IMPROVING DATA ANALYTICS AND CUSTOMER RELATIONS IN NONPROFITS

by
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A capstone project submitted to Johns Hopkins University in conformity with the
requirements for the degree of Master of Arts in Public Management

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ABSRACT

Recent reports regarding newly implemented tax policy and a changing generational landscape point to the growing uncertainty facing fundraising in the nonprofit sector. Compounding this uncertainty is the unfortunate tendency of the nonprofit sector to be adverse to for-profit techniques, such as risky innovative approaches and for-profit data analytic and measurement methods. Without becoming more agile in their reactions to these market changes, nonprofits will be unable to transition their fundraising policies to overcome newly cited donation hurdles. The result of these inadequacies will be short term and long term decreases in recruitment of new donors, donor retention and overall donors which, overtime, will lead to a decrease in overall dollars donated.

The goal of this policy proposal is to create a donor management policy that will increase both donor retention and overall revenue from private donations. The approach contains several aspects which, in totality, aim to increase overall revenue by growing individual donations in four areas: first, by increasing the total number of individual donors; second, by increasing donor retention; third, by increasing the average donation amount for each donor; and fourth, by increasing the frequency of donations of each donor. The policy proposed requires a full data audit to assess whether or not the United Way has the capabilities to segment populations of donors and assign account managers to focus on the highest value donors.

An internal A/B test will demonstrate both effectiveness and efficiency. A test of this nature requires taking two accounts with a similar donor make-up, treating account A

with traditional fundraising techniques while treating account B with a specific account/ customer success manager. After an appropriate amount of time, clear quantitative measures will reflect the effectiveness and efficiency of this approach. If the overall revenue generated is estimated to be greater than the cost of adding additional staff, then the proposal should be considered and evaluated. Though this proposal has several aspects to explore before implementation, steps should be taken immediately to assess the quantitative and qualitative capabilities necessary to do so.

Advisor: Professor Paul Weinstein

Advisor: Nicole Cosey

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TO: Brian J. G. Lachance, United Way Worldwide, Chief of Staff
FROM: Monica Welsh-Loveman
SUBJECT: Improving Donor Retention and Fundraising Revenue
DATE: Dec. 14th 2018

ACTION FORCING EVENT

A Recent report by the Blackbaud Institute suggests the potential impact of the

Tax Cuts and Job Act of 2017 could be detrimental to donor retention and hinder

donations in coming years, stating, "previous giving incentives like tax deductions may

not be enough to keep donations coming in."[1]

STATEMENT OF THE PROBLEM

Recent reports regarding newly implemented tax policy and a changing

generational landscape point to growing uncertainty facing fundraising in the nonprofit

sector. Compounding this uncertainty is the unfortunate tendency of the nonprofit sector

to be adverse to for-profit techniques, such as engaging in potentially risky innovative

approaches and acquiring advanced data analytic and measurement methods. Without

becoming more agile in their reactions to these market changes, nonprofits will be unable

to transition their fundraising policies to overcome emerging donation hurdles. The result

of these challenges will be short term and long term decreases in recruitment of new

donors and donor retention which, overtime, will lead to a decrease in overall donations.

The more general concern facing nonprofits is the decrease in overall donors,

though overall donations are rising, as cited by recent Giving USA results, "After a slight

drop during the recent Great Recession, individual giving has been increasing in both

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[1] Longfield, Chuck, Angele Vellake, and Erin Duff. Charitable Giving Report: How Fundraising Performed in 2017.Report. February 2018. Accessed September 21, 2018. https://institute.blackbaud.com/asset/2017-charitable-giving-report/.

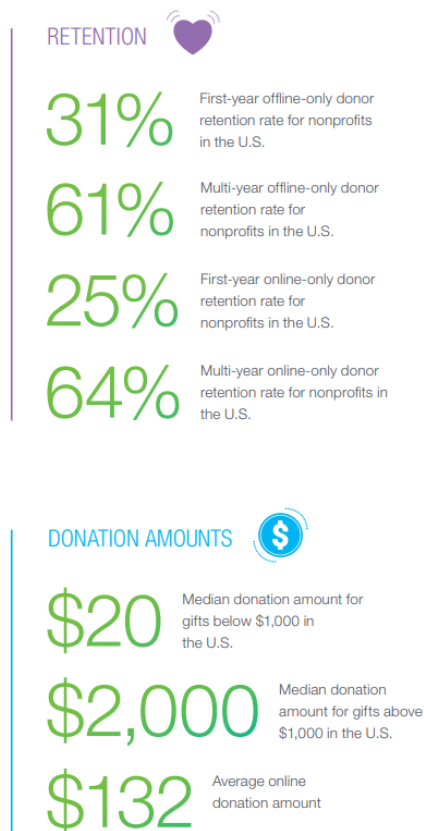current and inflation-adjusted dollars for the last couple years, although it has not recovered to pre-recession levels…individual giving peaked in 2005…Every year since 2009 has seen a gradual increase."[2] It's apparent that the decreasing donor base suggested by multiple reports points to a recent issue that will have measurable consequences for the future (figure 1). Blackbaud's annual reports, in their words, "provide a year in review based on the largest analysis of overall and online giving data anywhere in the sector." Their most recent *Charitable Giving Report* cites two major uncertainties facing the nonprofit sector in 2018 and beyond. The first issue they draw attention to is how, though donation dollars are increasing, the number of donors is not, "The study's findings agree with a growing body of research suggesting that, even as total dollars donated is growing, the population of givers is contracting."[3] Similarly, a special report done in June by the Chronicle of Philanthropy points out, "Even as 'Giving USA' has reported record charitable fundraising three years in a row, the share of Americans who donate to charity is falling. In 2014, the latest year

RETENTION

31% First-year offline-only donor retention rate for nonprofits in the U.S.

61% Multi-year offline-only donor retention rate for nonprofits in the U.S.

25% First-year online-only donor retention rate for nonprofits in the U.S.

64% Multi-year online-only donor retention rate for nonprofits in the U.S.

DONATION AMOUNTS

$20 Median donation amount for gifts below $1,000 in the U.S.

$2,000 Median donation amount for gifts above $1,000 in the U.S.

$132 Average online donation amount

Figure 1

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[2] "Charitable Giving in America: Some Facts and Figures." Charitable Giving in America: Some Facts and Figures | NCCS. Accessed October 12, 2018. https://nccs.urban.org/data-statistics/charitable-giving-america-some-facts-and-figures.

[3] Rovner, Mark. The Next Generation of American Giving: The Charitable Habits of Generation Z, Millennials, Generation X, Baby Boomers, and Matures.Report. April 2018. Accessed September 21, 2018. https://institute.blackbaud.com/asset/the-next-generation-of-american-giving-2018/.

for which data is available, 56 percent of American households made a charitable

donation. In 2000, that number was 10 percentage points higher."[4] Additionally, as

digital techniques progress the most valuable donor pools will be more difficult to

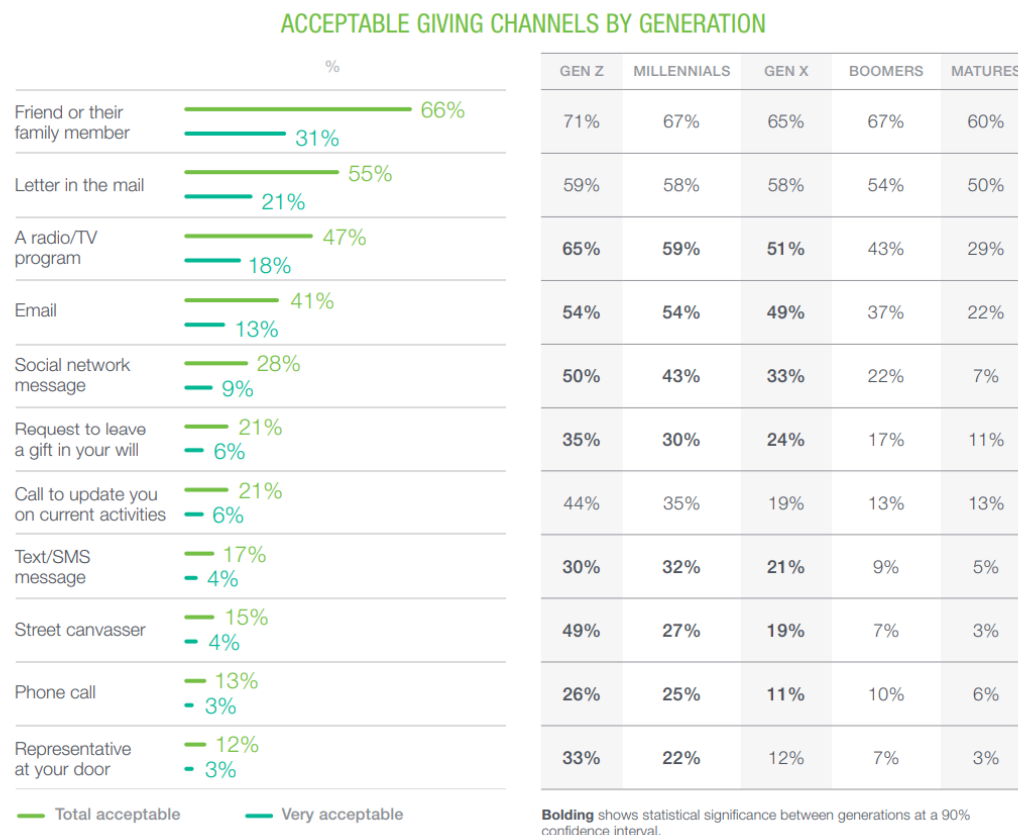acquire as the Blackbaud report points out, "the proliferation of giving channels may be

ACCEPTABLE GIVING CHANNELS BY GENERATION

% (Total acceptable / Very acceptable)		GEN Z	MILLENNIALS	GEN X	BOOMERS	MATURES
Friend or their family member	66% / 31%	71%	67%	65%	67%	60%
Letter in the mail	55% / 21%	59%	58%	58%	54%	50%
A radio/TV program	47% / 18%	65%	59%	51%	43%	29%
Email	41% / 13%	54%	54%	49%	37%	22%
Social network message	28% / 9%	50%	43%	33%	22%	7%
Request to leave a gift in your will	21% / 6%	35%	30%	24%	17%	11%
Call to update you on current activities	21% / 6%	44%	35%	19%	13%	13%
Text/SMS message	17% / 4%	30%	32%	21%	9%	5%
Street canvasser	15% / 4%	49%	27%	19%	7%	3%
Phone call	13% / 3%	26%	25%	11%	10%	6%
Representative at your door	12% / 3%	33%	22%	12%	7%	3%

— Total acceptable   — Very acceptable

Bolding shows statistical significance between generations at a 90% confidence interval.

