

# Is 2010 the Year We Will See Ineffective Nonprofits Go Away?

Jeff Mason 01 February 2010

In the business world, the old adage “innovate or die” will always stand the test of time. Every company needs to keep its eye on what will come around the corner and anticipate fast market changes. New regulation could impact a business, or, worse, Google could decide to take over the market — and then you are in real trouble.

As many thought-leaders in the nonprofit sector have been pushing for more organizations to demonstrate performance versus overhead ratios to prove effectiveness, will we finally see the tides change where only high-performing organizations receive the lion’s share of funding? Will nonprofits see the need to show better performance metrics, or face the consequences — meaning they could go out of business?

As with toppled civilizations throughout the ages, any leading business can experience a seismic shift in its industry that can bring it to its knees. Business schools use these case studies to educate young business minds on what not to do when they become industry leaders. The biggest challenge is complacency, arrogance, and

lack of foresight and vision. The best example is the music industry and how it has been marred by the rise of digital music. Rather than embracing the digital channels that consumers preferred, the major record labels decided to ignore this massive change, and sue individual consumers for copyright infringement.

In the business world, executives need to show their performance in their quarterly earnings and be fully accountable to their investors. What happens if a company continually does not meet its earnings' projections? The CEO is ousted. Or the company goes out of business, or at best sells its assets at a fire sale. Just read the business section of the New York Times, and you will see these types of business stories every day.

If business leaders need to continually be innovating and anticipating changes to thrive and survive, why is this standard not the same for the nonprofit sector? The reality is that there is no level of accountability demanded from social investors, and many donors make investment decisions based on pure emotion.

## **Why Poor-Performing Organizations Succeed (Not for Long)**

There has been a tremendous push over the past 12 months — also reinforced by the plans of Charity Navigator, America's largest charity evaluator, to branch beyond the overhead ratio to focusing more on

performance management — for organizations to show tangible proof that their programs are actually working. This approach to rating organizations is a radical departure from the current accepted method throughout the industry.

While this trend is still something being embraced by the “early adopter” organizations that meet a certain criterion for making them highly effective, many nonprofits are running programs that are ineffective or, worse, causing more damage than good.

These ineffective organizations have succeeded in being great storytellers, and have charismatic leaders who have all the right connections — allowing them to do a great job of “selling” donors on why their organization should receive funding. We are seeing this in action as we speak with all the organizations clamoring for funds to help those in Haiti.

Ineffective organizations that do absolutely nothing to show performance metrics, or to adjust their programs based on these learnings, need to go away. This may seem like a very callous approach to analyzing the nonprofit sector, but if we continue to fund ineffective organizations, we are doing a major disservice to those who actually need help in our society and the world at large.

**Driving Funds to Only Effective**

# Organizations

What would be the tipping point to make this tremendous shift happen in the nonprofit sector? The simple answer is that donors need to take the wheel and drive funds to organizations that are high performing or organizations that actively want to enhance their efforts.

Donors also need to be influenced to demand tangible results and social return on investment from their investments. One high-profile celebrity or business leader going on the record and saying that he or she is giving money only to X organization because it demonstrates effectiveness would certainly push the ball forward. Unfortunately, most celebrities and high-profile donors typically give money to organizations that they are emotionally invested in or that serve as a springboard for their own publicity, rather than donating based on performance.

This could be the year that everything might change. We are living in a time when information and data are virtually flat — meaning anyone can access data and information, whether through Google news searches or on social networks. A high-profile news story about a nonprofit shutting down, or a plea from a celebrity to donate only to high-performing organizations, could spread virally through these channels and have a tremendous impact.

## **The Societal Benefit of Bad Nonprofits**

# Dying

If nonprofits took more of a “survival of the fittest” mentality that currently permeates the business world, we would see untold societal benefits. With the strongest and best-performing organizations dominating the nonprofit sector, every program would actually work, or through continuous improvement processes be moving toward actually working. This would mean that more disadvantaged youth would actually succeed in life. We would also see less abject poverty, fewer people going hungry on the streets, and less suffering on a global scale.

