



# ROOM FOR IMPROVEMENT

## FOUNDATIONS' SUPPORT OF NONPROFIT PERFORMANCE ASSESSMENT

BY ANDREA BROCK, ELLIE BUTEAU, PhD, AND AN-LI HERRING

**THE EFFECTIVENESS OF NONPROFIT ORGANIZATIONS MATTERS GREATLY TO THOSE WHO BELIEVE IN THE POWER OF THE SOCIAL SECTOR.** For foundations, nonprofit effectiveness is particularly relevant: The extent to which foundations make a difference in society depends on the effectiveness of the nonprofits they fund. It makes sense, then, that how well nonprofits understand the difference they are making strongly affects foundations' ability to understand their own impact.<sup>1</sup>

The majority of foundation CEOs believes that nonprofits should be held to higher standards of evidence to demonstrate the effectiveness of their work.<sup>2</sup> This view is echoed by the business press, which often castigates nonprofits for not caring about assessment or failing to use data to improve their day-to-day work.<sup>3</sup> The pressure for nonprofits to demonstrate their impact also emanates from government granting agencies and a growing number of nonprofit-rating websites.<sup>4</sup>

Amid the growing clamor for nonprofits to demonstrate the difference they are making, the voices of nonprofits themselves are rarely heard. How important do nonprofits believe it is to demonstrate the difference they are making? And if understanding nonprofit performance matters so much to foundations, just how much help are they offering to nonprofits to assess performance?

To answer these questions, we went straight to the nonprofits. We sent a survey to the 300 nonprofit leaders who comprise *The Grantee Voice: Feedback for Foundations* panel. (For more details on *The Grantee Voice*, see Appendix: Methodology.)

We found that:

- » Nonprofits very much want to be able to understand their performance and are taking steps to do so.
- » Nonprofits want more help in performance assessment efforts than they are currently receiving from their foundation funders.

## *The Grantee Voice: Feedback for Foundations*

Three hundred nonprofit leaders from across the country are a part of The Center for Effective Philanthropy's (CEP) *The Grantee Voice* panel. By joining the panel, these nonprofit leaders agreed to complete short surveys about topics relevant to their experiences working with foundation funders. Surveys of grantees conducted for *The Grantee Voice* panel are separate and distinct from the surveys of grantees that CEP administers for individual foundations as part of the Grantee Perception Report (GPR)<sup>1</sup> process. The goals for *The Grantee Voice* are to

1. collect timely data to inform foundation practices;
2. gather nonprofit perspectives on working with foundations broadly;
3. further contribute to foundations' knowledge of how they can work most effectively with nonprofits.

Through short papers like this one, CEP intends to provide an overview of nonprofits' experiences and perspectives. We aim to contribute data, as well as new questions, to further important conversations that are happening—or need to be happening—for foundations and grantees to work most productively together.

<sup>1</sup> See Thomas Tierney and Joel Fleishman, *Give Smart: Philanthropy That Gets Results* (2011). In addition, survey data collected for the research project that culminated in the Center for Effective Philanthropy's report: *The State of Foundation Performance Assessment: A Survey of Foundation CEOs* (2011) showed 70 percent of foundations' CEOs said the information they collect from their grantees is extremely important to their ability to understand the impact of their foundations' programmatic work. (This data was not included in that report.)

<sup>2</sup> *The State of Foundation Performance Assessment: A Survey of Foundation CEOs*, Center for Effective Philanthropy (2011).

<sup>3</sup> See Phil Buchanan's series of six blog posts: "Our Starry-Eyed Idealization of Markets," "The Need for Clear Boundaries," "Wearing it Proudly: Clarity on Being Nonprofit," "Business Thinking," "Companies to the Rescue," and "The Risks Posed by a Sector's Silence: Toward a Forceful and Positive Articulation of the Nonprofit Sector," Center for Effective Philanthropy, The CEP Blog (May and June 2012).

<sup>4</sup> For example, GiveWell only recommends charities "that can make a strong case that they are significantly improving lives in a cost-effective way." GiveWell.org, "About GiveWell." See also, Jesse Lee, "What is the Social Innovation Fund?" WhiteHouse.gov (May 6, 2009).

## Who Are *The Grantee Voice* Panel Respondents to This Survey?

The 177 nonprofits whose leaders (i.e., those people holding titles such as executive director, president, or CEO) participated in this survey represent a mix of nonprofits. The organizations vary widely in size, age, and dependence on foundation money, as shown

in the table below. In addition, these nonprofits are located across the country and represent a range of program areas, including human services, the arts, health, community development, the environment, and education.

Organizational Measure	Range	Median Value
Staff size (in full-time equivalents, FTEs)	< 1 FTE to 1,600 FTEs	10 FTEs
Annual expenses	About \$100,000 to \$50 million	\$1.1 million
Age	< 5 years to > 150 years	28 years
Proportion of revenue coming from foundation grants	< 1 percent to 99 percent	20 percent