Figure 2

causing 'choice anxiety,' the tendency to do nothing when confronted with too many

options. That could be influencing the overall decline in giving behavior."[5] The variety

of giving channels and their usage by generation are reflected in figure 2.

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[4] Wallace, Nicole. "Where Are My Donors? With Fewer Americans Giving to Charity, Some Nonprofits Are Planning for an Uncertain Future." *Chronicle of Philanthropy*30, no. 8 (June 2018): 8-17. Accessed September 24, 2018. http://chronicle.com.proxy1.library.jhu.edu.

[5] Rovner, Mark. The Next Generation of American Giving: The Charitable Habits of Generation Z, Millennials, Generation X, Baby Boomers, and Matures.Report. April 2018. Accessed September 21, 2018. https://institute.blackbaud.com/asset/the-next-generation-of-american-giving-2018/.

Though declines in the overall number of donors have been masked by an increase in dollars donated (displayed in figure 3), studies suggest a decrease in donors could have far reaching effects in the future, as one report from the Chronicle of Philanthropy states, 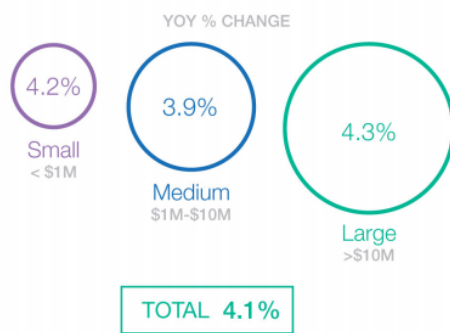"But some experts warn that the eroding donor base will curtail mega gifts in the long run. Such contributions are often the culmination of many years, if not decades, of giving to an organization. Fewer donors making small gifts today could mean a lost generation of major donors down the line." Furthermore, the nonprofit sector, notoriously, does not react well to changing behaviors and lacks the risk taking agility that for-profit organizations use to adjust to changing markets, and this is exactly what it needs, as Nicole Miller reports, "It's clear that traditional fundraising tactics are faltering…but they often don't know how to change course and don't have the money to experiment…Nonprofits need to be flexible and willing to experiment."[6]   This general issue is compounded by the most recent 2017 tax law.

Figure 3

While the overall effect on giving because of the Tax Cuts and Job Act of 2017 is still uncertain, multiple reports and nonprofit organizations express concern over the ability of funders to recruit new donors and retain the donors they already have.

[6] Wallace, Nicole. "Where Are My Donors? With Fewer Americans Giving to Charity, Some Nonprofits Are Planning for an Uncertain Future." *Chronicle of Philanthropy* 30, no. 8 (June 2018): 8-17. Accessed September 24, 2018. http://chronicle.com.proxy1.library.jhu.edu.

Therefore, although the impact will only be seen in 2018 and beyond as donors and potential donors react to new incentives in the law, the new tax law still raises cause for alarm. As Politico reports, The Joint Committee on Taxations alleges, "The number of taxpayers taking the charitable deduction is projected to fall by more than 28 million, according to new figures by the official Joint Committee on Taxation." The article sites a similar study done by Indiana University, asserting, "Overall contributions will fall by between 1.7 percent and 4.6 percent, according to a study by Indiana University's Lilly Family School of Philanthropy, which translates to billions less annually."[7] *The NonProfit Times* shares an identical concern, citing a study done by the American Enterprise Institute which states, "The American Enterprise Institute (AEI) estimated a drop of some $17.2 billion, or $16.3 billion assuming modest economic growth in the short term." The concern permeating throughout these studies is a decrease in actual number of individuals who will donate due to the tax deduction.

  This concern is amplified by the importance of individual giving in the nonprofit sector, as *The NonProfit Times* asserts, "Last year, charitable giving in the U.S. was estimated to be $410 billion, with about $287 billion from individuals." The AEI report suggests these numbers would have continued to increase were it not for the current tax law, "The AEI study estimates that individual giving would have increased to $296 billion in 2018 if not for the TCJA, with itemizers making up $221 billion of that total." These concerns have even spurred reactions from both Republican and Democratic

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[7] Faler, Brian, Sarah Ferris, Rich Lowry, Eric Velasco, Ted Hesson, and Jack Shafer. "Charities Brace for Giving Plunge in Wake of New Tax Law." POLITICO. February 09, 2018. Accessed September 21, 2018. https://www.politico.com/story/2018/02/09/charities-tax-law-giving-plunge-331049.

Senators to monitor the effects of the TCJA. *The NonProfit Times* reports, "The senators requested that the administration 'provide any data that is currently available on charitable deductions claimed in 2018 and projections for charitable giving in the tax

MAKING AN IMPACT
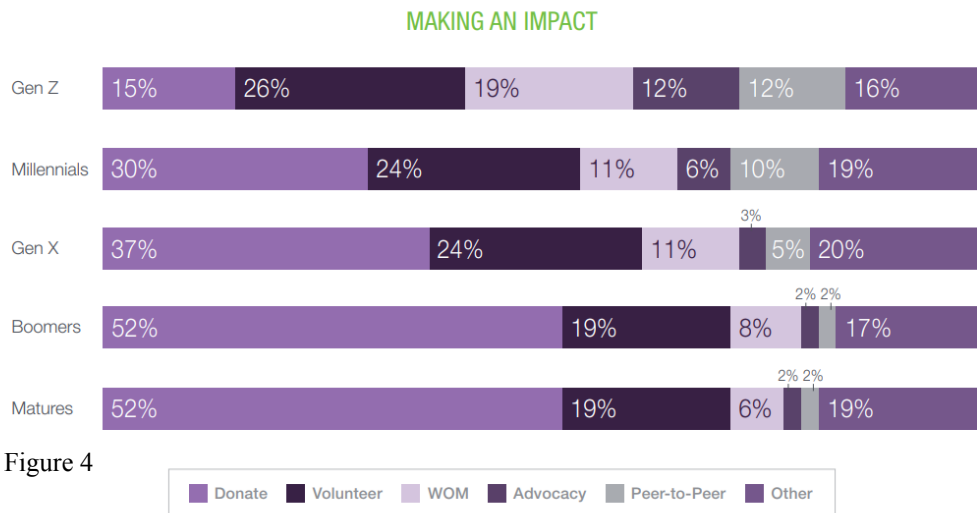
Figure 4

year.'"[8] While the new tax law is a recent addition to the nonprofit sector's faltering donor base, another threat has been festering for years and is just now being fully investigated and emphasized.
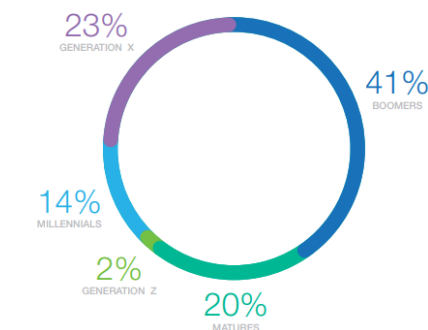

Figure 5

The second major finding of the Blackbaud Institute's recent report is the changing dynamic of fundraising by generational giving (the overall impact of donors and donor pool by generation are reflected in figures 4 and 5). In their report, *The Next Generation of American Giving,* Blackbaud asserts that though the total number of donation dollars is growing, the total number of

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[8] Hrywna, Mark. "Senators Seek Federal Data On Giving." *The NonProfit Times*, July 16, 2018. Accessed September 26, 2018. http://www.thenonprofittimes.com/news-articles/senators-seek-federal-data-on-giving/.

donors is decreasing suggesting, "the importance of retention as a priority has not been

convincing enough, perhaps the declining donor population will finally tip people toward

action." Among these retention and solicitation issues are addressing generational

changes, such as the emergence of Generation X donors, as Blackbaud asserts, "The

numbers carry an important message for fundraisers. In the foreseeable future, your

organizations' financial wellbeing lies primarily with Boomers and Gen-Xers." The

culmination of these findings presents an uncertain fundraising future that nonprofit

organizations must address.

The older generations have notoriously been very charitable and almost always

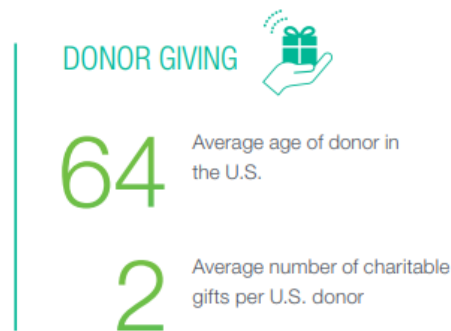give more than their younger generations. As the Blackbaud report states, "the average

U.S. donor is 64 years old. That puts them dead
center in the Boomer cohort, which spans ages
54 to 72." (figure 6) Additionally, Boomers are
still the most populous generation there is, "The
Boomer cohort remains the most populous of
any generation, with more than 74 million living

Figure 6

members."[9] The natural and unfortunate question then becomes how to readjust as this

generation transitions out of the donor force. A special report done by the Chronicle of

Philanthropy addresses this issue, positing, "If today's new donor is that old, officials

wondered, where will the money come from 15 or 20 years from now?" As previously

[9] Rovner, Mark. The Next Generation of American Giving: The Charitable Habits of Generation Z, Millennials, Generation X, Baby Boomers, and Matures.Report. April 2018. Accessed September 21, 2018. https://institute.blackbaud.com/asset/the-next-generation-of-american-giving-2018/.

