Economic Impact of Nonprofits

By Elizabeth Johnson and Michael Jones

Introduction

Resources meant to serve those in need are most effective when they are aggregated and overseen by those who are experienced in providing aid. In this paper, we provide a framework for understanding the economic impact or benefit of nonprofits, as compared to cash transfers between individuals. A number of studies have found that adding conditions to cash transfers, or providing in-kind transfers, is more effective when the underlying cause of poverty goes beyond a lack of income. We describe seven advantages, or economic multipliers, that nonprofit organizations possess in order to explain the mechanisms for this increased effectiveness.

Nonprofits must address at least two potential justifications for providing cash directly from one individual to another individual in need. First, any nonprofit takes a percentage of donations to cover administrative expenses – money made unavailable to directly help that individual. Second, individuals in need may be in a better position to allocate the resources provided to them. For example, GiveDirectly, a smartphone app developed by a group of economists in 2008, was created to allow individuals to send money directly to impoverished Kenyans and Ugandans. GiveDirectly transfers money unconditionally to the “extremely poor,” with the idea that the recipients themselves know how to best utilize the money. The organization claims, with backing from independent researchers, that this system positively effects income, assets, healthcare and food security without negative effects from an

---

1 Elizabeth Johnson is an undergraduate at Georgetown University. Michael Jones, Ph.D., is an Assistant Professor-Educator at the University of Cincinnati and the Director of Research at the Economics Center.

increase in the use of alcohol or tobacco. However, GiveDirectly does not offer evidence to suggest that direct transfers are superior to other nonprofit interventions.

Despite the growing popularity of direct transfers in both theory and practice, there is evidence to suggest that direct transfers are generally not the most efficient form of giving. Furthermore, the research on cash transfers that occur in developing economies, where living conditions and institutions are vastly different, may not be relevant to charitable giving in developed economies like the United States. Therefore, when examining nonprofits which serve American communities, it is important to incorporate the effects of a highly structured job market, legal system, and robust banking network. These institutions allow job training and assistance to go further, corruption to be reduced, and saving constraints to be relaxed. Additionally, the effects of direct cash transfers may be short-lived if they are not invested in education, savings, job training, or other forms of human capital.

We argue that nonprofit organizations have attributes which enable them to use resources in a way that is more effective than giving cash directly to those in need. We will outline what we believe to be the seven principal advantages, or economic multipliers, of nonprofit giving relative to direct transfers of money. Nonprofits are better positioned than most individuals to both identify those in need and to reach them in order to distribute benefits. Once these individuals are identified, nonprofits may be able to use funds more efficiently with their advantage of greater experience and connections to resources that are otherwise inaccessible to individuals in need. Nonprofits also possess the scope and ability to monitor and evaluate their activities. Additionally, they can educate and advocate for those whom they serve and for the community at-large. The greater efficiency and economic impact of nonprofits is not due to individuals necessarily wasting or intentionally misusing funds. Rather, there are benefits to pooling resources and creating institutional knowledge and experience.

---

Supplementing our discussion of nonprofit giving is a small-scale survey of well-reputed nonprofits in the greater Cincinnati area. This survey allows us to illustrate the ways in which these economic multipliers operate within actual organizations. We will examine the way in which these nonprofits measure their impact, and how they communicate their impact and advantages to donors and other stakeholders. For the survey, five nonprofits were interviewed: the Cincinnati Youth Collaborative (CYC), Bethany House Services (BHS), Shelterhouse, the Kids Discovery Factory, and the Economics Center. Four organizations (BHS, CYC, Shelterhouse, and the Economics Center) are in the Cincinnati area, and one is in Batesville, Indiana – a town roughly fifty miles west of Cincinnati (Kids Discovery Factory). These nonprofits can be roughly divided into two categories – homeless shelters (BHS and Shelterhouse), and education (CYC, Kids Discovery Factory, and the Economics Center) although they do provide a broad range of other services.

