Creating an Online Information Marketplace for Giving

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Philanthropists—whether large foundations or small donors—often make grants and gifts based on limited information. This essay explores possibilities for capturing, distributing, and ultimately using better information to make better philanthropic decisions.

To frame the discussion, consider the information available to private investors who seek primarily financial returns. Investors can make use of a broad array of data, ranging from reports of quarterly earnings statements to the historical and current prices at which stocks are traded—all based on standards that are consistent across many industries, markets, and countries. They can supplement formal data with the reports of industry analysts and gossip on Web sites and blogs. Based on this information, investors can put together portfolios that are aligned with their investment horizons and tolerance for risks. And at the end of the day, or quarter, they will know their actual returns.

With due caution about importing concepts from business into the nonprofit sector, it is helpful to think of philanthropic donations as investments that seek a *social return*. This reflects the hopeful belief that philanthropists want their resources to achieve the greatest impact—the biggest bang for their buck.

Whether or not you are attracted to the metaphor of social returns on investments, if you believe that the goal of philanthropy is to improve the world in some way—increasing the graduation rates of disadvantaged youth, feeding the hungry, or preventing AIDS—then the more you accomplish in a timely manner, the better. And if you believe that information about an organization's performance can usefully guide investment decisions, it is disquieting that philanthropists have access to so little of the kinds of information that private investors rely on.

Money is the measure of financial return, and diverse philanthropic investments do not have a single common measure. But I am not talking about that inevitable distinction, nor about the almost equally inevitable obstacles to attributing particular results to your individual philanthropic dollars.[1] Rather, I want to the address the difficulty of knowing whether an organization in which you invest has the strategies and capacity to achieve its aims. This difficulty is not inevitable, but it is pervasive. At present, most donors—except possibly very large or highly specialized foundations—simply lack the necessary data to support informed decisionmaking. This essay outlines the current state of affairs and describes the Hewlett Foundation's efforts to help create a nonprofit marketplace that provides philanthropists with more and better information to inform their giving.

The Advantages of Good Information

In an ideal world, donors would have information about both the costs and the actual outputs and results achieved by nonprofit organizations in their areas of interest. Costs are pretty easy to measure and are in fact reported in organizations' tax returns. Some outcomes, such as the number of individuals served by a homeless shelter, or the number of acres protected by a land trust, are almost as easy to ascertain—though many organizations do not systematically report on them. But measuring the ultimate impact of most major social interventions—whether in health, education, or the alleviation of poverty—is usually complex, expensive, and feasible only in the long term, if at all. (In any event, such measurements are beyond the capacity of most organizations directly engaged in this work.)

In the absence of knowledge about actual outcomes, there are two reasonably good proxies that can help a donor decide whether or not to invest in an organization: information that the organization itself can provide about its goals, theories of change, strategies, capacity, and progress; and the views of various stakeholders.

Information provided by the organization would answer questions such as: What are the organization's goals and its strategies for achieving them? Why does it think the strategies will succeed? What evidence is there that the organization has the capacity and resources to achieve its goals? And what indicators does it use to measure progress toward its goals? Clarity about these matters is hardly an infallible predictor of actual impact. But an organization's inability to provide this information should give a donor serious pause about its likelihood of success.

Information provided by stakeholders would answer questions such as: What do the beneficiaries of an organization's work think of the organization? What do employees, volunteers, donors, journalists, and other organizations think? If there's cause for worry that an organization's self-reports are self-serving, there's always a danger that stakeholders' views will be uninformed, malicious, or designed to curry favor. But a donor is probably better off relying on corrections from the free marketplace of ideas than not having such views at all.

Consider, then, a Web site where donors could compare nonprofit organizations that do similar sorts of work. For each organization, the screen might display:

- Basic organizational and financial information from its IRS 990 tax return.
- A description of the organization's goals and strategies for achieving them. For example, an organization dedicated to eliminating polio in a developing country would describe the scope of the problem and how it plans to tackle the problem. (How many children does it plan to vaccinate, and what steps are necessary to do this?)
- Indicators to track the organization's progress toward its goals and a description of what progress has been achieved. (How many vaccinations have actually been administered?)
- Evidence of actual impact, where available, and lessons learned. (In the long run, did polio decline in the country? In the short run, what obstacles were encountered, and how were they surmounted?)
- Reviews of the organization by its beneficiaries and other stakeholders and interested parties. (How do families, communities, governments, and others view the vaccination program?)

