Who's afraid of real returns?

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Throughout the field of philanthropy there is a growing interest in performance measurement. Critics have worried that in focusing on measurement, funders tend to support easily quantifiable service delivery work rather than, say, advocacy or public policy research, which is harder to assess. But is it really so hard to measure the results of advocacy and other activities associated with what we now call social justice philanthropy? Or are funders afraid to get involved in areas they see as controversial, political and messy?

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Performance measurement is the hallmark of strategic philanthropy these days. Leading the way among traditional funders, the Wallace Foundation has developed an array of sophisticated performance measurement tools for its arts and cultural participation programmes, and the Robert Wood Johnson Foundation shares detailed grant result reports for each of its projects online. Meanwhile, new funders like New Profit, Inc and the Roberts Enterprise Development Fund have adapted corporate sector management tools, such as the Balanced Scorecard and 'Return on Investment' methodologies, to non-profit organizations. Others, such as NESsT and the Acumen Fund, are developing their own hybrid versions of performance measurement, combining financial performance, social impact and benchmarking. Performance measurement is hip, it's happening, and for the most part that bodes well for the effectiveness of philanthropy and for organizations that do good work. The better impact can be measured, the better off organizations with real results – and not flashy marketing or insider access to funding – will be.

By and large these performance measurement tools have focused on helping non-profits improve operational efficiencies and achieve clear outcomes. Has this arts organization realized a 25 per cent increase in audience participation? Has that social venture hit its numbers for income, cost per client, and client retention? Yet by focusing principally on metrics like clients served, education test scores, and houses built, traditional foundations and new philanthropies alike are missing out on the unprecedented opportunities for leverage and scale that arise from grassroots organizing, public policy research and education, and non-partisan lobbying – strategies that constitute a subset of what is commonly called social justice philanthropy. With these strategies in mind, we ponder the limits of performance measurement, arguing that calculating the 'return on investment' (ROI) for ostensibly hard-to-measure activities is relatively simple. But investors must be willing to tolerate a different type of risk.

The return on lobbying

It may seem odd at first blush to consider the ROI of lobbying, but one recent example from the US bears out the relationship. In the wake of the September 11 attacks, President Bush called for expanding AmeriCorps, a government programme that engages Americans in public service, from 50,000 to 75,000 volunteers. Instead, mismanagement at the federal agency led to a deficit that resulted in the elimination of over 20,000 AmeriCorps positions. The cuts also devastated hundreds of small local and large national organizations that rely on AmeriCorps members for critical service delivery – working in soup kitchens, rebuilding housing, tending to the elderly.

Over the past two months, non-profits participating in the AmeriCorps programme have been lobbying Congress to restore funding. Working through an ad hoc Save AmeriCorps Coalition, they built a website, and several of the larger groups loaned staff and other resources to coordinate a lobbying blitz – all without an explicit lobbying budget. Thus far, the coalition has garnered widespread support, including endorsements from 43 governors, over 140 mayors, over 60 newspaper editorial boards, and 200 private sector leaders who took out an ad in the *New York Times*. Their efforts led to a bill signed by the President to improve AmeriCorps' management practices, and a 71–21 vote in the Senate supporting $100 million in emergency funding. Prospects are unsure in the House, but over 190 Representatives (including about 30 Republicans) have gone on record supporting the emergency funds.

Now consider the economics of this lobbying effort. What's the ROI for the lobbying itself? Paid advertising, the staff time of AmeriCorps programme managers, and other expenses totalled no more than $1 million. On the basis of this relatively meagre investment, the Senate approved an extra $100 million in funding. Assuming the Senate appropriation stands, the increased funding, by the simplest business metric, would constitute a 100 times ROI.

A common metric for calculating the success of venture capital investments, called Internal Rate of

Return (IRR), takes into account the time between the making of an investment and the distribution of returns. These AmeriCorps lobbying efforts have an outrageously high IRR of 9900 per cent! If $10 million instead of $1 million had to be invested to achieve a $100 million return, the IRR would still be 900 per cent. If the $10 million lobbying campaign took place over five years instead of one year, the IRR would still be 90 per cent. Successful, top-quartile venture funds, even during boom times, had IRRs of 25–35 per cent; 15 per cent would be considered a good performance today.

