

FEATURES

What Do Donors Want?



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What Do Donors Want?

When Sigmund Freud asked, “What do women want?” he probably didn’t anticipate the firestorm his question would incite. Some thought the question absurd in its assumption that women could be categorized like butterfly species or wine varietals. Others believed the answer to be patently obvious: Women want what men want. Case closed.

What’s clear is that Freud’s inquiry has become a cautionary tale about what can happen when seemingly well-intentioned questions miss their mark, eliciting eye rolling (“Don’t we already know this?”) or head scratching (“The question doesn’t take into account the complexity of what it’s studying”).

That doesn’t stop these questions from popping up, though.

“What do donors want?” seemed to be the question behind a series of grants that the Bill and Melinda Gates Foundation recently awarded to two private consulting firms to encourage more philanthropy, particularly among high-net-worth individuals. One \$3 million grant was given to Rockefeller Philanthropy Advisors to develop tools, share knowledge, and disseminate best practices designed to increase giving and impact. Bridgespan received the other grant, in the amount of \$5 million, to develop several products, including interactive web tools designed to help donors make better decisions about their investments.

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Reactions to the Gates Foundation grants varied. Some were pleased to see such a powerful show of support for enhancing philanthropic giving. Others thought

this money would have been better spent on addressing more pressing needs, particularly at a time when many nonprofits are in dire straits financially. And there were a lot of people who were unsure about the value of these new resources, given the surfeit of research that already exists about philanthropy, including well-funded studies by think tanks, universities, consulting firms, and foundations exploring everything from why people give to why they volunteer.

In short, many wondered: Do donors want more information about nonprofits and, if so, what kind? And if they have it, will it change their minds about what they support?

March to Metrics

There is little question that data, metrics, and measurement have become embedded into the philanthropic process in recent years—practices were initially met with deep skepticism by some but eventually gained considerable traction among a majority of nonprofits and philanthropic institutions. Today, in fact, few would argue against the need for more evidence-based measures of progress, outcomes, and impact. Foundations, in particular, have been focused on helping nonprofits beef up their data collection and evaluative capacities, due to a growing demand from their boards for evidence that their investments were having an impact. Also a factor is increased public and government scrutiny, and competition from private companies moving into markets in which nonprofits had traditionally dominated. Even among nonprofits that initially recoiled at collecting data on their outcomes, there is now a general understanding that “doing God’s work” may no longer be sufficient to justify their existence in a rapidly changing world.

As a result, the nonprofit world has seen significant investment in the collection and analysis of data, with the hope that it can be used to improve public accountability, and ultimately, help encourage more informed philanthropic giving. The fly in the ointment is that many of these new quantitative analyses focus on variables such as financial performance, the ratio of fundraising expenses to program expenses, governance structures, and other sorts of information that can be easily gleaned from an organization’s IRS-990 form. While important, these data make for a somewhat limited set of indicators, particularly for investors seeking evidence of high performance.

Academic studies about philanthropic motivation and performance have also proliferated during the past decade, but these too have suffered from limitations that make it difficult to draw firm conclusions. Some studies, for example, have found conflicting results, while others used sample sizes that were too small to generate statistically significant results. Still others were poorly designed.

Nevertheless, many see these efforts as a step forward for a field that had previously escaped rigorous scholarly inquiry and the foundation for a new approach to philanthropy that could provide donors with more proof of “what works.” With that information, the reasoning goes, donors can make better investments and, ultimately, have more profound impact on the problems or organizations in which they were interested.

This has prompted organizations that work with donors, both individual and institutional, to develop more robust processes and reporting systems that donors can use to assess nonprofit performance. Today, according to Lucy Bernholz of Blueprint Research and Design, “There are more than 30 organizations undertaking these kinds of efforts to “track/measure/quantify/index social value.”ⁱ

Is it Data or Relationships?

Whether donors, particularly high-net-worth individuals, actually want and need these data is still questionable, however. A report published by the William and Flora Hewlett Foundation and McKinsey & Co.ⁱⁱ asserts that they do, pointing to a “subset of affluent donors—along with financial institutions that serve them—[that] is looking for more and better performance information about nonprofits.” The report cites as evidence a handful of studies that have been done in this area, including ones by the Center on Philanthropy at Indiana University and the University of Pennsylvania’s Center for High-Impact Philanthropy.

Results of these and other studies, however, need to be examined carefully before it can be said they corroborate the hypothesis that donors want or need this kind of information or data. The Center on Philanthropy study, which was sponsored by Bank of America’s Philanthropic Management practice, found that the most important motivations^{vii} for charitable giving by high-net-worth households were “meeting critical needs, giving back to society, and social reciprocity,” while “charity as making good business sense” was ranked lower on the list.ⁱⁱⁱ A Center for High-Impact Philanthropy study comprised a sample of only 33 individuals—too few to carry any statistical significance.^{iv} Meanwhile, a 2004 attempt by Harvard Business School students to determine what constitutes “rigorous performance metrics”^{viii} ended up being scrapped because the investigators found little evidence to support their initial hypothesis that donors want this sort of information.^v

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A forthcoming book by Princeton University’s Daniel Oppenheimer^{vi} summarizes the research of several prominent social scientists on the determinants of giving behavior generally and finds that “no matter what objective information is available, the large majority of donors will give as a result of emotional or relational factors.” A recent article in *The Economist* cites a study that found that donors “do good because it makes them look good to those whose opinions they care about”—what researchers call the “image motivation.” And a recent study of 4,000 donors conducted by Hope Consulting found that few investigate nonprofits’

performances, with only one-quarter of them saying they would consider switching their support to different charities if those groups improved in areas donors care about. Only one-third said they'd be interested in giving more if the nonprofits they supported improved their performance.

