The Nonprofit Sector's $100 Billion Opportunity

by Bill Bradley, Paul Jansen, and Les Silverman

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A major new study reveals that charitable organizations could become far more productive by making five changes in the way they operate. That's good news for them – and even better news for society.

IMAGINE WHAT AN EXTRA $100 BILLION a year could do for philanthropic and other nonprofit institutions. That's more than three times the annual giving of every charitable foundation in the United States combined. It's nearly 20 times the amount spent annually on Head Start. In fact, it's enough to give every high school graduate in the country a $40,000 scholarship. Adding such a windfall to nonprofit services seems too good to be true. But according to a study we recently completed with our McKinsey & Company colleagues, the nonprofit sector could free up that amount – maybe even more – by challenging the operating practices and notions of stewardship that currently govern the sector.

We believe that challenge must be taken up – today. The U.S. nonprofit sector has never had more assets at its disposal, but neither has it faced such pressing demands. During the boom years of the 1990s, the sector grew enormously. By 2000, nonprofit assets had reached $2 trillion, and total revenues exceeded $700 billion. And as the baby boomers move into their prime giving years over the next two decades, they are expected to bequeath or donate trillions of dollars. Unfortunately, the demands on nonprofits are growing as fast, if not faster. Pressures to cut government spending are shifting more social burdens onto charities – a trend that will intensify when the 76 million baby boomers start retiring and the government is forced to spend an even larger share of its resources on health care and pensions.

As nonprofits are increasingly called upon to do more, it's important to take a hard look at how the sector operates. Therefore, we decided to examine the finances, practices, and management of the 200,000 largest nonprofits

> 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.

in the United States – those with revenues of more than $25,000 a year – as well as the philanthropies and intermediaries whose financial and other contributions are so crucial to the sector. These organizations represent a wide range of interests: social services, health, education, arts and culture, the environment, and issue advocacy. Donations from fund providers – such as individuals, corporations, government agencies, and financial institutions – typically make their way to nonprofit service providers (NSPs) in one of two ways. Either the funds are given directly to NSPs, or they're channeled through intermediaries, such as the United Way or government agencies. (To see how the nonprofit sector works, refer to the exhibit "From the Donor to the Recipient.")

The central questions we asked in our study were simple: Does the money flow from its source to its ultimate use as efficiently and effectively as possible? If not, where are the big opportunities to increase social benefit? To answer these questions, we drew on IRS data from 1998 and 1999 as well as surveys and supplementary data from the Urban Institute, the Independent Sector, and our own consulting activities.

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We discovered substantial opportunities for improvement. We estimate that by changing the way funds are raised, nonprofits could save roughly $25 billion a year. By speeding the distribution of funds, they could put an extra $30 billion to work. More than $60 billion a year could be generated by streamlining and restructuring the way organizations provide services and by reducing administrative costs. And even more money – in fact, an amount that's impossible to estimate – could be freed up by better allocating funds among service providers. (For an overview of the numbers, see the exhibit "The Size of the Prize.")

We acknowledge that producing a single estimate of the potential gains that this highly diverse sector could achieve is a tricky proposition. After all, the nature of the opportunity differs widely depending on the type and size of the institution. We also admit that achieving these targets won't be easy; it will require fundamental changes in both the practices and mind-sets of nonprofit managers and donors. But, over time, it is possible. Already, some innovative nonprofits – from the Hewlett Foundation to the National Assembly of Health and Human Services Organizations – are blazing trails that others can follow. These leaders are showing that by emulating certain management practices from the business world and by creating and sharing their own best practices, nonprofits can have a far greater impact on social problems.

1 Reduce Funding Costs

The old adage "It takes money to make money" is certainly true. But the question is, how much does – or should – it take? Estimates vary. According to IRS data, nonprofits report their fund-raising costs to be 4.6% of their total contributions, on average. Yet in interviews, executive directors of NSPs estimated their fund-raising costs were actually two to three times greater than reported. That's because when they fill out their IRS forms, many NSP directors don't include all the costs of staff, board, and volunteer time devoted to fund-raising. In fact, over two-thirds of the organizations that reported receiving donations claimed no fund-raising costs at all. Our analysis suggests that in 1999, the nonprofit sector actually spent $36 billion to raise and deliver $195 billion; that's a fund-raising cost of approximately 18%, or about one dollar for every five dollars raised. A forthcoming study by the Urban Institute estimates that nonprofit funding costs are even higher.

