Julie Stofer: Hello everyone and welcome to “Uncharitable”, a Nonprofit 911 webinar sponsored by Network for Good. My name is Julie Stofer and I’m part of the Nonprofit Outreach team here at Network for Good, and I’m going to be your moderator for today’s call. Also joining me to help field questions are my colleagues Rebecca Higman and our new associate Allison Schwalm, so welcome Allison, as well as James from the WebEx tech support team.

All of your lines have been muted, but you can submit questions to us at any time via the Q&A panel on the right side of your screen. And we’re going to try to get to as many of those questions as possible.

Now, just to give you a little bit of background on who Network for Good is, we are a nonprofit that makes it easy for donors to support any charity anywhere online. We also help nonprofits raise funding for their missions through simple, affordable, and effective online fundraising services, including donation processing and email outreach tools, as well as through free trainings like this one. And some of our expertise comes from processing over $485 million in donations for more than 60,000 nonprofits since we were founded in 2001.

And this webinar is part of our free Nonprofit 911 training series designed to help nonprofit professionals like you do better with online outreach. We host these webinars several times a month on Tuesdays and feature some of the smartest people in our sector, as well as experts from complimentary fields, to help you succeed in winning hearts, minds, and donations.

The latest schedule is always available at Nonprofit911.org. And this webinar series is just one of the tools that Network for Good provides to help nonprofits succeed online. We’ve got some other great ones for you.

If you visit the “For Nonprofits” tab on our website at NetworkforGood.org, you can check out our donation and ticket processing and email outreach services that are called DonateNow, EmailNow, and EventsNow powered by Givezooks!. And you can also visit our learning center at fundraising123.org for hundreds of articles about online fundraising and outreach, and also to subscribe to our weekly tips e-newsletter to learn how you can do more to engage your supporters online.

So if you’re looking for tools for your online outreach or are interested in learning more about Network for Good, you can give us a call or send us an email. You can reach as at the number on your screen. That’s 888-284-7978, extension 1, or at fundraising123@networkforgood.org.
So, I want to introduce our speakers. This is a slightly different format than some of the 911’s you may have attended in the past. Since this is a special 90 minute webinar, we’re going to do things a little bit differently.

Dan Pallotta is going to start with some background on the issues that he covers in his book “Uncharitable”. Then Bob Ottenhoff, the CEO of GuideStar, and Ken Berger, the CEO of Charity Navigator, are each going to give us their views on the topic. Then we’re going to wrap up the session, about the last 20-25 minutes, with questions from all of you, which you can submit via the Q&A panel at the bottom of your screen. And Katya Andrensen, Network for Good COO, is going to help facilitate those.

So, without further ado, Dan, the floor is yours.

Dan Pallotta: OK, great. Thank you Julie. Thanks for having me today. And thanks to everyone who’s joining on the call. And thanks to Ken and thanks to Bob. It’s a pleasure to be here with you all.

I saw some of my Twitter followers saying things about this like it was a smack down and it was going to be a great debate, and may the best man win. I just want to say, and I think I probably speak for Ken and Bob, that I don’t at all view this as sport. And I’m sure that none of you do either. We just get caught up in things, you know.

But I think that it’s not about winning an argument, it’s about this inquiry that I think we’re all involved in and that we’re all committed to. You know, we find ourselves on this planet where we see little children dying of starvation and people who are homeless, and we see women dying before their time of breast cancer, and it pains us, and we want to do something about it. And I think we’re all engaged in an inquiry here together, which is: How do we solve these problems? How do we actually address these problems in our lifetime? How do we have a huge impact on these problems? And how do we deal with issues like prejudices and misinformation that donors come to the table with? Do we adapt ourselves to the donor or do we try to teach and lead the donor in new ways of thinking so that we can have the maximum impact on these problems?

And I also want to say I have great respect for Bob in terms of what he’s created and is creating, and tremendous respect for Ken. It’s easy for me, from the outside, to criticize things like overhead ratios. But for Ken, whose Job and security is at stake to take a stand on these things in the way that he has, is really courageous. And I want to acknowledge him for that.

So I’m going to talk a little bit about my background and I’m going to talk about my book and the ideas in "Uncharitable". Before I do that, I usually always like to tell people that I am the father of triplets, and they are three years old. So you can imagine the sleep that I got last night and every night for the past two years. And I say this because I do sort of have a provocative argument and I like to build up as much sympathy capital as I possibly can.
Here’s a little picture of the munchkins. Here’s a picture of their friends. Also, there’s a lot of talk about social enterprise and social entrepreneurship these days. And being gay and fathering triplets is by far the most socially innovative, socially entrepreneurial thing that I’ve done in my life.

So my work in this arena began when I was in college. I chaired the Harvard Hunger Action Committee. And we used to do these little campus-wide staffs for Oxfam America. We’d raise a couple thousand dollars in the fall and a couple thousand dollars in the spring. And I was 19 years old and learning about hunger, and the massive mortality from hunger, and hunger related disease.

And in the context of these massive numbers, these little fundraisers that we were doing as college students felt really puny to me and really dissatisfying. I was really frustrated and I wanted to do something big, but I didn’t have any big ideas.

And in the summer before my senior year, I heard about these two guys who were bicycling across America to raise money for cancer research, and it took my breath away. And I knew that I wanted to do something on that scale.

So the next fall my co-chair and I went back to school and we asked every student at every dining hall for about 13 nights if they would bicycle across America with us to fight world hunger. And in the end, about 39 people said yes. And so that next summer, 39 of us flew to Seattle and we spent the next 9 ½ weeks bicycling 4,200 miles across the United States.

It was a very powerful experience. We raised about $80,000 for Oxfam, which was great. But more than that, we felt depleted, spent; you know, physically, spiritually, emotionally, like we had done the most we could possibly do for a cause that we cared about deeply. And more than that we could not have done.

And that was a feeling that I had been very hungry for—to fully exploit our potential, to leave nothing left inside. You know, not to die with your music still in you.

And so, a few years later I moved to Los Angeles and it was the height of the AIDS epidemic. It was a terrible time. It was before Protease Inhibitors had been developed. And so a friend would tell you he was HIV positive and, in some cases, six or eight weeks later he’d be dead and you’d be meeting his parents for the first time at his funeral. And you were going to funerals of 26 and 27 year old kids every six weeks, every eight weeks and they were your friends.

And you had enormous frustration and grief and passion, and nothing to do with it. You could buy yourself a red ribbon and stick it on your lapel. You could go to the eighth dance-a-thon or buy a ticket to a black tie charity chicken dinner.

None of those things came anywhere close to satisfying the feeling you had inside of you to really go to war against this thing. So, recalling the power of that cross-country bike ride, we came up with this idea called, California AIDS Ride.
And the idea was to give people a powerful vehicle for the expression of all these feelings. So it was a seven day bike ride. It was from San Francisco to Los Angeles. You had to go the whole seven days. You had to go the whole 600 miles. You had to raise a minimum of $2,500 in order to go.

And that was new, because up until then these charity-thon events had welcomed people with open arms no matter how much or how little they had raised, which is wonderfully democratic, but it’s not a very powerful revenue model.

And we didn’t market the events to athletes or to cyclists. We marketed them to average people of all shapes and sizes, many of whom hadn’t been on a bike since they were kids. So, you’d get a woman was 68 years old, petrified of riding her bike from San Francisco to Los Angeles, but she’d lost her nephew to AIDS, and there was no way she was not going to do it. That’s what made the event really powerful. That’s what gave them their spiritual beauty and really drew people to them in a powerful way.

