

**“The Nonprofit Sector’s \$100 Billion Opportunity:
A Review of the Study”**

With an end note from 2008

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Not everyone reads The Harvard Business Review, but many wealthy donors and their advisors do. Development officers and executive directors can expect to need to respond to a new challenge to old and perhaps stagnant ways of thinking, when their boards, critics, foundations and potential donors read articles such as “The Non-Profit Sector’s \$100 Billion Opportunity” (Harvard Business Review May 2003). There Bill Bradley and co-authors Paul Jansen and Les Silverman report on their examination for McKinsey & Company of the finances, practices and management of the 200,000 largest nonprofits in the US, as well as philanthropies and related intermediaries.

The Bradley et al. article is addressed in part to donors, and in part to nonprofits.

The main questions studied were “Does the money flow from its source to its ultimate use as efficiently and effectively as possible?” and, “If not, where are the big opportunities to increase social benefit?” It is a thoroughgoing article, with explanation of the estimates on how to save large amounts of money. The simple version of the answers is found in the subheadings:

(1) Reduce Funding Costs argues the need to improve on-line solicitation, increase the use of professionally managed donor-advised funds, share resources among donors and grantmakers, and make larger grants. [See Note below.]

(2) Distribute Holdings Faster refers to the wisdom of increasing payout rates by foundations and faster distribution of endowments by large non-profit institutions such as medical centers and universities. Bradley et al. discuss opportunity costs and investments on returns as related to delaying action on a social problem that could have been “nipped in the bud” with earlier funding but instead becomes “much worse and more expensive to deal with.”

(3) Reduce Program Service Costs addresses the wide gap between best- and worst-performers, the importance of setting benchmarks, and discusses use of best practices, comparing per-client costs, and the desirability of capturing efficiencies through shared assets and mergers.

(4) Trim Administrative Costs refers to the need to strengthen organizations and systems, consider shared service arrangements, or consolidate “back-office” functions.

(5) Improve Sector Effectiveness notes that if donors actively researched the performance of individual non-profit service providers, they (and foundations) could eventually “squeeze the underperformers out of business.”

In a point of significance to all stakeholders, Bradley et al. explain, “Soliciting large volumes of tiny contributions is inherently inefficient. You tend to incur a lot of labor,

marketing, and other costs for every dollar you bring in.”¹ They urge that donors take on a “social investor’ mind-set—supporting the best-performing organizations in their area of interest, not just with money, but with their skills, experiences and relationships.” Other recommendations are given for foundations and government agencies.

In highlighting the non-profit sector and urging improvement the authors may initially put non-profits on the defensive, but this is not all bad. If non-profit boards take on the responsibility of working with staff to review potential changes that can result in greater efficiency and effectiveness, and if donors and foundation boards learn more about the causes and charities they support, the non-profit sector arguably can significantly improve its functioning, to the greater good of the public at large.

Development officers and executive directors may wish to bring this study to attention of their boards, and prepare to address how they and the boards together can meet the challenges it highlights.

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¹ **Note, 2008:** In 2003 when the Bradley article was written, the vast potential of the internet for fundraising was still unproven. The 2007-2008 U.S. presidential campaign has demonstrated the power of the internet to elicit small donations at little incremental cost. *The Boston Globe* reported on May 29, 2008, that “Obama has broken every fund-raising record for a presidential candidate, receiving contributions from more than 1.5 million people, mostly online. He has brought in more than \$265 million total by the end of April, compared to nearly \$97 million for McCain. Hillary Clinton has raised about \$215 million.”
http://www.boston.com/news/politics/politicalintelligence/2008/05/obamas_new_fund.html