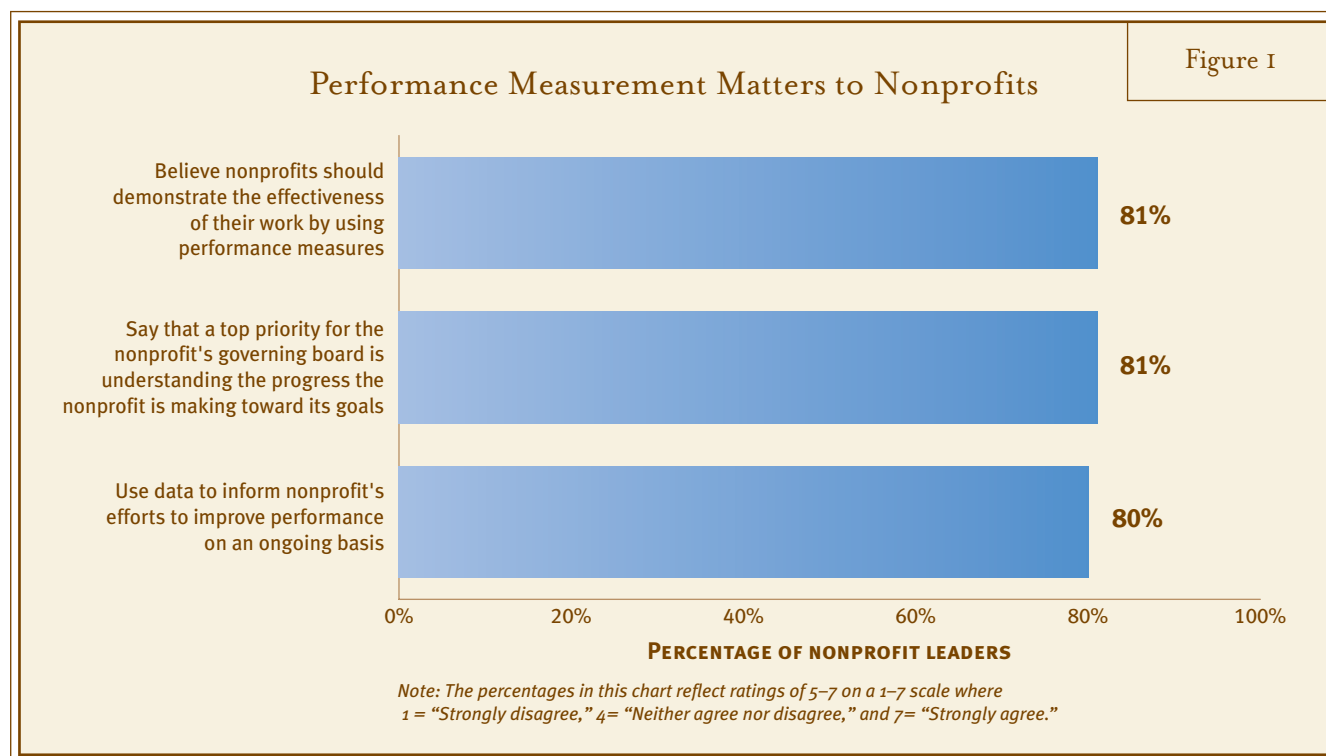


## Nonprofits Are Working to Understand Their Performance

Eighty-one percent of the nonprofit leaders we surveyed believe that nonprofits should demonstrate the effectiveness of their work by using performance measures, and most are governed by a board that has made understanding the progress of their organization a top priority. Nonprofit leaders are not simply measuring for the sake of measuring. They use performance data as a management tool: 80 percent report using data to inform their efforts to improve on an ongoing basis. (See Figure 1.) These findings spark several questions, including what information these nonprofits are using to inform their understanding of their progress and efforts to improve on an ongoing basis. (For other questions this research raises, see the sidebar on page 11.)

This information, which mirrors findings from a 2010 survey of nonprofits conducted by the Johns Hopkins Listening Post Project, suggests that nonprofits place a high priority on performance assessment.<sup>5</sup> Moreover, our data indicate nonprofits do not feel that funders overemphasize the need for assessment: Less than one quarter believe that foundations place too much emphasis on the need for nonprofits to demonstrate the progress they are making toward their goals.

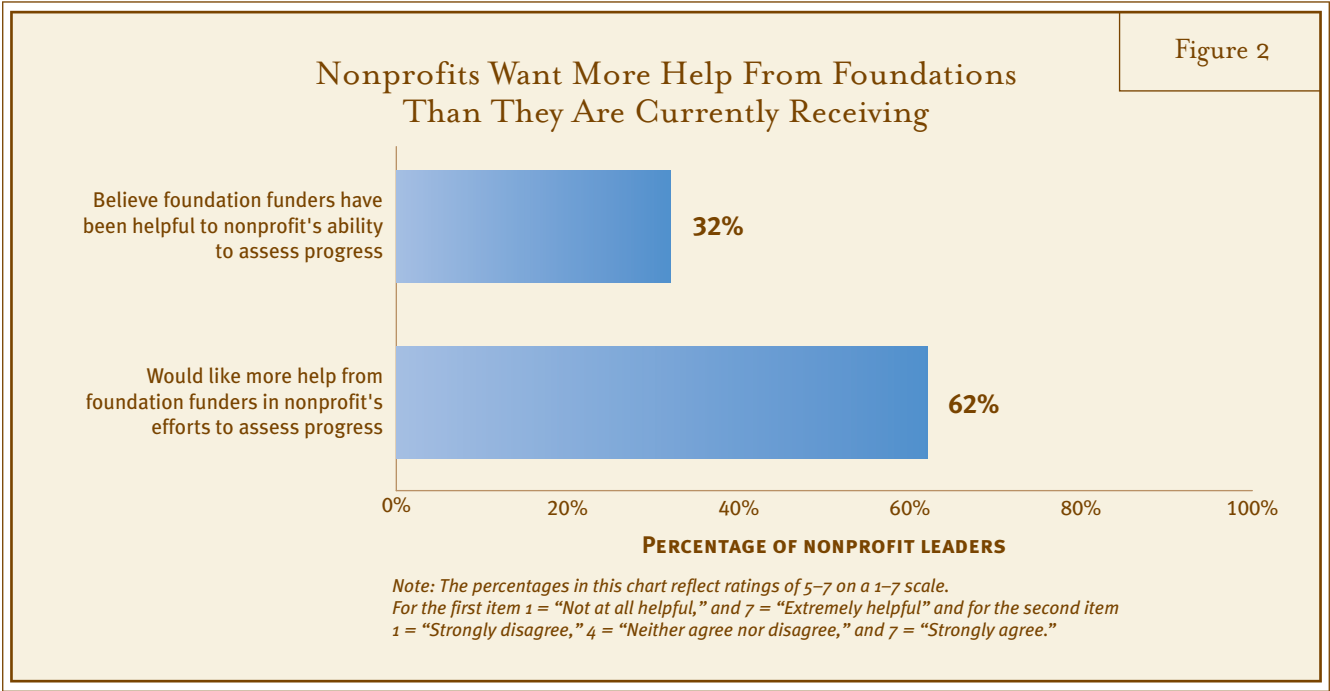
Nonprofit leaders are not simply measuring for the sake of measuring. They use performance data as a management tool.