noted, there has been a drop in donors amongst every age group, however, the Boomer generation has incurred the worst drop off, as the report states, "Perhaps most frightening: The share of giving dropped most among 51- to 60- year-olds, who are often bedrock donors." The anxiety created by this drop off is amplified by the vastly smaller size of Generation X which, fundraisers believe, will affect donations in the coming years, as
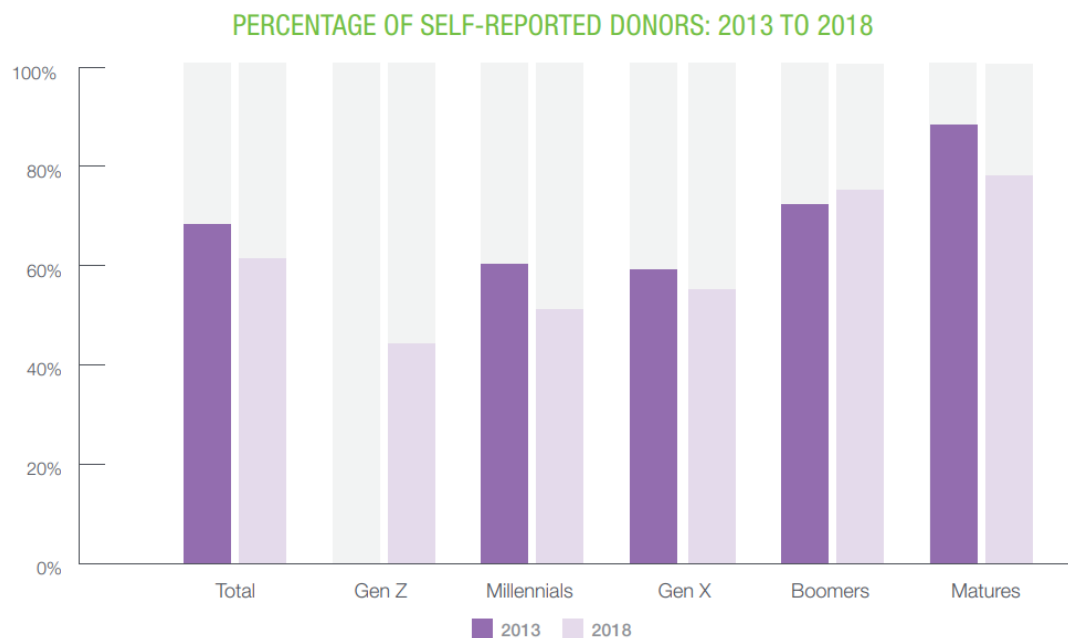
PERCENTAGE OF SELF-REPORTED DONORS: 2013 TO 2018

Figure 7

Wallace explains, "Generation X is smaller than the baby boom generation that preceded it and millennials who came after it. That means the number of people turning 50 and entering their prime giving years is down and will remain low for at least the next decade."[10] The result of these problems is an approach to fundraising that can adjust to an increasingly unstable market and decreasing donor base while still maintaining the low costs necessitated by nonprofit overhead standards (figure 7).

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[10]Wallace, Nicole. "Where Are My Donors? With Fewer Americans Giving to Charity, Some Nonprofits Are Planning for an Uncertain Future." *Chronicle of Philanthropy* 30, no. 8 (June 2018): 8-17. Accessed September 24, 2018. http://chronicle.com.proxy1.library.jhu.edu.

HISTORY AND BACKGROUND

To fully understand the factors hindering the ability of nonprofit organizations to transform their fundraising strategies, one must first understand the underlying motivations behind nonprofit giving and the overall nature of the nonprofit sector. When it becomes clear how the nonprofit sector has evolved and where this evolution has introduced problems in the market, then solutions can be assessed to address prevailing issues. Among the challenges is a public sector mindset that some believe hinders nonprofit organizations from utilizing for-profit techniques to fundraise, market and organize in a way that will lead to greater efficiency and growth. Dan Pallotta, author of *Uncharitable*, speaks to this issue by analyzing where this mindset may have originated, and how it stands in the way of innovation.

Though it seems far-removed from current issues, it is important to understand how the nonprofit sector was born and why people choose to give their hard-earned pay checks to others. Historically, volunteerism and charity began as a way to provide for individuals in small towns and communities where government was not yet expansive enough to cover their needs. As Michael Worth explains in *Nonprofit Management,* "American towns and cities developed before local governments did, and vital services often were provided by voluntary associations, including volunteer fire departments, libraries, schools, and hospitals…people came together to meet common needs and provide for the poor, their voluntarism often reflecting religious convictions."[11] Pallotta concurs with this assessment but highlights a more specific religious element, the Puritan

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[11] Worth, Michael J. NONPROFIT MANAGEMENT: Principles and Practice. 4th ed. Los Angeles: SAGE, 2017.

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roots of philanthropy. He asks, "Where did this system get its beliefs? Our rules and ideas about charity began their journey into formalism with Puritan constructs." Furthermore, it's these constructs that dissuade nonprofit organizations from adopting for-profit strategies and techniques. As he explains, "The constructs placed reason and results second to a host of other priorities, including self-sacrifice, self-denial, self-accusation, suffering, self-criticism, and the salvation of the soul…'a view of human depravity.'"[12] It's in the conflict between these beliefs and for-profit practices that the nonprofit sector is consistently battling itself.

These battles have roots in history where, as Lester Salamon notes, the non-profit sector has consistently been expected to live in two worlds. Salamon explains how this dichotomy can create an ideological divide of the same kind Pallotta finds so problematic, "They are not-for-profit organizations required to operate in a profit-oriented market economy. They draw heavily on voluntary contributions of time and money, yet are expected to meet professional standards of performance and efficiency."[13] Pallotta highlights this issue, explaining how the Puritan construct lead to this mindset, in his words, "So in the Puritans' universe, charity is necessarily segregated. It cannot use the same tools as commerce. It cannot use self-interest or profit as motivation." Pallotta feels these tendencies are the antithesis to how nonprofits should be encouraged to function and achieve success, arguing, "By abhorring the realities of their own nature, the Puritans cut charity off from the very market incentives that would go on to build the

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[12] Pallotta, Dan. Uncharitable: How Restrains on Nonprofits Undermine Their Potential. Medford (Mass.): Tufts University Press, 2010.

[13] Salamon, Lester M. The Resilient Sector Revisited: The New Challenge to Nonprofit America. Washington, D.C.: Brookings Institution Press, 2015.

nation's entire system of commerce and that indeed built their own."[14] Along the same

lines, Salamon feels the nonprofit sector is being forced to live amongst these two worlds

in a way that hinders their success, asserting a similar thought to Pallotta, "In a sense,

nonprofits have been forced to choose between two competing imperatives: a *survival*

imperative and a *distinctiveness imperative,* between the things they need to do to survive

in an increasingly demanding market environment and the things they need to do to retain

their distinctive- ness and basic character."[15] The solution Pallotta and others offer is a

turn towards more capitalist, for-profit thinking.

What Salamon, Pallotta and Steve Rothschild note in their studies is a background

of one specific need in the nonprofit sector which can address the historical issues drawn

forth by the religious and Puritanical ideologies of the nonprofit sector's birth. What

Rothschild suggests in *The NonNonprofit* is that a charitable organization be market

driven. He argues, "Some people question whether being market-driven sullies otherwise

commendable social services mission. But the two worlds do not and should not operate

independently…the most successful nonprofits understand their markets and tailor their

strategies accordingly…Success requires employing the best ideas from the nonprofit and

for-profit worlds."[16] Pallotta has a similar belief, insisting the background and historical

precedence suggest nonprofits utilize capitalist techniques to not only thrive but survive.

As he explains, "It's about giving charity equal rights with the rest of the economic world

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[14] Pallotta, Dan. Uncharitable: How Restrains on Nonprofits Undermine Their Potential. Medford (Mass.): Tufts University Press, 2010.

[15] Salamon, Lester M. The Resilient Sector Revisited: The New Challenge to Nonprofit America. Washington, D.C.: Brookings Institution Press, 2015.

[16] Rothschild, Steve. The Non Nonprofit: For-profit Thinking for Nonprofit Success. San Francisco, CA: John Wiley & Sons, 2012.

and allowing it to use the system everyone else uses to get things done - free-market

capitalism." Furthermore, he believes the lack of this strategic mindset is hindering the

the major goals of the entire nonprofit sector, asserting, "What if a system that frowns on

self-interest turns out to be an inferior way of serving the interests of others?…profit,

capitalism the free market, the desire for personal material gain - is in fact the fuel that

could power stunning change in the world."[17] Though the historical precedent of this

organizational goal is lacking, there are some that are optimistic that the innovative

background of the nonprofit sector suggests it can be successful in reinventing itself.

Salamon for one, believes the nonprofit sector has continuously approached

hurdles in their market with innovative solutions. He explains that although they have

been pulled in different directions, nonprofit America has the ability to be agile in their

response, arguing, "Through it all, nonprofit America has responded with considerable

creativity to its many challenges, but the responses have pulled it in directions that are, at

best, not well understood and, at worst, corrosive of the sector's special character and

role."[18] Rothschild echoes this with a call for social entrepreneurs to assess current

challenges in the market and utilize their innovative background to react with creative

solutions. He suggests, "Social entrepreneurs have risen to the challenge of decreased

governmental funding in this period of continuing social problems. Necessity has

energized their power of innovation. Now is the time to accelerate these efforts."

Furthermore, he argues organizations must transition to a learning driven culture to learn

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[17] Pallotta, Dan. Uncharitable: How Restrains on Nonprofits Undermine Their Potential. Medford (Mass.): Tufts University Press, 2010.

[18] Salamon, Lester M. The Resilient Sector Revisited: The New Challenge to Nonprofit America. Washington, D.C.: Brookings Institution Press, 2015.

from their histories and react to a changes in standard practice, asserting, "Being learning driven requires that we understand the shifting needs of our customers and other stakeholders, evaluate our processes and results, and consistently challenge the status quo."[19] The key, then, is to understand how nonprofits are judged and have historically functioned in an increasingly complicated sector.

The ability of a nonprofit organization to thrive depends on revenue and, due to the nonprofit sector's unique position, that revenue can be very complicated to attain. In 1978 Pfeffer and Salanicik developed the resource dependence theory which explains the behavior of a nonprofit based on their dependence on external constituencies. In their words, "we can understand the choices and behavior of organizations less by studying their internal structures and dynamics than by focusing on their interdependencies with external organizations and individuals who hold power over them by virtue of the resources they provide." The concern then, is how resource dependency can affect the internal structure of an organization and its ability to act with the autonomy Rothschild and Pallotta suggest they must. Pfeffer and Slaanicik, however, believe organizations can assess their fundraising needs and utilize certain strategies to ensure the organization does not lose their autonomy, asserting, "organizations need not be helpless captives of their funding sources. They can make strategic choices that enable them to *manage* resource dependency in a way that maximizes their autonomy."[20] The key to this ability to manage resource dependency appears to be, as Rothschild pointed out, learning. Or, as

[19] Rothschild, Steve. The Non Nonprofit: For-profit Thinking for Nonprofit Success. San Francisco, CA: John Wiley & Sons, 2012.

[20] Worth, Michael J. NONPROFIT MANAGEMENT: Principles and Practice. 4th ed. Los Angeles: SAGE, 2017.