Table 1 provides a brief overview of the nonprofit organizations that we interviewed. We discussed the role they play in their communities, their collection of data on outcome and impact measurement, what determines this collection of data, and how this data influences their operations. Additionally, resources such as websites, newsletters, news, and tax forms aided our analysis of nonprofit impact measurement. All of the nonprofits are local and dedicated to the community in which they operate. The benefits we discuss hold true for most nonprofits but we recognize that there are a number well-documented cases of poorly managed or inefficient nonprofits.4

---

Table 1: Description of Nonprofit Organizations

<table>
<thead>
<tr>
<th>Agency</th>
<th>Location</th>
<th>Primary Service</th>
<th>Revenue ($millions)</th>
<th>Person Interviewed</th>
<th>Founding date</th>
</tr>
</thead>
<tbody>
<tr>
<td>CYC</td>
<td>Cincinnati, OH</td>
<td>Mentoring and college/career/workplace readiness</td>
<td>$3.1 (FY14)</td>
<td>Jane Keller (President and CEO)</td>
<td>1988</td>
</tr>
<tr>
<td>BHS</td>
<td>Cincinnati, OH</td>
<td>Homeless shelter (families, women and children)</td>
<td>$2.9 (FY11)</td>
<td>Taryn Frymire (Assistant Director of Client Programs)</td>
<td>1984</td>
</tr>
<tr>
<td>Shelterhouse</td>
<td>Cincinnati, OH</td>
<td>Homeless shelter (individuals)</td>
<td>$2.5 (FY12)</td>
<td>Sosena Erco (Data Specialist)</td>
<td>1973</td>
</tr>
<tr>
<td>Kids Discovery Factory</td>
<td>Batesville, IN</td>
<td>Children’s museum</td>
<td>NA</td>
<td>Melanie Stauffer (Executive Board Member)</td>
<td>2015</td>
</tr>
<tr>
<td>Economics Center</td>
<td>Cincinnati, OH</td>
<td>Financial education</td>
<td>$1.6 (FY14)</td>
<td>Michael Jones (Director of Research)</td>
<td>1977</td>
</tr>
</tbody>
</table>

Economic Multiplier 1: Identification

Nonprofits can be more adept than individual donors at both identifying populations in need and at actually establishing contact with populations that might be “hidden” or inaccessible.

Hidden populations have been defined by Douglas Heckathorn – a sociologist – as “having” two characteristics: first, no sampling frame exists, so the size and boundaries of the population are unknown; and second, there exist strong privacy concerns, because membership involves stigmatized or illegal behavior, leading individuals to refuse to cooperate, or give unreliable answers to protect their privacy.\(^5\) We use a slightly broader definition, more in line of that given by The National Institute on

Drug Abuse 6 (part of the US Department of Health and Human Services): “those who are disadvantaged and disenfranchised: the homeless and transient, chronically mentally ill, high school dropouts, criminal offenders, prostitutes, juvenile delinquents, gang members, runaways, and other ‘street people’ - those we are all aware of to one degree or another, yet know so little about.” In other words, those with whom a typical, working American would not come into contact on a regular basis.

The most obvious form of invisibility or inaccessibility occurs in the case of disaster relief and international aid. It is much easier for the Red Cross, which has branches in most corners of the world, to reach victims of a hurricane in Southeast Asia than it would be for most individuals in the United States.

Less obvious populations that are in need of assistance in the United States are often hidden from sight. These groups may include drug users, the homeless, children struggling (or failing) in school, or members of stigmatized groups. Most homeless are not asking for money in the streets, drug users do not broadcast their addictions, and schoolchildren tend to be separated physically from the working population. A lack of knowledge on the part of the general public, physical and social distance, as well as a conscious effort by some to remain hidden all make it difficult for populations in need to be identified and accessed. It is these “hidden” populations whom many local nonprofits strive to serve.

The disconnect between those in need and those wishing to help can be overcome by organizations who make it their job to identify and reach out to these hidden populations. In addition to bridging a physical or social gap, nonprofits can serve as a buffer between society and those who wish to keep their problems hidden from it.

