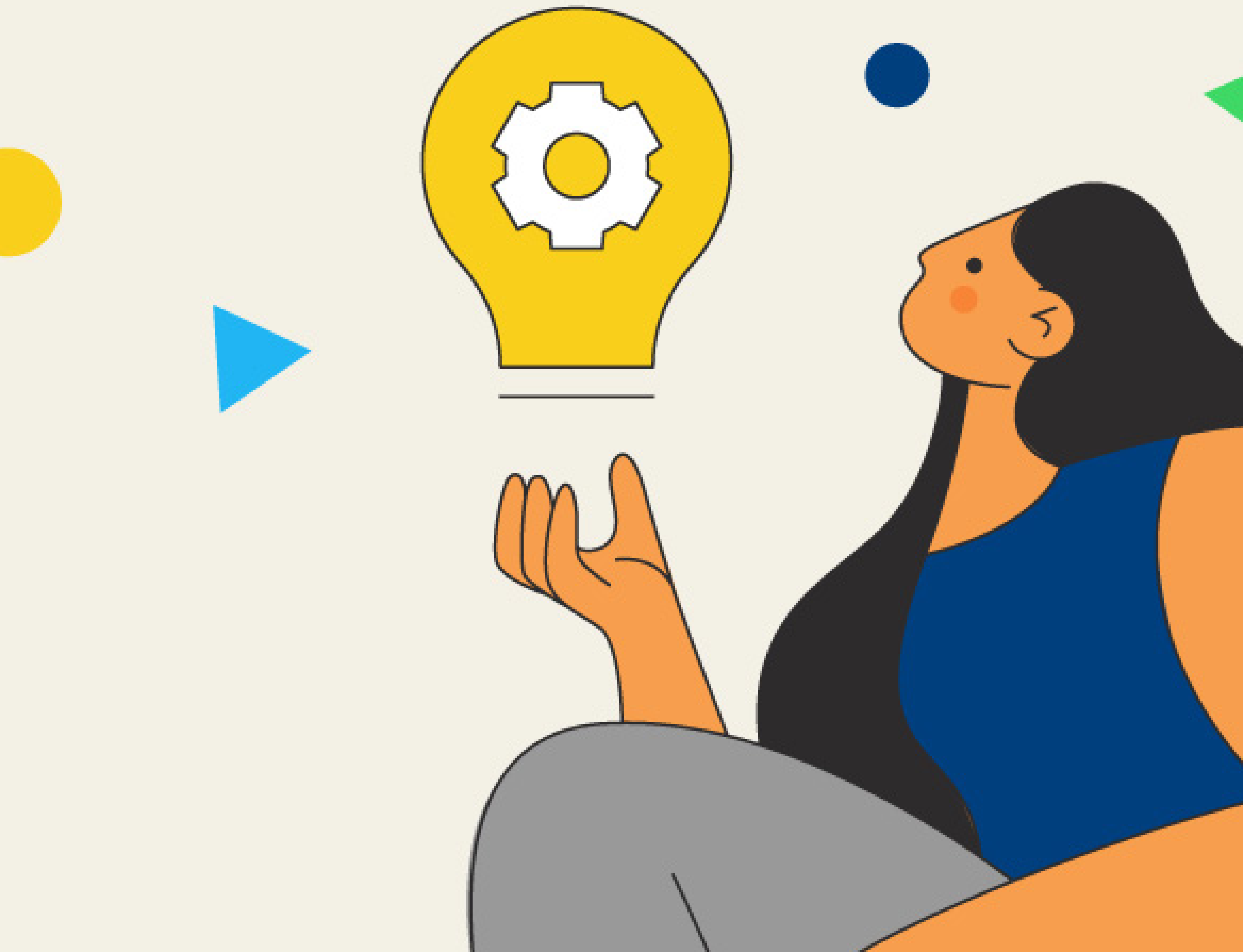
Resilia

INNOVATION FOR EQUITY AND EMPOWERMENT

How the nonprofit sector is helping America build back better



After a crisis as vast and disruptive as the COVID-19 pandemic, it's natural to frame the recovery as an effort to get back to normal. But normal isn't good enough.

