IMPACT-BASED PHILANTHROPY

Running a nonprofit is incredibly difficult. It typically involves providing crucial goods or services to people in need—and doing so with unreliable funding and on a shoestring budget. Nonprofits are pushed by donors and governments to spend their money on service delivery rather than investing in long-term infrastructure. With no access to debt or equity markets, they must rely on private donations, corporate contributions, and government support. At the same time, nonprofits often face volunteer shortages, have limited networks of contacts to draw upon, and are unfamiliar with the best practices of the private sector. All of these challenges make it very hard for nonprofits to plan, innovate, and grow.

This is not a small problem. The U.S. alone has more than 1.5 million nonprofits—around one-third more than the country had in 1999—that range in size from tiny part-time outfits to massive institutions.[1] The recent boom in nonprofits has been driven in part by a dramatic surge in giving between 1987 and 2007, when charitable donations in the U.S. more than doubled. The economic crisis of 2008 ended the boom. In 2008, private donations in the U.S. fell by 6 percent, the largest drop in more than 50 years.[2]

Unfortunately, donations are dropping just as demand for many social services are at a peak. The global downturn increased the hardships of many of the world's most vulnerable, and their needs have grown as a result. Most nonprofits are seeing an uptick in demand for their services and expect further increases in the coming years.[3] To make matters worse, governments are under pressure to reduce costs and do more with less. With less public funding available—and more social services needed—nonprofits are struggling to pick up the slack. Unfortunately, non-government giving is unlikely to fill the gap. In the near term, many nonprofits in the developed world are expecting donations to stay at the same level—or decline.[4]

At the same time, the social services "market" is extremely fragmented. Any organization can hang out a nonprofit shingle. Potential donors, sponsors, and governments have few easily accessible ways to distinguish the high-impact organizations from those that are merely mediocre—or to measure the return on their investments. As organizations grow, strong founders with a singular vision can prevent needed changes in policy or expansion of scope, hindering the mergers or expansions that could improve impact.

Although watchdog organizations have done an excellent job monitoring the spending and operating efficiency of nonprofits, one critical measure is still lagging: the actual impact delivered. A nonprofit can be administratively efficient but accomplish little. And one with

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high overhead can still have exceptional outcomes.

Results are what matter in the social sector. How many fewer school days were lost to student illness? How many targeted students graduated from high school or college, compared with the unassisted population? To what extent was drug use curtailed? How many follow-up visits to the hospital were avoided?

Pulling together the right metrics can be difficult, especially for smaller organizations with fewer resources.

Many studies have shown that today's social investments deliver future results that can be quantified. For example, the Canadian Council of Learning found that a 1 percent increase in high school graduation rates could save the country $7.7 billion annually. If we knew which nonprofit organizations were making the biggest impact in key sectors, we could direct a larger share of resources to those and help them scale up quickly, increasing their impact by tenfold—or even a hundredfold. And with greater transparency into outcomes, nonprofits would be more accountable to their boards and donors, pushing them to strive for better impact.

The Need for Measurement and Accountability

Nonprofits that want to access capital just as companies in the private sector do are increasingly expected to present their results with hard numbers that can be tracked and compared, using a baseline as a starting point for measuring improvement. This quantified outcome—potentially employing a measurement tool such as "social return on investment" (SROI)—would ideally allow potential donors to make dollar-to-dollar comparisons of the relative impacts generated by different organizations.

The nonprofit sector is beginning to recognize this need for measurement—and the challenges of delivering it. In the developed world, 60 to 70 percent of surveyed executives at nonprofits report feeling that they lack the impact metrics that are necessary for public reporting and marketing.[5] But pulling together the right metrics can be a complex undertaking, especially for smaller organizations that have fewer resources or lack the required analytical skills. This problem will need to be addressed.

Moreover, SROI itself isn't a perfect metric—especially for making apples-to-oranges comparisons. For instance, how does the value of a child completing school measure up against the value of saving the life of an animal? These are moral choices, heavily laden with personal belief. The social sector provides a wide range of services to varied populations, often in partnership with multiple organizations, and outcomes are highly variable as a result.