So that first event was very successful. We netted $1,013,000, which was much more than we had expected. And we knew that we had tapped into a deep desire on the part of some people to make the most extraordinary difference against the causes that they cared about deeply.

So we began expanding the AIDS rides all over the United States, and we were doing them from Boston to New York, from Orlando to Fort Lauderdale, from the Twin Cities to Chicago, Austin to Dallas, across Montana, even across Alaska.

And then in the midst of that, in 1988, we looked at the issue of breast cancer, which had a very similar dynamics, where people were losing their mothers, their daughters, their sisters at very young ages. They had enormous passion and grief and nothing to do with it. You could go buy a pink ribbon mug. That didn’t satisfy you.

But we simply looked at the issue of walk-a-thons and we said, “Why are these things always 10 kilometers long?” Like who made up that rule that a walk-a-thon has to be 10 kilometers long?

So, we said let’s create a really long walk-a-thon. Let’s create a pilgrimage. So we created this 60 mile walk, three days long. You had to go 20 miles a day. You had to go the whole way. You had to raise a minimum of $1,200 in or to do it. And we did the first one from Santa Barbara to Malibu. It was a big success.

I think about 3,500 people participated in it. They netted $4 million, which was four times what we did on the very first AIDS ride. So we began to expand the breast cancer three days all over the United States. And over the course of nine years we had 182,000 people ride or walk in one of these events, and they raised a total of $581 million. And that was through 2002.

These events, now, through last year, have raised an excess of $1.1 billion, all based on the idea that people are tired of being asked to do the least that they can do. They want to do the most they can do.
They want their lives to matter in a big way.

So, producing these events over the course of 10 years gave us a really unique perspective at every level on the way the donating public thinks about charity, and it was from that perspective that the ideas in this book came.

So the book is called “Uncharitable,” it’s from Tufts University Press, and it’s about transforming the way the donating public thinks about charity. It’s about changing virtually everything that donors have been taught. I think most of what we’ve been taught is upside down. It’s backwards. It’s dysfunctional. And it’s standing in the way of real progress.

So, it’s about radical things like getting people to stop asking the question, “What percentage of my donation goes to the cause?” And I’ll explain why in a moment. And it’s about giving charities enormously greater freedom to spend money on the things we typically demonize as “overhead” so that they can raise enormously greater sums of money and have some hope of achieving some fraction of the size, of the scale, of these massive social problems that they’re chartered to confront.

So I wanted to just begin here by taking a look at some big world statistics. In 1997, UNAIDS estimated that 1.1 million adults and children died of AIDS in the world. 10 years later, despite the introduction of protease inhibitors, that number had doubled, and UNAIDS estimated in 2007 that 2.1 million adults and children died of AIDS in the world. In 1997, when we launched the breast cancer three days, 43,000 American women died of breast cancer.

10 years later, that number hadn’t changed very much, not much, not by any quantum factor, certainly. In 2007, almost 41,000 American women died of breast cancer. In 1992, the United Nations estimated 824 million people malnourished in the world. 10 years later, that number hadn’t changed very much. 820 million people malnourished in the world in 2002.

And Christmas of 2009, the UN upped that estimate to about one billion people malnourished in the world. Poverty has remained constant in the United States at about 12% of the population every since we’ve been measuring it.

This is not the kind of world we want to live in, and it wasn’t to achieve this kind of almost non progress that any of us got into this work. We got into this work because we wanted to see big differences made in our lifetime. We want to live in a world where we’ve ended homelessness in one, maybe one, major US city in our lifetime, where we’ve ended breast cancer, where we’ve found a cure for AIDS.

So the questions that I’ve tried to ask in the book are not, “How can we ratchet up nonprofit performance at the margins, or how can we makes things a little bit better?” The question that I’ve tried to ask is a bigger question, which is, is this whole system that we’ve inherited centuries ago, is it capable of achieving Apollo-like aspirations, as in a man on the moon in 10 years, has been a cure for breast cancer, not 50 years from now or 60 years from now or whenever. But within a definitive, breathtaking
impossible timeline, like six years from now or 10 years from now. And if this system isn’t capable of that, why not? And what kind of a system might be?

So, my observation is that we have two very distinct rule books. We have one for charity and we have one for the rest of the economic world. We blame capitalism for creating these huge inequities in our society, presumably because capitalism is a very powerful thing. It would have to be a very powerful thing in order to create huge inequities. But then, we refuse to allow charity to really use the tools of capitalism to rectify those inequities.

And so I’ve looked at the way that this separate rule book discriminates against the nonprofit sector in five different areas, the first being compensation. So in the for-profit sector, we allow the payment of a competitive wage based on the value that people produce. And the more value you produce, the more money you can get paid.

You know, a real estate agent doesn’t have some threshold-- after you’ve sold 10 houses, that’s it. You can’t make any more money. No. They get more houses, they sell more, and they get paid. So they keep selling more houses.

But, we don’t like to see people make a lot of money in charity. We have a visceral reaction to the notion that anybody would make very much money helping people. What we don’t realize is that ethic, and we think of it as an ethic, has a powerful effect.

And the effect is to give very stark, mutually exclusive choices between either doing well for yourself or doing good for the world to the best students coming out of our top universities and business schools and law schools, and send tens of thousands of people, who could make a huge difference in social change, marching every year directly into the for-profit sector, because they’re simply unwilling to make the lifelong economic sacrifice that the nonprofit ethic requires of them.

So Business Week did this great survey in 2002. It was a difficult survey to do. They looked at the total compensation packages of MBAs 10 years after business school. So they graduated from business school at an average age of 28, 10 years later they’re 38 years old.

And the median compensation for a Stanford MBA 10 years out of business school was $400,000. Meanwhile, the average compensation for the CEO of a $5 million plus medical charity was $232,000. And the average salary of a CEO of a hunger charity in the US was $84,000.

There’s no way you’re going to get a lot of people with $400,000 annual earning potential to make a $316,000 annual sacrifice to become the CEO of the hunger charity. And some people might say, “Well, that’s because their greedy.” And that’s not necessarily the case. They might just be smart.

Think about it this way, it’s literally cheaper for that Stanford MBA to donate $100,000 a year to the hunger charity, right? You get a $50,000 state and federal tax savings. So still be roughly $260,000 a year ahead of the game. Now be called “a philanthropist”, probably sit on the board of the hunger charity.
Indeed, probably supervise the poor person who decided to become the CEO of the hunger charity, and have a lifetime of this kind of earning potential and gratification still ahead of them. Some people have said to me, “It’s just immoral, and people should work for lower wages in the nonprofit sector because of the psychic benefit associated with the work.”

To which I have said, “Look, there is a hell of a lot of psychic benefit associated with making $400,000 a year and being able to donate $100,000 a year to charity, and to be thought of as a philanthropist, and have that kind of power, and be honored at the annual dinner for the hunger charity.” That’s a lot of psychic benefit. The CEO of the hunger charity is never going to get honored in that way.

These are the salaries of the five highest paid executives in health charities in the US. The figures are for ‘02. So in the left here, you have the American Cancer Society then at $415,000, The Cystic Fibrosis Foundation, The Salk Institute, Juvenile Diabetes, and the Stowers Medical Institute.

Now, in the wrong context these salaries can be made to sound absolutely scandalous. And you can hear the anchor on the evening news saying, “You thought your donations were going to find a cure for juvenile diabetes. In reality, they’re going to pay the half million dollar pay package of the fat cats running the organization.” You know, they’re always fat cats or honchos running the organization when they make more than half a million dollars.