Pallotta suggests, risk, arguing, "The for-profit sector says that experimentation should be allowed. Not only does it tolerate failure, it values it - even encourages it - in the interest of breakthrough and advancement…Nonprofit ideology says that failure is immoral because money comes from donors who intended their dollars to go directly to the needy."[21] Risk aversion becomes very important when understanding how much the nonprofit sector relies on the capricious individual giving sector.

The overall size of individual giving has ebbed and flowed but it generally hovers around three fourths of all fundraising. Commenting on the sheer size of individual giving in 2007, Salamon asserts, "In 2007, individuals in the United States gave about $229 billion to organizations, most of it to nonprofits, and in 2006 volunteered an estimated 12.9 billion hours." He continues, emphasizing the enormous economy of individual giving alone, "For perspective, a country that had an annual gross domestic product equal to the combined value of annual American giving and volunteering would rank about twentieth in the world, just behind Sweden and Belgium."[22] Pallotta cites similar statistics, again, reinforcing the scale of donations in general, "American individuals, corporations, and foundations gave away $295.02 billion in 2006. Of that, $222.89 billion, or 75.6 percent, came from individuals (figure 8). About 65 percent of all American households with an income of less than $100,000 donated to some type of charity, and nearly 100 percent of those with incomes greater than $100,000 did."[23]

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[21] Pallotta, Dan. Uncharitable: How Restrains on Nonprofits Undermine Their Potential. Medford (Mass.): Tufts University Press, 2010.

[22] Salamon, Lester M. The Resilient Sector Revisited: The New Challenge to Nonprofit America. Washington, D.C.: Brookings Institution Press, 2015.

[23] Pallotta, Dan. Uncharitable: How Restrains on Nonprofits Undermine Their Potential. Medford (Mass.): Tufts University Press, 2010.

Salamon concurs with these findings, asserting, "To investigate the importance of this level of individual giving to the non- profit sector… Inter vivos giving—gifts given by

Figure 8

individuals during their lifetimes—accounts for about three-quarters (74.8 percent in 2007) of all private giving. The rest comes from foundations (12.6 percent of total giving), bequests (7.6 percent), and corporations (5.1 percent). Total private monetary giving in 2007 was $306.4'billion." This giving results from each individual giving around 2% of their income to charity, "Relative to the United States' economy, U.S. individual giving in the first decade of the twenty-first century has hovered around 2 percent of personal income. In 2007, individual giving constituted 2.1 percent of personal income; in 2008, a year of economic crisis and uncertainty, the ratio fell to 1.9 percent."[24] For context, these statistics remain very stable of the last decade, "Giving by individuals makes up the vast majority of contributions received by nonprofit organizations. *Giving USA 2015* estimates that individual giving amounted to $258.51 billion in 2014, an increase of 7.1 percent in

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[24] Salamon, Lester M. The Resilient Sector Revisited: The New Challenge to Nonprofit America. Washington, D.C.: Brookings Institution Press, 2015.

current dollars from 2013. This accounts for 72 percent of all contributions received in

2014."[25]

Due to the size and importance of individual giving, fundraising professionals and

the nonprofit sector in general has historically focused on understanding why individuals

give and how they can better reach each donor. Several theories exist, but, the Social

Exchange Theory is the leading hypothesis for why donors feel the urge to donate. As

Roger Bennett explains, "When applied to fundraising, Social Exchange Theory asserts

that relations between a nonprofit and its donors comprise a series of exchanges and

interactions that create reciprocal obligations. Social Exchange Theory assumes that

feelings constitute exchangeable resources." Thus, the theory suggests a give-and-take

relationship that scholars believe result in donors who expect results for their donations.

Furthermore, when results are reported and emphasized, donations and donor retention

increase. As Bennett notes, "The results suggested that charitable appeals framed around

benefits to self were positively associated with higher donation intentions when the

appeals were used in individualistic cultural contexts. The findings also indicated that

people of high social status exhibited greater donation intention when viewing appeals

directed at 'self'." While this theory appears to cover a wide range of donors, it's

important to note that individual giving varies, by definition, according to each individual

donor. Bennett cites a study done by Karlan in Wood in 2017 which highlights some of

these differences, stating, "The authors attributed their findings to the likelihood that

25 "Charitable Giving in America: Some Facts and Figures." Charitable Giving in America: Some Facts and Figures | NCCS. Accessed October 12, 2018. https://nccs.urban.org/data-statistics/charitable-giving-america-some-facts-and-figures.

large donors were motivated by altruism, whereas small donors were motivated more by warm glow."[26] Furthermore, donations vary depending on which donor segment is being measured, as Giving USA notes, "In broad strokes, those with income between $100,000 and $200,000 contribute, on average, 2.6 percent of their income, which is lower compared to those with income either below $100,000 (3.6 percent) or above $200,000 (3.1 percent)."[27] The importance of individual giving is clear, which is why so many nonprofits focus on how to best reach their customers to achieve maximum giving.

Scholars note that one of the keys to approaching donors is inviting them to appreciating the successes of the organization, and, of course, this varies by sector (figure 9). As Pallotta explains, the organi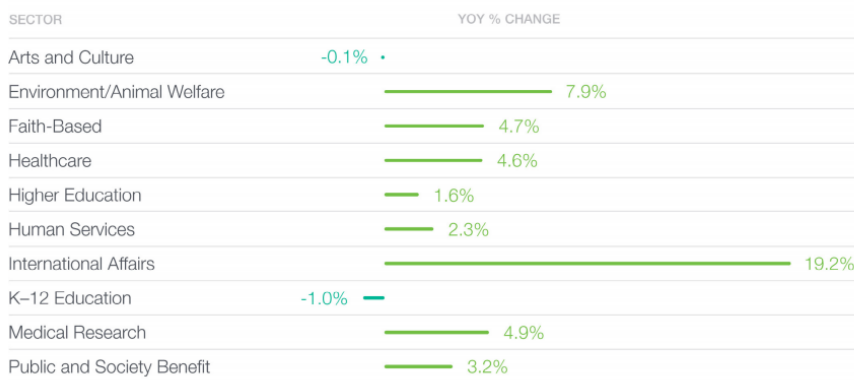zation must reflect that it's meeting a need for the consumer, "by offering the consumer a service that satisfies the needs of others, charity satisfies a need of the

Figure 9

consumer. The need to alleviate the suffering of others is a natural human need."[28] There have, however, been a number of debates within the nonprofit sector regarding which

[26] Bennett, Roger. Nonprofit Marketing and Fundraising : A Research Overview. Milton: Routledge, 2018. Accessed October 12, 2018. ProQuest Ebook Central.

[27] "Charitable Giving in America: Some Facts and Figures." Charitable Giving in America: Some Facts and Figures | NCCS. Accessed October 12, 2018. https://nccs.urban.org/data-statistics/charitable-giving-america-some-facts-and-figures.

[28] Pallotta, Dan. Uncharitable: How Restrains on Nonprofits Undermine Their Potential. Medford (Mass.): Tufts University Press, 2010.

metrics to use to denote success. Rothschild highlights the importance of these metrics in

recruiting individual donors, arguing, "metrics have a way of focusing people's attention.

It's human nature to put our efforts into achieving whatever we will be measured on…as

long as those metrics have been carefully chosen…if not, we can end up scoring high on

the metric but not achieving our purpose."[29] Pallotta, for one, believes the current system

of measuring efficiency through financial overhead costs and similar productivity metrics

is a disservice to the nonprofit sector, quoting the *Nonprofit Overhead Cost Project* he

explains, "Absent good, comparative information about programs or mission

effectiveness, donors and charity watchdogs often place excessive reliance on financial

indicators. Of particular concern to us is the use of overhead cost and fundraising cost

rations as stand-ins for measures of program effectiveness."[30] Rothschild agrees and

believes the solution is in measuring outcomes rather than outputs, asserting, "In the

future, social organizations that don't focus on outcomes are likely to be left behind as a

world with fewer resources demands more accountability of measurement and

outcomes."[31] Following this advice requires a change in strategy that finds it's

beginnings in a strategy that has just arrived in the last several decades.

The strategy of commercialism or managerialism has been cited by strategy

experts as a rather new invention in the nonprofit sector. Salaman explains, "in the past

several decades, a fourth impulse has burst upon the nonprofit scene, *commercialism*, and

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[29] Rothschild, Steve. The Non Nonprofit: For-profit Thinking for Nonprofit Success. San Francisco, CA: John Wiley & Sons, 2012.

[30] Pallotta, Dan. Uncharitable: How Restrains on Nonprofits Undermine Their Potential. Medford (Mass.): Tufts University Press, 2010.

[31] Rothschild, Steve. The Non Nonprofit: For-profit Thinking for Nonprofit Success. San Francisco, CA: John Wiley & Sons, 2012.

its next-of-kin, *managerialism.* The *role* that the commercial impulse presses on the

nonprofit sector is a service role, but one that emphasizes managerial efficiency,

innovation, and cost containment." He continues by citing the very facets of measurement

and for-profit techniques that both Rothschild and Pallotta believe necessary for

nonprofits to survive in the current market. As Salaman asserts, "This includes the use of

strategic planning, quantitative measurement of outcomes, identification of market

niches, and heightened attention to operational efficiency."[32] Pallotta believes the Puritan

impulse that founded the nonprofit sector's existence is what makes adopting this

commercialism strategy so difficult.

Pallotta, like Salamon, believes these capitalist tools are integral to a nonprofit's

success, stating, "It is a further irony that we prohibit charity from using the tools of

capitalism to rectify the very disparities some would claim capitalism creates."[33] Michael

Worth underscores this fact when it comes to the specific realm of marketing, a for-profit

term that can easily be equated to fundraising in the nonprofit sector, he explains, "For

many people, marketing is still synonymous with sales…they see it as something possibly

inconsistent with the values and the culture of the nonprofit sector." Furthermore, similar

to Pallotta, Worth believes it's integral marketing not be equated with sales but with

mission success, "Marketing must serve the mission and not become the driver of the

nonprofit organization's program. However, nonprofits cannot ignore the reality that they

[32] Salamon, Lester M. The Resilient Sector Revisited: The New Challenge to Nonprofit America. Washington, D.C.: Brookings Institution Press, 2015.

[33] Pallotta, Dan. Uncharitable: How Restrains on Nonprofits Undermine Their Potential. Medford (Mass.): Tufts University Press, 2010.

operate in a competitive environment, even if they do not compete directly against each other."