If there's one thing we've learned over the past year, it's how unacceptable the status quo has been for millions of Americans for far too long. Communities that were already struggling before the pandemic suffered disproportionately once it hit; there weren't enough resources to keep vulnerable Americans safe and meet their basic needs; and long-standing inequities were exposed more clearly than they have been in decades.

While the pandemic illuminated the vital role of the nonprofit sector – especially at a time when the government is struggling to provide essential services for communities across the country – it also revealed many of the vulnerabilities organizations face. From dangerously thin operating margins and nonexistent cash reserves to an inability to keep up with the demand for services, COVID-19 was a reminder that nonprofits face no shortage of obstacles to ensuring sustainable operations and scaling impact. Meanwhile, the sector still has a lot of work to do when it comes to diversity and inclusion, from a lack of equity in the allocation of grants and funding, to leadership teams that don't reflect the communities they serve.

For grantors, the recovery from COVID-19 should be a call to action. It's clear that the nonprofit sector is indispensable to the national effort to Build Back Better, as nonprofits provide the infrastructure of support necessary to address disparities in health, education, and socioeconomic status that have been exacerbated over the past year.

> **And there are three key priorities grantors and nonprofits should focus on in this effort:**
>
> **1) measuring and reporting impact,**
> **2) strengthening internal capacities, and**
> **3) making diversity, equity, and inclusion integral to operations across the board.**

These are all goals that grantors are in a strong position to help nonprofits pursue, so let's take a closer look at how they can do so.

Helping nonprofits measure and report impact

Nonprofits have to be capable of determining whether their programs are actually working and changing course if necessary. This can't be done without the ability to collect, analyze, and share data, but many organizations lack these capacities. Grantors have an overwhelming interest in helping nonprofits develop the resources they need to measure and report impact because they need to know whether their investments are being put to good use, as well as what adjustments could potentially make programs more effective. When programs are achieving their goals, grantors and nonprofits need to be able to demonstrate their effectiveness to earn support from community stakeholders and attract investment in their efforts.

It's no surprise that grantors say impact is by far the most important consideration when it comes to deciding which organizations they will support. As the National Council of Nonprofits explains:

> **More and more nonprofits, grantmakers, and government partners, are focusing on outcomes, rather than 'outputs.**

Many organizations emphasize the latter when they should be focusing on the former. For example, an organization may report that it has provided career guidance to 10,000 people (an output), but it should also report how many of those people actually ended up landing jobs within a certain timeframe (an outcome). While it sometimes makes sense to report outputs to demonstrate the scale of an organization's operations, grantors should ensure that nonprofits have the resources they need to report outcomes as well.

According to a 2020 BDO report, 78 percent of nonprofits said "funding sources requested more information on outcomes and impacts than they

56 percent

Not enough human resources to gather data on impact

51 percent

No consistent framework for measuring impact and reporting it

49 percent

Lack of adequate technology to gather information on impact

previously required" in the most recent fiscal year. However, the report also found that nonprofits face significant obstacles to reporting impact: "Not enough human resources to gather data on impact" (56 percent); "no consistent framework for measuring impact and reporting it" (51 percent); a "lack of adequate technology to gather information on impact" (49 percent); "inadequate financial resources" (43 percent); and a "lack of clear program objectives and/or key performance indicators" (39 percent). Grantors should note how many of those obstacles are directly related to capacities they can help organizations build through targeted investments and other forms of support.

Although 71 percent of nonprofit executives say they consider measuring outcomes important, just 20 percent believe they're "very effective" at demonstrating these outcomes. Nonprofits clearly recognize the need to improve their mechanisms for collecting and reporting data, which means they're receptive to assistance from grantors on the development of these capacities. This assistance can take the form of increased funding, strategic planning, and the use of shared technology platforms (which can facilitate smoother reporting processes).

Consider the fact that two of the top challenges nonprofits say they face when it comes to tracking and reporting impact are the lack of a consistent framework for measuring and reporting impact and the failure to establish "clear program objectives and/or key performance indicators." The first step toward addressing these issues is the identification of what success actually looks like for an organization. This is where grantors can provide crucial support – for example, they often have experience with strategic planning that the leaders of nonprofits lack, which can prove invaluable when it comes to identifying objectives and KPIs

Grantors should work to establish norms of open communication with nonprofits, which will make candid discussions about successes and failures more frequent

that measure progress toward those objectives. While it’s important for grantors to be wary of the perception that they’re imposing on grantees, or intervening in the day-to-day operations of their grantee – who have an on-the-ground perspective that grantors lack – strategic planning is a critical part of outcome measurement.