Nonprofit leaders tend to agree. According to interviews with a diverse group of high-performing nonprofits conducted by one of the authors of this article, nonprofit leaders said that “while it’s nice to have data,” most of their donors continue to give “because of the relationships we cultivate with them.” In fact, almost all said while high-performance data helped enhance their credibility in the business community, it wasn’t instrumental in attracting donors, especially new individual donors. They also said that they continued to believe that ultimately, their financial support was going to come from relationships and “emotional connections,” rather than from data about performance and impact.

Are Data Used Effectively?

Even if these kinds of data could be aggregated in ways that provide donors with a more objective set of standardized metrics with which to assess performance, there is skepticism among some as to whether it would actually be used that way, especially by institutional donors such as foundations. They point to cultures within foundations that discourage (or don’t reward) collaboration and information-sharing; a tendency to assume that each individual institution “knows best” what to do and how to do it; a preference to “be the first” to fund something, rather than contributing to something that has already been launched by another foundation; and personal, political, and institutional biases about what will be supported, why and how.

They also note that institutional donors may have little incentive to share information about grantee performance. Some believe that until there is a legal or regulatory requirement forcing foundations to provide detailed information disclosing criteria used to make funding decisions and what grantees actually did with their grants, there will be little movement among foundations to embrace a collective standard of due diligence. As one former foundation official told one of the authors: “Even if we did have a set of core metrics, there would have to be a way to weigh each of the categories, depending on what each institution is more interested in—or [a way] to add their own [categories]. But that would seem to defeat the whole purpose of devising a more standardized set of metrics that identify the highest nonprofit performers.”

Another wrinkle is that nonprofits might not be so eager to provide detailed information about their operations, especially if there is no guarantee of funding in return. It’s one thing for the IRS to require nonprofits to report financial data, but it’s another when individuals or institutions lacking legal sanction ask for that kind of information. It will, therefore, be important to devise incentives for nonprofits to offer better and more in-depth information about their operations. That will be difficult unless there is evidence that investors’ use of data-driven tools actually helps nonprofits obtain more contributions, attract more visibility, or otherwise strengthen them as organizations over time.

This isn’t to bash data, however. As noted, 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.

Finding a Balance: The Science and Art of Philanthropy

But before we rush to the toolkit and assume that better data is all that donors want and need, it’s important to take a step back and remember that while metrics are critical and have their place, they’re only one piece of the puzzle. As studies indicate, there are other equally-important things to consider, among them, personal relationships, family dynamics, social networks, values, and commitment to particular causes or issues.

Amid the “data dash” of recent years, these factors have been increasingly disregarded or over-looked altogether—a trend that reflects the larger culture’s skew toward what Donald Schon called “technical rationality,” which occurs when the technical becomes a dominant paradigm “that fails to resolve the dilemma of rigor over relevance.” In this vein, *New York Times* columnist David Brooks has highlighted the growth of a “large class of educated professionals who have been trained to do technocratic analysis,” seeing it as “the solution to social [problems].” Others such as Phil Buchanan of the Center for Effective Philanthropy—an organization whose primary mission is to promote data-driven philanthropic practice—express concern about the tendency in some corners to assume that measurement is as simple in philanthropy as it is in business. He also questions the push for a single measure that could serve as an analog to “return on investment,” something he regards as unachievable in the nonprofit sector. He argues that indicators of philanthropic effectiveness are just that—indicators—and that they must be interpreted in light of the values, goals, and strategies of the donors.

But philanthropy never has been—and never will be—wholly the domain of science. As Peter Karoff, founder of The Philanthropic Initiative, notes, “American philanthropy has always been a combination of the heart and mind in the search for the best in people, their organizations, and the relevant world around them.” He adds that philanthropy’s relevance—perhaps today more than ever—rests on its “purpose, mission and its role and responsibility as private intervention in public space”—what he calls its “moral imagination.” Karoff cautions that an over reliance on data and measurable results “makes donors less likely to take actions hard to measure, and thus, more risk averse. But the bigger risk is when relevance becomes a servant to rigor. Great philanthropy is a combination of the heart and the mind—you need both.”

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The ethos that philanthropy is both a science and an art is one that many in the nonprofit and philanthropic sector would like to see more thoughtfully integrated into discussions about what donors want and need. That balance has been achingly absent for too long, despite the essential role that what some call the “soft side” of this work plays in every decision that donors make: from clarifying values to understanding the ethical consequences of their decisions to deciding what form their contributions should take and why. Those are hard things to measure and, yes, hard to get one’s arms around, but they are essential human elements in what spurs philanthropy. Dismissing them risks reducing philanthropy to nothing more than cost-benefit analysis, rather than a civic virtue, a deeply held conviction, or something that just makes us happy.

We believe the time has come to find a balance in assessing what donors need and want—and that that balance falls somewhere between data and desire. After all, human beings make philanthropic decisions, not mathematical models or formulae. These human beings bring to the philanthropic process values and feelings and historical experiences that no data set or analytical technique can replace. Perhaps our greatest challenge, then, is less about finding ways to measure and codify philanthropy and more about determining where that practice fits within the larger goal of encouraging more philanthropy among a more diverse group of donors.

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