Using another common business measure called Net Present Value (which estimates the 'time value of money' based on the risk of the project[1]), one calculates an NPV of about $75 million.[2] That means that for $1 million invested, $75 million is returned when adjusted for an estimate of risk and time. Put simply, if AmeriCorps' lobbying returns belonged to any investor's portfolio, they would be the envy of Wall Street.

Obviously, not all lobbying results can be measured so easily – many campaigns have a more difficult to measure public policy dimension to them. In the US context one thinks immediately of the choice/abortion issue, gun control, and efforts by death penalty abolitionists and advocates.[3] Regardless, we feel confident in saying that by any investment measure, the AmeriCorps lobbying effort, and many like it, are a huge success.

The limits of service delivery

The fact is that lobbying and advocacy can have clear, measurable ROIs. Similar calculations could be done for corporate lobbying to preserve tax breaks[4] or union advocacy for increased wages and benefits. So why has the field of philanthropy not even engaged in the question of social returns for these activities? We see two possible answers.

The first is the perceived difficulty of measuring outcomes for lobbying, policy research, and advocacy – though we have already shown that it is not always so difficult! Most funders, including the majority of venture philanthropies, have chosen to fund various social service activities. And only 3 per cent of overall foundation grantmaking goes to social justice issues, according to the latest estimates by the National Committee for Responsive Philanthropy.

Improved student test scores, job placement and retention, meals delivered, and clients served – these are all activities you can measure and numbers you can verify with relative ease. But there are important questions to be asked after such service delivery measures have been made. What difference does it make, after all, if a venture philanthropy funds a great preschool education programme only to have children graduate into a broken, underfunded public school system? In this context, doesn't it make sense to fund an organization like Campaign for Fiscal Equity or Children's Rights? Over the past six years, we estimate that CFE has spent approximately $25 million litigating against the State of New York for equal educational resources for New York City schoolchildren, including $17 million in donated legal services. This past June, the New York Court of Appeals ruled in its favour, opening the door to an additional $1–2 billion for New York City schools. That's an IRR of 210 per cent over seven years, only counting as ROI a $1 billion increase in funding for the first year after the judgement. The Net Present Value of the $25 million invested over seven years comes to approximately $350 million. These are amazing returns.

Another example: non-profit Children's Rights just settled a lawsuit against the State of New Jersey requiring comprehensive reform of the state's foster care system. The organization estimates it has spent $3.8 million in staff and pro bono legal counsel. This $3.8 million in 'investment' secured immediate funding of approximately $30 million earmarked for hiring new caseworkers and supervisors and recruiting additional foster parents. It will in future years require the expenditure by the state of many tens of millions more as it strives to meet the settlement's outcome performance measures. Thus, the IRR on that $3.8 million is a phenomenal 689 per cent and the NPV is nearly $20 million.[5]

Clearly, advocacy efforts like these are a critical complement in the work of social service agencies. If donors leave these tactics aside, or don't provide appropriate resources to enable charities to pursue them, even outstanding social service organizations will never do more than ameliorate a bad situation. Direct service activity on its own will never achieve the scale needed for sustainable social change, let alone address the inequalities and injustices that create social problems to begin with.

The politics of measurement

This brings us to the second, more complicated question of why philanthropists don't fund advocacy: politics. Engaging in advocacy is messy. It means

1 Net Present Value (NPV) attempts to measure returns by calculating how much an investment might otherwise be gaining if it was invested in a safer project, or in a safer security in a financial scenario. It is usually used to decide whether or not to invest in a project, but is still a useful measure when looking back on a project to evaluate its returns.

2 Using a modest 15 per cent discount rate for all NPV calculations.

3 The 'returns' on these advocacy issues may appear harder to quantify, but even they can be estimated. Figures on the cost of emergency care due to gun violence are readily available from advocacy groups and, in the case of gun control, from lawyers who have brought suits against gun manufacturers.

