![AFP Association of Fundraising Professionals logo]

Advancing
PHILANTHROPY

WHAT IS SUCCESS, ANYWAY, AND HOW DO YOU MEASURE IT?

SUCCESS

Advancing PHILANTHROPY

Contents

Cover

Features

Departments

How your organization and its myriad stakeholders define and measure success

By Paul Lagasse

How do you define success? Let us count the ways. Not only can success mean something different to different people, but there are also numerous ways to measure it.

Achieving outcomes is one way to measure accomplishments, of course, but at its most fundamental, success for a nonprofit means having sufficient staffing, resources, experience and credibility to make a lasting difference in the lives of people and the community. And to do that, you usually have to start small.

When he joined the XYZ University Foundation as CFO seven years ago, Charles Vincent (not his real name) found an organization in financial disarray. XYZ took great pride in ensuring that the university and its students were well supported. However, as Vincent soon discovered, the foundation was not bringing in sufficient funds to sustain that level of commitment to the university. "When I arrived here, we were cannibalizing our endowment and expending unrestricted resources that we didn't even have," he recalls. "We were also borrowing from our restricted funds to pay for current commitments—robbing Peter to pay Paul, if you will. I had to put the brakes on the whole thing. I was probably the most unpopular person on campus when I broke that news."

Vincent, who had been a public accountant for a major financial services firm prior to joining the foundation, saw his job as not just establishing financial stability and growing the endowment but also encouraging people to think about how to support the university, now and in the future. He began by reducing spending from 5 percent of the endowment to a more sustainable 3 percent. He also changed the valuation period from a single, year-end point in time to a rolling, 12-quarter average. Combined with a reduction in unrestricted support to stem the losses, the ultimate impact was a cut of nearly 50 percent in the amount of funding the university was receiving from the foundation, a painful scenario that had everyone shaking their heads and asking how this could happen.

To help people understand and support these changes, Vincent also encouraged the university foundation to become more transparent. "People viewed the foundation as a deep pocket," he says. "They saw money going in, but no one knew what it was being used for. Once people were able to see the true picture, they started to get it."

Vincent also began working closely with the foundation's fundraisers, encouraging them to focus less on the number of donors they had and more on the individual revenue streams. He helped allay donor concerns by accompanying fundraisers on visits to explain why alumni could now feel safe making gifts to their alma mater again and encouraging development officers to partner with deans to explain how the foundation could help their colleges. These innovations, each of which grew from Vincent's initial interventions to stabilize the foundation's teetering

> **To help people understand and support these changes, Vincent also encouraged the university foundation to become more transparent.**

finances, have resulted in a steady increase in revenue that will help ensure the institution's long-term sustainability.

By starting small, Vincent achieved something big.

Success Is in the Eye of the Stakeholder

As the XYZ University Foundation example illustrates, success in the nonprofit sector is often hard to quantify. Carolyn Egeberg, vice president of strategy and communication at Minnesota Philanthropy Partners (**www. mnpartners.org**), a regional community foundation in St. Paul, identifies several reasons for this. First, and perhaps most readily apparent, is that outputs are measured differently than they are in business. "It's easier to measure success in the for-profit sector. You make something and sell it," she explains. "In the nonprofit sector, the value is highly individualized."

While the benefits provided by nonprofits are no less tangible than those provided by for-profit businesses, they tend to be shared among a more diffusely defined group and can require more time to manifest.

Another difference is that while for-profit businesses typically share a single measure of success—profit—nonprofit measures vary. For example, one nonprofit that Egeberg worked for provided a Web-based communications platform to medical patients. Success measures there were highly data-driven and tracked in real time using online dashboards. Egeberg's next nonprofit was a science museum. Although its mission was STEM (science, technology, engineering and mathematics) education, the leadership focused on numbers, such as visitors per day, ticket sales and event attendance, because they were much easier to measure.

A third key difference between nonprofit and for-profit measures of success concerns the expectations of people who invest in them. "Donors talk about impact, but I'm not convinced that they want us to spend the money it takes to do that," Egeberg says. Why? Many donors simply do not realize that an organization's ability to achieve outcomes and goals (its effectiveness) depends on having the resources it needs to accomplish them (i.e., its capacity).

