Social Value Measurement and Nonprofit Organizations: Preliminary Views of Nonprofit and Foundation Managers

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Abstract

This paper examines how managers of nonprofit organizations and foundations view the measurement of the social value of these organizations. In exploratory interviews, we found that the managers generally agree that objective measures are desired where and when possible, but recognise the difficulties in developing an assessment that enables comparisons across the nonprofit sector. These difficulties, as well as the implications for developing assessments of social value for nonprofit organizations, are discussed

Introduction

A marketing perspective suggests that nonprofit organizations need to understand the benefits they deliver both to those in need (Nicholls 2007), as well as to donors (Vázquez, Álvarez and Santos 2002) who provide the revenue and resources that enable nonprofits to operate. Nonprofits must therefore understand how donors' assess organisations social value, as this influences donation behaviour and there will be differences across types of donors and even within segments in each donor category. For example, individual donors may be motivated by altruistic reasons, i.e., a desire to help (Hur 2006), they may wish to repay a nonprofit for helping them or someone they know (Sargeant 1999) or may simply seek to receive a tax benefit. Corporate donors may want to enhance their brand image though affiliations (Dean 2003; Polonsky and Macdonald 2000) or behave altruistically (Bennett 1997). Foundation donors (both private and community foundations) often seek to provide support to nonprofit organizations who will further their particular mission.

Some donor segments are seeking to assist nonprofits to achieve societal benefit, but it is unclear how the donors assess social value (Nicholls 2007). Recently, Polonsky and Grau (2008) have identified that social value can be assessed in four different ways - Operating Efficiency; Achievement of Organizational Objectives; Return on Investment; Social Outcomes- and different donors may view value differently. Past research examined social value from one of these perspectives, but was limited; it either examined how respondents viewed one specific type of social value assessment (Olszak 2004), or discussed one of the approaches used (for example social accounting; Richmond, Mook and Quarter 2003), without exploring the underlying question of how donors and nonprofits believe social value should be measured.

This preliminary research addresses this gap by asking managers of nonprofits and foundation donors how they believed social value could be assessed. A marketing perspective would suggest that social value may differ based on who assesses it. Thus promoting value from the nonprofit perspective or one specific donor's perspective may be inconsistent with other donors' perceptions and thus affect nonprofits' ability to generate financial support from a cross-section of groups. For the purpose of this research, we have limited interviews to managers of nonprofit organizations who assist some end constituent and to foundation donors (who may in fact be nonprofits in their own right) who offer some type of financial support (via donation or loan) to nonprofits. A deeper description of the nonprofit sector is beyond the scope of this paper.

Literature Review

There is recognition that measuring the social value of nonprofits is important (Nicholls 2007), even though the issue has not received extensive academic examination (Polonsky and Grau 2008). Most work in the area has been undertaken by the nonprofit and foundation sectors (for example, The Rockefeller Foundation (2003), The Roberts Foundation (Lingane and Olsen 2004), and The Forbs Fund (Olszak Management Consulting 2004) and has sought to examine a range of issues. For example, The Forbs Fund surveyed a cross section of donors and academics to assess how they viewed a range of existing metrics (Olszak 2004). The Rockefeller Foundation examined how donors assess social value with a focus on the Roberts Enterprise Social Return on Investment Approach, which has also been discussed in the academic literature (Lingange and Olsen 2004). Other academics focus on measures such as social accounting (Quarter, and Richmond 2001; Richmond, Mook and Quarter 2003) or the Public Value Scorecard (Moore 2003). Polonsky and Grau (2008) suggest that there are four different approaches proposed- Operating Efficiency; Achievement of Organizational Objectives; Return on Investment; Social Outcomes.

Operational Efficiency, focuses on how much money is being allocated on the operation of the organization, which in turn should provide an idea of how much is used for objectives. In some countries, legislated performance standards must be achieved, i.e. nonprofits must not spend more than X% on fundraising (Lee 2003). While an efficiency approach is similar to for-profit efficiency, the measure does not consider any aspect of those being helped, such as the 'impact' of the issue, or performance in terms of the goals set by the organization.

Goal/Objective based assessments focus on whether the goals set by organizations are achieved (Hall et al 2003). This would seem to be more socially focused, as the nonprofits' goals relate to those being assisted. A limitation is that this does not assess the social value of a nonprofit. For example, a nonprofit whose goal was to increase literacy by 10% and was successful would be viewed more positively than a nonprofit undertaking to reduce literacy by 50 percent, but only achieving a half of its target (i.e. 25%).