What accounts for the high costs? For one thing, soliciting large volumes of tiny contributions, as the majority of nonprofits must do, is inherently inefficient. You tend to incur a lot of labor, marketing, and other costs for every dollar you bring in. For another, trying to get your share from a pool of more than 50,000 foundations and millions of individual donors leads to a lot of overlap and waste. One graduate school of a major public university with a $20 million budget, for example, receives its revenue via 161 separate "funds," including dozens of state and federal grants and myriad corporate and foundation donations. And since fund providers often require detailed reports on how their grant money is spent, it's easy to see how administrative costs can skyrocket. Finally, there's the dilemma of the incremental dollar. From the point of view of any individual organization, it's rational to keep spending as long as the marginal dollars raised are greater than the marginal dollars spent. For the sector as a whole, however, the competition to tap a finite pool of funding drains billions of dollars from social causes. To make matters worse, some nonprofits aren't even marginally successful: IRS data for 1999 show that 2,000 nonprofits raised less money than they spent on their fund-raising efforts.

By way of contrast, take a look at the efficiency of raising funds in the for-profit sector. The cost of raising capital to start and grow a business is approximately 2% to 5% of funds raised; the cost of sales and marketing, which some consider a better comparison, is typically 10% for businesses that directly serve customers. It's true that the nonprofit sector doesn't have the standardized processes and established networks of investment and commercial banks, venture capital firms, and other funding sources that make private fund-raising efficient. But some nonprofits are already approaching this level of efficiency. The United Way, for example, raises and disburses about $4 billion in funds at a cost of less than 14%.

Over time, the nonprofit funding market could develop practices to narrow the gap and cut fund-raising costs from the current 18% to between 5% and 10%. That would pump an additional $15 billion to $26 billion each year into the system, assuming about $200 billion were raised.

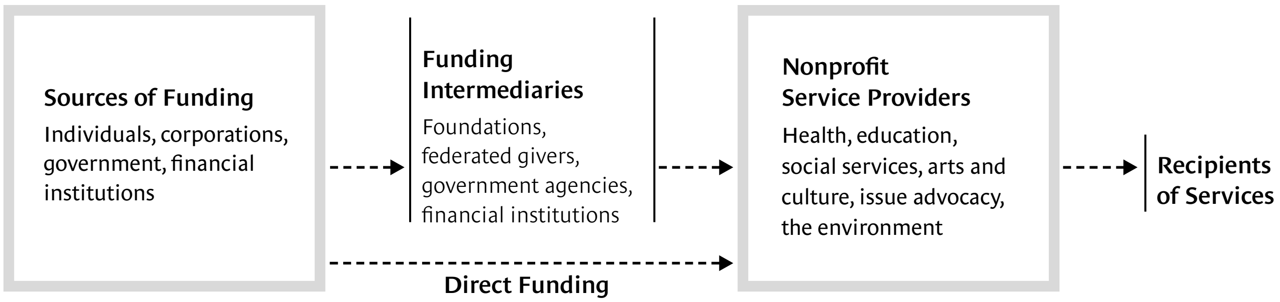
Our study identified a number of existing or emerging best practices that could help many nonprofits trim their fund-raising costs significantly in the coming decade.

On-Line Solicitation. The Internet is becoming an important way to reach donors efficiently. A *Chronicle of Philanthropy* survey found that 126 large charities raised a total of $96 million on-line in 2001; what's more, the median amount of money raised more than doubled during that year. That surge was certainly driven by the outpouring of contributions after September 11, but even so, we expect on-line donations will continue to grow. Some organizations, such as Compassion International and several United Way chapters, raised between 15% and 20% of their total contributions on-line. That growth is good news, since the costs of on-line solicitation are much lower than those of traditional methods. Web-based solicitation appears to cost about 20 cents per solicitation compared with a dollar or more per solicitation for direct mail or telemarketing. Advances in on-line fund-raising management software by companies such as Blackbaud, Convio, and GetActive promise further efficiency gains. Already used by more than 10,000 nonprofits, these tools make it easier to keep track of donors, customize appeals, and measure the results of campaigns on the Web.