And so when it’s framed that way, you get upset. You think, “Yeah, I don’t want those people making that kind of money.” But let’s look at those salaries on a different scale and let’s compare them to the five highest paid executives for the same year in private health insurance.

So these little slivers on the left that you can’t see anymore, those are the salaries we were just looking at of the charity executives. Meanwhile, the head of Etna made $9 million. The head of Coventry made $21.7 million, all the way up to the head of Oxford Health Plans who made $76 million that year. And we’re still talking about health.

We’re talking about tumors in little kids. We’re talking about the elderly-- all of these same issues. So the charity executives combined made a total of $2.5 million. The insurance executives made a total of $138 million, or 74 times more. But these are the salaries we get all bent out of shape over.

And it’s an upside down world that values the management and the institutionalization of disease 74 times greater than it’s eradication, which is what the charity executives are actually up to. It’s not just because they’re in the nonprofit sector. The head football coach at USC made $4.4 million last year. It’s a nonprofit university. The New York Philharmonic director, for a 14 week stint in 2007, that’s another nonprofit, made $2.2 million. The 20 highest paid football coaches at nonprofit or government supported universities each made at least $2 million last year. And you don’t see them being called out on CNN.
So, we’re fine paying high salaries to entertain high society, but the moment the image of a needy child enters the picture our logic disintegrates and we look at it as a zero sum game, in which any money being paid to the executive is money being pulled out of the hands of those children, rather than looking at it as if the charity has made a smart investment in a great leader, it’s entirely possible that that person is enlarging the pie, not subtracting from the pie, and potentially enlarging the pie significantly so that there’s a lot more money for needy children.

The second area of discrimination is advertising and marketing. In my mind it may well be the most serious of all of them, even more important than the compensation issue. So here again, we give the for-profit sector enormous latitude.

We say spend on advertising and marketing until the last dollar no longer produces a penny of value. But we don’t like to see our donations spent on advertising in charity. Our attitude is, “If you can get the ads donated, I’m fine with it. But don’t spend my donation on advertising. I want my money to go to the needy.” Again, an irrational zero sum thought, because it’s entirely possible that the money invested in advertising is dramatically enlarging the amount of money available to go to the needy.

Imagine if we told Apple, “Hey, the iPad, that’s a great thing. You can advertise that so long as you can get the advertising donated at three o’clock in the morning on the last page of the sports section.”

The Health and Human Services of the nonprofit sector, which makes up maybe 15% of the total, in a liberal estimate in 2006, spent $1.5 billion on advertising and marketing versus $729 billion for the rest of the economy. So, another way of looking at that is one ad for a Health and Human Services charity for every 479 ads for something else.

Or if you want to look at a micro example, the largest advertiser I could find in the nonprofit sector in Health and Human Services in 2004 was Save the Children. They spent $6.4 million in advertising. Meanwhile, the Walt Disney Company, which I like to call “Entertain the Children”, spent $2.3 billion on advertising and marketing.

This next statistic is important. Charitable giving as a percentage of GDP has remained constant at 2% ever since we’ve been measuring it in the 1970’s. What does that mean? It means that the nonprofit sector is not taking market share away from the for-profit sector.

If you think about it, how can one sector possibly take market share from another if it isn’t really allowed to spend serious money on marketing? John Kenneth Galbraith, the famous liberal Harvard economist, his thesis was, at first the for-profit sector builds the product and then, through the massive engines of advertising and marketing, they build a market for that product, they build demand for the product.

It would be considered malfeasance in the for-profit sector to launch some new product without an adequate advertising budget to build a market, to build a demand for that product. Yet, we’re supposed to build a massive market for philanthropy for the end of hunger, and AIDS, and everything else, without
actually spending any money on it.

The third area of discrimination is risk taking specifically in pursuit of new revenue. I don’t mean risk taking in a medical experiment. Of course we allow that. I mean risk taking in the fundraising arena. To try and find new sources of revenue.

So here again the for-profit sector gets enormous latitude. Paramount Pictures can make a $100 million movie that fails, all considered part of their business model. They make a lot of movies. Some of them succeed, some fail. More succeed than fail. And on that basis, they build these huge empires.

But I can tell you from personal experience, and a lot of you who are in the development field can relate, you do a tiny little $5 million community fundraiser that doesn’t produce a 70% profit in the first 12 months and your character’s called into question. So the nonprofit sector is largely petrified of trying any high profile, bold, big, risky new community fund raising ideas for fear that if the thing fails or if it doesn’t bat a thousand right out of the gate their character’s going to be dragged through the mud.

As a result, they can’t build the kinds of powerful learning curves that the for-profit sector can placing $100 million bets on silly movies like Sex and the City Number 19 every two weeks.

The fourth area of discrimination is investment in the long-term. Because of these overhead ratios, everything gets measured in 12 months. So here again, the for-profit sector gets huge latitude. Amazon went for six years without returning any profit to investors because they had a long-term objective in mind of building market dominance.

Can you imagine a charitable fundraising endeavor that had the goal, a huge goal at the end of six years, but for six years zero money actually went to the needy because you had a much larger objective in mind? It simply wouldn’t be allowed. The Attorney General would be knocking on your door as soon as the first Form 990 was filed.

And the last area of discrimination is profit itself. Here again, the for-profit sector can use money in order to attract capital. It can say, “You give me your capital and I’ll give you 10, 15, 20% return on your capital.” The nonprofit sector, a nonprofit by definition cannot, so it’s limited to the donation as its only financial instrument. And as a result, the for-profit sector monopolizes the multi trillion dollar capital markets and nonprofits are starved for risk capital and growth capital.

So you put these five things together: can’t use money to attract talent away from the for profit sector. Can’t advertise on anywhere near the scale that the for-profit sector can. Cannot take the kinds of risks in pursuit of new customers and new revenues that the for-profit sector can. Cannot take the kind of long-term approach to finding those customers and finding that revenue that the for-profit sector can. And you don’t have a stock market.

You’ve just put the nonprofit sector at the most unbelievably extreme, disadvantaged to the for-profit sector, and then we call this whole system “charity”, as if there’s something really sweet and really
noble about it. Charity could not be undermined with more reverence paid to the notion of something noble.

And if we have any doubts about the effects of these separate rule books, forget about the big global statistics I showed you and the lack of progress that we’re making on these issues, this statistic is sobering. Since 1970, the number of nonprofits that have crossed the $50 million annual revenue barrier is 144. The number of for-profits that have crossed it is 46,136.

So why do we think this way? We want to make a difference. We want these problems to get solved. Why do we do things that actually stand in the way of it? The original manuscript...I’m here in Boston today, I’m seven miles from where the first Puritan ships landed, and I grew up here and I have a strong sense of that Puritan mindset. And this all always felt very, very Puritan and very religious to me.

In my first draft of the book I said, “These ideas come from old Puritan constructs,” and my agent challenged me and said, “How do you know that?” So I spent a number of months reading what I call these narcolepsy inducing books on the early Puritan settlers to New England.

The long and short of it is that the Puritans, yes, they came here for religious reasons, but they also were very aggressive capitalists and they came here because they wanted to make a lot of money. At the same time, the Puritans were Calvinists, so they were taught literally to hate themselves and they were self-interest was a raging sea that was a sure path to eternal damnation.

This creates a real problem for these people in 1630. Here they come to the new world all excited, they want to make all this money, but their religion tells them that making all of this money will get you sent immediately, permanently and directly to hell. So what are they to do about this?