Convincing donors that effectiveness cannot exceed capacity, as XYZ University discovered, for example, can be difficult. "Success is in the eyes of the stakeholder," explains Wesley E. Lindahl, Ph.D., the Nils Axelson Professor of Nonprofit Management and dean of the School of Business and Nonprofit Management at North Park University (**www.northpark.edu**) in Chicago. "Organizations with a complex set of stakeholders will have a difficult time knowing what success is and whether they have reached it. An organization with only a few simple stakeholder groups will

still face issues, but perhaps there may be more overlap/ agreement on success."

At a college or university, for example, Lindahl offers what the following stakeholders may feel success means to them:

- **Alumni:** They are nostalgic, and so success is remaining in the "same place" as when they attended the school. They also like a high public reputation to use when job hunting.
- **Faculty:** Success is getting a high ranking for publication use from research publications and attracting many students to their major, and they seek to hire well-known researchers in their field.
- **Board:** Success is growing the endowment and working well with the president.
- **Major donors:** Success is having their money used and recognized properly.
- **Governor/legislative body:** Success is having a high graduation rate, with all students' finding employment after graduating.
- **Students:** Success is a great teaching faculty, several opportunities for scholarships and getting a job after graduation.
- **Development office:** Success is raising greater amounts of money, year after year.
- **Administration:** Success is admitting a full/diverse class of students and having a steady stream of tuition income.

"Stakeholders define the terms of success, so it's important to define and establish your stakeholders and what they consider priorities," Lindahl says. In some cases, their definitions of success can conflict or even contradict each other.

He suggests trying to achieve consensus around three or four broad goals as a way to find common ground. "If you just use outcomes, some organizations' mission will be very difficult to fulfill," he says. "You can't simply say that success is just to focus on achieving the mission, because sometimes the mission is so lofty that you can't achieve it."

In their article, "Measuring the Efficiency and Effectiveness of a Nonprofit's Performance," Marc J. Epstein and F. Warren McFarlan offer a methodology for identifying those goals and finding a broad consensus among stakeholders. They argue that nonprofits can overcome donor reluctance to invest in impact by providing donors with five types of data. (See Figure 1.)

1. **Inputs:** the resources that enable the nonprofit to perform programs and tasks

2. **Activities:** the programs and tasks themselves

3. **Outputs:** the tangible and intangible results of the programs and tasks

4. **Outcomes:** the specific changes in the individual recipients of programs and services

5. **Impacts:** the benefits to communities and society resulting from the outcomes