Donor-Advised Funds. Traditionally, people who wanted to make large charitable contributions established their own foundations. Today, more and more philanthropists are choosing to contribute instead to professionally managed donor-advised funds, such as Fidelity's Charitable Gift Fund or comparable funds at community foundations. Donors can put aside money now and distribute it to nonprofits over time, without the high administrative costs associated with running their own foundations. Assets held by the nation's top donor-advised funds rose to $12.3 billion in 2002, and according to a

From the Donor to the Recipient

Donations in the nonprofit sector are either given directly to nonprofit service providers or are channeled through intermediaries like foundations and government agencies. Our study found opportunities in both paths to increase efficiency and thereby deliver more value to the recipients of nonprofit services.



Chronicle of Philanthropy survey, these funds awarded $2 billion in grants. Funds like these offer tremendous convenience. They help donors research grantees, and by lowering the start-up costs for midsize donors, they actually encourage them to give more. Not only that, they improve the efficiency of the sector as a whole by eliminating the duplication of tasks among numerous small foundations.

Shared Resources. Donors are also turning to associations for help in making decisions about where and how to invest. The Council on Foundations currently lists 40 such affinity groups, including Funders Concerned About AIDS, Environmental Grantmakers Association, and Grantmakers Concerned with Immigrants and Refugees. These associations facilitate knowledge sharing among donors, research issues and potential solutions on behalf of their members, and help to channel funds to where they will be most useful. Some grantmaking associations are developing common on-line grant applications, which reduce nonprofit grantwriting costs. Moreover, funders that invest significant resources in ferreting out and supporting nonprofits (Venture Philanthropy Partners in Washington, DC, is one) are beginning to attract "side-by-side" philanthropic investments, which might be a harbinger of new funding vehicles.

Larger Grants. Several prominent foundations have made the strategic decision to narrow and deepen their grantmaking efforts. The Bill & Melinda Gates Foundation, for example, is well known for its commitment to the reduction of diseases, particularly AIDS, in developing countries. Focusing on one or two issues, these organizations believe, will ultimately make more of an impact than scattering small grants across a wide range of interests. If more major foundations took this approach, it might change the dynamics of fund-raising altogether. Thousands of NSPs would no longer have to compete over hundreds of small grants every year, thus saving time, administrative costs, and piles of paperwork. A bias toward larger, longer-term commitments may prove to be one of the lasting contributions of the "venture philanthropy" movement that emerged in the 1990s.

2 Distribute Holdings Faster

The second opportunity for improvement involves how fast the sector's nearly $1 trillion in financial assets are put to use. Most foundations give away the legal minimum of 5% of their assets annually (less qualifying expenses); endowed nonprofits do not have a mandatory payout rate. Our analysis suggests that by increasing their payout rates, these nonprofits could deliver an additional $30 billion each year to the sector's core mission of social service.

Merely to raise this notion is to enter a longstanding and sensitive debate over whether nonprofits – and foundations, in particular – should endure in perpetuity. Surely, many foundations operate under the donors' intent that they exist forever. But consider the opposing point of view, laid out by Julius Rosenwald, who helped build the Sears, Roebuck retail empire and who worked to improve the shameful conditions of black schools in the South in the early 1900s, in a letter to the trustees of his foundation:

"I am not in sympathy with this policy of perpetuating endowment and believe that more good can be accomplished by expending funds as trustees find opportunities for constructive work than by storing up large sums of money for long periods of time. By adopting a policy of using the fund within this generation we may avoid those tendencies toward bureaucracy and a formal or perfunctory attitude toward the work which almost inevitably develops in organizations which prolong their existence indefinitely."

The Size of the Prize

If nonprofits were to…	Cut cost of raising and distributing funds from 18% to between 5% and 10%		Distribute "excess" funds over the next 25 years or up payout rates to 7%		Reduce program service costs by roughly 15% for the bottom half of performers		Trim administrative costs by 15% for the bottom half of performers
…this much money could flow back into nonprofit services	**$25** billion	+	**$30** billion	+	**$55** billion	+	**$7** billion

Rosenwald's radical approach to philanthropy won't appeal to everyone. But our study shows that nonprofits can adopt a less extreme position (they could up their payout rate by two percentage points) and still significantly increase the amount of social good they deliver. Financial analysis sheds light on what the nonprofit sector's current holding costs add up to. Just as manufacturers need to hold some amount of inventory as safety stock to protect against disruptions in supply or production, nonprofits need to hold some cash as a buffer against unexpected costs or cyclical fluctuations in investment returns. But, for both manufacturer and nonprofit, there are penalties for holding too much inventory. For the manufacturer, holding excess goods represents an unnecessary expense that dilutes profitability. For the nonprofit, holding excess cash means sacrificing opportunities to get the maximum return – that is, create the greatest social benefit – from donations. Our analysis suggests that the net present value of future spending is often less than the value that would be created by investing in solving problems today. Holding money for future payouts, we calculate, generally diminishes the value that would have been created through immediate expenditures by 25% to as much as 50%. That's because investment returns on held funds may be outweighed by the opportunity costs of delaying the social benefit – a situation that could possibly have been nipped in the bud or contained becomes much worse and much more expensive to deal with – and by the administrative costs of managing and disbursing the funds.