So charity becomes this concoction, this artificial sanctuary where they can do penance for their profit making tendencies. As long as they had charity in mind they could make as much money as they want. So, of course, how could you make money in charity if charity was your penance for making money?

So they created these two worlds to make sure they could get into heaven, where there was really only ever one world. The merchants, the farmers, the carpenters of the world got free market practice, and the needy and those who wanted to help them, who were mostly women, by the way, got this religion whereby everything that worked in the market was pretty much banished. And we’re still stuck with that system today. Self deprivation and the notion of low salaries has not been abandoned as the path to social change. In fact, it’s the road still prescribed. And you can see where that’s getting us.

So this Puritan ideology and this separate rule book that I’ve talked about get policed by this one very dangerous, very sinister question which is, “What percentage of my donation goes to the cause versus overhead?” It is the question. It’s the question everyone is trained to ask. We want to amount going to the cause to be very high and the amount going to overhead to be very low.

Makes sense if you don’t think about it for very long, but if you think about it for a moment, it really begins to become nonsensical. Never underestimate the ability of human beings to not think about things very much.
My favorite example, some of you are old enough to remember, that there was a time for decades, decades, where we walked around airports dragging the luggage before it dawned on us that we could actually put wheels on the suitcases. Not exactly a new technology: marrying the wheel to the suitcase. If it took us that long to figure out wheels on suitcases, you can imagine how long it would take us to inquire into the problems with this question about what percentage of my donation goes to the cause versus overhead.

There are three really big problems with this question. The first is it makes us think that overhead is not part of the cause, but it absolutely is, unless there’s fraud going on. And if there’s fraud going on, no one’s going to report it in line item detail on their Form 990. Then every dollar that a charity spends in good faith, it spends to advance the cause in the way it believes the cause can best be advanced.

The receptionist at Save the Children is labeled “Overhead”, like she should wake up every morning feeling absolutely miserable about the drain that she is on those poor children. But she’s trying to save the children every bit as much as the field worker in Africa. Nobody’s trying to hurt the children here.

This notion that overhead is not part of the cause or that it somehow steals from the real cause creates the second, much bigger problem, which is it forces charity to go without the things they really need to solve problems in the interest of keeping overhead low.

So perhaps an organization wants to hire a brilliant, dynamic new leader who has a great vision for solving a social problem and a track record to make us believe that she could get it done. But she comes at a price. And the board looks at her salary request and says, “That’s way too high. We’re going to get slammed in the media. Let’s pass. Let’s go for someone who costs half as much who doesn’t have a brilliant idea for solving the social problem.”

Or maybe an organization wants to hire three new development staff with the goal of quadrupling revenues, but in the first year that’s all going to show up as cost, overhead’s going to go up, the board says, “Donors are going to be outraged. Let’s not do it. Let’s just keep our fundraising staff at the size that it is.”

So this is how we institutionalize small scale. We are systematically forcing charities to obsess over keeping their short term overhead low at the expense of actually solving problems. Well, if what we tell charities is, “All that matters is that you keep your overhead low,” then what we’re going to get is low overhead, or at least the appearance of it. And we don’t say anything about, “I want you to solve this problem and solve it quickly no matter what the overhead,” then that becomes a completely secondary matter.

The third problem with this question is it gives donors really bad information. And that’s tragic and ironic, because the only reason we use it is donors think it’s giving them good information. So, first of all, it doesn’t tell you anything, not a thing, about the quality of the charity’s program.

Let’s take a crude example of Soup Kitchen A and B. A tells you, “90% of your donation goes to the cause. We’re wonderful stewards of your trust.” And Soup Kitchen B says, “70% goes to the cause.”
Well, we’ve been trained to think that Soup Kitchen A is by far the better soup kitchen. They’re way more efficient, way more respectful of our donation.

What if you actually went and visited the soup kitchens and you found that Soup Kitchen A is serving rancid soup in a dilapidated facility, and Soup Kitchen B is serving hearty, nutritious soup in a state-of-the-art facility and they’ve got this really friendly staff and they’re open 24 hours a day. Now it’s clear that you should have given to Soup Kitchen B. So the question, “What percentage of my donation goes to the cause?” would have betrayed you utterly and completely in directing your gift to the right soup kitchen.

The Better Business Bureau did a survey when they were going to tighten their overhead restrictions, and they asked donors, “What information do you most want before you give to charity?” And 79% said they want to know how much of their money goes to programs. Only 6% said they want to know if the money makes a difference.

Now, why would that be? It’s because we’ve managed to convince donors that the two things are the same. We keep telling them that when overhead is low it’s a good charity. If you hear ‘good charity’ you don’t need to know anything more. You think you know that they’re effective because their overhead is low. When important studies have shown that the less an organization spends on infrastructure and capacity, the poorer their programs are.

The second reason, and it’s a sinister reason, that this question gives donors bad information is the percentage of your donation that goes to the cause depends entirely on how the charity defines the cause. The more broadly they define it, the higher the percentage they can tell you is going to the cause.

So in our example here, what was actually going on was the two kitchens had identical expenses: 20% fundraising, 10% administration, and both of them had 70% going to programs. But when it came time to do their accounting, Soup Kitchen A said, “Let’s take the 20% fundraising cost and add it to the 70% and we’ll tell donors that 90% went to the cause.” Soup Kitchen B played it much more conservatively and they said, “No, we’ll add the 20% to the 10% and we’ll report a 30% overhead and 70% going to the cause.” So two identical expense pictures, two completely different messages being sent to the public about what’s going on.

So if it’s such a bad question, why do we keep asking it? We’ve been trained to ask it. Up until Ken’s very brave move this year, we’ve been trained by Charity Navigator, by the Better Business Bureau, the American Institute of Philanthropy, the States Attorneys General and the media and the charities themselves, and they all were referencing one another, where the media would say, “Go to the Better Business Bureau website to find out which charities to give to.” And when you went to that site the Better Business Bureau would tell you, “Look at the overhead ratio.” And even the States Attorneys General would say, “Go to the Charity Navigator or the American Institute of Philanthropy website.” where traditionally, you would get a message that the main question you should have been asking was to keep your overhead low.
I really want to applaud Ken for issuing a statement, December, about 12 months ago that overhead ratios and executive salaries are useless for evaluating a nonprofit’s impact and, for more recently, significantly de-prioritizing the overhead measure and taking a look at much more important questions when it comes to how Charity Navigator will rate these organizations.

The biggest issue in my mind, and it’s not a criticism of any of these evaluating agencies, is how tiny the scale of our efforts are on the evaluation side. These are the three largest watchdogs: Charity Navigator, the Better Business Bureau, and the American Institute of Philanthropy. Between them we have a total of 28 staff looking at these things. Between them, the United States has a total of $3.3 million to do this kind of evaluation. Between them they’re looking at 7,700 charities, next to none compared to the 1.1 million plus charities in the US. And with the exception of Charity Navigator, we’re not looking at questions of program effectiveness.

So what we have in the United States for an infrastructure for evaluating $300 billion worth of annual giving is really next to no one, spending next to nothing, looking at next to no organizations.

So what’s the answer to all of this? Quickly, I’m just going to say a few things and then wrap up. First, we have to stop using this word ‘overhead’ and we have to start calling things by their real name. If we’ve hired a dynamic new leader with a great vision, we have to say, “We’ve hired a dynamic new leader with a great vision” and not say that it’s part of overhead.

We have to train donors and the media and regulatory agencies to stop asking this question about percentages and start asking some meaningful questions about the organization’s intention and its goals and what it’s learning about the social problems it’s trying to address.