Figure 1. Causal Linkage Map of Impact Drivers for a Professional Association
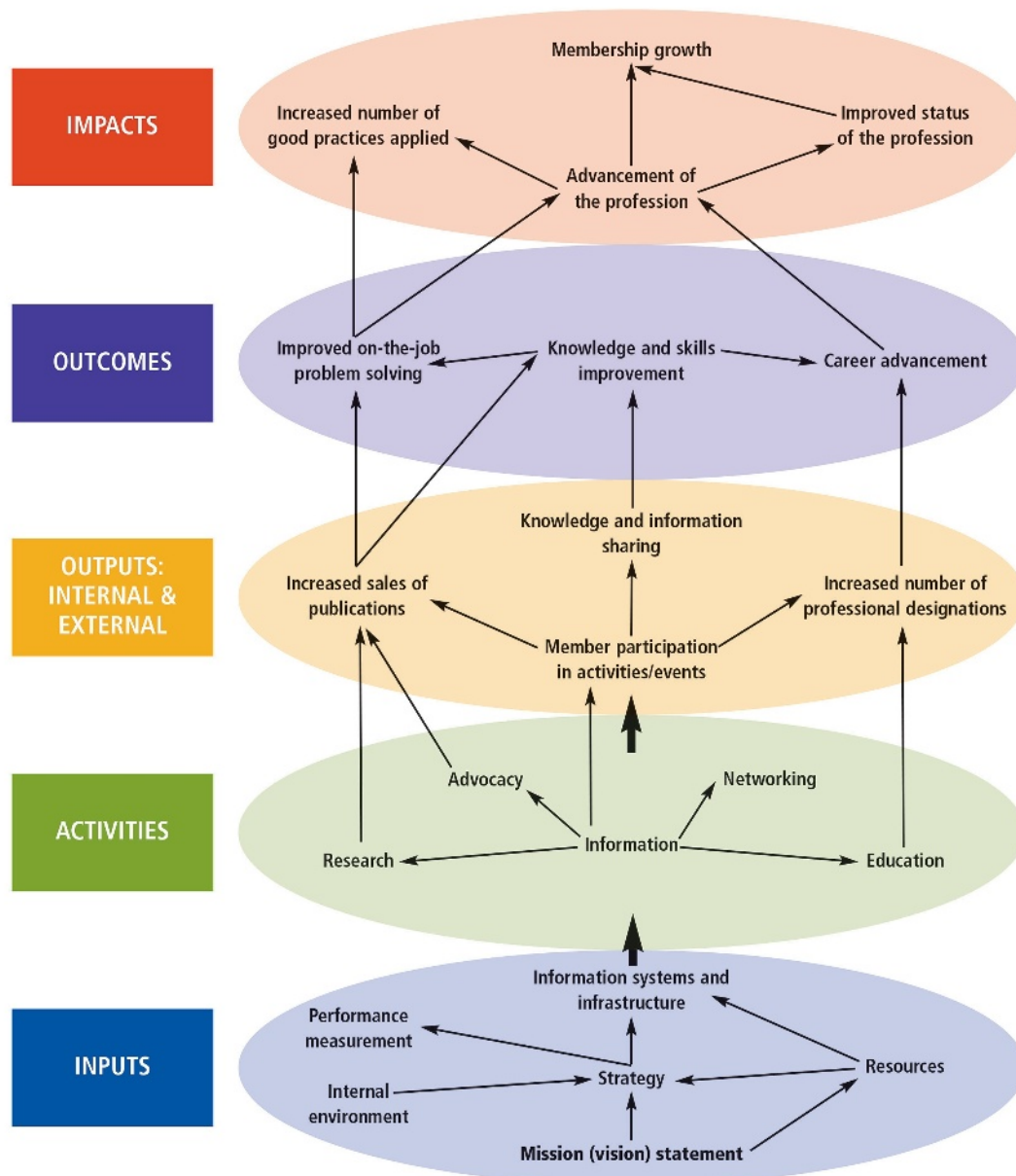
Source: "Measuring the Efficiency and Effectiveness of a Nonprofit's Performance" by Marc J. Epstein and F. Warren McFarlan, *Strategic Finance*, October 2011, page 29. Reprinted with permission.

Performance measures then can be developed for each type of data. "Breaking the organization into these pieces and analyzing it in parts," write Epstein and McFarlan, "give insight into how the organization is performing against mission."

The result is information that allows each donor to trace the particular route from the gift to its impact.

Being Nimble

In another example, every time the dean at a small college within a larger university held the weekly administration meeting, the faculty and staff were directed to look at enrollment numbers as the very first agenda item. For a tuition-driven institution, enrollment reflects not only the number of students but also many other considerations, such as budget, etc. Enrollment had been declining, indicating problems and national trends at the time, and so the dean was brought in to focus on national recruitment. Later, enrollment increased and overall education quality went up, but the dean still focused on the enrollment numbers at the start of each meeting. However, in the meantime, the school's central administration had shifted focus and become more concerned about the national reputation of the faculty's research. So, the dean should have been more attuned to that and shifted his focus.

The lesson? When running an organization, you need to be aware that some of your indicators and goals require readjustment on occasion. Of course, there are times when you will focus more on one key indicator and less on others, but it is not uncommon to get stuck in a rut and not realize that the environment has changed and stakeholders have different priorities.

When thinking about achieving outcomes and goals, if an organization is sometimes nimble enough and able to adapt to a different indicator, that is an important goal in itself.

And when looking at goals, does your organization have everything in place to reach those goals? "That is capacity," Lindahl says. "You need both missional goals and capacity, but how do you make sure your capacity is sufficient to reach the goals? Is the board strong? Do you have enough resources from fundraising? Is the technology there to provide services? Are the staff and other people happy?"

Capacity relates to overhead, but how do you convince people to support it? Educating stakeholders and getting them involved is critical, Lindahl emphasizes. "More engagement of donors and stakeholders in an organization is a good way to do that."