Certain nonprofits would be much more effective if they were to distribute their assets more aggressively. Consider nonprofits with big endowments – mostly medical centers and universities. Many of these organizations keep raising funds because they can, not because they can't meet foreseeable needs. Assuming that holding enough investments to cover five years of expected contributions provides an adequate safety margin against volatility, our research indicates that these institutions currently hold about $270 billion in excess capital in their endowments. If that surplus were to be drawn down over 25 years, another $20 billion would flow into health care and education annually. The result would be greater health services for the uninsured or underinsured and lower tuitions or more generous financial aid packages for the disadvantaged.

Due to the recent decline in stock market values, foundation endowments have no doubt fallen from their peak of almost $500 billion in 2000. Still, total assets are expected to grow significantly in the future. If foundations were to protect, but not to grow, the real value of their assets over the long term, they could distribute an additional $10 billion a year. To do so, they would have to adopt a payout rate of approximately 7% over the long term, a significant increase over the legally mandated 5%. In addition to disbursing funds more aggressively, foundations could also look for ways to get more social bang for each invested buck. By, for example, participating in "social investing" of their endowments (such as making below-market-rate loans in economically depressed areas), foundations could reap both social and financial returns on their investments.

Debating payout schedules can also spur philanthropic CEOs and boards to reflect on their implicit operating assumptions – prompting them to ask questions that the pressures of the grant cycle can easily push aside. In 1999, such a review led the Nathan Cummings Foundation to donate an additional $7 million in grants, thanks to "extraordinary stock market gains" made in the 1990s. A review also led the Kaiser Family Foundation to rethink its payout strategy in the early 1990s. Opting to donate as much as possible while maintaining the real value of its assets, Kaiser has spent roughly 9% of its assets each year since (although recent stock declines have forced it to reassess that percentage). These examples show that it's possible to adjust payout rates to reflect changing circumstances. When making decisions about how much money to give, leaders of philanthropies must determine whether the opportunities of the future are likely to be so much more attractive than those of the present.

Increase sector effectiveness by allocating funds to organizations that produce the greatest social return

+ *x*** **=** **$100+ billion**

**this variable, impossible to estimate, could deliver the greatest gains*

3 Reduce Program Service Costs

The next two major opportunities move beyond funding to the front lines: closing the gaps in performance between the more efficient nonprofits and the laggards. To identify performance benchmarks, we compared the program service costs of nonprofits with similar missions. Program service costs comprise everything from drug supplies and physician time at a medical clinic to teacher salaries, books, and other materials at a school. In every case, we found gaps in performance, and hence opportunities for improvement.

In the exhibit "A Comparison of Program Efficiency," we show the variance in cost per client across more than 300 local affiliates of three national youth-services organizations. For each organization, we determined how much each affiliate spent per client and then ranked them from highest to lowest. We looked at the center slice of the range – the 25th to 75th percentile – to avoid skewing of results by the poorest and the star performers. Even so, we found that the underperforming affiliates spent as much as 67% more per client than did the more efficient affiliates in the same organization. Analysis of homeless shelters in a single urban area and of an antihunger organization in a single state yielded similar gaps in costs per client.

Other researchers have found gaps in service costs as well. Dr. John Wennberg, publisher of the *Dartmouth Atlas of Health Care,* has studied regional variations in health costs. He determined that per capita costs in Medicare (serving seniors of similar health status) are three times higher in Miami than in Minneapolis. Wennberg says only a tiny portion of these variations can be explained by cost-of-living differences for supplies, wages, and the like. Instead, he argues, they're driven by local differences in practices. Wennberg believes that up to 30% of Medicare's $220 billion annual cost, or roughly $60 billion, can be saved by the broad adoption of best practices. The Mayo Clinic and the government of Vermont have launched pilot projects to capture these savings.