<sup>5</sup> Johns Hopkins Listening Post Project, “Nonprofits, Innovation, and Performance Measurement: Separating Fact from Fiction,” Johns Hopkins Center for Civil Society Studies (2010).

Nonprofits Want More Help  
in These Efforts From Foundations

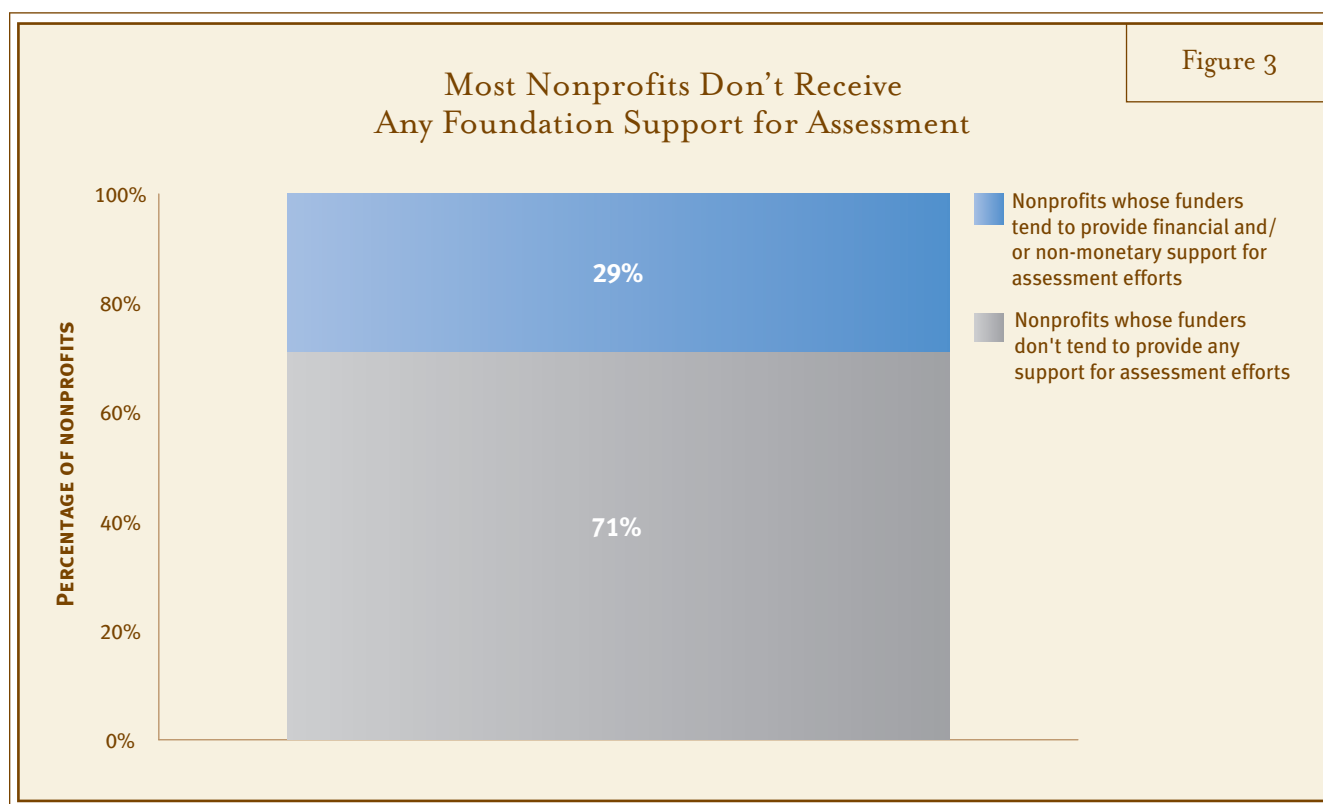
Despite critiques from the philanthropic sector that nonprofits are not doing enough to demonstrate the progress they are making, foundations do not appear to be making significant efforts to help nonprofits in this area. Only 32 percent of respondents to our survey say their funders have been helpful to their ability to assess their progress in achieving their goals. More than 60 percent would like more help from their foundation funders in these efforts. (See Figure 2.)