Showing Impact in Healthcare

Helping stakeholders see the impact of their gifts is essential to the outreach strategy developed by Sue Drake (not her real name) of the ABC Health Center (ABCHC), a federally qualified health center established four years ago to provide affordable quality healthcare to county residents, regardless of their ability to pay. "Most public health organizations try to reach out to the community to improve their care," Drake says. "For us, though, it is a passion for changing people's attitudes."

To reach stakeholders, ABCHC participates in community events and health fairs and regularly staffs tables at libraries, community centers, churches and even laundromats and hair salons. Media outreach includes regular public service announcements and newspaper articles at least twice a month. ABCHC also capitalizes on health-related themes, such as National Diabetes Awareness Month, and current events, such as the Zika virus, to educate constituents. Drake also encourages her small staff to serve on local boards and committees.

Drake uses these channels not only to raise awareness among the county's poor, underserved and immigrant communities but also to share outcomes and impacts. For example, this year ABCHC's three facilities will care for an estimated 11,000 patients, or approximately 12 percent of the county's population, significantly relieving the burden on the two local emergency rooms and lowering healthcare costs for the entire community. ABCHC's reputation acts as a magnet for healthcare professionals, and this has helped the organization avoid the staff shortages plaguing health centers across the country. Consequently, residents are able to address acute conditions and manage chronic ones successfully, which in turn leads to improved overall health and quality-of-life statistics for the community.

"When I entered the field 40 years ago, healthcare was about curing disease," Drake explains. "Now, it's about keeping people healthy. It's a whole new way of thinking. People may have different ways of looking at what our end result is, but it all comes together in the end."

Before an organization can show outcomes and impacts, however, it needs activities to power them. That was the situation facing Michelle S. Gollapalli, MBA, CFRE, CAP®, when she joined the Kennedy Health Care Foundation (**www.kennedyhealth.org/kennedy-foundation.html**) in Voorhees, N.J., two years ago as vice president of development and executive director. While the foundation had been incorporated in 2010, by the time Gollapalli came on board, it had fallen dormant. It had only two annual events, a golf invitational and a

gala, and both were treated as friend raisers rather than fundraisers. With the support of the new CEO, who had brought her in to reinvigorate the foundation, Gollapalli set out to develop programs and activities that would raise both attention and revenue for the Kennedy Health system.

Gollapalli began by revamping the golf invitational and gala. "We focused on donor recognition," she says. "That resonated with donors, and they stepped up their sponsorships." Gollapalli and her team specifically singled out local business leaders and the physicians who were regular supporters of the foundation. In just one year, the gala's gross revenue more than doubled. "We were actually budgeted for a loss of $30,000, but we ended up making a profit of $315,000," Gollapalli says.

Having succeeded in turning the events into reliable revenue generators, Gollapalli's next step was a comprehensive development plan that involved multiple revenue streams. Last year, the foundation launched a grateful patient program, and she is training her staff of four to use donor management software and data analytics while trying to grow a culture of philanthropy within the healthcare system itself.

"Events are wonderful, and they are the bread and butter of the organization right now, but we have to show value and impact to the community before we can expect to get their contributions," Gollapalli explains. As she tells her staff, "We're building our bridge as we're walking across it. That can be challenging, but as long as we keep looking ahead to where we want to be, we'll be OK."

Implement and Measure Your Success

Nonprofits need to be able to communicate their impacts and outcomes to their communities if they want to count on continued support, but the best way to do that is not always clear. What information should be communicated? John Sawhill and David Williamson addressed this question in their article, "Measuring What Matters in Nonprofits," in which they identified three broad categories of metrics that every nonprofit should track:

- Success in mobilizing resources
- Effectiveness of staff
- Progress toward fulfilling the mission

> **"We're building our bridge as we're walking across it. That can be challenging, but as long as we keep looking ahead to where we want to be, we'll be OK."**

The first two, the authors explain, are relatively straightforward. The third is harder to measure, although it is the most important. The options, they say, are to define the mission extremely narrowly, undertake extensive research to identify how well the organization is doing or gauge the successes of individual programs and activities that collectively suggest progress toward achieving the mission. Whichever method an organization chooses, it is vitally important to ensure that the internal stakeholders—the CEO, board and staff—all understand and see the value of collecting these data.

"When you're defining the success of an organization, it is up to the board first and then the staff to lead the way," says Amy Eisenstein, ACFRE, a development consultant (**www.amyeisenstein.com**) in Westfield, N.J. "And that starts with the strategic-planning process."