Based on our experience in the for-profit world, we believe that savvy management can drastically improve the performance of NSPs. In 1999, the nonprofit sector spent roughly $610 billion on program services. Through better management, catalyzed by the use of benchmarking, the bottom half of performers could reduce their program service expenses by an average of 15% – a reasonable goal considering the gap currently runs as high as 67%. Doing so would pump another $55 billion into the sector annually. Our work with for-profits also shows that even top performers can benefit from benchmarking individual functions because few organizations are at the peak level of performance across all of their activities. Thus any efficiency improvements that the top half of performers made would further increase the savings.

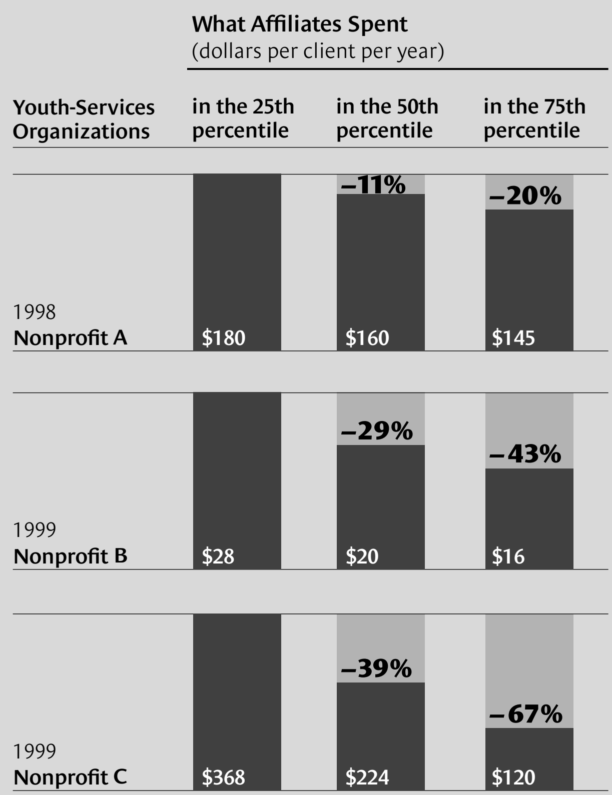
Capturing these efficiencies will no doubt be difficult. Take, for example, the issue of consolidation. Over 70% of nonprofits spend less than $500,000 a year; these small outfits can't possibly achieve scale efficiencies. If organizations with similar missions merged or shared assets, they'd reduce their costs significantly, which would free up more funds for creating social benefits. Imagine local boys and girls clubs sharing summer camp facilities, or multiple volunteer centers using a single on-line presence to match volunteers with service opportunities. Unfortunately, most small nonprofits lack the incentive and the broader perspective to initiate such projects. That's why the sector needs leadership from intermediaries, donors, and large foundations. Other opportunities for reducing program costs could include more effective use of volunteers, eliminating low-value programs, and increasing use of physical assets ranging from art collections to clubhouses.

4 Trim Administrative Costs

The nonprofit sector is known for its attention to administrative costs; the availability of on-line nonprofit financial data is likely to only exacerbate the focus on these costs. Yet our study found that this may reflect a mis-

A Comparison of Program Efficiency

Here we see the wide program gaps in efficiency among affiliates of three national youth-services organizations. The top performers spend from 20% to 67% less on program service costs per client than do the laggards. Our research shows this variance occurs in most nonprofit areas, not just in youth services. If the bottom half of performers across the sector as a whole were to improve their efficiency by 15% – an attainable goal given the huge variance we uncovered – they'd channel an extra $55 billion back into the delivery of social good.



Net difference between percentiles is marked in gray.

placed priority. The opportunities to reduce administrative costs are actually small compared with the opportunity to lower program service costs – specifically, about one-eighth the size. Furthermore, we believe that many nonprofits haven't given enough attention to strengthening their organizations and systems. For optimum performance, they need talented managers, a well-considered strategy, sophisticated information systems, and so on – just like for-profit organizations do.

Even so, when we examined administrative costs in an array of sectors (including substance abuse treatment centers, symphonies, child care centers, and zoos), we discovered substantially different levels of spending among organizations with essentially similar missions (see the exhibit "A Comparison of Administrative Costs"). As we did in looking at program service costs, we ranked nonprofits from highest to lowest on administrative costs as a percentage of total budget and again discovered a sizeable gap in every sector. Organizations in the 25th percentile spent between 41% and 69% more on administrative costs than those at the 75th percentile (which are good, but not top, performers). The gap between the lower performers and the median performer ranged from 16% to 46%. To be certain that we weren't comparing apples to oranges (different nonprofits do categorize their costs differently), we also compared costs at individual chapters of three national organizations – two devoted to youth services and one to fighting hunger. In each case, we found similar gaps in administrative costs.