Among the organizations we interviewed, Shelterhouse, Bethany House Services, and the CYC all serve what could be considered “hidden populations.” Shelterhouse and Bethany House Services are

---

both homeless shelters. In addition to working to end homelessness, they also help the homeless to address a broad range of issues including addiction and legal troubles.

The homeless living on the street are generally visible, but there are many who are temporarily homeless because of negative shocks to their income due to health emergencies or family emergencies, evictions due to criminal charges, or other unexpected circumstances. In many respects it is those who are in a short-term bind who are invisible – they usually make some income, have children and, under normal circumstances, have housing. CYC is able to reach children in Cincinnati Public Schools (CPS) whom the general public might easily assume are being adequately educated and prepared for college by simply attending school on most days. In some sense, the students themselves are not hidden, but their problems are. CYC is able to identify and address these issues. CYC provides struggling students with resources such as tutoring, mentoring, and college/career readiness training. If CYC were not a well reputed organization, it would not have access to students at CPS or their academic records. Any individual might have access to one, or a handful of, students, but could not improve graduation rates and college-readiness rates at a scale similar to CYC.

Furthermore, if many individuals attempted to help students are their own, they would have to spend far more collective time and resources doing so – and would need to work through trial and error to see what was useful. In contrast, CYC has already researched the means to best help students succeed. According to CEO and President Jane Keller

“Mentoring has been shown to be one of the best ways to affect student outcomes. CYC’s programs are grounded in research.”

It should be noted that even in the case of organizations which allow individuals to make cash transfers, there is still a benefit to giving through the organization as opposed to handing money to someone on
the street. Organizations such as GiveDirectly have the institutional knowledge and experience to identify those whom cash transfers will best benefit in addition to providing a way for individuals around the world to make contact with those in need. While in some sense donors are making direct transfers, the impact of these donations is improved because they are sent through a nonprofit.

**Economic Multiplier 2: Efficiency**

Perhaps the most obvious benefit of directing philanthropy through nonprofits stem from what economists refer to as economies of scale and a related concept, economies of scope. According to *The Economist*, “Economies of scale are factors that cause the average cost of producing something to fall as the volume of its output increases... because the main elements of cost in producing a are unrelated to the number... produced.” Economies of scope come from “[producing] a range of products together...such economies can come from businesses sharing centralized functions ... or they can come from interrelationships elsewhere in the business process, such as cross-selling one product alongside another, or using the outputs of one business as the inputs of another.” Economies of scale and scope are achieved by nonprofits that provide services beyond what any individual could provide, due to both volume of financial resources and breadth of functions that require many people to achieve. Nonprofits are able to consolidate overhead costs for a larger volume of services than any individual could provide. Consider what happens to twenty dollars that is given to a hungry person on the street. First, between 6 and 7 percent of the transaction is spent on Ohio sales tax for the food or clothes which are purchased. Beyond the nonprofit not paying sales tax, a nonprofit will often get a bulk discount on food or supplies, and will spend a smaller percentage of the twenty dollars on transportation and other overhead.

---

8 Ibid.
In addition to economies of scale, nonprofits can also provide goods and services that few individuals are capable of providing on their own. Nonprofits that focus on the environment, museums, or park facilities provide goods that would not be feasible for the average person to obtain or provide. Few individuals could afford to provide a park for themselves or for someone else. Nor would anyone build a museum or park to be used a few times a year. However, when donors give to a nonprofit, it is then able to provide large-scale services that benefit hundreds or thousands of people.

To illustrate this idea, the Kids Discovery Factory, a children’s museum being built in Batesville, Indiana aims to “celebrate creativity, explore science, art and industry, and embrace a love of learning.” In addition to other functions, the museum, when opened, will provide large exhibits to be experienced by children and their parents. It will also work with local schools and teachers to enhance classroom learning, and it will work with area businesses to create real-world examples for students.