A good strategic plan unifies disparate definitions of success under a common set of overarching goals and identifies how everyone contributes to reaching them. However, when setting strategic goals, many nonprofits often make the mistake of thinking too small, Eisenstein says. She uses a simple exercise to help board members see the big picture. "Imagine two scenarios," she explains. "First, imagine that you raise an extra million dollars next year. What would you do with it? What would the money be for? Next, suppose you raise no extra money. What programs are affected? Who is cut?"

A bad reaction to the first question, Eisenstein says, would be to think small, such as using the extra money to pave the parking lot. "If they react this way, they may not be the right board members to move the organization forward," she says. "You're looking for excitement, creativity, a sense of how it makes a difference for people."

Likewise, a bad reaction to the second question would be to say that it just doesn't matter. They would lay off staff and carry on with business as usual.

With the right combination of people, vision and plan, successful outcomes and impacts should be easier to identify and share with donors and the community.

Between Data and Desire

Conveying success to donors can be tricky. Metrics and measurements, which many nonprofits use to track their accomplishments internally, are also increasingly popular tools for sharing results with individual and institutional

Success and Relationships

In countries with active and thriving cultures of philanthropy, conscientious fundraisers would take issue with the suggestion that they take donors for granted. After all, donors are the lifeblood of any organization, and it is a fundraiser's responsibility to seek, cultivate and steward people who care about the causes he or she represents. However, at a more basic level, fundraisers in such societies do take donors for granted because they have the luxury of assuming that there are donors out there to be found in the first place.

Fundraisers in the former Communist bloc countries of Eastern Europe do not have that luxury, however. They operate in a society that for two generations actively discouraged giving and trusting, both of which are prerequisites for any successful donor relationship. "For them, success means building a philanthropic culture," says Tony Myers, CFRE, Ph.D., MA, LL.B., principal and senior counsel at Myers & Associates (**tony@myerscan.com**) in Edmonton, Alberta. "They are doing things that help build awareness and dialogue in countries that are still rebuilding civil society."

In addition to helping young nongovernmental organizations develop sustainable giving programs, Myers also helps them learn effective techniques for developing relationships with in-dividual donors. Critical to that, Myers says, is understanding the differences between how donors and fundraisers perceive their relationships. "The fundraiser begins a relationship when the donor is first identified, and often, the relationship declines after the first gift," Myers explains. "For the new donor, the relationship with the charity is more likely to begin at the point of the first gift. Success is the ability to close that gap." (See Figure 2.)

To help nonprofits better understand donor motivations and fine-tune their outreach accordingly, Ioana Traista of the PACT Foundation (**http://fundatiapact.ro/en/**) in Bucharest is in the process of interviewing donors in Romania, the Czech Republic and Serbia about what influences them to give and to continue giving and how the act of giving affects them. Using the most significant change (MSC) technique, a form of participatory monitoring and evaluation widely used by development aid agencies, Traista will qualitatively analyze donors' stories for patterns related to how they perceive the effects of their giving and how they want to be kept informed.

Although her research will not be completed until late this year, patterns of donor behavior are already emerging. "They want to be treated as partners, not just as supporters of a certain program or community," Traista explains. "Also, donors do not want to receive only stories of success. They are aware that the problems are complex and do not expect the organization they are supporting to find the solutions alone. They want to be part of the solution-finding process."

Traista says that this dovetails with her observations about donors to the PACT Foundation, which supports community development and social economy programs in rural and small-urban communities in southern Romania. PACT's donors are more likely to be ambassadors when they understand the organization and are encouraged to provide advice and get involved with programs.

Traista's findings help illustrate why definitions of success in emerging philanthropic cultures depend so heavily on relationship building. It may be a slow process, but it is a vitally necessary one. "In building a philanthropic society, you first have to build trust," Myers explains. "You can do that only one person at a time."

