Giving Wisely When Resources are Scarce

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It has been a difficult few years. Beginning with the economic meltdown in late 2008 and the Haiti earthquake in 2009, the sluggish economy continues to create uncertainty about the future. This uncertainty means that families are more judicious in their charitable giving.

We are a generous country, but it appears that many Americans are struggling to make the same levels of gifts as in the past or to make gifts at all. It is one thing to open the wallet in good times but it is another when there is less in the wallet.

A NEW WAY OF THINKING ABOUT GIVING

Poverty, medical research, youth development, environmental, arts and culture programs cannot afford a hiatus from giving—these are ongoing societal issues that never take a day off. What does this mean for individuals who are thinking about charitable giving? For many individuals, this means carefully reviewing the appeals from nonprofits—those organizations they have supported in the past as well as new appeals that are daily stacked in their mailbox. To give in this economy makes one stop and think about what is important and what can wait until the uncertain financial picture brightens.

Nonprofits, on the other hand, cannot wait for the economy to rebound—they must still meet budgets and maintain critical services even after trimming expenses, and in the face of a growing population in need of such services as a result of the financial downturn. Organizations are looking to their donors for the same or even greater level of giving—i.e., sacrificial giving—stretching the limits of generosity. Donors are in need of making their charitable giving budget (likely smaller this year) go further as well. Given the great need and the limited dollars, donors need to rethink their giving strategies—there is too much at stake to do otherwise.

With fewer charitable dollars potentially available for giving, donors are re-assessing their giving to maximize impact and to assure that their hard-earned dollars are being utilized effectively and efficiently by the nonprofits they support. Donors are savvier and want greater accountability and transparency in the organizations they are willing to support. Watchdog organizations such as Charity Navigator and Guidestar as well as the Better Business Bureau are grading the nonprofit community and letting donors know who has a failing grade and who is at the top of the class—and it is all available online.

When deciding which nonprofit organizations to support, donors are more proactive—they want to know where an organization stands in the ratings war or if the organization is not at the top, to know why and what is happening to change that less-than-stellar rating. Progress toward an improved rating speaks volumes to donors interested in how their funds are being spent. Donors appreciate the challenges nonprofits face today, but they are eager to determine if the organizations they care about are being good stewards of their resources.

RATINGS AND MEASURING SUCCESS

If a nonprofit has not been rated, there may be a simple explanation. There are an estimated 1.3 million 501(c)(3) organizations in the United States today[1] (including private foundations but not including all churches and other houses of worship), and none of the rating services have rated all of the public charities that are included in that number.[2] Charity Navigator, for example, has rated an estimated 5,500 charities and only rates public charities with public support in excess of $500,000 and total revenue in excess of $1,000,000. Additionally they will not rate a charity that receives most of its funding from the government or from fees charged for program and services.[3] The American Institute for Philanthropy has only rated about 500 charities and the Better Business Bureau has rated only about 600 charities. Clearly there are many nonprofits that have not been rated by one of these agencies and it is likely that some of the donor's favorite nonprofits have not been through that process.

Even if a nonprofit has been rated, it is not assured that the rating agencies will grade the nonprofit in the same way. Different criteria can produce different results. For example, the Lupus Research Institute received two stars out of four from Charity Navigator and yet received an A+ rating from the American Institute of Philanthropy. The methodology for evaluation used by rating services is not identical and thus donors may not want to rely on one rating service for evaluation.

On the other hand, even if not rated by a rating service, donors are becoming better acquainted with the criteria that many of these rating services use in evaluating a nonprofit, or if they are not, their advisors are. Looking at the organization's IRS annual tax return (Form 990) will provide information about administrative overhead including compensation for highly compensated employees, director fees, fundraising and program expenses. If administrative and fund raising expenses exceed 30%, donors should scrutinize the reasons for such high overhead. It may be that the nature of the charitable activities dictates higher expense ratios. For example, museums have extensive collections and property to maintain whereas food banks are primarily non-cash operations and spend much less on overhead.[1]

If overhead expense is the only criteria for evaluation, the food banks will clearly have an advantage over museums in the ratings which may not be a good barometer for comparing effectiveness and efficiency. Donors can go to the IRS website to determine if a nonprofit is qualified as a charitable organization and donors can also peruse the Guidestar.org website to find tax return information, financial data, mission, program goals and accomplishments, and leadership information on over 1.7 million organizations. Transparency is the "word of the day" in the donor world and the internet is making transparency possible for such donors.