Grantors should work to establish norms of open communication with nonprofits, which will make candid discussions about successes and failures more frequent. However, there’s a disconnect between how grantors and grantees interpret their communication with one another. According to a study conducted by the Center for Effective Philanthropy, almost three-quarters of foundations say they follow up with grantees often or always to determine the effects of the support they provide, but less than a third of nonprofit CEOs agree that this is the case. Foundation leaders report that “information about the impact that grantees had or outcomes achieved” is particularly useful, but in many cases they need to make a more diligent effort to gather that information.

Another major challenge to tracking impact is what nonprofits perceive as a lack of access to technology. According to an Accenture report about the value of technology adoption for the nonprofit sector, 83 percent of respondents said they saw efficiency gains in “data and analytics” from digitization, but the adoption rate for the relevant digital tools was just 39 percent. This gap was even wider for “digital collaboration” (91 percent versus 39 percent) and “digital assessments” (71 percent versus 16 percent). Many other surveys have found that tech adoption in the nonprofit sector is slow and often ineffective, but there’s ample evidence that nonprofits understand the value of technology.

91 percent

Nonprofit employees say digitization improves accountability

39 percent

Adoption rate for the relevant digital tools

83 percent

Respondents said they saw efficiency gains in "data and analytics"

> **Beyond the numbers cited above, Accenture also found that 91 percent of nonprofit employees say digitization improves accountability – the whole purpose of tracking and reporting impact in the first place.**

Two-thirds of organizations list "investing in technology" as one of their top challenges overall – in a 2020 survey, a lack of technology investment is third-highest on a list of 13 challenges, between staff retention/recruitment and maintaining donor engagement. While one of the hurdles nonprofits believe they face in reporting outcomes is a lack of "human resources to gather data on impact," technology has made the process of data collection and analysis less reliant on human beings. This is only one of the reasons grantors should make technology adoption an overriding priority for their grantees. Digital platforms also streamline communication and collaboration, which helps to align grantors and nonprofits around a common set of goals and provides real-time updates on the progress toward making those goals a reality.

Grantors are right to demand accountability and transparency from the organizations they support, but this should never create an adversarial dynamic between grantors and nonprofits. Instead, the process of tracking and reporting outcomes should be viewed as a joint effort which will help nonprofits make their programs as effective as possible, streamlining communications and eliminating duplicative work.

Why grantors need to focus on capacity-building

For many years, there was a stubborn misconception in the nonprofit sector – particularly among donors and grantmakers – that a clear sign of responsible management was low overhead. The argument maintained that nonprofits should invest available resources in direct programs, while minimizing expenses on staff, technology, administration, fundraising and anything else that could be classified as overhead. Despite educational efforts by GuideStar, BBB Wise Giving Alliance, and Charity Navigator to challenge the "overhead myth" (like these open letters), the misconception remains.

The letter to grantors states that overhead is a "poor measure of a charity's performance," while asking them to "pay attention to other factors of nonprofit performance: transparency, governance, leadership, and results." The letter continues:

> **In fact, many charities should spend more on overhead. Overhead costs include important investments charities make to improve their work: investments in training, planning, evaluation, and internal systems – as well as their efforts to raise money so they can operate their programs.**

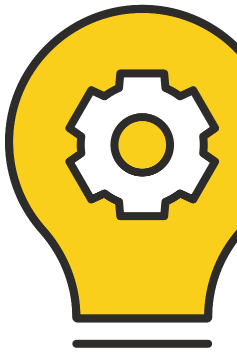
But grantors shouldn't just consider a nonprofit's investments in these areas when determining whether to offer support – they should make these investments themselves.