The nonprofit sector spent about $80 billion in administrative expenses in 1999, excluding fund-raising costs. If organizations in the bottom half were to reduce administrative expenses by an average of 15% (which would approach, but not equal, the performance of the median performer in most cases), they would generate $7 billion in new resources for the sector. Any improvement by organizations in the top half would only increase the prize.

Pursuing these savings involves a lot of creative thinking. For example, local organizations whose missions are similar may want to look at shared service arrangements or consider consolidating back-office functions in ways that don't muddy the identities of the groups. Once again, scale economies work against small nonprofits, which on average have higher administrative cost ratios than larger peers. Multichapter NSPs can benchmark within their own organizations and spread best practices. Or they can capture other scale economies by, for example, distributing IT solutions to common problems such as design and maintenance of Web sites, fund-raising management, and accounting. They can even follow the lead of the Alzheimer's Association, the Girl Scouts, and Planned Parenthood and consolidate those chapters that aren't performing up to par. We would stress, however, that while there are clear opportunities to capture administrative savings, cost reductions should not be blindly pursued. On balance, the organizational capacity of nonprofits should be strengthened, not whittled away.

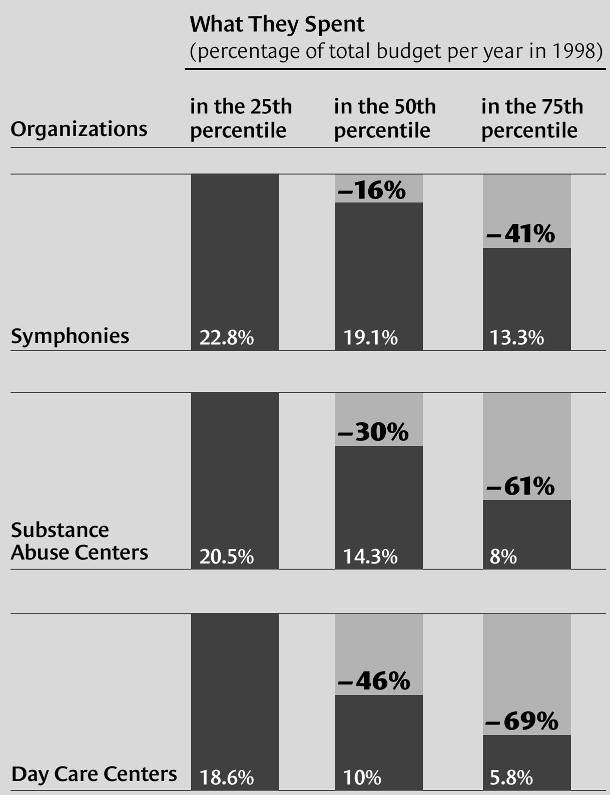
5 Improve Sector Effectiveness

Beyond improving efficiency, nonprofits have opportunities to spend more effectively. While efficiency improvements increase the dollars available for social investment, effectiveness improvements increase the social benefit delivered for each dollar spent. There are two big opportunities here: increasing the effectiveness of individual organizations and enhancing the effectiveness of the overall sector.

Effectiveness is the hardest gap to measure. On an individual level, it's obvious that some programs and organizations are more effective than others. And at different

A Comparison of Administrative Costs

The opportunity to reduce administrative costs is smaller than the opportunities to reduce other costs in the nonprofit sector, but it is real. When we looked at 52 symphonies nationwide, 22 substance abuse centers in Chicago, and 16 day care centers in Atlanta, we found gaps of 41% to 69% in the level of administrative spending as a percentage of total budget among similar organizations.



Net difference between percentiles is marked in gray.

times in U.S. history, investments in certain areas (in education, for instance, or in disease prevention) have been more valuable than others. But to date, there are no standard techniques for quantifying the amount of social benefit delivered by NSPs. The absence of a metric, however, doesn't mean there is no opportunity. In fact, this may be the largest of the five opportunities our study identified. In a sector that controls almost $2 trillion in assets and spends three-quarters of a trillion dollars annually, a tiny improvement in effectiveness can lead to giant gains in value generated. For example, if the sector increased the social benefit it delivered by a mere 1% (however that might be measured), it would be worth the equivalent of $20 billion per year in new resources. This opportunity is spurring groups such as the National Assembly of Health and Human Services Organizations to facilitate the sharing of knowledge and effective practices.