If each individual donor to the museum were to attempt to provide a similar service, they would find that their money would not go far. It would be difficult, if not impossible, to provide an immersive STEM experience on an individual basis unless every potential donor were a science teacher with access to a wide range of educational tools. Even at the classroom or school level, it would be inefficient for any teacher to buy extensive resources for each two-week unit that they teach. Elementary school curriculums include topics such as magnetry and meteorology, which can be enhanced by learning aids such as magnets and equipment to measure wind speed and air pressure. These tools are more expensive than is practical for individual teachers to purchase with limited budgets. However, by working with many schools and teachers, the museum will be able to provide resources that can be shared throughout the year and used more efficiently.

Nonprofits also achieve economies of scope by focusing on a package of services rather than single treatments. It can be difficult for a single donor to understand or provide for the amelioration of multiple problems. Individuals generally lack the time or knowledge to do so. However, nonprofits such as Bethany House Services or Shelterhouse can do this in a cost-effective way by employing experts in a number of fields to spend a small amount of time with each individual who is receiving aid from the nonprofit. For homeless shelters, this includes providing services such as medical or psychiatric treatment, social services, legal help, and housing locators. An individual donor would have to spend hours learning about these diverse topics, then passing on this knowledge in a way that was useful to an individual in need. Nonprofits are able to pool a diverse set of resources in a way that is more efficient in terms of cost and time.

**Economic Multiplier 3: Experience**

In general, nonprofits possess institutional knowledge or employ individuals who have a better understanding of the problems they aim to address than individuals who wish to contribute money. Greater familiarity with and knowledge of an issue is critical in order to best allocate donated resources efficiently and effectively. This advantage is obviously gained over time, with older nonprofits gaining more expertise from experience. Experience is gained in two ways by nonprofits. First, by operating in a certain field and serving a population over the course of months or years, organizations can build institutional memory. They learn from past mistakes and successes to understand what programs or services work, how to navigate local bureaucracy, and how to manage local culture. Further, over time organizations and their staff are able to make connections with volunteers, local business and community leaders, and other nonprofits. These relationships, which provide immeasurable non-monetary benefits, are critical to the success of nonprofits. Nonprofits also have the ability to bring in staff members and volunteers who are knowledgeable or experienced in specialized areas. This
experience is made possible by economies of scale – professionals must be hired to provide services for a large enough volume of clients that their time is efficient. However, there is a distinct benefit due to the knowledge they impart to the organization and its staff. An individual donor would not be able to provide services as broad or specialized as a nonprofit can, at least not in a way that would be cost efficient.

CYC’s mentoring program demonstrates the benefits of nonprofit experience. This program is made possible through CYC’s connections with Cincinnati Public Schools (CPS) as well as many businesses and professionals in the area who are willing to donate their time and resources. If CYC were not established and well-reputed in the community, it would have great difficulty in attracting professionals to share their time. Its connection with CPS makes this reputation possible, and also allows CYC to operate more efficiently through shared information and resources. Homeless shelters such as Shelterhouse and Bethany House Services also take advantage of their experience and expertise in providing shelter to the homeless. Bethany House in particular, provides extensive social services and case management for its clients. Additionally, nonprofits with community connections can extend this advantage to clients, helping to provide job or housing referrals.

**Economic Multiplier 4: Education**

Cash can be useful to those in need, as many social problems do stem from a lack of cash or credit. However, impecuniousness is often not the root cause of poverty, and is therefore not a sufficient solution to poverty and its associated ills. To illustrate this idea, consider two extreme examples. Professional football players, if they work for more than a few years, will make more money than the average American college graduate during the course of their lifetimes. The median professional football player will make $3.2 million during a six-year career. However, the percentage of
professional football players who go bankrupt, at 16%,10 is much higher than that of middle class Americans (<1%). According to Sports Illustrated, the number who are “broke or under financial stress” two years following retirement from the NFL is at least 78%.11

For many football players, this phenomenon stems from a lack of financial education. Most players spend their high school and college years focused largely on football, at the expense of other pursuits. Further, they begin to earn large salaries immediately upon graduation from college. For many, this means a lack of opportunity to gain financial literacy as well as a lack of need or desire for such knowledge until they are already in trouble. Lottery winners are not as homogeneous a group as football players. However, similarly, if they receive large sums of money without any instruction in how to save it, or use it wisely, bankruptcy often occurs.