These investments are capacity-building, and they have never been more important. Grantors

have become increasingly cognizant of the fact that strengthening internal operations, focusing on financial management, upskilling workforces, and investing in technology are crucial for the long-term success of the organizations they support. A report by the Center for Effective Philanthropy found that just 18 percent of foundations say they provide "capacity-building or organizational effectiveness grants to the majority of [their] grantees." This issue doesn't just apply to foundations, either – grantors of all types need to increase their investments in capacity-building, especially as we rebuild from COVID-19.

According to a 2020 Independent Sector report: "The impact of COVID-19 shows that the pandemic drastically reduced both the staff and volunteer capacity of nonprofits at a time when many organizations struggled to continue providing essential services to their communities." This is why the researchers call for "government funding to improve volunteer capacity," which is all the more important considering the fact that government grants and contracts account for almost one-third of nonprofit funding.

As state and local governments attempt to build back better in the aftermath of the pandemic, they have to ensure that the problems which have long characterized their relationships with the nonprofit sector – such as a lack of reimbursements for the full range of costs nonprofits accrue – are eliminated.



To cover indirect costs that are not reimbursed, nonprofits may serve fewer people, cut back on services offered, or forgo or delay capacity-building and staffing needs.

Just 53 percent of nonprofits say they have a "a thorough understanding of our overall indirect cost rate and ... communicate it to donors."

It's remarkable that the overhead myth ever gained momentum in the first place: 92 percent of nonprofits have annual budgets of less than $1 million, while 88 percent are under $500,000. Meanwhile, the average nonprofit maintains just 8.7 months of operating reserves, while more than half have six months or less. COVID-19 made this situation even more dire: more than 80 percent of nonprofits said revenues would be even lower in 2020, while 7 percent of organizations are estimated to close and 1.6 million jobs in the nonprofit sector will be lost as a result of the pandemic. It's no wonder that three-quarters of organizations say they're very or somewhat concerned about their financial health, while the top challenge nonprofit leaders say they face (cited by 73 percent) is "variability in revenue/funding." This challenge is followed by staff recruiting and retention (66 percent); investing in technology (66 percent); maintaining donor engagement (62 percent); regulation and legislation (60 percent); and rising overhead costs (60 percent). All of these issues are directly related to capacity-building.

For example, let's take a closer look at the fact that two-thirds of organizations say they struggle to recruit and retain staff. The annual turnover rate in the nonprofit sector is more than 21 percent – 16.7 percent of which is voluntary. According to a survey conducted by Nonprofit HR, the top two reasons for voluntary turnover in the sector are: "Lack of opportunity for upward mobility/career growth" (cited by almost 60 percent of respondents) and "compensation/benefits (cited by just under 48 percent). Other significant complaints include dissatisfaction with the organization's culture and leadership. Nothing is more directly tied to the

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ability to scale impact than the well-being and productivity of a nonprofit's team, which is why the ability to manage human capital is one of the most important capacities an organization can build.

The health of a nonprofit's workforce encompasses many other forms of capacity-building, from strategic planning to financial management. With 12.5 million employees, the nonprofit workforce is the third-largest in the United States. While many of these employees are more interested in public service than merely earning a paycheck, grantors and nonprofits should never forget that they have to attract and retain talent in an increasingly competitive global economy. This means having open discussions with employees about their concerns and career trajectories; providing the resources they need to do their jobs; facilitating cooperation; prioritizing diversity and inclusion; and working with grantors to develop a personnel strategy that will help nonprofits build and maintain strong workforces. While nonprofits should always have the final say in who they hire, grantors can provide access to talent networks, training resources, and expertise that will help organizations make the most of their human capital.

Technology is an all-purpose capacity-building tool, which is why digital investments are at the top of many nonprofits' to-do lists. Beyond giving nonprofits the ability to efficiently track and report impact, digital platforms give employees access to shared productivity tools, improve donor outreach and analysis, and keep organizations compliant with all relevant local, state, and federal laws and regulations. According to Accenture, more than 90 percent of nonprofit employees say digital collaboration platforms have improved their efficiency, 71 percent say the same about digital assessments, 86 percent point out that digital tools

95 percent

Believe that digital innovation represents an important opportunity for the sector

46 percent

of nonprofits report that technology limitations restricted their ability to respond to COVID-19

“boost organizational capacity quickly,” and 95 percent “believe that digital innovation represents an important opportunity for the sector.” Meanwhile, 46 percent of nonprofits report that technology limitations restricted their ability to respond to COVID-19.