Finally, Worth believes these types of strategies can permeate throughout the organization and must result in strategic planning very similar to Salamon's commercialism, one example, as Worth explains, is stakeholder analysis, "a *stakeholder analysis,* to identify the characteristics, values, perceptions, expectations, and concerns of stakeholders, including clients or customers, donors, and relevant government officials; and an analysis of the positions and programs of competitors or partners offering similar services."[34] These strategies are the very capitalist techniques that Pallotta hopes for, exclaiming, "To achieve this we need full liberation, not moderation of the existing prison. We must liberate charity, without qualification, to use the same tools of capitalism and the free market that we allow business to use and that some claim have created the very disparities charity is supposed to rectify."[35] This 'liberation' that Pallotta begs for underlines the data and customer relation strategies suggested in this policy proposal.

POLICY PROPOSAL

The overarching goal of this policy proposal is to create a donor management strategy that will increase both donor retention and overall revenue from private donations. The approach contains several aspects which, in totality, aim to increase overall revenue by growing individual donations in four areas: first, by increasing the

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[34] Worth, Michael J. NONPROFIT MANAGEMENT: Principles and Practice. 4th ed. Los Angeles: SAGE, 2017.

[35] Pallotta, Dan. Uncharitable: How Restrains on Nonprofits Undermine Their Potential. Medford (Mass.): Tufts University Press, 2010.

total number of individual donors; second, by increasing donor retention; third, by increasing the average donation amount for each donor; and fourth, by increasing the frequency of donations of each donor. *The Nonprofit Times* reports, "United Way Worldwide reported total revenue of $4.26 billion last year, with the majority of it — approximately $3.926 billion — coming from private support….Since 2009, it's up about 2.18 percent in all, or about $84 million."[36]

Therefore, the goal of this policy is to improve that trend by growing individual donation revenue by 3% over the next three years. Part of this goal includes donor retention which, in the nonprofit sector sits around 45%, and can be divided into two groups. The first, new donor retention, was in 2017 just under 40%. The goal is for The United Way Worldwide to beat this by 5% and hold a new donor retention rate of 45%. The second, repeat retention rate, was 64% in 2017 and The goal for The United Way Worldwide is to reach 70% repeat retention rate.[37] The next goal is to increase the amount given for each donation and therefore increase the amount donated per donor. This policy focuses on improving relations among high impact donors, therefore, the goal here is to raise the median donation amount for gifts above $1,000 from $2,000 to $2,500. Finally, in 2017 the average number of charitable gifts per U.S. donor was 2, so the goal for this proposal is to increase that number to 3 gifts per year on average.[38]

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[36] Hrywna, Mark. "United Way Reports $4.26 Billion Raised, Led By Seattle." The NonProfit Times. September 26, 2013. Accessed October 28, 2018. http://www.thenonprofittimes.com/news-articles/united-way-reports-4-26-billion-raised-led-by-seattle/.

[37] "A Guide to Donor Retention from Bloomerang." Bloomerang. Accessed October 28, 2018. https://bloomerang.co/retention.

[38] Longfield, Chuck, Angela Vellake, and Erin Duff. "How Fundraising Performed in 2017." *Charitable Giving Report*, February 2018. Accessed October 28, 2018. doi:10.18411/a-2017-023.

The key to achieving these ambitious goals is for The United Way to adopt the

commercialist mentality the nonprofit sector generally avoids. As Rothschild explains,

"commitment to being market driven should dictate everything you do, from how you are

organized and governed to how you design your program, to where you are located, and

those you hire. Success requires employing the best ideas from the nonprofit and for-

profit worlds."[39] Heather Grant and Leslie Crutchfield's exploration of the six practices

of high-impact nonprofits highlights a similar need, insisting their high-impact nonprofits

share this market driven philosophy, "Some nonprofits, including many of those we

studied, have hired talent from the corporate world…The high-impact nonprofits we

studied are at the forefront of this larger trend sweeping both sectors - and blurring the

boundaries between them."[40] Pallotta concurs and summarizes the ability of this proposal

to utilize market driven policies to increase revenue and drive growth, as he argues, "If

we allow charity to use free-market practices, we will see an increase in the money being

raised, more effective solutions, and a circular reinforcement that will further increase

investment in solving the great problems of our time."[41] There are three areas of interest

in meeting these policy goals: utilizing data more efficiently and productively; creating

more advanced measures of success or failure; and, using data to focus on more targeted

customer relations techniques. The importance of the first market driven technique The

United Way should explore is highlighted by Steve McLaughlin's *Data Driven*

[39] Rothschild, Steve. The Non-Nonprofit: For-profit Thinking for Nonprofit Success. San Francisco, CA: John Wiley & Sons, 2012.

[40] Crutchfield, Leslie R., and Heather McLeod Grant. Forces for Good the Six Practices of High-impact Nonprofits. Hoboken, NJ: Jossey-Bass, 2012.

[41] Pallotta, Dan. Uncharitable: How Restrains on Nonprofits Undermine Their Potential. Medford (Mass.): Tufts University Press, 2010.

Nonprofits, he explains, "The reality is that successful nonprofits need both art and science. Unfortunately, there is not a magic wand we can wave that will make this transformation simple and painless. But we do have people, process, technology and data to make it happen."[42]

The first step to establishing an organization that utilizes data is building a department and data center that is up to date and valued. As Rothschild points out, many nonprofits struggle to do so and the implications are detrimental, "Although such aggregate data are not yet always readily available, nonprofits can still go a long way to improve outcomes data. Of course, we can do only what's feasible and practical. Such data are well worth the resources that we need to obtain them, as long as you and your stakeholders agree that these indicators truly measure your organization's ability to deliver against your purpose and mission."[43] Hence, The United Way must audit their data collection abilities and cull their existing data to assure they are capable of advanced and predictive data analytics. An internal audit of data analytics capabilities and the data they can supply to account managers is stage one of this proposal. An investment in both the people and technology to do so is required, as McLaughlin argues, "Now is the time for nonprofit sector leaders to embrace the possibilities of what data can do. Data driven nonprofits accelerate change in the world when staff use data to influence strategy and inform decisions that produce value and impact. To make change happen, we need to create more value and data is the raw material that does just that." Furthermore,

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[42] MacLaughlin, Steve. *Data Driven Nonprofits*. 1st ed. United States of America: Saltire Press, 2016.

[43] Rothschild, Steve. The Non Nonprofit: For-profit Thinking for Nonprofit Success. San Francisco, CA: John Wiley & Sons, 2012.

nonprofits currently struggle in keeping their databases up to date in the most fundamental areas.

The United Way must confirm they have the data analytics capabilities to move forward with this proposal. McLaughlin has found that most nonprofits are lacking the infrastructure necessary to successfully utilize the data they do have and offers the following example of how this may influence an organization like The United Way, pointing out, "In the best performing nonprofits, about 6% of their database file is unmailable. In average nonprofits, that number jumps to 26% and, in the worst performing organizations, 67% of their file is unmailable." McLaughlin argues that a conservative estimate puts losses due to these data discrepancies at $21.8 million in wasted mailing costs across the nonprofit sector. Furthermore, nonprofits not only have invalid information but lack essential information as well. As McLaughlin explains, "Target Analytics found that the average nonprofit was missing email addresses for 74% of their constituents. The worst are missing 96% of their email addresses. For the best nonprofits, 43% of their email addresses are missing."[44] The United Way Worldwide functions on such a large scale that any significant data discrepancies can cost millions of dollars in revenue. The United Way must adopt a data first policy that appreciates both the gains and losses caused by insufficient data integrity and analytics.

Creating key performance indicators (KPIs) is generally thought to be a for-profit technique for evaluating managerial effectiveness, but this use of data can be directly related to nonprofit work and can help drive revenue generation and mission success. As

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[44] MacLaughlin, Steve. *Data Driven Nonprofits*. 1st ed. United States of America: Saltire Press, 2016.

Rothschild explains, "an emphasis on results requires ongoing intelligence on how well we're meeting our expectations: where we are meeting our goals, where we are falling short, and anything else the data can tell us about what's working and what isn't." In fact, Rothschild calls these one of his seven for-profit principles that build nonprofit success, explaining, "In a world of limited resources, it's critical to measure what counts because organizations get what they measure. To achieve your mission, you have to focus on your desired outcomes - the results that fulfill your purpose." Furthermore, these KPIs should measure the success and capacities of fundraisers. When employees are afforded bonus structures similar to for-profit KPI initiates they can be held responsible for their successes and failures, as Rothschild argues, "When each party is held accountable for contributing to the venture, all parties are vested in its success, and the venture is more likely to be successful." Employees can pursue the data collection contributing to meeting their KPIs to become the learning and risk driven organizations that both Rothschild and Pallotta believe are necessary to achieve consistent growth. Again, Rothschild argues, "Being learning driven requires that we understand the shifting needs of our customers and other stakeholders, evaluate our processes and results, and consistently challenge the status quo."[45]

After an audit is done to assess the capabilities of the data analytics team and quality of the overall donor database, the fundraising department can create measurable KPIs to gauge successful donor campaigns. Having a database that can track and build goals for life time value (LTV) of donors and retention KPIs can allow The United Way

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[45] Rothschild, Steve. The Non Nonprofit: For-profit Thinking for Nonprofit Success. San Francisco, CA: John Wiley & Sons, 2012.

to create fundraising departments centered around account management techniques

utilized in the for-profit sector to maximize customer success. For example, a single

account manager can manage an account of 500 high value donors (depending on the

staffing capabilities assessed by managers and an audit of available overhead funds), and

those account managers will be measured on their ability to raise certain KPIs inside of

their account. The KPIs could include donor retention (how many donors continue to

donate each quarter) or increases in overall revenue, donation frequency, average

donation size, etc. Like many for-profit companies, the compensation of these account

managers will be determined, in part, by the achievement of these measures.

McLaughlin highlights the benefits of this type of organizational policy, "The

consultants and the staff should be rewarded for how much increase and lifetime value

there is…a culture of growth will align with a strategy that emphasizes measurable

improvements as part of program and individual evaluations."[46] Furthermore, accurately

measured KPIs can be built in program evaluations as well. If an account manager has

more detailed information about the effectiveness of their programs, they can more

effectively report their organization's successes to their constituents and donors. Pallotta

highlights the importance of these program measurements in voicing how current

efficiency measurements inadequately reflect program effectiveness, arguing "The fact

that efficiency measures ignore the all-important question of program effectiveness is but

the beginning of the problem. They do not consider the volume of good being done…the

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[46] MacLaughlin, Steve. *Data Driven Nonprofits*. 1st ed. United States of America: Saltire Press, 2016.

economic value of the end result…the incremental effect of a donation."[47] The

importance of utilizing data analytics to measure success is integral to a proposal of this

nature, which relies on customer relations to succeed. The account manager or fundraiser

must be able to accurately and effectively 'sell' the successes of The United Way and how

each donation can impact further growth and influence.