Return on Investment (ROI) is where nonprofits seek to identify a dollar value of social activities (Dillenburg et al 2003; Lingane and Olsen 2004). The question of how one assigns financial value to activities is debatable. For example, what is the value of increasing literacy or racial tolerance? While ROI allows comparisons using terminology most corporate, governmental or foundation donors would understand, the conversions of outcomes to financial measures are difficult to assess.

The final approach identified is Social Outcomes, where nonprofits focus on improvements in social activities. Such measures are highly subjective, given the various social goals of nonprofits and thus there is limited comparability across issues – e.g., literacy as compared to obesity. Even setting up some standard for comparing social value within a specific issue would be hard. That is, how does one compare increasing awareness of breast screening compared to raising funds for breast cancer research?

What Polonsky and Grau (2008) did suggest was that no one approach was appropriate and multiple measures need to be developed that allowed for facets of each area to be assessed.

The interviews untaken in the research seek to explore how nonprofit managers and foundation donors feel about the measurement and assessment of social value and whether they feel that a standardized approach is applicable.

Methodology

This study uses in-depth interviews with managers of nonprofits and foundations to explore how they believe the social value of nonprofits should be assessed. The nonprofits are those that serve the end constituents and foundations are donors who donate outright to other nonprofit organizations or offering some type of support to nonprofits. The interview protocol asked informants how they defined social value, how they thought nonprofits should be evaluated and what measures are currently used to assess nonprofits. Using Spiggle's (1994) process for qualitative analysis and interpretation, the first step was to categorize the units of data. The units were then collapsed and analysed into more general conceptual classes. Last, themes were developed based on the conditions giving rise to it, the context in which it is embedded and the strategies by which it is carried out and the outcome of those strategies. The discussion of approaches also integrates broader literature on measuring social value.

The sample comprised eight informants, four from nonprofit organizations whose mission benefitted the end constituent, three from funding bodies who donate or make loans to nonprofit organizations and one consultant who assisted nonprofits and funding bodies in managing their donation activities. This sample represents an exploratory subset of those involved in donations and some donor segments were not included (i.e. governmental bodies, individual donors or corporate donors). Respondents were sourced using a snowball process where managers identified others who should be interviewed. The four nonprofit managers were responsible for managing fundraising activities associated, with foundations, private individuals and corporations. The three funding body managers were responsible to allocating donations to nonprofits. The nonprofits represented a cross section of issues, including; education, health issues and low-income housing. All were considered users of "best practices" in their field. All nonprofits were national in coverage and scope. All nonprofit identities were kept confidential for the purpose of this research.

Thematic Analysis

Nonprofits require more strategic evaluation and measurement. Successful nonprofits are perceived to be more businesslike in establishing metrics, outcomes and evaluations. For example, one education focused nonprofit established internal and external evaluations of outcomes based on pre and post interventions. It also tracks performance over time and uses quasi-experimental matched comparisons to assess the performance of its school programs in low income areas. Another healthcare nonprofit focused on science driven assessments of outcomes evaluated by multiple stakeholders. This nonprofit defines social impact based on its mission and then allows the scientists to define exactly how well it has achieved its goals. It was suggested that large nonprofits also use external organizations for measurement and evaluation of outcomes and social impact.

Generally there was agreement that nonprofits should be judged relative to their mission and strategy. It was suggested that comparing social value between groups being helped was possibly counter-productive. As they all "have the potential to do something worthwhile and of substantial importance. … I'd say you need to have a strategy and whether you are large or small you should have a strategy about how the service you provide or the activity you do links to some outcomes that you want, and how those outcomes are very beneficial" *Director of Strategic Development for an education nonprofit*.

Third parties' evaluation approaches don't tell the whole truth. There is a feeling on the part of donors that third party organizations don't have the capacity to judge the quality of programs. It was suggested that third parties did not seek to understand the organizations specific goals and activities, but rather focus on formula driven assessments. For example, there may be operational reasons that one organization has higher administration costs than another but that is generally not considered in third-party assessments. Additionally there was limited explanation of different costs. Thus it was suggested that existing third parities were only valuable as an initial low level screening process. "Some of the financial benchmarks I think are potentially misleading … and organizations should not be penalized for investing in their infrastructure and their long term sustainability and growth. It is sort of simplistic to say 'well anything over 15 percent for overhead is bad. …. It really depends on what you are trying to achieve and what your strategy is for achieving that over the long term." *Director of Strategic Development of an Education nonprofit*.