Capacity-building investments have a concrete impact on nonprofit performance. A study in Nonprofit and Voluntary Sector Quarterly found that “capacity-building efforts increase capacity in each of five critical areas of capacity”: 1) nonprofit leadership, 2) programs, 3) organization, 4) revenue, and 5) community engagement. An analysis of “fifteen years of data for one foundation’s capacity building grant program” published in Nonprofit Management & Leadership discovered that organizations which received capacity-building grants increased their budgets by around 10 percent over the span of three years.

As more and more grantors focus on capacity-building – from technical assistance grants to strategic and financial planning to investments in organizations’ workforces – we’re only going to see more evidence that this type of support can help nonprofits build more sustainable organizations and scale impact like never before.

How diversity can strengthen organizations and communities

Many of our conversations about diversity focus on the fact that increasing representation – whether in the boardroom of a company or a nonprofit – is good in and of itself. While this is certainly true, it overlooks the fact that diversity is also one of the most reliable predictors of organizational performance across many metrics. Diverse perspectives can help organizations come up with creative and novel solutions to problems, while providing firsthand accounts of what it's like to be a member of a marginalized community – a crucial advantage for nonprofit messaging and program development.

A significant body of evidence from the private sector demonstrates that diverse leadership teams are generally more effective than their less diverse peers. For example, Boston Consulting Group examined the diversity of 1,700 companies' leadership teams across six dimensions – gender, age, nationality, career, industry, background, and education – and found that diverse leaders were more innovative than their peers. According to a 2020 McKinsey study, high levels of diversity among corporate leaders (both in terms of gender and race) predicted significantly better financial performance.

Diversity may be even more important in the nonprofit sector. Beyond the fact that diverse leadership teams tend to outperform their peers, many nonprofits work directly with marginalized communities. When nonprofit leaders reflect those communities, this generates trust with key stakeholders who can help spread the word about programs, reach out to local partners, and help organizations scale impact in countless other ways. Diversity and inclusion should also be central to organizations' hiring and personnel strategies – as the National Council of Nonprofits explains:

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A diverse board that is also sensitive to cultural differences is usually one that has a stronger capacity to attract and retain talented board members – as well as to be in touch with community needs.

While nonprofits recognize the importance of diversity, there’s a disconnect between their stated ambitions and their actions. According to a report by the Center for Effective Philanthropy, 70 percent of nonprofit CEOs say it’s “very or extremely important” for their staff to be diverse, but just 36 percent say their workforces reflect this priority. The gap is even wider for boards of directors (64 percent to 22 percent) and senior leadership teams (60 percent to 17 percent).

Although there has been modest improvement in representation on nonprofit boards, it’s clear that the sector still has a lot of work to do on diversity and inclusion. A 2020 Independent Sector report notes that 22 percent of nonprofit board members are people of color – an increase from 14 percent in 1994. This lack of representation is reflected in organizations’ priorities – just 57 percent of boards say they’re committed to understanding the diversity of their communities, 63 percent say they discuss community needs in a way that accounts for disparities between different demographic groups, and a mere 44 percent say they’re committed to raising awareness about how addressing racial inequity is relevant to their mission. According to research from Battalia Winston, 87 percent of nonprofit executives are white, while just 6 percent are Black, 4 percent are Hispanic, and 3 percent are Asian.

These disparities aren’t just serious problems in their own right – they can also become self-reinforcing. For example, research by Community Wealth Partners and the Annie E. Casey Foundation identified “implicit biases throughout critical points in the hiring process that explain why staff at organizations continue to be predominantly white. The fact is that organizations rely heavily on existing staff, who are predominantly white, to pass along job openings through their networks, which are often homogeneous.” The same dynamic is at work when grantors decide which organizations to support, as well as what forms of support to provide.

> **A 2020 report published by Bridgespan and Echoing Green found that Black-led nonprofits receive 24 percent less revenue than their white-led counterparts, along with 76 percent fewer unrestricted funds.**

These proportions are all the more significant because they apply to the organizations in Echoing Green's applicant pool, which the researchers describe as a "group that is considered among the sector's most promising early-stage organizations." This is a stark reminder that grantors need to give all potential grantees a fair shot – if they don't, they could be overlooking highly effective organizations and perpetuating inequalities in the sector.