This proposal, though focused on the use and development of data analytics

strategies, also relies on the ability of fundraisers to use data in their donor relationships.

The point is not to simply develop databases with accurate information, but rather to use

data to segment populations of donors and communicate directly and effectively with

specific segments. Though many nonprofits recognize the people they serve as their

customers, successful nonprofits understand donors to be the real target of their message,

as Rothschild points out, "Every nonprofit has many important stakeholders with many

and varied needs. But a market-driven organization recognizes one group as the

customer. Out of all your stakeholders, your customer is the one who, more than anyone

else determines your survival and success…your customer is not necessarily the people

you serve." The combination of science and relationship building is especially important

in the nonprofit field, as Rothchild continues, "Listen to your customers. They'll give

you the best information you can get about your market. This may seem axiomatic, but a

surprising number of organizations don't have systems in place to take advantage of their

customers' knowledge and connections."[48]

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[47] Pallotta, Dan. Uncharitable: How Restrains on Nonprofits Undermine Their Potential. Medford (Mass.): Tufts University Press, 2010.

[48] Rothschild, Steve. The Non Nonprofit: For-profit Thinking for Nonprofit Success. San Francisco, CA: John Wiley & Sons, 2012.

The data collection techniques proposed here can help build segmentation and sophisticated projections that can help fundraisers build these relationships. Marrying the data analytics strategies to account management customer relationship building techniques is the critical tool to succeed in meeting fundraising goals. For example, a successful data set may include the ability to stratify donors by days from last gift. Account managers can then use this segmentation to identify donors who have not donated in the last month. The account manager may then choose to approach these donors with specific messages or outreach techniques to target that specific segment. Data analytics can offer insights into customer behavior and help target messaging to segmented populations. However, as McLaughlin points out, the charismatic gift officers must be the ones utilizing these tools, "'it is the gift officer's ability to listen to the donor and hear what the donor cares about' that cannot be replaced by data. Instead, the use of data helps them focus on the right opportunities. 'The data models just help you see the prospects they were invented to find.'" Indeed, the purpose of this proposal is to encourage and create an account management department that can utilize data analytics to best engage their donors.

As McLaughlin explains, "Any organization that claims to be donor centric must also have data at the heart of what it does. Jeanne points to an example of tracking and managing communication preferences that benefitted from having a data integrity committee involved from the start."[49] This is just the beginning of the capabilities proposed here. Account managers should be able, given the proper data analysis teams,

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[49] MacLaughlin, Steve. *Data Driven Nonprofits*. 1st ed. United States of America: Saltire Press, 2016.

to examine life time value, frequency and scale of donation, preferred communication techniques, interests, and so on. Any imaginable segmentation scheme should be used by account managers to meet their assigned KPIs while also utilizing improved program measurement metrics to better communicate The United Way's successes to their various segments. The combined results will allow the United Way to meet fundraising goals.

POLICY ANALYSIS

Given that the aforementioned policy proposal has no legislative ramifications, the positives and negatives associated with it are primarily reflective of financial, cultural and public relations concerns. These concerns examine how likely the policy is to achieve its goals, how effectively and efficiently it can do so, how similar attempts have historically performed, and how costs associated with implementing these plans will affect the United Way organization. In evaluating these issues the proposal can be properly assessed. The first issue to be examined is how effective efforts to improve data analysis have been in increasing donor responsiveness in the nonprofit sector.

The primary goal of an account manager or customer success manager, depending on what the organization chooses as a title, is to grow the value of their account. In the case of the nonprofit sector, that translates to growth in donations. The effectiveness of this work depends on the data analytics account managers are using to engage their donors. MacLaughlin, for one, considers growth to be synonymous with a good data analytics system, asserting, "There is not a premium placed on most of these organizations to do analytics…if you're really measuring things on lifetime value or on retention or on donor loyalty, the things that are predictive of the future then you are in

much better shape to grow an organization." Furthermore, this mentality in the nonprofit

sector, to undervalue the effectiveness of data analytics, is built into the history of the

market, as MacLaughlin explains, "'All of this trade was very 'art' driven. It was not

empirical, nor data oriented. This is the tradition that has, by and large, maintained itself

across the nonprofit sector to this day. There still isn't the use of empirical data to inform

decisions on the part of most nonprofits…the nonprofit industry by and large is

innumerate, meaning they do not understand numbers.'"[50]

One organization that has found these types of targeted donor outreaches very

effective is Teach for America, as Crutchfield and Grant examine, "Teach for America's

goal was to double its budget from $20 million to $40 million in the five years ending in

2005…To achieve this, the group deliberately identified individual and foundation donors

for the campaign and approached them for growth funds separate from ongoing needs…

Teach for America met its' revenue goals." Another successful nonprofit that has proven

to effectively use data analytics is the World Wildlife Fun (WWF), as outlined by

MacLaughlin, "The success they have had with making data driven decisions at WWF

has not only improved the effectiveness of the organization, but has also led to increased

investment in key resources." [51] Though this appears to have been effective for Teach

For America and WWF, to evaluate the effectiveness of these policies at The United Way,

an internal A/B test could demonstrate both effectiveness and efficiency.

[50] MacLaughlin, Steve. *Data Driven Nonprofits*. 1st ed. United States of America: Saltire Press, 2016.
[51] Crutchfield, Leslie R., and Heather McLeod Grant. Forces for Good the Six Practices of High-impact Nonprofits. Hoboken, NJ: Jossey-Bass, 2012.

A test of this nature could require taking two cohorts of accounts with similar

donor make-up, treating account cohort A with traditional fundraising techniques while

treating account B with a specific account manager/customer success employee utilizing

data analytics. After an appropriate amount of time there will be clear quantitative

measures that can reflect the effectiveness and efficiency of the test versus control

groups. To measure effectiveness, the organization can see if a data inclined account

manager results in increased revenue and donor retention when compared to the

traditional method. Any increase in these measurements will reflect an effective policy.

The degree to which the test group outperforms the control group will indicate improved

efficiency of the policy. The average salary of an account manager in the Washington

D.C. area is $71,500 a year, while the average salary of a customer success manager in

the Washington D.C. area is $99,800.[52] So if, for example, The United Way set a salary

at around $80,000 (somewhere in between these two averages), their account could result

in increased revenue proving its effectiveness. However, if the increase is well below the

salary necessary to fill the position, then the assumption is it is not an efficient way of

meeting the organization's growth goals.

It should, however, be noted in these efficiency measures that short term growth

will not always reflect long-term growth. As MacLaughlin explains, prescriptive analysis

is the most difficult data analytics measure to achieve and the most necessary when

successfully utilizing data analyzing techniques, in his words, "Level three nonprofits

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[52] "Salary: Customer Success Manager in Washington, DC." Glassdoor. Accessed November 09, 2018. https://www.glassdoor.com/Salaries/washington-dc-customer-success-manager-salary-SRCH_IL. 0,13_IM911_KO14,38.htm.

utilize predictive analytics to take what they know about the past and present to help

predict the future…The top level in the nonprofit data maturity scale involves the use of

prescriptive analytics. Here we see organizations focus on using all their data assets to

support decision-making and optimize their performance."[53] Having the correct metrics

is key to analyzing a policy such as this. Pallotta believes the current efficiency metrics

are inadequate, asserting, "Absent good, comparative information about program or

mission effectiveness, donors and charity watchdogs often place excessive reliance on

financial indicators. Of particular concern to us is the use of overhead cost and

fundraising cost ratios as stand-ins for measures of program effectiveness."[54]

      Rothschild echoes a similar concern, regarding the need for improved efficiency

and effectiveness measures, "Measuring success in the world of nonprofits is, to put it

mildly, less uniform. My review of a wide variety of social service programs…showed

no generally accepted industry-wide measures of success or any consistent methodology

for measuring outcomes."[55] It is imperative that any adequate quantitative policy

analysis tool creates data friendly KPIs that can prove to board members and

management that adding or transitioning staff to the types of roles necessary to

implement this policy is both effective and efficient. As MacLaughlin explains,

"'Knowing how my fundraising program is doing on these metrics can influence not just

my fundraising initiatives but also the delivery of the donor experience overall. It is

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[53] MacLaughlin, Steve. *Data Driven Nonprofits*. 1st ed. United States of America: Saltire Press, 2016.

[54] Pallotta, Dan. Uncharitable: How Restrains on Nonprofits Undermine Their Potential. Medford (Mass.): Tufts University Press, 2010.

[55] Rothschild, Steve. The Non Nonprofit: For-profit Thinking for Nonprofit Success. San Francisco, CA: John Wiley & Sons, 2012.

about understanding those key metrics and then determining the process improvement and infrastructure enhancements that need to take place to really move the needle on performance.'"[56]

It should be noted that aside from the potential negative results from the test, this policy has the potential for two problems regarding donor equality and liberty. Before highlighting these issues it's important to note the role of the donor in the nonprofit sector. The importance of individual donors has been explained, however, the qualitative and quantitative connections donors have with their chosen nonprofit must be understood when implementing this type of donor centric policy. As Pallottata explains, the donor is central to success and being able to target them like a consumer is critical, "How we approach advertising depends on what we think charity has to offer the consumer…The need to alleviate the suffering of others is a natural human need. In satisfying that need, charity satisfies self-interest."[57] Crutchfield and Grant echo this sentiment, "As they engage others, these purpose-driven organizations meet an individual's need for belief and belonging - and they help create healthier communities in which to live and work." It's clear from these assertions that the importance of what a donor gets out of a donation is integral to a fundraiser's messaging. However, the problem is that no organization of the size of the United Way has the ability to communicate these personalized messages to every donor.

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[56] MacLaughlin, Steve. *Data Driven Nonprofits*. 1st ed. United States of America: Saltire Press, 2016.

[57] Pallotta, Dan. Uncharitable: How Restrains on Nonprofits Undermine Their Potential. Medford (Mass.): Tufts University Press, 2010.

The opportunity offered by a segmented treatment of donors offers the ability to increase attention to higher value targets. Furthermore, a segmented approach allows efficient use of scarce overheard resources. As Crutchfield and Grant point out, "Within the social sector, organizations are discouraged from investing in the very things they need in order to build their own capacity and sustain their impact: system sand infrastructure. Unfortunately, individual donors often do not want to pay for organization overhead, preferring that their dollars for directly to programs." A justified differentiated approach results in more attention given to high spending donors resulting in a loss in equality of treatment to all donors. This is something Crutchfield and Grant share concern about as well, arguing, "The fear is that the organization will start to act more like a business or become consumed with running a business, and lose sight of its social purpose."[58] Since the nonprofit sector tends to be held to different rules regarding how they approach and treat customers, this unequal treatment could result in backlash from both the public and internal stakeholders. On the alternative side, however, utilizing data to segment and target certain donors can offer improved messaging. The goal of the policy, overall, is to be able to reach donors more effectively.