While this information is valuable to any donor, having it readily available online would make it especially valuable to individuals and small foundations with little or no staff to gather it themselves, and it would save each large funder the cost of gathering it separately.

Organizational Barriers

While information technology can play an important role in making information of this sort available to donors, the main challenges are not technological, but flow from the nonprofit organizations' limited time and capacity.

Developing clear goals and strategies makes demands on the time of nonprofit executives, who often are already stretched thin and must make tough choices with limited resources. Yet for an executive to give an organization's day-to-day activities higher priority than clarity about its goals and strategies is like an airplane pilot's deciding that it is more important to get off the ground and up in the air than to know where he's going. Most of us would prefer not to be passengers on that flight.

Some executives believe that specifying goals and strategies deprives them of the flexibility to exploit unanticipated opportunities and challenges and, more fundamentally, that it takes the passion out of social change. Of course, organizations must have the flexibility to respond to the unexpected. But it's one thing to make midcourse corrections, and quite another to have never charted a course at all. Passion is incredibly important; it's what makes those committed to social change go to work early and come home late. But creating actual social change also requires channeling that passion into effective planning and execution.

Nonprofit executives often describe their ambitions in grand terms, but then—like many of us—get caught up in the things they are doing right now, without focusing on the middle ground of actionable goals. Organizations often have mission statements—along the lines of "End poverty in California" or "Save the rainforest"—that are inspiring but neither realistically attainable nor specific enough to lend themselves to tracking progress. Ultimately, organizations' missions must be realized through more mundane and specific goals such as "Move 100 residents of South Central Los Angeles into jobs as medical technicians" or "Secure indigenous land rights for 20,000 hectares of tropical forest." The fault for lack of specificity does not lie solely with grantee organizations. Many philanthropists are satisfied with lofty missions and inspiring anecdotes—hardly an incentive for nonprofit managers to be clear about their goals and strategies.

Although designing and implementing strategies can be a daunting task, a nonprofit executive can get assistance from an increasing number of sources. The Bridgespan Group and McKinsey & Company are among the well-known national consulting firms that work with nonprofits, and there are good local ones as well. Innovation Network and ActKnowledge, with its project Theory of Change, have Internet sites with templates for helping organizations develop strategies. And DonorEdge (described below) assists organizations in articulating the goals and strategies that underlie their programs.

Aggregating Information to Inform Donors

Several major components of a system to inform nonprofit donors' investment decisions already exist:

GuideStar publishes a Web site that presents organizational and financial data from the IRS 990 forms of all 1.5 million nonprofits in the United States. GuideStar could provide the core of a system, especially if its database expanded to include non-financial information.[2]

DonorEdge provides strategic, programmatic, organizational, and financial data about 2,500 nonprofits in the Kansas City area. DonorEdge was created by the Greater Kansas City Community Foundation (GKCCF) for individuals maintaining donor-advised funds there. GKCCF has made its software open source and has been active in sharing with others; nine other community foundations across the country have now begun to implement the system. A visitor to the DonorEdge Web site will see five pages of information on each organization:

- **General Information page:** Mission statement, recent accomplishments, needs statements, background statement on the context of the organization's work, CEO and Board Chair statements
- **Programs page** (for each separate program): Description, budget, target population, program long-term success definition, program short-term success definition, program monitoring plans, examples or evidence of program success
- **Financials page:** Revenue by source for last three years, resource allocation for last three years, assets and liabilities, short- and long-term solvency ratios, financial comments from staff
- **Management and Governance page:** List of board members with affiliations, board demographics, data on frequency of board meetings, board meeting attendance, board term limits, board structure, strategic plan timeline, risk management policies, staff and volunteer statistics, bios of key staff
- **Supporting Documents page:** IRS 990 form, IRS letter of Determination of Tax Exempt Status

