The Bridgespan Group

GiveSmart

Donor Decision Tool

How to Research a Nonprofit—Deep-Dive Approach

Collaborating to accelerate social impact

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Should you invest in a particular nonprofit organization?

Helping you answer that question is the goal of this guide. We'll help guide you through the process some call due diligence: learning enough about the results, leadership, financials, and operations of an organization to make the right investment decision, while respecting the limited time of its busy leaders. And as you learn about your potential grantees, we'll help you collect information to answer the three most important questions to making your decision:

• Does the organization's mission align with your personal philanthropic goals?

• Is the organization well-positioned to carry out the proposed project?

• Can you work well together?

The best philanthropists take this learning process seriously—but also feel inspired and have fun along the way. To concentrate your time on the most important activities, this guide gives you a step-by-step path for your research, and offers options to help you tailor your research to fit your specific needs.

Four Tips for Maximizing Your Nonprofit Research

In order to make your time researching a potential grantee as productive as possible, keep these four principles in mind during your search.

• **Above all, do no harm.** Be aware of the vast difference in power between you and the nonprofit organizations you are thinking about funding. They will try to comply with your requests because they need the funding and it's yours to give (or not). Responding to your requests can be a time-consuming, costly process. To whatever extent possible, ask for materials that already exist—every hour nonprofit leaders spend formatting data to fit your templates is an hour they are not spending on their mission.

• **Be rigorous, but don't overdo it.** Pursue your research only to the extent that the information you are gathering is necessary to make a decision. Again, it takes time to answer all of your questions. Match the depth of your process to the size and riskiness of the grant you're considering, and focus on what you don't know. For example, if you have a high degree of confidence in the organization's leadership and strategy, focus on what you'd like to learn more about, such as the nonprofit's current financial situation. Don't feel you can (or should) know everything before you make a grant—a fair amount

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- **Be realistic.** Expect nonprofits to have weaknesses as well as strengths. Context matters: Depending on the size, age, and growth trajectory of a nonprofit organization or a particular program, its capabilities will look quite different. For example, don't expect a startup to have efficient systems or CEO-succession planning.

- **Be forward-thinking.** As you discover weaknesses, ask: What can I do to help this organization improve? For example, your grant dollars could help to develop future leaders or purchase new technology to measure results and improve performance over the long-term. On the other hand, be realistic about the limits of what your funding could provide.

Areas to Research: The Big Four

You have indicated that your funding decision needs the depth of information that comes from an extensive approach to research. To make the best use of your time, it might help to organize your research into four categories: Strategy and Results, Leadership, Financials, and Organization and Operations. This guide will walk you through important considerations, key questions, and potential red flags for each of these four areas.

You may determine that you don't need to answer every question before making a grant, but below you will find a summary of considerations. You will also find some extensive research tactics for learning more.

You may find it helpful to keep this key questions reminder and summary of research worksheet with you as you research a potential grantee.

Strategy and results

Learning about the organization's **strategy** will tell you who (or what cause) the organization serves, what its goals are, and how it intends to accomplish those goals. A nonprofit's mission may be broad and inspiring, but its strategy will tell you whether its leaders are actually willing to make tradeoffs by focusing on something achievable. You will also learn how the organization works with others—through partnerships or other collaborative efforts—to accomplish its broader goals. Your research into strategy will help you uncover a nonprofit's program design, which will give you insight into how your philanthropic strategy fits in with its work. You will also learn about the results the organization is getting (its program effectiveness). And you will learn how focused the organization is on improving its results— or the extent to which the nonprofit is collecting data about its program,

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and whether it's using this data to improve the program.

Key Questions

What is the organization's mission and strategy?

- Does the organization's strategy support your vision for creating change?

- How has the organization defined the problem it is trying to solve?

- Has the organization matched its goals to its approach to achieving them?

How effective are the organization's programs?

- What evidence of its outcomes does the organization have?

- Does the organization have support from external experts in the field?

- Does the organization have a clear definition of success?

- What metrics does the organization track to know if it is succeeding?

- How does the organization use the data it collects to learn and make decisions?

Leadership

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You'll gain a sense of the strength of the leadership team and where it may need to develop, and whether the leaders can maintain focus and make tough decisions when necessary. Additionally, you'll learn about factors that are critically important to an organization over the longer-term, such as whether there is a succession plan for key people, and whether the board is effective, engaged, and aligned with the leadership team.

Key Questions

- Does the executive director have a vision for the organization? Does he or she have a personal track record of success?

- Is the leadership team able to effectively guide the organization? Can it maintain focus, make tough decisions, and inspire staff?

- Is the board effective, engaged, and aligned with the leadership team?

- Is there a succession plan in place for key people, such as the executive director?