And I believe we have to build some kind of a magnificent national assessment apparatus, and we have great organizations on the phone and elsewhere that are capable of imagining it and being the architects of it. And I know they’re trying, but we have to have kind of an iTunes-like beautiful user interface that has rich narrative and video storytelling information, as well as numbers. No numbers without story, no stories without numbers.

And we need a leadership organization, I believe. There are a number of us who are in the process of creating something called the Charity Defense Council that will act as an anti-defamation league for the non-profit sector that will be there on television when some reporter is trying recklessly to damage the reputation of a charity that is actually trying to do good things. So it will be about public awareness and getting people to understand that overhead is the wrong question, and it will pursue a legislative agenda for something called the National Charity and Social Entrepreneurship Act that will address a number of these systemic issues.

This is the ribbon that’s on the front of the book. I’ll just close by saying that I got this ribbon and I tore it apart by the threads and I ground it in an oil stain on Hollywood Boulevard, and it’s become a symbol for me of the desecration of our dreams on the altar of things like ‘overhead’ and ‘public relations’.
I think that we don’t need to worry about dissembling this system. We need to set our sights on our most bold, daring, wildest dreams. And if we do that and if we have the courage to do that, then donors will have their breath taken away by that and its ideology will crumble under the weight of their magnificence.

The last thing I’ll say is if we don’t want to solve any of these problems, then the system works fine just as it is. We have a perfect system for progress at the pace of molasses. But if we’re really serious, if we really want to get excited about solving some of these problems in our lifetime so that we don’t have to see these death tolls going on for decades, then we need to change the way we think and we need to change the way everyone else thinks and give charity the same freedom that we give to the rest of the economy.

With that, if you want, here’s my contact information if anybody would like to be in touch. And thank you. I’m done.

Julie: Excellent. Thank you, Dan, for that really important and really provocative presentation. You make a lot of good points and I’m interested now to turn this over to Bob Ottenhoff, who is the CEO of GuideStar. Bob, I’m going to turn it over to you. What do you think of this important topic of nonprofit effectiveness, and what’s your reaction to what Dan has had to say? Bob?

Bob Ottenhoff: Hi everybody. Thanks Network for Good for inviting me here. We at GuideStar are great admirers of your work, so thanks very much. And Dan and Ken, look forward to talking to you some more.

Dan, I’ve been a biking enthusiast my entire life and I’ve been involved in many, many bike trips that have raised money for charities. So, who knows? Maybe we’ve met each other at some bike rally over the years. I’ll be curious to find out more about that.

As you may know, GuideStar’s mission is to revolutionize philanthropy. We’re not content to just make a difference or influence the sector, but we truly want to revolutionize the nonprofit sector through information and tools. So we feel connected, Dan, to many of your perspectives. We like your impatience and we like your passion. And there’s a few other things we like.

So Dan, we’re with you on a bunch of the things that you were talking about. For one, we think it’s important for non-profits to adopt more businesslike activities. To us that means being strategic and creative about using marketing and advertising in a very crowded landscape. We think there’s a lot of room nonprofits in harnessing the power of marketing and advertising.

We also are trying, at GuideStar, to encourage others to build sustainable business models that make our financials strong and reliable. There’s no sense in getting involved in making commitments to people unless we can deliver on them by being strong and reliable.

I decided a long time ago that I wanted GuideStar to be a great place to work. I want people to decide they can have a good career, one with meaning and one where they’re engaged in meaningful work, and
one where they feel proud about their activities, and also feel like it’s a great place for them to make a commitment career wise.

So when it comes to compensation, we try to invest in the best and brightest that we can find, and then we keep them in the sector through compensation that attracts and retains them. So we’re with you on compensation, within appropriate limits.

This leads to capabilities. It’s necessary to highlight the nonprofits’ role in helping stakeholders with more than just donations, and we’ve been hearing, donors have been coming to us saying that they’re concerned about the capabilities of organizations before they make a donation. I think for all of us in the sector, we’re going to have to step up our game and be able to demonstrate that we can deliver on our promises.

And finally, we like what you were saying about taking risks. Nonprofits should be encouraged to pursue their boldest dreams of a better world. But I think there’s quite a few nonprofits who are now starting to understand the power of finances, for example. We work a lot with the Nonprofit Finance Fund, which is trying to help organizations with their capitalization. We here at GuideStar have taken out loans and PRIs on a number of occasions to help build our internal sales and product development and marketing capacities in order to reach our goal of sustainability.

But there’s a few things I don’t feel so comfortable about in what you were having to say. I think you misunderstand or perhaps don’t fully appreciate what is going on in the nonprofit sector. From our view here at GuideStar, we’d say there’s lots of nonprofits that are not only passionate about what they do, but are breaking the mould of the way things used to be done. We work with a lot of organizations that are engaged in online activities, and I can say they’re on the cutting edge of what’s happening today, not only on the internet, but in the world of philanthropy.

Secondly, I think being charitable and being viewed as being charitable is still very important to donors, and there should continue to be differences between for-profits and nonprofits. Donors want to make sure their hard earned money is spent on charitable purposes and not for the expenses of a for-profit company.

And so, it troubles me a little bit that the organizations you were trying to help became concerned with your business model and your approach. And I don’t think it’s necessarily because of the for-profit nature of what you were doing. There are lots of for-profit fundraisers and for-profit consultants, lawyers, accountants, software providers, hardware providers, all of them for profit, who are doing good work for nonprofit organizations and probably being very profitable at what they do. It happens every day and in most cases it works just fine.

But it seemed like in your case the expense goals for your activities ultimately began to get in the way of the charitable goals. I think this ended up confusing the public and your stakeholders in what ultimately was trying to be done here.
So I don’t think being for profitable is the enemy and I don’t think being ambitious and aggressive or adopting business like activities is necessarily the enemy here either. I think what engaged constituents want is to have confidence in the nonprofits they support, and that ultimately became the issue, I think, in some of your experiences.

I wonder, finally just a thought, if you would have been better off acknowledging your for-profit status and running your activities and then making a donation to charity. This might have been less confusing because I think transparency ultimately is very important in these kinds of activities.

So let me just first of all step back a little bit and give your our view of the world and what’s happening right now. Our view is that there’s growing skepticism over the nonprofit sector in general. There’s just enough stories about bad things going on, there’s skepticism about where the money is going. And so I think, Dan, you might have got caught up in some of that skepticism.

I often say that the era of assumed virtue is over for nonprofits. We need to earn peoples’ trust and we need to work on that every day. We don’t automatically get a halo today that says, “We’re virtuous.” We’ve got to work at it. And for us that’s meant a greater demand for transparency and accountability.

We have to acknowledge the fact that donors are more engaged in the philanthropy and also engaged in how that money is being spent. There’s a greater demand for data on which to base decisions. And I think people, as part of that, want to know how their contributions are being used. They’re expecting nonprofits, which are exempt from paying taxes and receive donations which are also tax exempt, are legitimate, well-run and ethical organizations.

That’s kind of one of the major principles we see that all of us in the nonprofit sector need to deal with today. The second is that people come to giving decisions with a variety of values and expectations. Some donors are looking for cutting edge organizations doing things that nobody else can do. Others are looking for things that are important in their community, or perhaps are more conventional. But I think in all of them they’re looking for non-profits that are legitimate, that have impact, that are efficient and effective with their money and well-respected by the stakeholders. Along with that, not only did people come to the giving decision with a variety of values and expectations, they also had different evaluation criteria. So although we agree with you about overhead, I don’t think all donors or all people involved in charity are only looking at that as a measure of organizations.

