the nonprofit answers: what is our "competitive advantage" as compared to others that are also addressing this cause? What makes us different? The donor should evaluate the nonprofit's solution based on its significance in the identified area of need.

4) **Outline IMPACT-BASED ANALYSIS:** Using Impact-Based Analysis based on the widely acclaimed Logic Model the nonprofit clearly defines, creates and tracks progress against its project plan. This key step keeps the nonprofit focused on long-term outcomes while managing shorter-term activities. It also helps the donor focus on outcomes, and evaluating progress by monitoring key milestones along the way.

5) **Exhibit FINANCIAL RESPONSIBILITY:** In order to truly tie impact to funding, it is critical that a nonprofit makes financial responsibility a priority. The nonprofit outlines a capacity plan for precise budgets, strategic systems, appropriate resources, effective people and guiding principles. To accurately evaluate a nonprofit's financial responsibility, the donor must not place value necessarily on where a nonprofit spends its funds, so much as on how, most importantly, to what end.

6) **Employ WORKFLOW:** To hold itself accountable, an impact-focused nonprofit will employ self-governing workflow with checks and balances to help ensure people adhere to the project and capacity plans. Workflow aids in uncovering what projects and processes are working and which are unsuccessful. During this step, the donor should ensure the correct processes are being applied to reviewing/approving project information and metrics.

7) **Communicate and analyze REPORTS:** As an overarching component of the previous steps, an impact-focused nonprofit communicates progress and outcomes throughout the project's lifetime. Donors should receive frequent, honest reports about their supported projects – helping to keep them engaged and informed about the program's mission, successes…and tribulations. For a partnership-minded donor who truly wants to help the nonprofit succeed, seeing what doesn't work can be just as motivating to provide support as seeing what does.

This type of reporting will ultimately change the behavior of a nonprofit since it requires strategic focus on program performance with the right solutions, deployment of funds and staff to achieve success.

Upon implementation, ongoing review and completion of steps one through seven, the nonprofit will reach the ultimate goal of impact.

Change Must Be Donor-Driven

In order to equip nonprofits with the tools and software necessary to report impact and communicate project-level information, the responsibility rests on their major supporters to drive the adoption of right resources and infrastructure. Change is too risky during these economic times for the nonprofit to do it alone.

This goes beyond funding programs, and takes a critical look at what a nonprofit needs to be successful. When donors get involved in the success of the nonprofit and its operations, they can directly impact the ability and capacity to achieve more impact with less resources. This approach simply gives nonprofits solutions to boost their overall efficiency and efficacy by: addressing what is working and unveil what isn't; reduce donor attrition rates and improve new-donor acquisition; showcase a return on grantors' investments by creating a more productive marketplace; and ultimately by maximizing impact for those in need.

"Think hard about the biggest problems out there, and survey the charity landscape for organizations that most effectively address those problems. The focus should be on outcomes: How many indigents were fed by a soup kitchen? How many unemployed – who would otherwise have remained jobless – were taken off the welfare rolls by a job-training program? And what did it cost to generate these outcomes? Identifying and funding the "highest productivity" charities is more important than ever."[8]

- Raymond Fisman, Forbes.com

How can you, the donor, influence nonprofit behavior in order to improve their results and create a healthier social sector?

- Understand your nonprofit! Become engaged and familiar with where your nonprofit is on the road to impact and its unique challenges and needs. This is essential to ensuring you are helping them in a way that will immediately benefit the organization.
- Invest in upgraded infrastructure and improved resources as part of your overall giving to a nonprofit.
- Reward nonprofits that exhibit a dedication to achieving and communicating outcomes.
- Discontinue your support of nonprofits that don't provide the information and transparency you are requesting.
- Collaborate with peers and other like-minded philanthropists to command a standard platform for nonprofit information.

When we achieve an information-driven, impact-based philanthropy market, the social sector will become a much more efficient and viable space. Nonprofits will uncover which programs are working, and can eliminate those programs deemed ineffective. As a result, nonprofits will rise to a level of accountability that their work deserves and their grantors seek – resulting in increased donations, greater impact, and a healthier social sector overall.

About the Author

Troy Stremler is the Founder and CEO of Newdea, a company that provides an information platform to identify, measure and communicate program results to all major constituents in the philanthropy market.

About Newdea

Newdea's patent-protected solutions help nonprofits answer the call for program-level results through the use of a standard information platform – generated by a process entirely focused on achieving the greatest outcomes. With its unique suite of online philanthropy solutions, Newdea teams up with major donors, foundations, governments, financial institutions and nonprofit organizations to identify, measure and communicate real impact. For more information about Newdea, visit its Web site at www.Newdea.com, or call 720-249-3030.

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