One aspect of making equity a priority in deciding which organizations to support is focusing on the communities those organizations serve – especially as they recover from COVID-19. According to a

study from the Center for Effective Philanthropy, demand for programs and services increased during the pandemic, but this demand wasn't the same for all organizations. While 61 percent of organizations that primarily serve historically disadvantaged communities saw an increase in demand, this proportion dropped to 35 percent for organizations that don't serve these communities. Independent Sector reports similar findings: 57 percent of nonprofits said they couldn't meet demand for their services during COVID-19 – a proportion that jumps to 65 percent for nonprofits that serve low-income communities (which are disproportionately communities of color).

Nonprofits are focused on addressing inequalities – from providing access to essentials like healthcare and education in marginalized communities to advocating directly for issues like racial justice.

This is why it's ironic that BIPOC-led nonprofits struggle to secure equitable access to resources, while leaders of color are too often sidelined in the organizations where their perspectives could add the most value. Grantors shouldn't just focus on building and supporting more diverse leadership teams because it increases representation – they should do so because it makes organizations as effective as they can be.

Key points

1 Scaling impact begins with the ability to measure and report effectiveness.

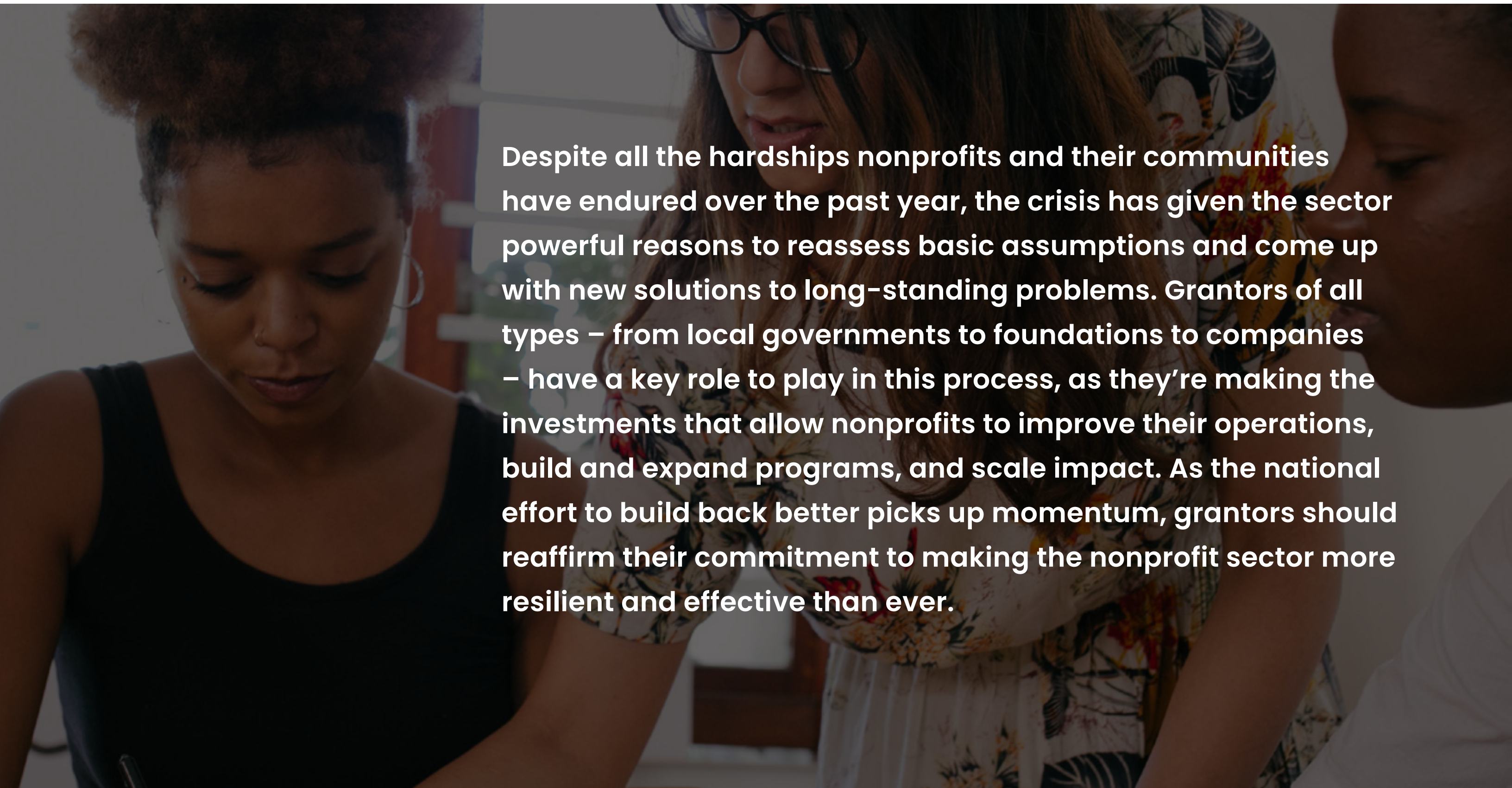
Far too many nonprofits are still unable to rigorously and reliably determine whether they're achieving their goals. This is why grantors have been pushing for accountability – the articulation of specific outcomes and the development of metrics that can demonstrate progress (or a lack thereof) toward those outcomes. However, ensuring accountability should be a collaborative process – grantors need to consult with grantees about what success looks like, as nonprofits themselves are the ones with boots on the ground in their communities and a firsthand appreciation of what those communities need. There should be open lines of communication between grantors and grantees, as well as shared access to data and digital collaboration and productivity tools – investments that grantors should emphasize.