Moving on from the world view to some of GuideStar’s own principles, we’ve had a 16 year old commitment to transparency and accountability, and we think this is one of the most important ways for nonprofits to earn the trust is for nonprofits to be totally open about what they do and how they do it. We’ve long held that focusing on overhead creates a distorted view of a nonprofit and you gave some great examples of that. It is not a good way to measure mission or to measure effectiveness or to give us a true picture of that organization’s mission.

We also think that rating a charity based on some simple criteria doesn’t give a full picture and often can be misguided. What we’ve been asking donors to think about are three big questions: what does this organization do? In other words, what’s its mission? How do they do it? And then finally, how are they
doing? How are they measuring the success of their work? And if an organization can ask these three big questions: how do you do, how do you do it, how are you doing, you’ll get a much better picture of is all about and whether it is deserving of a donation.

We’re also, I want to mention, doing some experimental work with the independent sector and the Better Business Bureau on something called Charting Impact. And we’ve had hundreds of organizations experiment with us in asking five questions. What is your organization aiming to accomplish? What are your strategies for making this happen? What are your organization’s capabilities for doing this? In other words, can you get the job done? How will your organization know if you’re making progress? And what have and haven’t you accomplished so far? As I said, we’re experimenting with this, and our goal is ultimately donors will want to ask questions like these rather than start focusing on less meaningful things like overhead and even on the financials.

Finally, what can you find on the GuideStar site? A 360 degree view of an organization from as many different sources as we can find, because we don’t want donors to focus on single, less meaningful data points. We collect as much as we can from government sources. Increasingly we’re focusing our attention on GuideStar Exchange, which is a place where nonprofits can talk about their mission, their programs, their activities, their boards, their management, their finances, their government, all the things they want a donor to think are important.

And we’re beginning to collect, in addition to that, information from donors and others who have a view about that organization. This is information on all 1.5 million tax exempt organizations, the full picture. I think when it’s all said and done, we have to recognize the fact that donors are expecting more of us in the nonprofit sector. We need to make a commitment to transparency, make a commitment to accountability, and we need to recognize that earning that trust is something we’ve got to work on every day and not something that’s automatically given to us in this world today of growing skepticism about all institutions. With that I’ll stop and say thank you very much for the opportunity.

**Julie:** Excellent. Thank you so much, Bob, for that. We really appreciate your perspective and your excellent points on this issue. Just as a note to everybody, we definitely want to leave time for Dan to respond, and Katya will take that as facilitated response after we hear from Ken Berger who’s the CEO of Charity Navigator, which is an organization that plays a really critical part in this discussion, so we want to let him have his chance to speak.

So now Ken, as someone who’s really at the heart of this issue, how can we measure nonprofit effectiveness? We’re really interesting in hearing more about some of the steps that you’re taking and that your organization is taking that Dan referenced and just getting your thoughts on this issue. And just as a note for everybody that’s watching, Ken is just going to talk, so just listen to him. We don’t have slides for him. So, Ken.

**Ken Berger:** And I apologize for your having to stare at my face for the next ten minutes. I want to start by talking about the book. I want to compliment Dan because I think his book really caused me to review my assumptions about the nonprofit sector. I was very engaged by the book, and if you were in a room
nearby while I was reading it you could hear me shouting frequently. I was definitely engaged. It was stimulating.

I also have met Dan personally and I think he generally wants to...we share the goal of wanting to change the world for the better. So I salute him that regard and what I’m about to say, as I drop the other shoe, please keep that in mind.

I don’t recommend the book, generally, because I don’t think it’s a good book for the general public to read, for those who are new to or are thinking about joining the sector, or for board members with limited experience. Because if you haven’t been inside the nonprofit for a good while and seen all of its beauty, as well as all of its ugliness, you might get swept up in one of the books many false and misleading arguments.

Which leads to the other side of the coin. One of the main themes in the book over and over again was Dan’s tendency to use extreme arguments and examples, some of which are reflected in his presentation today, that are completely inaccurate characterizations of the state of affairs in the sector. Hence my frequent yelling at the book.

In other words, he repeatedly sets up a phony straw man and then he knocks it down. All the while I’m shouting, “But that man doesn’t exist!” Or it so rarely exists that the opinion stated as facts are totally misleading to an otherwise uninformed reader. This becomes particularly important as we see a growing interest in people desiring to transition from the for-profit into the nonprofit sector. God help us if this is the book they base their career decisions on!

I’ll give you a small example. He showed a chart there showing that between us, the Better Business Bureau, and AIP we cover 7,700 charities in the universe of 1.2 million. In theory, that’s basically true, but you need to consider something else. Did you know that 85% of all the money that goes into the nonprofit sector goes to 1% of those charities? So if you just review 3,000 charities you’ve already covered well over 60% of the revenues coming into the space. If you don’t have that additional information you get a very distorted view. That’s just one example.

Another theme in the book is Dan’s idealization of capitalism almost as a god that can lead to self fulfillment and stunning change through the wonderful motive of personal gain. He counters this with the sad nonprofit sector that is restrained by the evil of traditional religion, which he claims mostly obscures ‘the bigger picture’, as well as a laundry list of nonprofit beliefs based on false ideology.

This leads us all the way up to the present with sexism, homophobia and the other horrors that round out this bleak view of the state of things. At the same time he presents what I think is a Pollyannan view of the nonprofit sector, implying that we have a few bad apples, but not too much to worry about on the ethical front.

Well let me tell you, based on my 30 years of experience working in nonprofits, as well as the reports we get at Charity Navigator almost every day from donors and investors around the country, it is quite clear to us that we have more than a few scoundrels and thieves to worry about. Although I don’t believe it’s
the majority of nonprofits, it is a substantial number. Therefore, we need to be very cognizant of this fact in developing solutions to improve the sector’s performance.

Furthermore, my readings on the history of the nonprofits sector reflect a very different set of facts and conclusions about its origins than Dan’s. Whereas he seems obsessed with the Puritans as our historical forebears, there are many civilizations and belief systems that have shaped our philanthropic sector. They include the Egyptians, the Romans, the Jews, the Muslims as well as Christians; all of them share the view that helping others is a most noble, honorable and important part of life and a key part of the path to being a good, decent, happy person.

Additionally, in looking at the history in our country in particular, I think it’s clear that our founders worried that unrestrained capitalism could lead to concentration of wealth and power along with tremendous ethical abuses. Many of their worries have been realized during our history and seem to be accelerating in some of what we see today. That is why many of them worried whether, given our natural tendencies, we could handle the liberty of the revolutionary republic they fought and died for.

Many historians and political scientists also point to the checks and balances in our founding documents and our reliance on the rule of law as being just as critical to our country’s success as the value of capitalism.

In summary, I’m a believer in capitalism just like Dan is. But in his capitalism, it seems to be a panacea to deal with all the imperfections of the nonprofit sector, as well as the UN condition in general. Ironically, most experts note that a key factor in the unique development of our nonprofit sector is the related American belief in the power of the individual and voluntary associations to solve problems.

At least up until recently, most Americans have not wanted a more centralized, powerful, governmental apparatus. But they want the creative, innovative dynamism and the hearts and minds of millions of independent nonprofits operated by 10% of the American workforce, along with over 60 million volunteers. And, by the way it’s not 2% GDP, Dan, it’s over 10% when you include the other buckets of money that come into the sector that are much bigger than the private contributions you talked about. Government money, fee for service, it’s $2 trillion, not $300 billion.