Pioneering organizations like the Harlem Children’s Zone that provide a holistic range of services — focused on a specific area in Harlem — and support a child from birth all the way up to college would be more common. What makes Harlem Children’s Zone unique is that it created a plan to ensure that it is operating as intended. This means it uses careful evaluation and tracks the results of its work. And high-performing programs were replicated, and ineffective programs were cut.

Another unique aspect of the Harlem Children’s Zone is that it allows performance management to dominate virtually every program it offers. And, since all of its programs are tied into a complete cycle of care for young people in Harlem, it is fundamentally one of the most sound, high-performing models for a nonprofit.

To further underscore this fact, in May 2009, President Obama proposed that the 2010 budget include \$10 million to help nonprofits develop plans that were pioneered by the Harlem Children's Zone. Called the Promise Neighborhoods program, run by the Education Department's Office of Innovation and Improvement, it would provide one-year planning grants to nonprofits for setting up programs that provide comprehensive services to poor children from birth through college.

## **What It Takes to Be a High Performer**

One of the challenges that donors face is that there is no official standard for what constitutes a high-performing organization. Once Charity Navigator changes its methodology for evaluating nonprofits, donors will be able to be more discerning with their social investments.

And there seems to be a sea change in that the number of organizations that want to become high-performers is increasing. They just need some help in getting there.

Fortunately, the Urban Institute has partnered with software provider Social Solutions to create the Outcomes and Effective Practices Portal, which will be the first comprehensive online resource to equip nonprofits with the information and measurement tools needed to enhance performance. The portal will feature detailed guides to help agencies identify and use proven and promising practices to serve their clients effectively, and a

library of tools to assess whether their clients' lives have improved as intended.

In addition, the Alliance for Effective Social Investing, an organization comprising more than 35 nonprofit leaders that aims to drive more funds to high-performing nonprofits, is taking steps to develop the criteria that define an effective organization.

In the meantime, any nonprofit that wants to take a good look in the mirror and change the way it operates needs to take five steps:

1. **Develop clear goals in line with existing resources.** Every organization — even the largest ones — is confined by its existing budgets and resources. Senior leaders must develop the goals and objectives and inspire the staff to move in the right direction.
2. **Develop a strategy for reaching goals and objectives.** One of the most critical elements of being a high performer is to develop a strategy for reaching goals and objectives. Developing a coherent strategy can take extra time and resources, but it is vital to achieving success.
3. **Develop a method for monitoring progress.** High-performing nonprofits invest in the tools, staff, and training that allow them to monitor the results of their efforts. This necessary undertaking allows an organization to assess impact during a program's life

span — to determine which programs are successful and how they can be refined. This exercise also allows organizations to purge or change programs that are ineffective or harmful.

4. **Be able to make mid-course corrections.** We often see marketing campaigns in the corporate world that measured and analyzed — allowing for mid-course changes to ensure success. Nonprofits need to embrace the same line of thinking and not be afraid to admit failure during the course of a program. This flexibility will allow programs to be refined rather than just running their course.
5. **Develop methods to easily share results and outcomes.** The most effective nonprofits can easily share all results and outcomes with social investors. Nonprofits should invest in tools that allow them to produce comprehensive reports.

## **Will the Entire Sector Change for the Better?**

They say that true change comes from within. Clearly organizations that want to be high performers need to take internal steps to change both on a strategic and operational level. The unfortunate reality is that the change will happen once donors demand proof that their investment is helping out those in need.

This year will certainly be a year of reckoning for the nonprofit sector. Social investors — from the average

donor to more institutional givers — will start to demand more accountability, and expectations will be high. As a result, nonprofits will have to fully embrace performance management, a welcome change that will be applauded by many who have advocated for better nonprofit performance.

**Jeff Mason is the Chair of the Alliance for Effective Social Investing ([www.alleffective.org](http://www.alleffective.org)), an organization comprising more than 35 leaders from the nonprofit sector that is dedicated to driving more funds to high-performing nonprofit organizations by helping donors adopt sound social investing practices.**