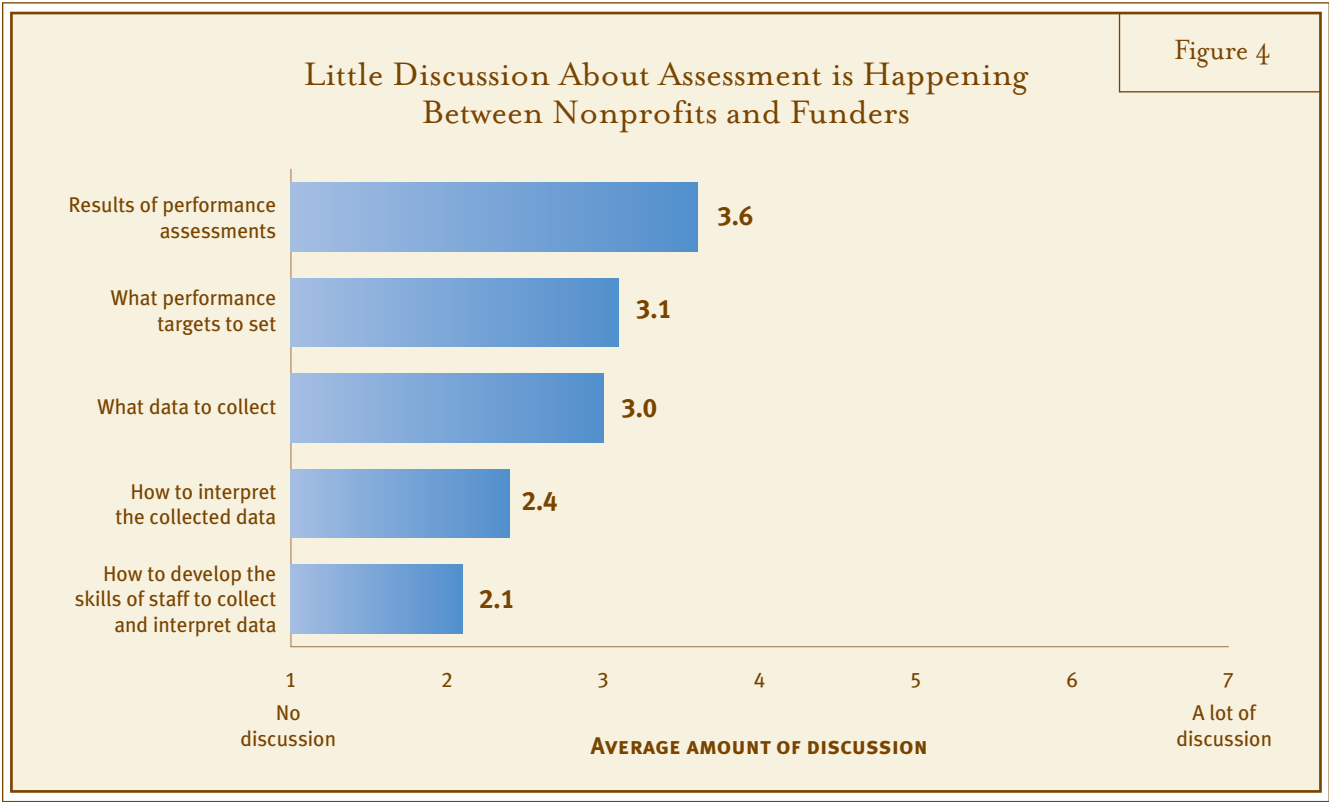
The majority of nonprofit leaders in this research, 71 percent, reports receiving no foundation support—neither financial nor non-monetary—for their organizations’ assessment efforts. (See Figure 3.) The minority whose funders do provide support for assessment efforts rate their foundation funders as being significantly more helpful to their organizations’ ability to assess its progress.

In responding to the question, “What is the most important step funders could take to help you assess your organization’s progress?” nonprofit leaders in this research most often cited more funding. One nonprofit leader reflected that it would be helpful if funders were to “provide additional funds with each grant specifically to measure outcomes rather than just require that we identify and measure the outcomes as though it can be done without cost.” Another wished that funders would “include funding for proper assessment tools to systematically capture and analyze data and other pertinent information.”