It is a distinguishing feature of our country. As a result, the size and diversity of the nonprofit sector in the United States is a historically unique and vital part of our political, economic, and social system. Scholars note that the nonprofit sector is a vital vehicle to balance that out or mitigate the imperfections and potential heartlessness of unrestrained capitalism.

In addition, there’s one area that Dan and I have publicly crossed swords a couple of times already, and that is on the question of nonprofit executive compensation. Dan says we need to pay our CEOs the same as for-profits; let them become millionaires if they perform well. That way we can get some of those best and brightest MBAs that normally go to Wall Street or Silicon Valley.
In fact, he says, until we do, the most talented among us in the sector will leave. Of course, you may notice, at this time, the truth is in the other direction. They’re coming to us from the for-profit sector. But, I digress.

So I guess it makes me a real dummy with my MBA from Rutgers for having stuck around for 30 years, as well as the many amazing, and yet, brilliant nonprofit workers I have met along the way. The vast majority of experts hold the view that best practices to set nonprofit executive compensation based upon local market conditions—where you are located, the cause area, and the budget size of comparable nonprofit leaders.

And our data at Charity Navigator indicates that with such analysis, the typical nonprofit CEO of a mid to large size organization makes a very decent six figure income and is already in the top 6% of wage earners in the United States.

So you can live a very comfortable middle to upper-middle class lifestyle as the leader of one of these charities. But Dan seems to think we need to get into that upper-class of the top ½ of 1% of wage earners before we’re going to get the best and brightest.

I find his argument on compensation not just wrong-headed, but downright insulting. Just as he makes a fetish out of unrestrained capitalism, he makes a fetish out of cash over the other means of securing happiness and satisfaction at work. How insulting to think that if we make less money than our for-profit counterparts, we must be less creative, talented, intelligent, and less capable with helping others! Give me a break!

In fact, the research I read consistently indicates that job satisfaction comes more from the purpose or mission of what you do—a sense you are doing something that is meaningful rather than cash or getting an award for making a donation.

The primary challenge, in our opinion, is not a lack of high-priced nonprofit leaders, but, rather, fragmentation and inefficiency in the use of existing resources. This is caused, in part, by an incentive focus on manipulative marketing and storytelling.

Dan wants us to do more marketing. Well, the impetus now is on storytelling and anecdotes, and it is emphasized over what is truly important—performance and results. In other words, we waste a tremendous amount of money in the sector each year on untested, unproven, and often ineffective services, to say nothing of the scoundrels and thieves that I mentioned earlier.

Fixing those problems at this stage is far more important than throwing more money into leadership salaries. And yes, we believe you can do one-- improving performance, without the other-- throwing money at leadership.

I also disagree with Dan’s other primary solution to getting us to focus on results. He mentioned a national Charity and Social Entrepreneurship Act. Part of that, if I understand correctly, is a fee of up to 1% that is going to be charged on all donations into the sector.
Dan wants to take that, which is about $3 billion, and create some sort of government or quasi-government behemoth to provide results based evaluations of charity performance. What a bureaucratic and hyper-regulatory solution to our problem. Then we catch runaway for-profit consultants take that $3 billion and create a whole new boondoggle. Great!

Well, I leave you with a quick glimpse of part of the dream that some of us hold as to what the future might look like in 10 or 20 years to get us to our mutual goal of driving more money to high performing nonprofits. I hope that through the efforts of Charity Navigator and others, in the not too distant future, every charity will have two audits each year—the traditional financial audit and a results audit. This is the more grassroots American solution that is decentralized in implementation and, yes, paid for by charities themselves because they believe that results evidence is critical to performing their missions.

Some may say, “Well, we can’t afford it.” But I think there’s also going to be enlightened self-interest in knowing that the audit will ultimately pay for itself as more and more funders and donors will gravitate to evidence based, high performing nonprofits.

So as we move away from financial measures as the sole or primary dimension by which we and the public evaluate the performance of nonprofits, let us all work together to get more and more charities to become passionate about performance, management, and measuring outcomes. Let us all come to realize how critical it is to the sector’s future to manage and measure what matters most—whether or not we are providing meaningful and substantial change in the people and communities we all care about. Once we achieve that, we can move away from being “uncharitable”. That’s it!

Katya: This is Katya. Thank you Ken for your passionate response and your thoughts on these issues. I want to say I think you’ve heard three varying visions of three very important questions in our sector. And one of them is: How effective are we really? And how do we make ourselves more effective? And how do we measure that, if we’re really making gains there with our effectiveness or not?

I can’t think of a more important set of questions for us to be debating today. So I realize you’re hearing differing opinions, some very strongly conflicting, but I think that this discussion is important for all of us to hear and all of us to wonder about.

I want to give Dan a chance to respond. There was an awful lot of things for him to respond to. Dan, I wanted to give you a couple minutes to respond, but I wonder if you could frame your response around the question that we’re seeing coming in the most, which is: If we all agree that there are limitations to how we’re measuring effectiveness right now among charities, what are the number one, two, and three things we should be doing to improve that?

And as you’re hearing Ken’s criticisms or Bob’s slightly different vision of what GuideStar is going to be doing in that area, what’s your reaction to that?

Dan: Well, you know, there are two categories of different things we should be doing. One is, you know, operationally, what questions should people be asking? And I differ a little bit from Bob. I don’t think we should ask: What do you do and how are you doing? I think we should ask questions that are
more about the organization’s intentions. So, we need to ask questions about: What are your goals? What progress are you making toward those goals? And how do you know?

And maybe Bob and I are saying the same thing. In other words, how do you know? Do you have integrity in your data? Do you have an organizational commitment to measuring whether you are making a difference or not, even if you are not making a difference? That’s OK if you’re not making a difference.

Yes, if you had gone to Jonas Salk 10 years or five years before he finds the Polio vaccine, you’d have to say, “Well, this guy isn’t very effective.” And if you only looked at the issue of current effectiveness, you would have made a big mistake in not investing in him.

But the second bigger issue that we need to look at is really: How do we create the scale for some national apparatus? And, you know, I appreciate Ken’s intentions in what he wants to do, but, you know, Charity Navigator has been a $1 million, $1.2 million organization for years, and that just ain’t gonna cut it.

We need a much, much larger apparatus, and we ought to invest some meaningful percentage of the $300 billion Americans give to charity each year in evaluating the effectiveness of that giving.

So I think those are the two areas. We need to change the questions we’re asking and we need a visionary entrepreneurial approach. Why can’t we dream of something as big as iTunes with the evaluation of charity and the distribution of that information? Why do we have to “miniaturize our ambitions” as Susan Berresford for the Ford Foundation so famously said?

Katya: Great. Thank you so much for that thoughtful response. I want to ask both Ken and Bob about this question. Ken and Bob, you both got a lot of questions. I don’t know if you saw in the chat panel, but a lot of nonprofits on the line are very eager for those who evaluate and provide data on the nonprofit sector to incorporate within that what the nonprofits’ aims were and how they are doing in accomplishing their mission—what specific impact they’ve had in a year.

And so, there’s some specific suggestions around, “Why can’t we upload our business plans, for example, onto GuideStar?” Or, “Why can’t we be given means to measure our strides in different program areas?”

Could you all talk about your response to that and maybe some of your thoughts on how we begin to enrich the data that we’re providing on social impact? Ken, would you like to take that first please?

Ken: Sure. And, by the way, I didn’t have an opportunity to put up my contact information. But if anybody doesn’t get their question answered, my email address is KBerger@charitynavigator.org. And I’d be happy to respond to any questions we don’t get to.