We can draw a parallel between football players or lottery winners and recipients of cash transfers. It may be that in some situations the recipients know how best to use the cash, but often times an organization is able to use it more efficiently, or can aid the recipients in using it more efficiently. An individual may know what they should do with a receipt of money, but could still be aided by guidance with navigating institutions or locating services. Nonprofits are able to provide benefits that go far beyond the provision of cash, by addressing problems in health or practical education. Education in this sense is often not the main focus of the services nonprofits provide, but is often incorporated into a bundle of services (becoming part of economies of scope).

Nonprofits such as Bethany House Services include some measure of education in their services. At a basic level, it may simply be training clients how to search for housing, negotiate with landlords, or how to navigate bureaucracy to receive government aid. For some clients this means providing legal aid

---

or training in financial literacy. For Bethany House in particular, this means organizing support groups for parents and children, and teaching classes related to budgeting, job training, and health.

The CYC does have a central mission of improving education outcomes for high school students. However, in addition to its work on education in the traditional sense, the CYC educates students in its programs in a more practical sense as well. CYC helps its students to navigate the logistical challenges of school, including technology and scheduling. Further, it provides college and career counseling to help these students choose a path for themselves once they have left Cincinnati Public Schools. While this is not classroom education, it is very important for future success. Students may lack information on their options or how to apply for college, trade schools, scholarships or jobs. Further, CYC is able to help students understand the implications of their choices beyond high school, especially students who will be first-generation college students or who wish to go into fields that are very different from those of their parents or anyone in their communities. Additional funds might allow these students to pay application fees, purchase clothes or transportation for interviews, or pay for college or training programs. However, if they are unprepared for the challenges of these choices, these funds will not be spent as efficiently as they could have been.

The Economics Center in Cincinnati is a nonprofit that considers education to be one of the main tenets of its services. The Economics Center focuses on financial literacy among students and adults. Because “an individual’s ability to manage their own personal finances and understand how the economy works empowers that individual to be a more informed citizen, a more knowledgeable consumer, a more productive employee, and a more financially stable person,”\(^\text{12}\) the Center believes that providing such education will benefit its clients in a more substantial way than simply giving them cash in the amount spent to provide this education. In a significant way, education – either about

institutions, practices, or academic – can be far more effective than simply giving cash. Further, to provide education, one needs to know the material themselves. This means that nonprofits, who can pool resources to provide services, are in a much better position to offer education services than many individuals.

**Economic Multiplier 5: Monitoring**

As noted previously, nonprofits are often better situated than individuals to both determine who is in need of services, and to make sure that the money spent on services is appropriate. Not only are nonprofits able to access “hidden populations,” they are able to determine who is truly in need. Further, once those in need receive money or benefits, nonprofits are able to employ the resources and skills to ensure that money is being spent in the way it was intended, both in terms of actions and in terms of outcomes. At a very basic level, “monitoring comprises descriptive reporting, compliance, and the collection of data on expenditures and program costs.”

Monitoring is closely tied to impact evaluation. However, the term monitoring is also meant to capture the notion of diligently following clients and the everyday activities of the organization to ensure that both correspond to the long-term mission and goals of the organization. This means not only tracking how money is spent, but ensuring that it is spent towards its intended purpose, and in a way that is efficient and addresses the core problem that an organization is dedicated to solving. Monitoring encompasses a broad range of activities, from checking in with clients on a regular basis to keeping detailed financial records, all with the goal of ensuring that money is being spent towards an organization’s mission.

Homeless shelters such as Shelterhouse monitor clients by closely following their progress while they are in the shelter, but also by checking in with them periodically after they have left the shelter.