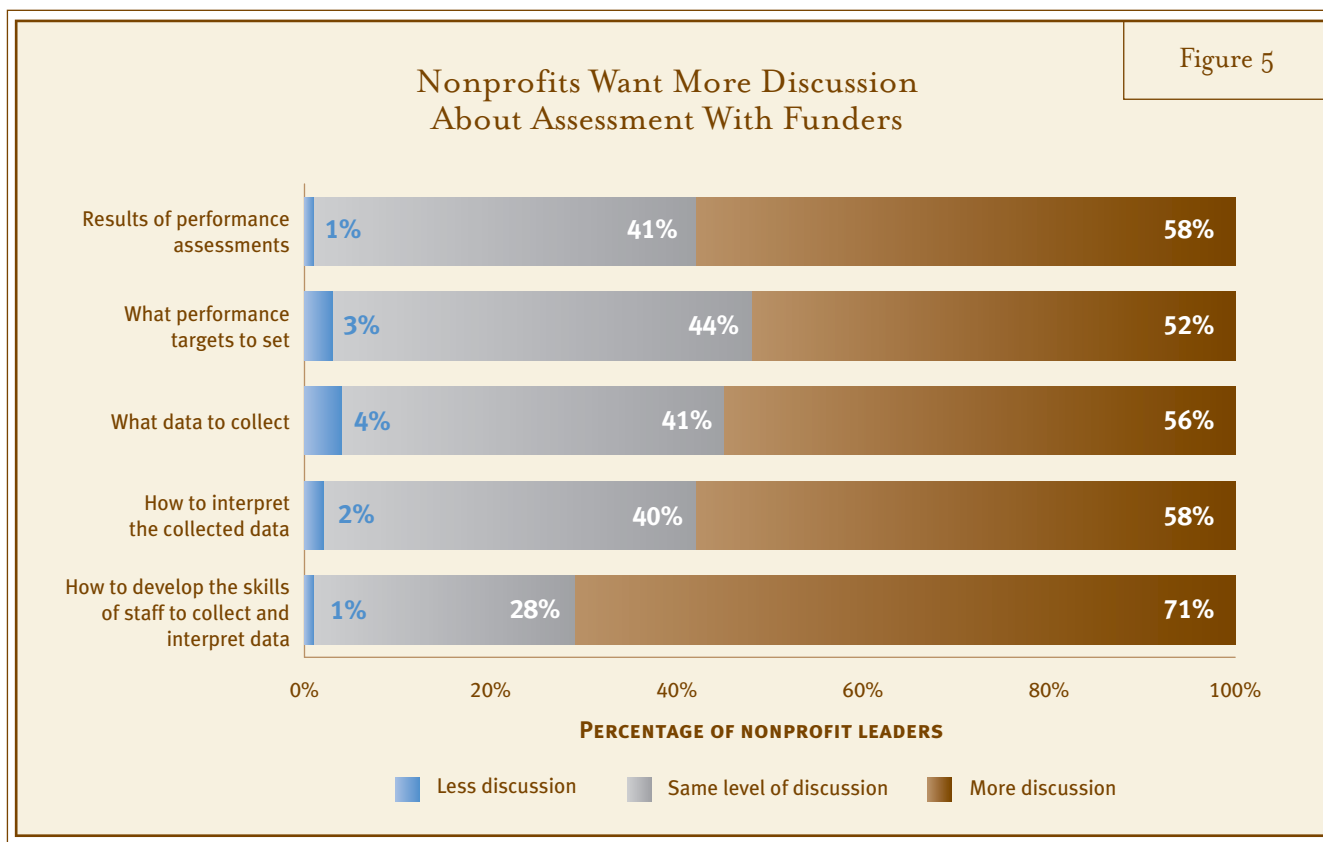


Nonprofit leaders are also seeking more non-monetary support for these efforts—specifically in the form of discussions about various elements of the assessment process.<sup>6</sup> Currently, nonprofits we surveyed are not having much discussion with their foundation funders about nonprofit performance assessment. (See Figure 4.) They report little conversation with funders about what performance targets they should set, which data to collect, how to interpret the data, how to develop the skills of staff to collect and interpret data, and the results of performance assessments.

The majority of nonprofits are looking for more discussion to take place on each of these topics. (See Figure 5.) From the perspective of nonprofit leaders, the area most often in need of more discussion is how to develop the skills of their staff to collect and interpret performance data: 71 percent of respondents want more discussion with their foundation funders about this issue. As one nonprofit leader said, “Have conversations that feel more supportive and less monitor-ish ... [Foundation funders] could help provide expertise and help organizations measure, instead of relying on organizations to bear the sole responsibility for having these skills. It is rare that a foundation offers this kind of help.”



<sup>6</sup> This finding mirrors our 2008 research, in which we found that only 11 percent of foundation grantees were receiving non-monetary support for the development of performance measures at their organization. See, *More than Money: Making a Difference with Assistance Beyond the Grant*. Center for Effective Philanthropy (2008).



It is particularly noteworthy that 58 percent of nonprofit leaders want to spend more time than they currently do talking with their funders about what they are learning about their performance.<sup>7</sup> As one nonprofit leader said, “I would love a ‘post-progress report’ conversation about how things are going, or how they went. This would help frame next steps.”

The data indicate that more time spent discussing these issues would be a good investment. When nonprofit leaders report having more discussion with their funders about issues related to performance assessment, they find their funders to be more helpful to their organizations’ ability to assess its progress.

Beyond the lack of financial and non-monetary help for performance assessment, nonprofits also find that their funders are not very interested in focusing on what assessment information will be of value to nonprofits themselves. The majority of nonprofits believe that their foundation funders primarily care about how nonprofit performance information can be helpful to funders, as opposed to how it can also be useful to the nonprofits they are funding. Only 28 percent of nonprofits disagree with this sentiment. (See Figure 6.) One nonprofit leader commented, “Ask what our overall organizational goals are.” Another said, “It’s not how much discussion we have — it’s how one-sided it is.” The more strongly nonprofits believe funders are prioritizing their own data needs over nonprofits’, the less helpful they find their funders to be to their organizations’ ability to assess its progress.