Financials

Researching the nonprofit organization's **financial** situation gives you critical insight into where your resources will be put to use. You will want to understand whether an organization is financially sustainable: Can it reliably fund its core programs and services over time? Sounds like a simple question to answer, but in reality, financial sustainability is a spectrum and tricky to assess in the nonprofit context. Strong programs and demand for services do not automatically equate with adequate funding—to the contrary, success typically means more demand, so money is often needed! For a mature organization, you'll be looking for a stable funding mix that isn't overly reliant on a small number of funders, enough cash on hand to weather an unexpected storm, and robust financial reporting systems that support sound financial management. If the nonprofit organization is less financially mature, you might have more questions than answers. So ask yourself: Do the leaders seem to have a reasonable plan to achieve financial stability (and the necessary capabilities to put that financial plan to work)? Don't be surprised if you yourself (and your support) are part of that plan.

Key Questions

How strong is the potential grantee's financial management?

- Does the financial management team have the requisite experience and judgment?

- Does the organization have systems in place to evaluate its financial progress?

Does the organization have a solid strategy to raise revenue?

- What percentage of costs is covered by reliable funding sources?

- What restrictions have donors placed on their funding?

- How concentrated are revenue sources?

- What plans, if any, does the organization have in place to become financially sustainable (if it is not already)?

- Does the organization have enough cash on hand to weather an unexpected storm?

> Assessing how an organization's structure, processes, and culture stack up against its aspirations will help you understand whether the nonprofit can truly deliver what it hopes to deliver to the people or cause it wants to serve.

Organizations and operations

And finally, learning about the nonprofit's **organization and operations**

will give you another line of sight into how it actually gets results. Assessing how an organization's structure, processes, and culture stack up against its aspirations will help you understand whether the nonprofit can truly deliver what it hopes to deliver to the people or cause it wants to serve. This is particularly important if you are expecting to help an organization grow. If the organization has grown—or plans to—by operating many different sites (like the YMCA or a network of charter schools, for example), how sure are you of its ability to grow while achieving high-quality results?

Key Questions

- How effectively can the leadership team work together to translate priorities into initiatives?

- Does the organization have a clear and effective decision-making process?

- Is the organization able to attract and retain talented people? Do staff receive the training and opportunities they need to do their jobs well?

- Does the organization have the technology systems and human resources needed to operate effectively?

- Do staff appear committed to the organization and to improvement, where necessary?

Targeting your nonprofit research

This is not a one-size-fits-all process. So consider dividing your research into three phases to ensure that when you proceed to the next phase it is only to answer questions required to make a decision. This guide will help you focus on the most important questions and be efficient with your time (and the potential grantee's). For example, when assessing an organization's financials, you (or your staff) could review public documents, ask to see internal documents (like the organization's budget, strategic plan, or board minutes), or speak to a member of the leadership team. Using a phased approach, you'll avoid taking on high-involvement activities (such as meetings and site visits) unless they will aid decision-making.

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Once you have completed each phase, take time to sit back and take stock. Ask: What have you learned? Can you make a decision? If not, what more do you need to know?

- **Phase 1: Light-touch research** — Learn (anonymously) about the nonprofit from publicly available documents and other sources, arm yourself with

the basics, and prepare for direct contact with the organization if you choose to proceed. Specifically, you could conduct confidential interviews with other funders of the organization, and other stakeholders in the field. This will help you get smart both about the organization and the broader landscape that it operates within. In this phase, you won't raise a grantee's expectations about receiving funding, and you won't waste its time if there are some obvious reasons to walk away.

- **Phase 2: Limited inquiry** — Get in touch with the nonprofit's primary representative (its executive director or founder, for example) while carrying out a high-level document review in order to give you a deeper sense of the organization's strengths and weaknesses.

- **Phase 3: Full-scale research and inquiry** — Engage more extensively with the organization, including conversations with a board member, meetings with staff members, and a site visit. In addition, you may seek to speak with even more leaders and other stakeholders in the field to confirm your observations with external views of the organization. These additional steps help form the most complete picture of a potential grantee.

After completing each phase, if you haven't found the answers you need or if you have targeted questions, consider going into more depth in one or two particular areas.

Information Gathering at Each Phase

Phase 1: Light-touch research

To get started, learn what you can about the organization from published sources. This is a good first step even if you plan on learning more via direct conversations with the potential grantee.

Activity checklist

- If you haven't already, learn about the landscape (attend conferences, or have your staff do so, ask around for the best reading material, and learn from experts where you can).
- Review the nonprofit's website.
- Conduct a quick news search to understand any recent events or findings that affect the organization.
- Search online for interviews with or speeches by the organization's leader.
- If you know current funders (or other affiliates of the organization) well, speak with them about the organization's strengths and weaknesses.

- Check third-party evaluators such as GuideStar, which curates information such as annual reports and financial documents.

Materials to consider

- Published materials such as mission statement, brochures, newsletters, and annual reports

- Newspaper, magazine, journal and online articles about the organization

- Bios or resumes of executive director and other organization leaders

- Specific project proposal, if relevant

- Form 990 (the Internal Revenue Service tax form required of nonprofit organizations)

- IRS status certifying that the organization is eligible to receive tax-deductible charitable contributions

For more detail on these materials, and where to find them, see Researching a Nonprofit: Financial Resources.