Figure 2. Fundraisers and Donors Perceive Different Starting Points for Their Relationships
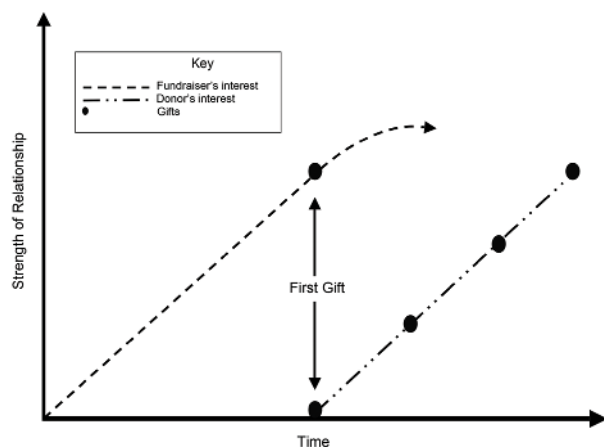
Source: Tony Myers, CFRE, Myers & Associates in Edmonton, Alberta. Reprinted with permission.

> **"It's a myth that donors want hard data and are becoming more critical," she says. "They want to know that you have integrity and that you're going to do what you said you would do. But in terms of wanting information and data, it really isn't the case."**

donors. However, the race to collect and disseminate data has been a haphazard one. There is, as yet, no broad consensus on what specific data points are of interest to donors, or even if they are persuasive. "Whether donors, particularly high-net-worth individuals, actually want and need these data is still questionable," writes Cynthia M. Gibson and William M. Dietel in their article, "What Do Donors Want?" They cite recent studies that found that, ultimately, it is emotion and relationships that inspire people to give, not data.

At the same time, they argue, data certainly have their uses. "The nonprofit sector needs and deserves better evaluative and evidence-driven ways to assess their performance, outcomes and potential impact. The donors who so generously support them deserve more information, too. And there is little question that the field of philanthropy has benefited from an infusion of new thinking from the private sector, including its emphasis on market-economy principles." The balance between what donors need and want, Gibson and Dietel conclude, falls somewhere "between data and desire."

Ruth McCambridge, president and editor of *Nonprofit Quarterly*, which published the Gibson and Dietel article, is more blunt. "It's a myth that donors want hard data and are becoming more critical," she says. "They want to know that you have integrity and that you're going to do what you said you would do. But in terms of wanting information and data, it really isn't the case."

The way to convince donors of your integrity and capacity, McCambridge argues, is to meet them at the "messy intersection" of organization and community. In her experience, too few organizations seek to meet there, relying instead on the cool, distant abstraction of facts and figures to tell their stories. "A lot of organizations say they repre-

sent the best interests of the community but haven't talked to the community in ages," she says. "And that's where things fall apart."

Without that conversation, an organization's understanding of what constitutes the best interest of the community is likely to be misinformed. "Having an active conversation and setting goals with the community means that there won't be a disconnect," she says.

"Do the research to find out how you are really doing in the community," McCambridge recommends. "That's your real measure of success. I do think there's a huge value in understanding your own enterprise model, and that's where metrics have value. But just remember that you need to periodically blow up your assumptions." (AP)

Paul Lagasse is a freelance writer in La Plata, Md. (www.avwrites.com).

References and Resources

"Measuring the Efficiency and Effectiveness of a Nonprofit's Performance," by Marc J. Epstein and F. Warren McFarlan, *Strategic Finance*, October 2011, pages 27–34
www.imanet.org/docs/default-source/sf/10_2011_epstein-pdf.pdf?sfvrsn=0

"Measuring Fundraising Performance vs. Fundraiser Performance" by Simone Joyaux, November 2014
https://nonprofitquarterly.org/2014/11/21/measuring-fundraising-performance-vs-fundraiser-performance-part-one

"Measuring What Matters in Nonprofits" by John Sawhill and David Williamson, *McKinsey Quarterly*, May 2001
www.mckinsey.com/industries/social-sector/our-insights/measuring-what-matters-in-nonprofits

The 'Most Significant Change' (MSC) Technique: A Guide to Its Use by Rick Davies and Jess Dart, April 2005
www.mande.co.uk/docs/MSCGuide.pdf

"Using Outcomes to Measure Nonprofit Success" by Richard Larkin, *Nonprofit Quarterly*, July 2013
https://nonprofitquarterly.org/2013/07/02/using-outcomes-to-measure-nonprofit-success

"Whaddaya mean, 'evaluation?'—Mismatched expectations in nonprofit measurement" by Andrew Taylor, May 2016
http://theonn.ca/whaddaya-mean-evaluation-mismatched-expectations-nonprofit-measurement