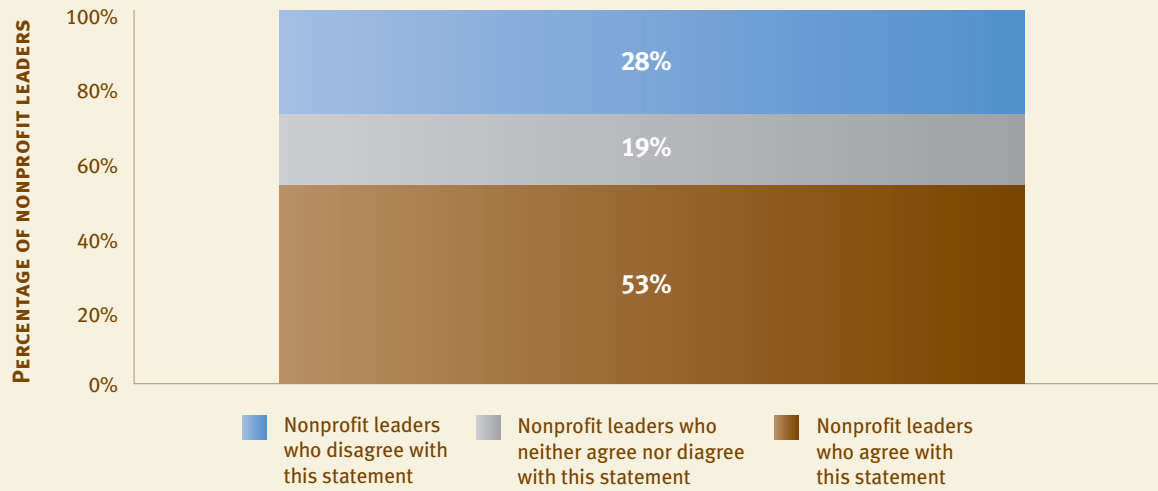
<sup>7</sup> Previous research CEP has conducted has shown that only about half of nonprofits report discussing their foundation-required reports or evaluations with foundation funders. When foundations and their grantees have discussions about reports and evaluations submitted by grantees, grantees rate their funders’ reporting and evaluation processes as more helpful. See *Grantees Report Back: Helpful Reporting and Evaluation Processes*. Center for Effective Philanthropy (January 2011). See also, *Evaluation in Philanthropy: Perspectives from the Field*. Grantmakers for Effective Organizations (GEO) and Council on Foundations (COF) (December 2009).



Figure 6

## Foundations Prioritize Information for Their Needs Over Nonprofits' Needs

*"Our foundation funders are primarily interested in information about my organization's performance that will be useful to them, rather than information that provides utility to me and my organization"*

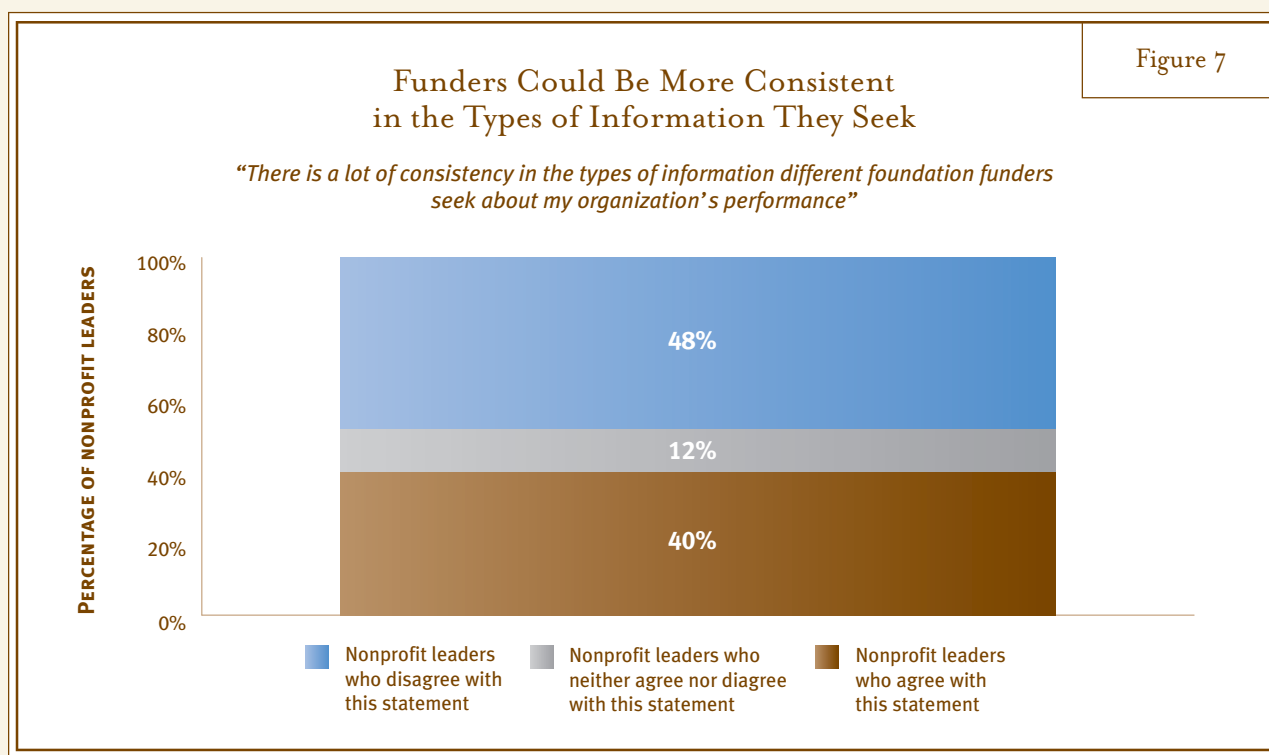


## Consistency Among Foundation Funders

Almost half of nonprofit leaders—48 percent—report that there is not much consistency across the types of information different foundation funders seek from them. (See Figure 7.) This finding is particularly noteworthy as 75 percent of the nonprofits in this research have more than four different foundation funders, and half have more than eight.

Nonprofit leaders commented on the burden that different requirements, definitions, and metrics from different foundations place on their organizations.

One nonprofit leader pointed to the creation of standard measures as a way that funders could relieve this burden. The respondent said, “If foundations can come to an understanding and develop standardized measures of success, the nonprofit community can focus on the actions that will lead to success.” Smaller, yet valuable, steps that funders could take would be to consider whether, and how, they will use all of the information they require from grantees, and ask grantees what information they are already collecting for their other funders or for their own organization’s use.