GlobalGiving is an international analogue to DonorEdge that provides information about particular projects in developing countries. Its lively interface offers donors a set of projects to invest in, ranging from planting nitrogen-fixing trees in central Kenya to providing vaccinations for children in Cambodia. Each entry includes basic information about the project's goals, strategies, and its sponsoring organization's financial health.[3]

Keystone helps an organization gather information from its stakeholders to guide it as it formulates strategies, makes tactical decisions, and assesses results. *Great Nonprofits* captures the views of an organization's volunteers. These relatively new ventures suggest possibilities for providing donors with a broad array of stakeholder information, giving the nonprofit marketplace the extraordinary openness that Web 2.0 has brought to other realms through such innovations as eBay, Wikipedia, and user reviews on sites maintained by Amazon and Zagat. Indeed, foundations themselves could be valuable sources of information available to other donors.[4]

New approaches to capturing and sharing information will surely emerge over the coming years, and the development of a comprehensive system will inevitably be incremental. On the whole this is fine, but there is one incremental step that carries significant potential for doing more harm than good: evaluating an organization based on its administrative and fundraising costs without taking into account the social benefits it produces.[5]

Such ratings erroneously imply that a donor can assess an organization's administrative costs in isolation from its effectiveness. This is the equivalent of looking at only one side of a corporation's financial statements. No less than in the private sector, a nonprofit organization should seek not to minimize but to *optimize* its costs so as to contribute net value to its mission. An organization may have low administrative costs and produce little of value. Indeed, some organizations with low costs may be underinvesting in back-office functions that not only serve their goals but provide public accountability. In the business sector, low investment ratios at certain stages of an organization's development would make investors nervous, not excited.

If We Build It, Will They Come?

Some donors seem more interested in funding innovative programs with immediate visible impact than in achieving long-term, sustainable results. Some have low expectations of nonprofit organizations and treat an honorable mission as a substitute for impact. And doubtless some donors are motivated more by relationships and recognition than by achieving results. More fundamentally, personal philanthropy may sometimes be so profoundly emotional as to be invulnerable to rational analysis.

Therefore, as we move forward we will need to better understand the psychology of giving and to make connections between thoughtful, strategic giving and achieving outcomes in a way that will motivate donors. But it is at least worth hypothesizing that many donors do not seek information to guide their decisionmaking only because they are resigned to its unavailability. To help test that hypothesis, the Hewlett Foundation is supporting many of the projects mentioned above.

The results may well be critical to the success and sustainability of a nonprofit information marketplace and ultimately to the effectiveness of the nonprofit sector itself. If someday we are all successful in providing donors with better information to make better philanthropic decisions, the beneficiaries will be high-performing nonprofit organizations and the people and communities they serve.

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* Jacob Harold and Susan Bell both contributed greatly to this essay.

[1] See Foundation Strategy Group, "From Insight to Action: New Directions in Foundation Evaluation" (2007) (http://fsg-impact.org/app/content/actions/item/177).

[2] GuideStar's database could be further structured by categorizing organizations and asking for program performance information by type of organization. This taxonomy could be based on research by the Urban Institute and the Center for What Works, which provides sets of key performance indicators for fourteen types of organizations—from affordable housing to prisoner reentry.

[3] In addition to providing information to help donors make investment decisions, GlobalGiving, like DonorEdge, reduces the transaction costs of giving by allowing donors to contribute to projects online.

[4] Many foundations have a wealth of data about grantees' goals, strategies, and operations that is not available to others. Increasingly, this information, as well as grantees' reports, are stored electronically. The fact that a substantial majority of foundations currently use the same grants management software (GIFTS by MicroEDGE) may facilitate aggregating and disseminating this information. This raises questions of confidentiality. But at least some foundation programs—the Hewlett Foundation's Education Program, for example—require that most grantee materials be made publicly available.

[5] See Jessica Stannard-Friel, "Funders' Guide to Rating Systems," *onPhilanthropy* (2/25/05) (http://www.onphilanthropy.com/site/News2?page=NewsArticle&id=6306&security=1&news_iv_ctrl=1047).