However, it was recognized that third party assessments may be more important for smaller donors of all types, who do not have the expertise available to larger funding organizations to assess nonprofits' performance. Thus the usefulness of assessments may vary by donor type. "These measures are very general of an organization's health…you're just getting a general snapshot." *Major Gifts Fundraiser for a large heath nonprofit*.

Funding bodies require more strategic evaluation and measurement. There was agreement between managers that evaluation and measurement are increasingly important. This is being more integrated into activities, as one large foundation requires 20% of the grant to go towards measurement and assessment and suggested that this is typical of public health campaigns. The shift in how social value is measured may partly relate to training of those involved, as it was suggested that younger managers (30's-50's) are more business like in their approaches. Foundations want to been shown "what that's going to do for person X and then I can get it. But if you can't do that then I don't get it and I don't want to play. Outcomes, good evaluations, and a fairly clear well defined path of money" (Nonprofit consultant). In this case the foundation also wanted to ensure that there was consistency between objectives of the program foundation.

There is a difference in the view of social impact depending on the type of funding body. While based on a sample of respondents it was found that funding bodies tend to be very specific in what they are hoping to accomplish with their money (e.g. scholarship fund; money for an animal shelter) and some are less likely to require detailed evaluations. It was suggested that larger donors want 'personalized social impact statements' associated with their gifts. Nonprofit managers also suggested that governmental donors typically have set requirements, with one nonprofit executive suggesting that they tend to focus on the lowest common denominator leading some nonprofits not to even target governmental funding. "There is very little to aspire to … and I think that's why programs that are either government run or programs reflecting government funding streams tend toward mediocrity. There's not a lot of incentive for high performance or risk taking." Many donor foundations typically have a strict mission and want relatively rigorous measurements and evaluations in line with their mission. The rigor of measures required varies. For example, venture philanthropy foundations use business principles to guide the funding of grants, although, it was suggested that older and/or smaller foundations, may have less stringent requirements.

Funding and assessment was seen to be more complicated when there were multiple partners, which increased the politics of the process. For example, one health related nonprofit will not take money from food or tobacco companies while its nonprofit partner will not take money from pharmaceutical companies. A media partner in the program is focused on media metric outcomes such as reach and website engagement, and social outcomes are a secondary issue.

Increasingly funders are being seen as investors who want to assess nonprofits using typical investment measures. They examine what the nonprofit does, who their supporters are, the Board makeup, overall financial health, as well as output indicators related to a particular industry. One donor/investor suggested "in our due diligence process, we do collect data about the actual impact of the borrowers and then we're both looking at outcomes."

Standardized evaluations, even across industries, will be difficult. Most felt that it was difficult to develop metrics that can cut across all nonprofits and donors and that even within sub areas there may be too many different types of programs and missions. For example, in breast cancer arena there are nonprofits who; fund research, fund screening, fund outreach or undertake awareness programs. Informants felt third party assessments may potentially be appropriate given the reliance on public monies (and thus public accountability). However, these would need to be complex nonprofit specific measures and not simply standards focusing on the lowest common denominator. It was suggested that standardization across the sector will lead to nonprofits becoming risk averse and mediocre programs.

However, the above view was not universal as one donor felt having a way to compare nonprofits would be beneficial, especially in comparing like programs. "There is a great need … so that you can begin to segregate and compare like organizations with one another to see their social impact outcomes." *Executive Director of Nonprofit Investment Fund.*

This organization was already moving toward creating a common metric to be used across its projects. External systems could be beneficial as they would be unbiased, but parties would need to have the methodological training to create and use these metrics.

Discussion & Implications

It appears that managers from more sophisticated nonprofits and donors recognize the need for a strong measurable strategic mission. They recognize that sound measurements and outcomes are important to gaining funding from many sources. However, smaller nonprofits may find it difficult to implement assessments given their limited resources, even though they understand the value of outcome measurement.

Given that each nonprofit and each type of donor will define social impact in a different way, it is unclear whether a standardized set of metrics could be developed. In particular it was identified that developing consistent assessments across social issues will be difficult. What might be more appropriate is the development of a common process to assess social valuable, which enables variations in terms of weightings based on the specifics of the nonprofit. This would mean that comparisons could only be made between similar programs and not across sectors. Thus, new or existing third party evaluations would be valuable basic screens, where donors would then make subjective assessments of the nonprofits that 'pass' this basic assessment. Substantial additional research is needed to understand different methodologies that might be used taking into consideration the variability of donors and nonprofits.

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