## Conclusion

Our survey data suggest that nonprofits are working to understand the difference they are making, despite receiving little help from their foundation funders. Facing the challenges of limited capacity and resources, nonprofits are looking to funders to do more to support their performance measurement efforts.

Our research—this report and our earlier work on foundation performance assessment—highlights a disturbing disconnect between the perceptions of funders and grantees when it comes to nonprofit performance assessment. Foundation leaders say that nonprofits need to be doing more and better work to assess their performance, but nonprofit leaders report high levels of effort and care being devoted to performance assessment at their organizations.

One interpretation of this disconnect might be that nonprofits and foundations have different definitions of performance assessment. The information that nonprofits are collecting to assess their progress may not be the information that foundations believe is most useful or relevant to address the question of nonprofit effectiveness.

Another interpretation is that foundations' expectations for what nonprofits can accomplish when it comes to assessment are unrealistic given the limited resources and low capacity most nonprofits have to do this work, let alone do it well. In his 2011 book, *Leap of Reason: Managing to Outcomes in an Era of Scarcity*, Mario Morino wrote, "I know many nonprofit leaders who are not managing to outcomes today but are strongly predisposed to do so. They inherently know what their outcomes are and very much want to assess and manage to them. But they are severely hamstrung by the lack of funding available to do this hard work."<sup>8</sup>

## Questions This Research Raises

- » To what extent do nonprofits and their foundation funders have:
  - A shared understanding of what nonprofit performance assessment means?
  - Similar standards for the information that should be collected and used to assess nonprofit performance?
  - Clarity about the goals of nonprofits' performance assessment efforts?
- » How are nonprofits using the information they are collecting about their progress to help manage and improve their performance? What role do nonprofit boards play in these efforts?

In CEP's previous research, lack of nonprofit capacity was cited frequently as a frustration for foundation program officers seeking to assess their own foundation's performance.<sup>9</sup> As one program officer we surveyed for that research said, "No information is collected by grantees, and there's been little assistance from the foundation to assist them in this capacity." There is, then, already awareness on the part of at least some foundations that there is room for them to do more to help grantees on this issue. The clear desire of nonprofits we surveyed to receive more help from foundations on the critical issue of understanding their performance seems to present an opportunity for foundations.

<sup>8</sup> Mario Morino, *Leap of Reason: Managing to Outcomes in an Era of Scarcity*. Venture Philanthropy Partners (2011).

<sup>9</sup> *Essentials of Foundation Strategy*. Center for Effective Philanthropy (2009).

There are practical steps that foundations can take to better support nonprofits' understanding of their effectiveness, and, ultimately, foundations' understanding of their own effectiveness.

- » Break from the pack and provide support: Providing financial or non-monetary support for assessment can better enable nonprofits to gain a solid understanding of the progress they are making.
- » Have more discussions with nonprofits about assessing their performance: Nonprofits are looking for more interaction with their funders about laying the groundwork for assessment—deciding which data to collect and how best to ensure that their staff can carry out these efforts—and the end results of assessment work.
- » Focus more on what will be useful to nonprofits: Information that might benefit funders is not necessarily the same information that nonprofits need to understand their organizations' progress.



## Questions for Foundation Leaders

- » How much of a priority is it for your foundation to understand the progress its grantees are making?
  - Does the support you provide to grantees—either financial or non-monetary—reflect that prioritization?
  - Has your foundation discussed with its grantees how performance assessment will be accomplished and how it will be paid for?
- » What role does your foundation's strategy play in its approach to working with grantees on performance assessment? What role does understanding your foundation's own performance play?
- » What are the impediments to having open conversations with grantees about the progress they are making and the quality of information they have to gauge that progress? How can those impediments be overcome?
- » To what extent are staff at your foundation talking with grantees about which information is most useful to grantees' ability to assess, and manage, their progress?

## APPENDIX: METHODOLOGY

Data for this report were collected through CEP's panel of nonprofit leaders, called *The Grantee Voice: Feedback for Foundations*.

### Panel

The *Grantee Voice* panel was established in the initial months of 2012. The leaders of more than 1,000 nonprofits receiving funding from foundations giving at least \$5 million annually in grants were invited to join the panel. For this panel, we use the word "leader" to refer to the individual who is responsible for running the nonprofit organization, typically referred to as the executive director, president, or CEO. Ultimately, 300 accepted the invitation, resulting in an acceptance rate of 29 percent. For more information on the creation of the panel, please visit CEP's website: [www.effectivephilanthropy.org](http://www.effectivephilanthropy.org).

### Survey Sample

In April 2012, a survey on nonprofit performance measurement and management was sent to the 300 nonprofit leaders who comprise *The Grantee Voice* panel. Completed surveys were received from 177 leaders, for a response rate of 59 percent.

Nonprofits represented by leaders who responded to the survey did not differ from nonrespondent organizations by staff size, program area, age of nonprofit, or location. They also did not differ by the proportion of revenues coming in the form of foundation funding. Expenses for these two groups differed only slightly.<sup>10</sup> Statistics on staff size, age, and proportion of revenues coming from foundations are based on self-reported data.

### Method

The survey was fielded online. Panel participants were sent a brief email including a description of the survey, a statement of confidentiality, and a link to the survey. Two reminder emails were sent to panel participants who had not yet responded to the survey.