You know, I did not have a chance in the 10 minutes I had to go into the transformation that’s happening at Charity Navigator. And it appears from some of the questions that the message, we still need to get it out there. Charity Navigator is in the process of revamping its rating system to go from its
current, what we call a one-dimensional focus on the financials of the charities to a three dimensional system that’s also going to look at questions of transparency and best practice. And then finally, and most importantly, on the results of the work of the charities.

So we’re very interested in this area. We’ve formed an advisory panel of experts and charity leaders that are helping us through this. We’re already in the middle for testing prototypes for different elements that we’re planning to integrate.

And the more information that charities are willing to share with us and help us in our process, the better off we’ll be. And we welcome that suggestion very much.

We do think that the results of the work is the most critical piece of the puzzle. And in that way, that theme in Dan’s book, and I think that’s the place where Dan and I, and I’m sure Bob as well, all three of us speak in unison on that point. We do want to drive the conversation more and more towards results being the primary focus. We do not agree with those who think that overhead is meaningless. It does have a value and I’ve seen it enough.

If you see a zero or a one star on our rating systems, I guarantee you that, more often than not, a preponderance of the money is not going into what matters most. We see it repeatedly. So yes, we don’t want to make a fetish out of overhead, and we have born some criticism for that, and many of our former critics are now our advisers in this effort. But results is key and we’ve got to integrate that into our ratings system.

**Bob:** Katya, when I said “360 degrees worth of data”, what we meant was we want to try to get data about a nonprofit from as many different sources. We’ve long been collecting whatever the IRS gets, but increasingly, we’re dependent on information that nonprofits send us. So we’re asking that you help us tell your story.

So if you want to share information about your strategic plan or your business plan, that’s something that we welcome. We also welcome videos that can tell your story or other kinds of graphic material as well.

But I think the key here is we don’t want the view of a nonprofit to be one-dimensional. We want to try to look at it from as many different angles as we can because we know that different donors have different sets of evaluations and different sets of priorities.

But it is, without a doubt, a trend that we’re seeing that donors are more and more asking about capabilities. We saw this around Haiti, for example, where people wanted to know that their donations were going to organizations that were capable of delivering aid assistance to people in Haiti.

And so, there’s more focus on capabilities. There’s also more focus on impact. So that’s part of what we’re trying to get nonprofits to provide us with.

**Katya:** Great. Thank you Bob. So as we’re sort of contemplating this idea of improving the supply of data that helps us gauge nonprofit effectiveness, I think the question coming to mind for a lot of people,
looking at the questions over the course of the discussion here, is, “Well what’s the demand for that data? And how much can we expect the average donor to want to go research at that level?”

And so we had some question specifically. Barry asked about the Hope Research. If you’re not familiar, Hope Consulting Research that shows not a huge amount of demand for other information beyond overhead. He says, “How can we conclude donors want to do more rigorous research?”

We have other people asking, “Well, how can we get institutional funders to really look at this data and behave differently, not just individual donors?”

So I was wondering if each of our panelists could talk a little bit about the other half of that change, right? There’s putting the data out there and then there’s getting the people to consume that data to make the right decisions to support the more effective nonprofits.

And Bob, perhaps you could start with that one, because I know you’re working on this very issue right now. And maybe in the process of answering that, you can also chime in on Chris’s question, which is, “Who are your target audiences anyway? And who is using your data currently?”

**Bob:** Sure. So we’re now engaged with Hope Consulting on part two of that study, and we’re hoping within 30 days or so we’ll have some information that we can begin to share with all of your listeners.

What the Hope Consulting work found is that donors say they want to use information, but they don’t always use it in their decision making. And, in some ways, this is not surprising. We know that people will continue to give to their religious institution, they’ll continue to give to their alma mater, they’ll continue to give to health related causes to which they have some personal connection. So that’s not likely to change.

But the research from Hope Consulting found that there’s a whole category, disaster relief comes to mind, where people are looking for more data. But some of the things that really matter to donors are things like legitimacy—Is this really a legitimate organization? They want to know is it transparent? They want to know something about its activities. Those are some of the things that really matter when people begin to use information about a nonprofit.

In terms of users of GuideStar, it really covers the gamut. We have about half of the uses of GuideStar occur on our site. About half occur on the sites of our partners. For example, our close relationship with Network for Good. Almost all of the major donor advised funds are now using GuideStar data. Many other financial institutions are using GuideStar data.

So in terms of who comes to the GuideStar site, it’s a mix of private and community foundations. We also have a relationship with 11 community foundations through a project called Donor Edge. We have lots of individuals that come to our site. The media uses us a lot. And then, let’s not forget about government. Government is the source of about one third of all revenue in the nonprofit sector. And increasingly, they’re trying to be smarter about the kinds of grants and donations they make to nonprofits.
So it’s a wide range of people interested in GuideStar data.

Ken: What we found from the Hope Consulting research, actually, you can look at it as half empty or half full. And we were encouraged by it. First of all, one of the themes that ran through it was that people were looking, regardless of income category, they were looking for three things. They’re looking for information that is simple to access, easy to understand, and free. And that is sort of the banner head for the way that Charity Navigator has operated.

Also, it indicated that 85% of the people that they surveyed said that they were interested in getting information about results. The sobering thing was that only about 3% of them actually use it for comparative purposes.

But to be fair, that’s a logical choice for most donors, because, quite frankly, there’s no “there” there. The amount of accessible results-based data for the nonprofit sector as a whole is extremely paltry. So part of what we all have to do, everybody on this call, is we all have to become evangelists, dare I say, for the cause of getting more information out there and for changing the consciousness of the public as it relates to what is most important.

And so, you know, $45 billion is what was the estimate that Hope Consulting said could be impacted in the very near term, to say nothing of changing consciousness. So, there’s a lot that we can do out there together to move things in that direction.

Katya: Great. I think that’s a great note to end on, Ken. And Dan, it brings me back to your last point about building a magnificent national assessment apparatus that gives us a lot of up, that if we do, that indeed donors will want to take a look at that.

There are a number of unanswered questions, many of them very specific to GuideStar, Charity Navigator, etc. What we’re in the process of doing right now is we’re posting every single one of those questions into our community, which is TheNetworkForGood.org, and we’re putting them in the Online Fundraising and Outreach area under “Uncharitable”. And Ken already volunteered to go in and take a crack at some of those unanswered questions, and we’ll certainly invite Bob and Dan to do the same, and then I’ll chime in as well so that we can continue this incredibly important discussion.

I want to express a great deal of gratitude to everyone who spoke today. Ken, Bob, Dan, I really can’t say how much it means to us that you came on today and that you are thinking about, so rigorously, these issues which are just so critical for all of us accomplishing more social good. So we’re very, very grateful for your time and the intellectual rigor and passion you have around these issues.

I want to thank everyone for joining us as well. Many, many of you asked, “Can I have the slides? Can I have the recording?” We are going to have a link to a recording of this presentation by tomorrow. We are going to have a transcript available early next week if you want to read it line by line. We’re going to have that available too. Some of the slides will be available. I think the ones from Bob we’re going to make available, if that’s OK with him.
And I want to remind you, we are going to have another webinar next week. It’s going to be “Speed Consulting Nonprofit Websites”. I’m going to be joined by Mark Rovner and Alia McKee, and we will review any website we can that’s submitted with a quick fire, three things each nonprofit could do to improve their homepage. So you can register for that at Nonprofit911.org.

That concludes today’s webinar. Thank you again for joining us and thank you for everyone who spoke today. We wish everyone happy fundraising and lots of effectiveness in your important missions. Have a great afternoon. Bye-bye.