---

This is one way of making sure that the resources directed towards the client are used well and in the way that was intended. Bethany House Services monitors clients in a similar way. These organizations check in with clients not only about their housing circumstances, but follow up regarding employment, health, and education of children. An important component of monitoring is to follow up on outcomes in a holistic way rather than simply measuring outputs. A shelter can collect extensive data on clients while they are being housed and work towards providing long-term solutions to the complex problems associated with homelessness. Monitoring funds goes beyond simply tracking how they are spent, and in the case of homeless shelters includes factors such as supporting the allocation of funds with counseling and social services. In a similar way, the Kids Discovery Factory, when opened, plans to monitor a much wider community impact than just the number of visitors it receives. It could easily collect data on its number of visitors, their length of stay, and repeat visits. However, it is far more meaningful to examine how the number of visitor contributes to the museum’s mission of engendering interest in STEM topics among children.

The key to successful monitoring is connecting the actions of an organization with its outcomes, and ensuring that these actions are conducive to the mission of the organization. It is necessary that nonprofits are well-acquainted with the community in which they operate, their service population, and their funders. Once again, experience is vital to effective monitoring of operations. Organizations like Bethany House Services or Shelterhouse are able to anticipate the needs of clients better than the average individual, and have a solid grasp on the effects of different actions. If a homeless person walks into BHS, the staff will be able to predict the needs of that individual as well as the effects of giving that individual shelter, food, counseling, or legal help. When an individual encounters a homeless person on the street, she would likely not be able to help in as comprehensive a way, or determine the impacts of her help in a meaningful way. This lack of ability to monitor the effects of her aid will make the individual donor’s efforts less effective than those of a nonprofit.
Economic Multiplier 6: Evaluation

Businesses operating in the for-profit world rely on feedback loops to signal performance both internally and externally. Indicators for business performance include stock prices, commodity prices, sales, revenues, and profits. However, the feedback loops that produce these indicators do not generally exist in the philanthropic sector, meaning that those operating in this sector must evaluate their own performance. For nonprofits, monitoring and evaluation function in a number of ways to compensate for the lack of feedback loops: “learning, about how change happens, what works and to refine and redesign program approaches and policies to build more effective future strategies; attribution of cause and effect, ... demonstrat[ing] success; accountability and credibility, reporting feedback upwards to donors and downwards to local communities; and advocacy.”\(^ \text{14} \) Evaluation provides feedback in addition to contributing to the other multipliers we have listed. In a sector that lacks competition, it allows nonprofits to measure performance and set meaningful goals as well as simply to understand the mechanisms that allow programs to be effective. Further, nonprofits are in a much better position to carry out monitoring and evaluation functions than the individual handing cash to someone on the street. Whereas a nonprofit has the resources and the know-how to determine its impact, the individual most likely does not.

There are two key components to impact evaluation. The first is the evaluation itself: collection of data and performance measures, evaluation of data to determine the success of various programs, and the presentation of data to stakeholders both within and outside of the organization. The second, and perhaps more important component is to determine how the data and performance measures should influence the future of the organization, its programs, and its various functions. Just as

businesses look to past sales and performance of themselves and of competitors to influence decision-making, so should well-run nonprofits.

As Alnoor Ebrahim and V. Kasturi Rangan argue in a 2014 paper, “it is not feasible, or even desirable, for all organizations to develop metrics at all levels of a results chain...The more important challenge is one of alignment: designing metrics and measurement systems to support the achievement of well-defined mission objectives.”15 That is, quality, not quantity of evaluation is what matters.

In a 2001 study by J.C. Sawhill and David Williamson, the authors conduct interviews with managing officers of 30 top national nonprofits. They claim that “The most important lesson [they] took away from these interviews relates to the critical importance of using performance measures as a way of linking and reinforcing mission, goals, strategies, and measures,”16 once again reinforcing the idea that how an organization uses its impact measures is just as, if not more, important than the measures themselves.

In what follows, we examine how Cincinnati nonprofits evaluate their impact, and how this evaluation helps them to both understand their organizations’ functions and to make modifications to programs and operations.

We look at the extent to which these nonprofits “developed specific, actionable, and, most critical, measurable goals to bridge the gap between their lofty missions and their near-term operating objectives,”17 as well as how these criteria can be applied to these organizations.