4 According to a 2000 report by the Center for Public Integrity, the 50 largest media companies and their four trade associations spent $111.3 million to lobby Congress. Just one of the 'returns' the industry received was free use of additional radio spectrum valued at $70 billion. Lobbying is absolutely part of the cost of doing business, with a measurable ROI.

5 $1.7 million of Children's Rights expenses was actually repaid by the state as part of the settlement, making the returns even higher!

taking a stand on a political issue, and standing up when the inevitable conflicts arise. While increased funding for schools is not controversial, where the money might come from is. Increasing taxes? Reallocating money from wealthy districts to poor ones? Taking resources from other government programmes such as international aid, the military, housing, or health care? Each of these choices has consequences, and those consequences may be unpalatable to the donors and board members who are critical stakeholders of venture philanthropies and established foundations, to whom staff are accountable in decision-making.

For better or worse, advocacy forces philanthropic institutions to ask these tough questions and to engage their wealthiest and most powerful stakeholders in a conversation about politics and social change. Is this easy? No. Is it compatible with the quiet and generally collegial culture of philanthropy? No. But for a field that talks about results, what could be more important than assuming the political and financial risks necessary to achieve those results? As civil rights activist Stokely Carmichael once said, 'If you don't stand for something, you'll fall for anything.'

Of course, some institutions take the view that they can't afford to aggravate a majority, or even a powerful minority, of donors or trustees with differing political views. Trustees and donors are often generous, thoughtful and conservative businessmen who accept the need to fund after-school programmes but cannot countenance their resources being used to lobby city government to expand those same after-school programmes that the foundation funds itself. Would we rather those donors became alienated and did not give money at all? Of course not. Would we be willing to lose a handful of disgruntled board members if subsequent lobbying and community involvement led to better schools and improved education for all children? You bet we would. Too often, philanthropic institutions don't get past their gauzy visions of making the world a better place. In refusing to take a position on tough policy debates, they betray the claim that they are delivering results, solving tough problems, and taking on the big challenges.

Consider again the AmeriCorps example. If philanthropists really think volunteer service through AmeriCorps programmes is an effective way of delivering social services (not to mention crucial to strengthening democracy), then they should ensure it gets funded at an appropriate scale. More broadly, social justice philanthropy demands that philanthropists follow the internal logic of their own work. In our view, that logic frequently contradicts the prevailing ideology of privatization, free markets and limited government, but that is precisely the point. It's no coincidence that at the same time Congress was cutting AmeriCorps, it was passing the largest tax cut in American history, the benefits of which accrued overwhelmingly to the wealthiest Americans.

A new model?

Why is so much philanthropic capital – new and old – still focused on alleviating social problems by making relatively modest improvements in the quality and scale of services? Why is so much capital being 'inefficiently allocated' in an age where measurement should reputedly be trumping other decision-making criteria?

By failing to invest in activities such as grassroots organizing, public policy research and education, and other aspects of non-partisan lobbying, philanthropy may eventually find itself overwhelmed by the onslaught of social problems wrought by public policies that are systematically shifting the burden of society from government to the private and philanthropic sector.

Philanthropies who don't believe our ROI arguments should look at the behaviour of their peers during the ongoing charitable endowment 'payout' debate. When four of the largest foundations in the US – many of which, to their credit, do fund substantial advocacy and social justice activity – needed to get results fast, they engaged in aggressive lobbying to state their position. The Ford, Carnegie, Gates and Hewlett Foundations were willing to spend \$100,000 on a professional lobbyist as well as what must be hundreds of hours of staff time to save themselves potentially \$200 million or more in future payouts annually. The ROI, IRR and NPV of their efforts are easily measurable, and a definitive indication that at least some foundations fund lobbying when they truly desire results.

The claim that performance of critical types of social justice philanthropy can't be measured is a red herring. The real question is: are donors serious about getting results? When pursuing their own self-interest, they clearly opt for results, and brave the politics. Want to pursue something with returns that can beat the market by any business performance measure? Try advocacy. @