Still, the SROI metric is a strong starting point for comparing nonprofits. It is a tool that donors, corporate sponsors, and governments can use to hold nonprofits accountable for their impact—and to help reveal the top performers in each sector. In today's challenging economic environment, it is even more critical to identify high-impact organizations so that they can benefit from the limited funding that is available. If businesses, private donors, and government agencies marshal their resources in support of these exceptional nonprofits, the impact can be extraordinary.

A case in point is Pathways to Education, a community-based program for high school students from low-income families that aims to break the poverty cycle by reducing high-school dropout rates. Founded in Toronto's Regent Park, the program provides students with tutoring, mentoring, and financial support. Pathways gained access to crucial data by getting the school board to agree to share course and graduation outcomes for each student who signed up for the program.

In 2007, The Boston Consulting Group was brought in to help determine the social impact of Pathways. The SROI that BCG quantified was remarkably high. Students participating in the program had a 70 percent lower dropout rate than their at-risk peers—and a university enrollment rate three times higher than the baseline (set before students enrolled in Pathways). Just as important, the study showed that every dollar invested in Pathways delivered $24.50 in social returns for the broader community, through students' higher income and taxes in later years, or by their avoiding social costs in health care or the justice system. The results confirmed the beliefs of Pathway's founders—that removing the barriers to a good education would allow low-income students to achieve the same academic success as their more affluent peers.

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Armed with this data, which is regularly updated, Pathways' leaders developed an ambitious plan to scale up the organization's operations by collaborating with a range of outside supporters from the private and public sectors.

Pathways to Education is a community-based program for high school students from low-income families; it aims to break the poverty cycle by reducing high-school dropout rates.

The United Way, the Bank of Montreal, BCG, and others provided the organization with the funding, strategic advice, professional services, government contacts, and media attention needed for a major expansion. In less than a decade, Pathways set up 17 programs throughout the province of Ontario, and it will soon embark on a five-year plan to grow nationally. In the process, Pathways increased the reach of its services from hundreds of students to tens of thousands.

> Efficiency matters, but effectiveness is more important, and administrative cost ratios don't provide needed insight.

The lessons here are threefold:

Measuring outcomes brings much-needed clarity. Efficiency matters, but effectiveness is even more important—and administrative cost ratios don't help here. Most donors are in the dark when it comes to knowing if their contributions are actually making a difference. Impact measurement turns the lights on. Armed with data on outcomes, both donors and government agencies can funnel money and resources to the organizations that are most effective, and they can hold accountable those that are less effective.

Scale can magnify the impact of effective nonprofits. As any venture capitalist knows, new start-ups are risky, but a proven business model—one that can be scaled up quickly—mitigates that risk. The same concept applies to social investment. Nonprofits with exceptional outcomes should be identified and expanded so that their impact can be magnified. The private and corporate donors that help make this happen will get more social return for their investment dollars.

Collaboration can drive more rapid growth. Nonprofits too often lack the capital, business skills, capacity, or networks needed to expand on their own, so collaboration is crucial. The contacts, capital, and management skills of a broad coalition of supporters are required to push high-impact organizations to the next level. But these broad collaborations must be tightly coordinated and integrated to ensure that they deliver the desired outcomes.

In these times of corporate retrenchment and declining government involvement, effective nonprofits can play an ever more critical role in improving standards of living in the years to come. But to achieve this potential, they need targeted infusions of capital, business skills, and other important resources. To this end, smart investors with a stake in our nation's future should consider directing their contributions to high-potential organizations that can show a track record of measurable results—organizations that can grow into sustainable, high-impact institutions through the collaborative efforts of supporters from the private and public sectors.

NOTES

1. National Center for Charitable Statistics.
2. Evalueserve, "Global Trends in the Not-for-Profit Sector," October 2011.
3. Blackbaud, "2011 State of the Nonprofit Industry Survey," October 2011.
4. The countries included in the Blackbaud assessment, "2011 State of the Nonprofit Industry," were Australia, Canada, France, Germany, Italy, Netherlands, New Zealand, UK, and U.S.
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