The survey consisted of nine items. The items covered topics including the types of support, if any, foundations provide to help nonprofits assess their progress; the degree to which nonprofits perceive foundations to be helpful to their assessment efforts; the type and amount of discussion that foundations and nonprofits have about performance measurement and management; and the attitudes nonprofits have about a host of issues related to nonprofit performance measurement and management. To capture the voices of grantees, in their own words, the survey included two open-ended questions. One asked respondents for the most important step their foundation funders could take to help them assess their organization's progress, and the other asked for suggestions about important issues about which CEP should survey this panel in the future.

### Quantitative Analyses

To analyze the quantitative survey data from nonprofit leaders, descriptive statistics were examined and a combination of correlations, independent samples t-tests, paired samples t-tests, chi-square analyses, analysis of variance tests, and regression analyses was conducted. An alpha level of 0.05 was used to determine statistical significance for all statistical testing conducted for this research. Effect sizes were examined for all analyses. Only findings reaching at least a medium effect size were discussed in this publication.

<sup>10</sup> A chi-square analysis of expense quartiles was conducted. A statistically significant difference of a small effect size was found between nonprofits with expenses between \$102,000 and \$458,000, which was the bottom quartile of this survey sample, and nonprofits in the top quartile, with expenses between \$3.7 million and \$48.9 million. Nonprofits in the lowest quartile were slightly more likely to respond to the survey than those in the top quartile.



To understand which items from this survey could best explain how helpful nonprofits find their funders to be, a regression analysis was run. The outcome variable was ratings on the item “How helpful have your foundation funders been to your organization’s ability to assess progress toward your goal(s).” The  $R^2$  for this regression was 37 percent, meaning that 37 percent of the variation in nonprofits’ ratings of helpfulness could be explained by the three predictors listed below. In descending order, the standardized beta coefficients for each independent variable, which indicate their relative importance in standard deviation units, are as follows:

- » Receipt of financial or non-monetary support for assessment of nonprofit’s performance = 0.34
- » Average amount of discussion about aspects of performance measurement <sup>11</sup> = 0.28
- » Belief that foundation funders are primarily interested in nonprofit performance information that will be useful to them rather than in information that provides utility to nonprofits = -0.20

These findings hold true even when including the following control variables in the regression model: annual operating expenses, staff size, number of foundation funders, percentage of revenue coming

from foundation grants, nonprofit organization age, location, and issue area in which the nonprofit works.

### Qualitative Analysis

Thematic analysis was conducted on responses to the open-ended survey item asking nonprofits to name a step that foundations can take to help them assess progress toward their goals. A coding scheme was developed by reading through all responses to recognize reoccurring ideas, creating categories, and then coding each respondent’s ideas according to the categories.

A codebook was created to ensure that coders would be coding for the same concepts rather than their individual interpretations of the concepts. One coder coded all responses to the question, and a second coder coded 40 percent of those responses. The two coders discussed their individual coding choices before deciding on the final codes to be assigned. See Figure 8 for the top three themes in responses to the question, “What is the one most important step that foundation funders can take to help you assess progress towards your goals?”

Selected quotations were included in this publication. These quotations were selected to be representative of the themes seen in the data.

Top Three Themes of How Foundations Can Be Most Helpful to Nonprofits' Assessment Efforts

Figure 8

Theme	Proportion of respondents who mentioned theme in response
Provide funding or support for efforts (Includes mentions of wanting funding for capacity building, external evaluators, staffing, and expertise)	47%
Be more engaged (Includes mentions of wanting more discussion and conversation about assessment efforts and exchanging more information with foundations)	27%
Provide more guidance (Includes mentions of wanting training from foundations and learning from foundations’ knowledge about this work)	13%

<sup>11</sup> Aspects of performance measurement include what performance targets nonprofits should set, what data to collect, how to interpret the data, how to develop the skills of staff to collect and interpret data, and the results of performance assessments.

## About Us

The Center for Effective Philanthropy (CEP) is a nonprofit organization focused on the development of comparative data to enable higher-performing funders. CEP's mission is to provide data and create insight so philanthropic funders can better define, assess, and improve their effectiveness—and, as a result, their intended impact. This mission is based on a vision of a world in which pressing social needs are more effectively addressed. It stems from a belief that improved effectiveness of philanthropic funders can have a profoundly positive impact on nonprofit organizations and the people and communities they serve.

CEP pursues its mission through data collection and research that fuel the creation of assessment tools, publications, and programming. Since receiving initial funding in 2001, CEP has produced widely referenced research reports on foundation performance assessment, foundation strategy, foundation governance, and foundation–grantee relationships. CEP has created new data sets relevant to foundation leaders and hosts highly regarded programming focused on key issues related to funder effectiveness. CEP has also developed widely used assessment tools, such as the Grantee Perception Report®, which provides foundations comparative data on grantee perceptions of key elements of foundation performance.

Our recent reports include:

- *Grantees' Limited Engagement with Foundations' Social Media*
- *Rhetoric versus Reality: A Strategic Disconnect at Community Foundations*
- *The State of Foundation Performance Assessment: A Survey of Foundation CEOs*
- *Can Feedback Fuel Change at Foundations?*

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T H E C E N T E R F O R  
EFFECTIVE PHILANTHROPY

675 Massachusetts Avenue  
7th Floor  
Cambridge, MA 02139

T: (617) 492-0800  
F: (617) 492-0888

100 Montgomery Street  
Suite 1700  
San Francisco, CA 94104

T: (415) 391-3070  
F: (415) 956-9916

[www.effectivephilanthropy.org](http://www.effectivephilanthropy.org)

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