



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

Executive Summary

*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](http://www.givingmarketplaces.org) and share your thoughts. We look forward to hearing from you.

Maisie O'Flanagan, McKinsey & Company  
[maisie\\_oflanagan@mckinsey.com](mailto:maisie_oflanagan@mckinsey.com)

Jacob Harold and Paul Brest, William and Flora Hewlett Foundation  
[philanthropy@hewlett.org](mailto:philanthropy@hewlett.org)

## 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](http://www.givingmarketplaces.org).



*Back cover*

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

Photo © Susan McSpadden