Among the organizations interviewed for this paper, the majority of them did complete actual evaluations of their programs. That is, they collected data on clients and services to understand their impact. This is to be expected as it is generally accepted that reporting some form of output measurement to funders is a necessary part of doing business as a nonprofit. However, some collected

---

17 Ibid.
more meaningful data than others. Further there were differences in how these organizations made use of evaluations to help guide and improve upon programs. Some frequently evaluated changes in their performance, as well as the causes of those changes using data. Others collected data, but chose to use more heuristic measures to decide which programs should continue and which should be altered.

A 2014 paper focusing on eighteen Detroit nonprofits between 2008 and 2010 supports these observations. In this paper, Dale Thompson examines the role of funders in nonprofit evaluation. Thompson's dual goals were to provide information on “the validity, reliability, or level of outcome measurement, and to “[estimate] the extent to which nonprofits integrate outcome measurement into strategic management or the factors that lead them to do so.” In his study, Thompson found that in most cases, greater measurement of outcomes did not necessarily lead to a change in strategy for the nonprofits.

Both Shelterhouse and Bethany House Services are required by a grant-writer, HUD, to keep detailed data on almost every aspect of their services, and both organizations generally go beyond these requirements. It is informative for the purpose of examining best practices to look at the ways in which they use this data. It should be noted that organizations receiving money through grants or other funders who have expectations for particular outputs, often find it difficult to alter strategy or change program components. The nature of many grants causes nonprofits to be obligated to commit to a specific program design with a specific set of outputs. Even if the nonprofit finds that this is not the most efficient use of funds, changing course can jeopardize the grant money. Those that receive money from individual or corporate donors often have more flexibility in the use of funds.

That said, Shelterhouse, which has a dedicated data specialist, makes a particular effort to leverage the extensive data it collects to develop new programs and to modify existing programs. This

---

often means keeping a close eye on metrics concerning length of stay by individuals in the shelter, but also involves examination of how certain characteristics correspond to certain problems or needs. Recently, Shelterhouse launched a rapid rehousing program which allows those who are in need of a short-term boost such as help with rent or a legal problem to make a quick turnaround at the shelter. The development of this program demonstrates the benefits of not only collecting data, but examining it in a meaningful way and responding appropriately.

As Thompson notes, “When measurement of client condition is critical to service delivery, outcome measurement becomes fundamental, rather than something to do after getting through the business of delivering services,” it becomes far more likely that an organization will prioritize data collection. We can also extrapolate from this statement that the type of service provided by a nonprofit will influence its evaluation strategy in general. This would seem to hold true amongst the nonprofits we interviewed. Those providing the most critical services, such as rehousing, have higher data requirements than those providing education services, which do not require detailed measurements to aid their clients. However, those relying more on community support publicize their results more broadly.

**Economic Multiplier 7: Advocacy**

As we have noted is widely understood that in order to raise funds successfully, a nonprofit organization must be able to communicate its mission, as well as some measure of performance, to its stakeholders. These include funders and the community as well as the organization’s service population. As noted by Sawhill and Williamson, “to the lay public, measures impart a sense of focus and businesslike competence on the part of a nonprofit, which can be enormously comforting to donors who want to make sure that their charitable dollars are being used in the most efficient and effective manner
possible.” That is, not only evaluation, but appropriate communication of outcomes is important to the success of nonprofits.

To inform our discussion of communication with the public, we turn to a paper published by the Institute for Public Relations which identifies the key components to fundraising, in terms of organization – donor relationships, as trust or accountability, commitment (to the relationship), satisfaction of the donor and the organization, and balance of power, or a mutual understanding of power. All four are important, but the weight given to each may differ widely depending on the specifics of the organization and the donor. Additionally, there are many different methods of establishing and improving upon these components, the success of which depends on the organization and the interpersonal skills of particular fundraisers.