MacLaughlin argues that when data analytics is used successfully it can work in concert with customer relations techniques to benefit the overall relationship with donors. As he explains, "Data is analyzed to make sure that donor communication is optimized. 'We're messaging people based on their exact relationship to us…This approach of tailoring communication based on giving data has also changed how SCIAF engages

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[58] Crutchfield, Leslie R., and Heather McLeod Grant. Forces for Good the Six Practices of High-impact Nonprofits. Hoboken, NJ: Jossey-Bass, 2012.

supporters." MacLaughlin continues by pointing out the importance of how an organization encourages melding these quantitative and qualitative skills, "One of the big things in our industry is that we'll get people with great stats skills and great technical understanding, but they aren't very good at the softer skills, like communicating with people. It's really, really important for them to have the ability to communicate and build relationships with other people." Therefore, when done well, though this policy can result in a loss of equality due to an increase in targeted donor attention, it can also result in increased donor relationships. The trade off between a loss in equality with an increase in improved relationships must be considered when making a decision regarding this policy proposal.

Furthermore, any collection of individual data describing their personal preferences and habits has a direct implication on liberty and legality issues. Firstly, the liberty of donors who do not want their data collected and store is at stake. As MacLaughlin points out, data is integral to any success in a proposal such as this, stating, "In realty, the data that nonprofits have about their constituents, volunteers, supporters, advocates, programs, and donors is the most valuable asset they possess."[59] This is all well and good as long as the organization's constituents don't oppose the use and collection of their data. Media and government oversight attention on data retention by large organizations has resulted in increased public awareness and skepticism on the effect data acquisition has on the liberty and security of those whose data has been collected. Organizations such as Privacy International highlight these concerns, as they

[59] MacLaughlin, Steve. *Data Driven Nonprofits*. 1st ed. United States of America: Saltire Press, 2016.

advertise on their website, "The mass retention of individuals' communications records,

outside the context of any criminal investigation or business purpose, amounts to the

compilation of dossiers on each and every one of us, our friends, family and

colleagues."[60] Though this policy does not suggest any data collection techniques that

are inconsistent with the normal practices of other organizations, it is necessary to

highlight these concerns and potential public relations problems when assessing such a

proposal.

Similarly legal issues regarding data security must also be kept in mind and

protocols to handle such concerns must be implemented and assessed as part of the policy

proposal. The largest and most comprehensive current regulations regarding data appear

under a the European Union's General Data Protection Regulation (GDPR). The goal of

the regulation is as follows, "The aim of the GDPR is to protect all EU citizens from

privacy and data breaches in today's data-driven world." One of the main changes that

can affect spending and organizational policies is the Right to Be Forgotten, which states:

> entitles the data subject to have the data controller erase his/her personal data,
> cease further dissemination of the data, and potentially have third parties halt
> processing of the data. The conditions for erasure, as outlined in article 17,
> include the data no longer being relevant to original purposes for processing, or a
> data subject withdrawing consent. It should also be noted that this right requires
> controllers to compare the subjects' rights to "the public interest in the availability
> of the data" when considering such requests.[61]

Thus, if implemented, the policy would require much more attention be paid to catering

to GDPR and similar regulations. The United Way would need to either hire legal

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[60] "Communications Data Retention." Privacy International. Accessed November 09, 2018. https://privacyinternational.org/topics/communications-data-retention.

[61] "GDPR Key Changes." Key Changes with the General Data Protection Regulation – EUGDPR. Accessed November 09, 2018. https://eugdpr.org/the-regulation/.

counsel proficient in data collection regulations or train their current counsel on how to adhere to their stipulations. They must then apply protocols to deleting donor information whenever it is requested which can require increased training and policy adjustment. Finally, any staff member dealing with data must be aware of these protocols and understand how to handle donor data deletion requests. Failure to do any of these things could result in heavy fines and legal action.

Finally, the administrative and technical capacity of The United Way must be assessed when analyzing this proposal. Administratively the proposal requires the ability to hire and train a staff of customer relations personnel and compensate them according to the market. This requires a culture of change that Crutchfield and Grant deem necessary in building a successful nonprofit, asserting, "you must be responsive to your environment and able to adapt…Groups that become mired in bureaucracy and that resist change - or generate a host of new ideas but have no structure to their creativity - are doomed to be less effective."[62] Fostering this type of environment requires investing in personnel and any staff growth and management change of this level must take that into account, both financially and culturally. It's critical to have the staff in place to utilize the data adequately, as MacLaughlin points out, "Having all this data doesn't mean much if you're not doing something valuable with it." Finally, the technical capacity of The United Way is, of course, central to achieving the goals set forth in this proposal.

[62] "Communications Data Retention." Privacy International. Accessed November 09, 2018. https://privacyinternational.org/topics/communications-data-retention.

While having the necessary data collected, stored and accessible is integral to this proposal, the ability to use that data in advanced ways is also critical. Advanced data analytics requires investment in both technology and staff which can increase overhead and, therefore, throw off the efficiency measures that donors so often use to evaluate an organization. Data integrity, however, is very important. As MacLaughlin explains, even the most fundamental mistake in data can have revenue impacts, "As it turns out, donors are 10% less likely to make a donation to a nonprofit when their name is misspelled. Those donors with misspelled names that continue to give to the nonprofit decrease their gift by up to 12%." MachLaughlin continues by emphasizing the importance of data management to a nonprofit's success, "Data is one of the most valuable assets that a nonprofit has because of its potential to drive revenue, programs, and change in the world. And yet its value dramatically drops fr many nonprofits as the volume, variety, and velocity of data increases." This is where the administrative and technical capacities combine. It's not enough to just have the technical capabilities to achieve this proposal, it's also imperative to have the administrative culture to drive successful implementation. As MacLaughlin continues, "Even with all the data and metrics there is some flexibility that allows curiosity to take over and try new things."[63] There is, therefore, a concern that given all of the requirements to achieve success this proposal demands so many complex organization and financial changes that greater analysis of returns on investment are necessary.

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[63] MacLaughlin, Steve. *Data Driven Nonprofits*. 1st ed. United States of America: Saltire Press, 2016.

POLITICAL ANALYSIS

There are three primary constituencies who may have concerns associated with this proposal. The first are the organization's stakeholders, including the leadership team and the board of directors. The second is the public at large, and their overall views of fundraising strategies and overhead costs. The third are the donors, both those that will receive special attention and those that will not. In many cases these three groups interact and their reactions and opinions will influence one another. For example, if the public at large is against utilizing overhead costs to give special attention to a segmented group of donors, then donors may be more hesitant to give funds or receive special attention. Similarly, if donors are worried about public opinion, so to will the leadership.

The first group, the leadership and board of directors of The United Way Worldwide is comprised of twelve staff members in leadership positions, nineteen board members for the international side of the organization, and fifteen board members for the domestic section.[64][65] It's difficult to assess how each member of the leadership team and board may react to such a proposal, however, the main leadership roles to focus on should be those directly related to fundraising and donor relations as well as marketing. In this case, those leaders include: Brian Gallagher, Chief Executive Officer, Mary Sellers, U.S. President, José Pedro Ferrão, International President, and Lisa Bowman, Executive Vice President and Chief Marketing Officer.[66]

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[64] "Worldwide Board of Trustees." United Way Worldwide. Accessed November 16, 2018. https://www.unitedway.org/about/leadership/worldwide-board-of-trustees/.

[65] "U.S.A. Board of Trustees." United Way Worldwide. Accessed November 16, 2018. https://www.unitedway.org/about/leadership/usa-board-of-trustees/.

[66] "Leadership Team." United Way Worldwide. Accessed November 16, 2018. https://www.unitedway.org/about/leadership/leadership-team/.

Lisa Bowman serves as the leader for donor strategy and is integral in formulating

plans to recruit donors and increase engagement. As the United Way website states, "She

leads the organization's marketing team and initiatives to create, develop and implement

United Way's global marketing strategies that highlight the organization's image and

heritage to galvanize engagement of donors, advocates, volunteers as well as partner

relationships in communities around the world." Bowman's background includes for-

profit work at United Postal Service which could suggest she'd be open to proposals that

growth focused and utilize for-profit techniques for increasing revenue. Another team

leader who could offer considerable help in driving this proposal forward is William

Browning, Senior Vice President and Chief Transformation Officer. Browning is critical

in the creation of a Salesforce Philanthropy project that relies on digital services to grow

donations from corporate partners. As their corporate website states, "He is responsible

for driving the business model transformation for the United Way ecosystem. In this

capacity, he leads Digital Services – including the implementation of the Salesforce

Philanthropy Cloud product." Browning's expertise includes digital strategy and digital

transformation which suggest he could also be a supporter of a proposal such as this.[67]

Gaining both Browning and Bowman and Browning's assistance is critical to

achieving success. However, overall organizational support will only be achieved

through support from the very top, which means reinforcement from CEO, Brian

Gallagher. Given his background, Gallagher appears to be in favor of a growth strategy

such as this. He has recently been on record detailing his interests in changing the way

[67] "Our Leadership." United Way Worldwide. Accessed November 16, 2018. https://www.unitedway.org/
about/leadership/william-browning.

the United Way, and the nonprofit sector in general, approaches fundraising. In a recent

press release the United Way highlights the use of technology in advancing donations and

engagement through their Philanthropy cloud program, stating, "Philanthropy Cloud

leverages the most innovative Salesforce technology to create an entirely new one-

network solution for giving, volunteering, fundraising, and advocating for any cause and

at any time." Gallagher, specifically, highlights the innovation behind this plan,

"'Philanthropy Cloud is a game-changer. It's more than a new way to give, it is also a

new way to connect with causes, connect with other people who are passionate about the

same issues, and make a difference in local communities.'"[68]

More generally, in a recent op-ed in the *Harvard Business Review* Gallagher

explains how he aims to change the way charitable fundraising is done, asserting,

"What's striking about these big donation asks is that for most of its history, United Way

had no direct relationship with its donors. In fact, in most instances we didn't even know

their names….we're moving to a technology-driven engagement platform. This new

model increases our interactions with donors and allows them to become more closely

involved in our mission." Gallagher's new direction is the vision behind The United

Way's recent partnership with Salesforce. What Salesforce helps The United Way

execute is exactly the agenda this proposal aims to accomplish, "Salesforce's expertise in

customer relationship management software, which collects information about individual

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[68] "United Way Announces General Availability of Salesforce.org Philanthropy Cloud." United Way
Worldwide. June 29, 2018. Accessed November 16, 2018. https://www.unitedway.org/the-latest/press/uw-
announces-general-availability-of-salesforceorg-philanthropy-cloud.

relationships to make interactions between people easier, addressed this need."[69] The

difference, however, is that the Salesforce partnership is entirely digital; there is no

customer relations or account manager that can take what the data shows them and

personally engage with the donors with the highest giving potential. This type of support

is, however, a sign that Gallagher and the United Way will be open to considering this

proposal.