Of course, donors are very motivated by the mission and the impact that the organization has on the target population. Donors are interested in results, not platitudes. And not even an organization's gratitude is enough if the programs are not bringing measurable change. Organizations that measure the effectiveness of their programs have a much more compelling story to tell when it comes to fundraising, so those organizations who haven't assessed effectiveness of their programs, it is time to think about doing so. Outcome measurement is fast becoming a frequent barometer of success for many organizations and there are many ways to determine the impact of a program. Even if a program is not producing the expected results, knowing that can allow an organization to modify or eliminate and move on to a more effective program. There is no such thing as failure if there is learning from the process.

[1] IRS' 2009 Data Book

[2] Examples of Rating Services: Charity Navigator, American Institute of Philanthropy, Better Business Bureau's Wise Giving Alliance.

[3] From Charity Navigator website at www.charitynavigator.org, "What Kind of Charities do we Evaluate?"

ASK THE RIGHT QUESTIONS

It is not enough to merely accept the nonprofit's criteria for measuring its effectiveness—just because a nonprofit serves "X" number of meals a day to the homeless doesn't mean that the goal of eradicating homelessness is being met. If X number of meals are being served, that may be a laudable goal, but if the mission of the nonprofit is to eliminate homelessness, then the nonprofit is not effective. How to measure effectiveness is a topic of great debate in philanthropic circles today. What is the nonprofit measuring, and is that the appropriate metric for determining if the nonprofit's activities are aligned with its mission? Are these activities "moving the needle" in terms of solving the issue?

How does a high-performing organization determine success? Sean Stannard-Stockton,[4] in his Tactical Philanthropy Advisors blog post entitled *"5 Questions to Ask Every Nonprofit Before Making A Donation"* posted October 11, 2010, says this about high-performing nonprofits:

> *Successful programs often look quite different from one another. However, high-performing organizations—those that have the ability to carry out successful programs—have similar characteristics. These organizations base their programs on research about what works, actively collect information about the results of their programs, systematically analyze this information, adjust their activities in response to new information, and focus all their energy on producing results.*

In Stannard-Stockton's way of thinking, there are five questions that a donor should ask before making the decision to give:

1. **On what research or evidence did the organization design its programs?**
2. **What information does the nonprofit collect about the results of its programs?**
3. **How does the organization systematically analyze the information it collects?**
4. **How has the nonprofit adjusted its activities in response to new information?**
5. **Does the organization have an absolute focus on producing results?**

Asking these questions and having the conversation about the answers is a discussion that is well worth the effort from both the donor's and the nonprofit's perspective. The nonprofit may have a very disciplined approach to determining what success looks like for its organization, or it may not (which may be a function of not having the resources to undertake an extensive evaluation process). Either way, having the discussion is worthwhile. You as the donor gain valuable insights into the way the nonprofit thinks about its achievement of its mission, and the nonprofit may determine that it is time to formalize its own measurement process to determine which programs are working and which ones are not.

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[4] Sean Stannard-Stockton is CEO of Tactical Philanthropy Advisors, a philanthropy advisory firm that serves individual and family philanthropists. Sean is the author of the Tactical Philanthropy blog and writes a monthly column for the *Chronicle of Philanthropy*.

OTHER TIPS:

1. **Be proactive.** Review the organization's website, the IRS website and Publication 78 (to determine whether the organization is a qualified nonprofit), IRS organizational tax return filings (Form 990) and financial statements. The more you know about the nonprofit, the more comfortable you will be in terms of organizational effectiveness and stewardship of the resources you will entrust to the organization.
2. **Conduct site visits.** If possible, visit the nonprofit, talk to its management and staff and observe how the nonprofit serves its constituencies. Talk to those served by the nonprofit. Such a visit can provide you with data and an awareness that is not found in tax returns, financials, websites or marketing materials.
3. **Talk to other donors to the institution.** What motivated them to give? What was their experience in making the gift? What worked and what didn't work? What kind of due diligence did such donors conduct?

It is a challenging economy right now. In the face of less charitable funds, savvy donors are more carefully evaluating the organizations they consider for their generosity. This is a trend that is good in both good times and in bad. By analyzing a nonprofit's effectiveness and efficiency in carrying out its charitable mission, the dollars expended have a greater opportunity to make a difference. And isn't that what charitable giving is all about?

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