2 Capacity-building has never been more important.

Even before COVID-19, one of the most important trends in the nonprofit sector was the move toward capacity-building – from investments in nonprofits' ability to track and report outcomes to strategic and financial planning to workforce development. As the sector attempts to build back better in the aftermath of the pandemic and the economic crisis it caused, capacity-building has become even more vital. Over the past year, many organizations had to confront the fact that they only had a few months of cash reserves, which forced them to slash programs and lay off employees just to keep their doors open. This status quo isn't sustainabwle – the most reliable way to scale impact is to ensure the long-term health of organizations, and this means grantors should look beyond merely funding programs and invest in the capacities that will help grantees prepare for future crises and continue serving their communities for years to come.

3 Diversity will help the nonprofit sector build back better.

The past year hasn't just revealed all the ways nonprofits need to strengthen their capacities and prepare for future crises – it has also opened up one of the widest-ranging conversations about inequality in the United States in decades. Although nonprofits play an integral role in eliminating inequalities in countless communities across the country, it's clear that the sector still faces major challenges when it comes to securing diversity and inclusion in leadership and funding. Addressing these inequities isn't just essential to increasing representation – it's also a core part of making the nonprofit sector as dynamic and effective as it can be. Highly effective BIPOC-led organizations are missing out on investments that will help them scale impact, immensely qualified diverse leaders are being overlooked (which has a negative effect on relationship-building in marginalized communities), and too many nonprofits are failing to recognize all the benefits in productivity and innovation that diverse leadership teams offer. Grantors have an unprecedented opportunity to address all these problems at once by making a renewed commitment to diversity and inclusion at every level of the organizations they support.



Despite all the hardships nonprofits and their communities have endured over the past year, the crisis has given the sector powerful reasons to reassess basic assumptions and come up with new solutions to long-standing problems. Grantors of all types – from local governments to foundations to companies – have a key role to play in this process, as they're making the investments that allow nonprofits to improve their operations, build and expand programs, and scale impact. As the national effort to build back better picks up momentum, grantors should reaffirm their commitment to making the nonprofit sector more resilient and effective than ever.

> Nonprofits have to do everything possible to demonstrate the effectiveness of their programs (as well as the efficiency of their operations) if they want to secure contracts with foundations, governments, and all other grantors.

About Resilia

Resilia powers the people changing the world.

We are passionate about building technology solutions for mission-driven organizations and funders; enabling collective impact and capacity building with our tools; and turning our customers into high performing, transformative change agents—all with our signature human touch.

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