Though the United Way may be open to a revenue generation, growth first

strategy that relies on data analytics and for-profit techniques, there is still a strong

potential for public and donor disapproval. While it's difficult to assess donor reaction

prior to the proposal's implementation, it is possible a survey could be done to attempt to

gauge how the United Way community may react to such a plan. The survey should be

sent to all donors and stress that certain donors with higher revenue generation will get

special treatment, events, gifts and communication. Any survey such as this should be

transparent and clear so that adequate qualitative data can be collected to assess how

donors may view this sort of donor relations strategy. The survey should be designed to

permit tracking responses specific segments of donors: "Whatever you choose, make sure

you do segment the survey recipients by interaction recency, frequency and type. It will

give you deeper insights and illustrate to the donor that you know what kind of

constituent they are."[70] If, for example, lower revenue generating donors are opposed to

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[69] Gallagher, Brian. "United Way's CEO on Completely Changing the Way the Charity Raises Money." Harvard Business Review. August 22, 2018. Accessed November 16, 2018. https://hbr.org/2018/09/united-ways-ceo-on-shifting-a-century-old-business-model.

[70] "3 Examples of Nonprofit Donor Surveys." Bloomerang. September 10, 2018. Accessed November 16, 2018. https://bloomerang.co/blog/3-examples-of-nonprofit-donor-surveys/.

the plan while higher impact donors are for it, then the proposal could still be worth

pursuing. Finally, regardless of the outcome, many nonprofits are finding that allowing

their donors to give feedback via surveys shows both appreciation and trust.[71]

The final group to keep in mind when assessing the political costs is the public at

large. Regardless of its overall potential success, the proposal will most likely require

increases in overhead and infrastructure expenditures. Even if those expenditures end-up

leading to increased revenue and a more efficient dollar-for-dollar fundraising techniques,

there is evidence that the general public will still look disapprovingly on a nonprofit

organization that raises its overhead costs. As the Nonprofit Quarterly reports, "The rise

of the pervasive narrative that "overhead is waste" seemed to start down a more extreme

path with the growth of charity rating services like GuideStar, Charity Navigator, and

the BBB Wise Giving Alliance more than a decade ago. Despite many efforts to generate

a more reasoned dialogue, there is a continuing and powerful mindset that charities are

routinely "wasting money on overhead."[72] Pallotta highlights this issue when examining

the lack of accuracy in these ever popular efficiency models, arguing, "Efficiency

measures fail at measuring even efficiency in at least five critical ways: they overlook (1)

real dollars, (2) incremental effects, (3) intangibles, (4) the future value of a dollar, and

(5) the economic value of the result produced."[73] While this may be true and the United

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[71] "How and Why to Survey Your Donors." NpENGAGE. June 27, 2014. Accessed November 16, 2018. https://npengage.com/nonprofit-marketing/how-and-why-survey-your-donors/.

[72] Wellar, Keenan. "About Nonprofit Waste, Overhead, and Financial Subservience." Non Profit News | Nonprofit Quarterly. October 29, 2018. Accessed November 16, 2018. https://nonprofitquarterly.org/2018/09/21/about-nonprofit-waste-overhead-and-financial-subservience/.

[73] Pallotta, Dan. Uncharitable: How Restrains on Nonprofits Undermine Their Potential. Medford (Mass.): Tufts University Press, 2010.

Way may agree, it's still a prevailing belief among the public at large that must be kept in mind.

The use of efficiency measures and focus on overhead costs are not the only things the public focuses on that may hinder the acceptance of this proposal. The public tends to also object to risk in the nonprofit sector. While the general public seems to be fine with risk in the for-profit sector, among charities they consider risk an indulgence and overly hazardous. As McLaughlin explains, "A culture of experimentation is critical to the nonprofit mission. It is important It is important to try out different approaches in the way you do your appeals with the web, e-mail, or direct mail."[74] Risk therefore, is integral when testing out new approaches to donor relations and reach outs as suggested in this proposal. Pallotta and others believe this type of risk is not only unpopular amongst the public but also discourages charities from attempting growth techniques necessary for the nonprofit sector to continue to increase revenue, as he argues, "Foundations avoid risk because they are not rewarded one way or the other for taking risk. Accordingly, foundations compromise the likelihood of measurable returns…There is no reporting mechanism that addresses it. But if a charity 'fails' with a bold new fundraising idea, the dollars expended are categorized as *not* going to the cause and are applied to overhead."[75] Not surprisingly, such a categorization can be detrimental to the pubic's opinion of an organization.

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[74] MacLaughlin, Steve. *Data Driven Nonprofits*. 1st ed. United States of America: Saltire Press, 2016.
[75] Pallotta, Dan. Uncharitable: How Restrains on Nonprofits Undermine Their Potential. Medford (Mass.): Tufts University Press, 2010.

In this way, the concerns of implementing a new donor retention program, such as the one introduced by this proposal, could result in negative opinions form the public based on both the risk being taken and the overhead growth that would change the efficiency measures utilized by the nonprofit sector. Any messaging of this proposal to the public at large must keep in mind these potential concerns and craft the message to focus on increased efficiency in the fundraising process.

RECOMMENDATION

There is an overall need for the nonprofit sector and The United Way to continue to innovate and adapt their fundraising techniques to address ongoing changes to the overall donor base. With donor retention stagnating as the number of donors declines, The United Way must find ways to cater to and retain their most impactful funders. There is, however, also a concern that an increase in overhead and fundraising expenses will be reflected in efficiency measures that the public at large uses to rate and critique nonprofits, particularly ones as large as The United Way. This means there must be a trade off between increasing cost and expenses towards fundraising and the return those increased costs can generate. It's critical that this trade off be explored fully before taking part in any policy or organizational changes.

Though the policy proposed here is ideologically consistent with industry perspectives regarding how to increase the impact of donors and grow revenue, there must be a full audit of capabilities before taking action to institute this plan. Since this proposal relies heavily on accessible and accurate data analytics techniques, a full audit of The United Way's digital capabilities must be done. It's imperative that this audit

reflect data management capabilities that will allow any account or customer relations

manager to segment populations of donors by life time value (LTV), frequency and size

of donations, location, and accurate contact details. The importance of such an audit is

highlighted by the University of Glasglow, "To effectively manage data holdings and

fully realize their potential, an organization must first be aware of the location, condition

and value of its assets. Conducting an audit will provide this information, raising

awareness of collection strengths and data issues to improve overall strategy."[76] Once

this audit is complete there should be evidence to evaluate the costs required to improve

the infrastructure of the database and its abilities. Additionally, the audit should offer

evidence of any extra personnel that are required to upgrade, install or design those

databases, including potential contractors and consultants.

In addition to a data analytics audit, there must be a full organizational audit to

assess how new positions may be created to take on the responsibilities proposed here.

This would involve two steps. First, a survey of current donors should be done to assess

the overall attitude and acceptance level for assigning account managers to higher level

donors. It should be made clear that higher level donors with more growth and giving

potential will get special attention. There could, perhaps, even include language about

donor levels on some sliding scale (Gold, Silver, Platinum, etc.) The overall goal here is

to assess the comfort level of donors in implementing a more strategic approach, while

catering towards specific segments of of funders. More qualitative surveys such as these

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[76] Jones, S., S. Ross, and R. Ruusalepp. "Data Audit Framework Methodology." Master's thesis, University of Glasglow, 2009. May 26, 2009. Accessed November 18, 2018. https://www.data-audit.eu/ DAF_Methodology.pdf.

should, of course, be regarded with some hesitancy, especially given the circumstances. There is a high possibility that donors will not be encouraged by receiving more communications via e-mail and the like. However, it's important to gauge which segments of donors are responding to different channels of outreach and different types of messages. This is only possible if the earlier data audit suggests The United Way has the capability to segment their respondents effectively.

Secondly, there must be some indication of how many donors will be in each account, a number determined by the estimated worth of their LTV and growth potential. Given there is more testing required, it would be premature to hire any additional personnel at this moment. Hence, current staff members must be utilized to perform the A/B test proposed previously. The test would require one staff member, most likely a current fundraiser, who has experience in donor relations. This employee would cover an account of the agreed upon number of high value donors, another account of equal standing would be monitored and function normally but lack any specific account manager. After a period of three months the accounts should be compared on several levels. First, on a more qualitative level, the account manager should reflect their overall feelings of the exercise including whether or not they feel they've gathered useful feedback from their donors and if it was an overall positive experience. Second, the donors in the account should be surveyed on their experience, particularly on if continued attention may improve the likelihood that they will donate in the future and increase the number or value of their donations. Finally, there should be several quantitative results gathered, including overall revenue growth, growth or declines in number and frequency

of donations, growth or decline in average denomination of donation, and any improved responsiveness from dormant donors (that is, those who previously donated but have since stopped).

With this data gathered, it could be possible to assess if this proposal can grow revenue sufficiently to support additional staff. If the overall revenue generated is estimated to be greater than the cost of adding another staff member then the proposal should be considered and evaluated with senior leadership. Additionally, if the program proves to grow revenue, but perhaps not enough to add additional staff, perhaps part time or dividing a current staff member's responsibilities to include account management in addition to their current responsibilities would be advised. Another possibility, if financially beneficial, includes outsourcing to an independent contractor. If the data audit, survey and testing proves that this proposal could be successful it should be implemented as soon as possible. Any account manager should be evaluated quarterly by KPIs such as revenue growth and dormancy count to encourage proactive strategies and enhanced reach outs. Tailoring a personal bonus around these KPIs could be another tactic to encourage growth and competition amongst staff members. Of course, there is much to be evaluated before proceeding; and there should be an explicit ideological and cultural transition path articulated to implement for-profit development strategies such as these. Though this proposal has several aspects to explore before implementation, steps should be taken immediately to assess the quantitative and qualitative capabilities necessary to do so.

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CURRICULUM VITA

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