Phase 2: Limited inquiry

Build on your previous research by engaging directly with the organization. Speak with the executive director and other organization leadership to establish your relationship and allow you to see how well you might work together.

Be aware that you also begin to raise expectations when you move to this stage.

Activity checklist

- Interview the executive director.
- Request documents directly from the organization.

Materials to consider

- Data about the organization: programs run, numbers served, and outcome data, if available

- List of board members, including professional affiliations, lengths of tenure, committee assignments, and board offices held (e.g. president, vice president, committee chairperson)

- List of funding mix and sources (significant public and private funders for most recently completed fiscal year, and amounts given)

- Financial audit and memorandum on internal controls, also known as the management letter, if applicable

Phase 3: Full-scale research and inquiry

If you feel that you still need more information to make your decision, it's time to go deep (and even more direct) with your research. As always, you'll have many options—try not to overload on data and stay focused on the research that will answer the specific questions that remain.

Activity checklist

- Interview a member of the board, ideally the chairperson.

- Speak with additional members of the organization staff (such as the CFO, head of programs, or head of development).

- Visit the organization's headquarters, as well as one or more of its program sites (if it is a direct-service organization that has multiple sites, you may want to see how similar the sites seem, one to the next. Speak with target beneficiaries if possible and appropriate).

- Request additional documents from the organization.

Materials to consider

- Additional materials that describe the programs and work the organization does

- Recent strategic or business plans, board guidelines or handbook, and recent board-meeting minutes

- Most recent financial report to the board of directors

- Audited financial statements for the last three years

- Current year financials (actual versus budget) and budget for the next year, if approved

- Organization chart, if available

- HR policies

Nonprofit red flags

> Not all red flags carry equal weight. Some you may be able to live with. You may be able to help fix others.

You may, in your research, come across something that you consider to be a "red flag"—something that will make you think long and hard about investing in the organization. Read on for help in dealing with red flags that may arise.

About red flags

- Not all red flags carry equal weight. For example, in many cases you'll find that nonprofits lack vital systems and supports due to a lack of resources. That's a red flag, but one you may be able to live with; you

might be able to provide the resources needed to fix the problem. Other red flags might prove to be more troubling, for example, if they shed light on fundamental gaps or issues, such as an ineffective program or an executive director's flawed approach. In those cases, more resources may only exacerbate the problem.

- More important than these red flags, in other words, is the context from which they arise. Try to figure out whether the challenges you identify are surmountable with the support you plan to provide. Are the leadership team and board willing to tackle (or even acknowledge) these weaknesses? If the weakness lies in capacity, consider your own willingness to fund some or all of the non-program expenses that capacity building would require.

- Stay open minded: Approach the process with questions. Don't leap to judgment when challenges come to light. Engaging in conversation in the spirit of inquiry will reveal the story behind the weaknesses, how they have emerged, and how you might help address them with your support.

Strategy and results: Red flags

Here are some examples of issues that should trigger further inquiry as you do your research.

- The organization cannot demonstrate a track record of success because it is not tracking data.

- The organization seems to "go it alone" and can't describe how its efforts fit alongside the work of other organizations in this space.

- From the data presented, the organization does not appear to be successful.

- Various members of the organization and board present fundamentally different versions of the mission.

- The organization does not appear to have a process for learning from its experience.

Leadership: Red flags

Here are some examples of issues that should trigger further inquiry as you do your research.

- The executive director doesn't seem fully committed to the organization.

- The executive director does not seem to have a solid grasp of the financial aspects of the organization.

- The organization lacks any management "bench strength" beyond the

leader, and lacks a succession plan for the leader or any other key staff.

- Board members are not donating to and fundraising for the organization; board participation is low.

Financials: Red flags

Here are some examples of issues that should trigger further inquiry as you do your research.

- The organization doesn't have audited financial statements.

- The organization has a growing deficit from year to year.

- Budgeted income and expenses are not based on solid assumptions.

- Accounting and finance functions all lie with one person.

- The board is not involved in financial review or audit.

- Revenue sources change drastically from year to year.

Organization and operations: Red flags

Here are some examples of issues that should trigger further inquiry as you do your research.

> What have you learned? Can you make a decision? If not, what more do you need to know?

- Staff morale seems low (for example, turnover of non-leadership staff is higher than leadership had planned for).

- Organization's leaders are not able to pinpoint where they would like to invest next (for example, in people, systems, or specific sites or programs).

- The resource needs identified by staff are vastly different from person to person.

- The process for making decisions is unclear.

Time for Reflection

By now you have likely researched and uncovered a wealth of information on a potential grantee. After all your hard work, we recommend taking a step back and reviewing all your research, including your key questions and research worksheet and any other other documents and notes you have uncovered or created.