

In recent years, donors have adopted language from the investment industry to describe what they do. But the terms adopted do not have precisely the same meaning in the philanthropic world as they do within the investment industry—they require clarification and re-definition. For example, the term “return on investment” has a precise meaning in reference to a financial investment with a standard formula for calculating it. But that formula does not work in the nonprofit environment, not only because certain parameters are not available, but more fundamentally because the “return” that is sought is of a different kind.

Following are definitions of key terms relating to the analogy between for-profit and not-for-profit investments.

OUTPUT

A measurable element of a program, created by the service provider, which “touches” a client. **Outputs** are what a service provider achieves, as a result of its **activities**, to carry out its **mission**. Generally, outputs are the units of measurement of what a program does; mostly, they do not indicate a program’s effectiveness. Examples: a patient visit, a class conducted, a medical test run, a referral made, a night of shelter provided.

OUTCOME

A change in the condition, behavior, knowledge, attitude, or skill of a client served. An **outcome** is the change that a service provider seeks in its clients. **Outcomes** are the building blocks of one’s **mission**, what it is made up of. Outcome measurement is, in fact, a measure of how much mission is achieved. Outcomes are always expressed from the client’s perspective—what happened to clients when a program operated. Examples: a healed patient, a skill mastered, a treatment plan completed, a job obtained.

INDICATOR

Often **outcomes** are abstract—stated in mission-like terms—and so **indicators** are measured as proxies for **outcomes**. Indicators are selected because they are precisely measurable and judged to indicate if an outcome is being achieved. Examples: testing “normal” for blood pressure (for an outcome of being healthy), use of mosquito nets (for an outcome of preventing malaria), having a job at 150% of minimum wage for at least 3 months (for an outcome of obtaining a job).

CONTRIBUTION INCOME

Resources provided to an organization that have monetary value. There are four types, in two “currencies.”¹

FINANCIAL CONTRIBUTIONS

- ✓ Financial gifts—cash and securities
- ✓ Valuable assets—items that can be converted to cash such as real estate, collectibles, valuables, etc.

NON-FINANCIAL CONTRIBUTIONS

- ✓ Gifts in-kind (GIK)—resources that the organization can use in carrying out its programs and which it would otherwise have to purchase, e.g., prescription drugs, computers, books, clothing, and food.
- ✓ Professional services—activities that require professional expertise and possibly specialized equipment; examples include accounting services, media time, medical testing, website design, provision of healthcare, and counseling.²

An organization’s total contribution income is the sum of the value of all types of contribution income it receives.

¹ Not all nonprofit income is contributed; many nonprofit organizations earn fees for services or sell products, some earn investment income, and some also earn “unrelated business” income. Here we are only concerned with contributed income, or donations of various kinds.

² Volunteer services—provision of time and talents that are not specialized skills—are not true “income” and are not reported on financial statements, even though they may reduce the need to hire staff. They may be reported elsewhere and can be valued using hourly rates from the Bureau of Labor Statistics or Independent Sector.

INVESTMENT

An individual or entity's contribution of income to an organization; a donation.

LEVERAGE

The degree to which an *investment* is multiplied with other income (either financial or non-financial) by the service provider. A donation may *directly* generate additional income through a matching program. Or, it may *indirectly* generate income in a number of ways when the service provider:

- ✓ Uses the reputation of the donor to raise other funds
- ✓ Garners in-kind contributions based on the donor's contribution
- ✓ Uses the contribution to obtain products and/or services at below-market rates, or
- ✓ Engages some other multiplicative strategy with the contribution

The end result of **leverage** is that an investment is able to generate more income (broadly defined) than its direct monetary value. Leverage occurs at the service provider level and is a strategy to acquire the income necessary to generate **outputs**.

VALUE OF SERVICES PROVIDED

The monetary *value of services provided*, that is, **outputs**, using some kind of recognized commercial rates that are commonly accepted. The services may be all services for an organization, or those of a particular program. If the organization or program *solely enables* the provision of services to its clients but does so through another entity (either nonprofit or for-profit) which *directly provides* the services, the value of those services should be included in the calculation. The justification for including the value of those services in the calculation is that if it were not for the existence of the organization or program, the services would not have been provided. The value of services provided would usually be significantly different from the **cost of services provided**.

BENEFIT OF SERVICES PROVIDED

The value of services may be considered in qualitative terms, not monetary terms. This involves a narrative of what is achieved, preferably in terms of **outcomes**, and possibly as **outputs**.

COST OF SERVICES PROVIDED

The monetary value of the cost of providing services, including the cost of non-financial contributions used to provide services. For example, a doctor may not charge a nonprofit clinic to administer a test with his own equipment; the clinic could show that contribution as income, and it would also be a cost to the program. The cost should include overhead expenses which should be allocated on a systematic and reasonable basis. The **cost of services provided** should align with the income statement (though some adjustments may be required).

RETURN ON INVESTMENT

A measure of efficiency, **return on investment (ROI)** measures how much *mission* is achieved for a given charitable investment. **ROI** is a ratio of the **value of services provided** divided by the financial contributions made. The financial contributions may well be only a part of the total **cost of services provided**—other costs are non-financial because they are in-kind. A ROI statement might say, "The return on a \$2,500 investment was \$7,500 worth of breast cancer screenings."

ROI could also be expressed as the ratio of the **benefit of services provided** for the financial contributions made. In this case one cannot compute a mathematical ratio but can express a return in narrative form such as, "Breast cancer screening for 100 patients were provided with a \$2,500 investment."

Leverage increases **ROI** because, for a given financial contribution, more program services are provided. **ROI** occurs at the client level unlike **leverage** that occurs at the service provider level.

COST PER OUTCOME

Another measure of efficiency is the *cost per outcome*, that is, the cost to achieve a piece of the *mission*. This measure does not address the *value of services provided*, rather it addresses their cost. But it does not use the *cost of services provided*, but rather the cost of *outcomes*. These two are related, but the measure focuses on what it costs to generate an *outcome* since outcomes are a measure of effectiveness in achieving one's *mission*. It is a valuable concept because it relates efficiency and effectiveness. Like the cost of services provided, the cost of an outcome should include a reasonable allocation of overhead. Usually, this will have to be estimated.

CALVIN EDWARDS
& COMPANY

Maximizing the Good of Giving

1125 Sanctuary Parkway, Suite 500 Alpharetta, GA 30009

E-MAIL Info@CalvinEdwardsCompany.com