4. A Case Study: "The Care, Feeding and Education of Donors"

An Interview with Marty Johnson, Founder and President, Isles

The good news is that even though corporate support and government funding is shrinking, individual donors are giving more than ever to nonprofit groups. This year, gifts will reach strong pre-recession levels. The bad news for many nonprofit leaders is that donors are increasingly placing restrictions on those donations.

Many donors believe that a heavier hand in decision making increases accountability. In some ways, it can. It may challenge organizations to improve their measures of success. But in many ways, it can do the opposite. It can restrict the capacity of organizations to learn, adjust, and continually improve their work.

Marty Johnson, Founder and President of Isles, a 34 year-old sustainable development group in Trenton, understands this trend in funding restriction firsthand. Since 2011, Isles has experienced a clear decline, not in overall funding, but in *unrestricted* grant funding. From 2011 to 2012, unrestricted foundation and corporate grant funding dropped nearly 70%, from $269,425 to $84,928. It dropped another 26% in 2013 and roughly 30% in 2014. Corporate foundations, in particular, have reduced unrestricted funding by 80% since 2011.

Marty notes, "While we retain a lean 18% overhead rate, we take great pride in building a 'learning organization' that continually improves its processes and impact. As more funding becomes restricted, we can't use it to research, to learn, to build information technology, or to help other leaders or policymakers learn from our experience. This trend towards restricted funds undermines Isles' work, and it's important to have this dialogue with funders."

The Starvation Cycle and Overhead Myth

Organizations with robust infrastructure are more likely to succeed, yet nonprofits are hesitant to increase their overhead or indirect costs, creating "The Nonprofit Starvation Cycle." Nonprofits are forced to go without essentials, including sturdy information technology systems, financial systems, skills training, fundraising processes, and more. Individual donors' expectations are also skewed:

> *A Better Business Bureau's Wise Giving Alliance found that […] those [American adults] surveyed **ranked overhead ratio and financial transparency to be important** attributes in determining their willingness to give to an organization **than the success of the organization's programs**.*[1]

In 2013, GuideStar, BBB Wise Giving Alliance, and Charity Navigator launched a campaign to end the "Overhead Myth," or false conception that financial ratios are the sole indicator of nonprofit performance.

What Happened?

With nearly two million nonprofit groups nationwide (and growing), donors are becoming more wary, and concerned about inefficiencies or the inability of organizations to fulfill their promises. Too few groups, even where mission overlap occurs, collaborate or merge. As such, donors too often expect wastefulness, and respond with more funding restrictions. Listening to Johnson, it is obvious that funders, beneficiaries, and mangers themselves want better ways to calculate one core equation: the overall cost of a nonprofit's work versus the value of the benefits they deliver. To paraphrase Jerry McGuire, the current mantra is, "Show me the ROI!"

Unfortunately, most small and midsize nonprofits (the majority of the sector) rarely have the resources or capacity to produce the information that could prove their real impact. Where are the control groups? What is the counterfactual (in other words, what would happen) if the organization did not exist?. Donors are restricting the use of revenue and challenging the nonprofits for better reporting, but the majority of the organizations lack the capacity needed to reply adequately and accurately to the community.

Is there a solution? During the interview, Marty offered some critical insights. For him, donor management is synonymous with donor education. He suggests educating, and where possible, challenging donors' assumptions. "My message usually goes like this: treat us nonprofit managers the same way you would want to be treated in your business. How would you manage if your revenues had lots of strings attached, or if you had no funding for R & D? Without flexible revenue, no for-profit corporation could succeed. Nonprofits deserve the same latitude. To function effectively, nonprofits need to invest in process improvement, efficient procedures, human resources, marke ng, board governance and training, infrastructure, and the research and development of new pla orms, skills and exper se. Otherwise, too many organiza ons are le opera ng on a shoe string with li le opportunity to think long-term or to deeply impact those they serve."

Johnson went on to suggest that smart nonprofit leaders are already embracing technology to gather the evidence they need to highlight their influence and impact. They are establishing their value and sharing their successes to gain the confidence of their supporters. Understanding what their donors are interested in, and matching that to the organization's purpose, can help to begin building strong and lasting connections.

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[1] Stanford Social Innovation Review, http://www.ssireview.org/articles/entry the_nonprof t_starvation_cycle/
[2] http://overheadmyth.com/