Of the nonprofits we interviewed, each one plays to its strengths to form relationships with donors, grant writers, and other sources of funding. Both Shelterhouse, and Bethany House Services participate in the Department of Housing and Urban Development’s (HUD’s) Continuum of Care program, which distributes block grants to municipalities or counties for the purpose of combatting homelessness. Because of their participation in this federally-funded program, as well as others, they are required to keep detailed data on the number of homeless in the area, whom they serve, and how they serve them. This means that both Shelterhouse and Bethany House Services have a strong foundation on which to build trust and satisfaction between funder and organization. In addition to the required data, both have enhanced their data collection capabilities to go beyond what is strictly required. This gives them a strong standing with their major funder, HUD, but also allows individual

---

19 Sawhill and Williamson.
donors to put a great deal of trust in their services and gives them satisfaction that the shelters are meeting high standards.

CYC monitors over 50 data points for its grants that are both activities and education outputs. In addition, it is able to keep its donors and the community it serves well-informed through its website and newsletters, which provide extensive information about programming and volunteer opportunities. Unlike homeless shelters, which are beholden mostly to grant providers, the CYC relies significantly on corporate and private donations as well as volunteers and mentors from the community. For these constituencies, qualitative information is just as effective at building trust, if not more so, than is quantitative information. CYC plays to its relationships with these groups by broadcasting its programming and results widely in the community.

It is useful, at this point, to return to GiveDirectly, which both measures its activities and promotes its findings. These actions have helped it to become successful in spite of skepticism about giving cash directly to those in need. The organization also makes good use of technology and data to ensure that funds are being given to their intended recipients. Traditional nonprofits who adopt these practices observe similar success. The work nonprofits do to raise community awareness allows them to advocate on behalf of the clients or issues they serve. As Michael Almong-Bar and Hillel Schmid note in a paper, “They represent disadvantaged, disenfranchised, excluded, and vulnerable populations, mediating between these groups of citizens and governmental agencies.” Advocacy on behalf of clients is an integral part of advancing their position in society. Further, the institutional nature of nonprofits makes it possible to do so on a large scale.

---


Bethany House Services, for example, makes a particular effort to “advocate for systemic change for homeless individuals.”23 This is only possible because BHS has established itself as an organization that is knowledgeable about homelessness and its underlying causes, has developed important relationships with businesses and government officials, and has worked to earn the support of community members. This is not to say that an individual cannot be a successful advocate for the homeless, or for another cause. Simply that BHS is naturally in a position to advocate for its clients.

Conclusion

Economic multipliers are often discussed in the context of justifying financial incentives provided by municipal or state governments in order to encourage businesses to relocate in a region. For each dollar transferred to a company, additional dollars are circulated in the economy through a company’s supply chain and workers’ spending on local goods and services. As a result, the initial number of jobs that a company locates in the region can create additional jobs and spending in the local economy. This phenomenon has been widely examined by Enrico Moretti, an economist who describes a job multiplier by saying, “Every time a local economy generates a new job by attracting a new business, additional jobs might also be created, mainly through increased demand for local goods and services.”24 Moretti, in his extensive research on the subject, has focused on multipliers from job creation – either through government incentives or through business decisions.

While we use the term in a different context, we provide a framework that demonstrates how to measure the multiplicative impact of nonprofits in much the same way as economic development incentives. With these multipliers, nonprofits provide additional benefits above and beyond what an

individual’s direct cash transfer is capable of producing. As a result, the initial obstacles that a nonprofit has to overcome, such as administrative overhead, are more than offset by the economic multipliers that we explore in this paper. In summary, we discuss seven separate but interdependent multipliers. We do not attempt to make quantitative estimates for the size of these multipliers, but rather discuss the theoretical grounds for their existence.

The economic multipliers include:

- Identification
- Efficiency
- Experience
- Monitoring
- Evaluation
- Education
- Advocacy

While each can be identified individually in the context of nonprofit spending, we emphasize that each is magnified by the existence of the others. Under this framework, we hope to offer a convincing argument for the efficacy of nonprofit benefits, especially when contrasted with direct transfers of cash to those in need. We hope that after reading this paper, a nonprofit can determine how its organization’s activities create an economic benefit through any or all of these multipliers. An individual wishing to give philanthropically may be able to achieve one, or a few, of the multipliers we have discussed, but would certainly not be able to achieve the same level of economic impact if her money was given to a well-run, reputable nonprofit organization.