The efficiency gains we suggested earlier need not – must not – come at the expense of effectiveness. Our experience in the for-profit world suggests that talented managers can produce organizations with both traits. Businesses that are more cost-efficient than competitors, for instance, frequently apply that same managerial prowess to improving effectiveness as well. We believed the same would hold true in the nonprofit sector, and we tested our hypothesis by collecting data on cost and effectiveness at three nonprofit organizations that have developed internally accepted indicators of effectiveness. A national youth-services organization found that its affiliates with lower total costs per client were just as likely to have high effectiveness scores as affiliates with higher total costs. These findings support our conviction that managerial excellence can make the difference in creating organizations that are not only effective but also efficient.

Improving the effectiveness of the overall nonprofit sector is an even greater challenge. If donors actively researched the performance of individual NSPs and supported only those with a proven record of success, they'd eventually squeeze the underperformers out of business. Similarly, foundations, by virtue of their scale and expertise, can bring "market forces" to bear on grantees. As these groups begin to share information with one another about which programs really work, organizations will be forced to improve their effectiveness to survive.

From Here to $100 Billion

The gains from improved management practices in the nonprofit sector could easily total $100 billion. That's a conservative estimate because it accounts for only improved efficiency; it leaves out the billions of dollars that could be gained from improving sector effectiveness. Moreover, our estimate was based only on the roughly 200,000 501(c)(3) organizations registered in the United States. If nonprofits that don't file Form 990s, such as smaller or religious-affiliated organizations, were to improve their performance, the gains would jump even higher.

But as we noted at the outset, the gains won't be captured overnight – nonprofit funders and organizations would have to change their current practices, in some cases drastically. Donors today rarely search out the most effective or efficient nonprofits; they support local organizations that they're already familiar with. Nonprofits with big endowments continue to raise funds well beyond what's necessary to meet foreseeable needs. And many nonprofits are reluctant to benchmark their performance – they don't want to take time from programs, it's hard to find acceptable peers, or they fear exposing performance flaws that could hurt fund-raising efforts. Nonprofits that do benchmark, meanwhile, often focus on administrative cost ratios that discourage investments in program management skills – skills that are essential if the larger opportunities are to be achieved.

These are significant challenges, to be sure. But we are standing at the threshold of an unusual era. The baby boomers will start to retire in less than a decade, squeezing public budgets even more than they are today. The nonprofit world, historically seen as a collection of locally focused charities, has become an enormous sector, but given its roots, it understandably lacks the managerial processes and incentives that help keep the for-profit world on track. We believe the sector must become more efficient and challenge its traditional concepts of stewardship in order to help the nation cope with the stresses ahead. Doing so will demand fresh thinking, as well as the slaughtering of some sacred cows.

To that end, all the players in the nonprofit world will need to reevaluate how they operate. Board members, for instance, should push their organizations to establish measures of effectiveness and efficiency. Unlike in the for-profit world, there's no threat of takeover, and bankruptcies are rare. So nonprofit directors must have the discipline to continually ask themselves, "Is our mission clear, credible, and relevant? How does our approach compare with those of other organizations? Where should we be collaborating with others?" The boards of endowed nonprofits should focus more explicitly on the balance between making more of an impact today and building reserves for the future. Leaders of NSPs must also work to close performance gaps by ensuring that best practices from other nonprofits and businesses are shared and adopted.

Donors will play an important role in meeting the challenge as well. They should 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. They might also consider asking not only how their gifts will be spent but when. Foundations, for their part, should examine whether accelerating their giving could make a difference in the social problems they seek to address. Are there opportunities to give more than money by providing expertise, suggesting collaborators, or introducing other potential funders? Are there opportunities to share insights or invest endowments in ways that achieve a dual bottom line of both financial growth and social impact?

Seizing the opportunity may also require the creation of new institutions – perhaps an equivalent of the Morningstar rating service for mutual funds, for example – which would make performance information widely available to donors. This would help donors and foundations put pressure on organizations to meet higher and higher standards of efficiency and effectiveness. Community program funds at some United Way chapters and ventures such as Acumen's public health investment funds also represent a new way for people to engage in effective, low-cost philanthropy, just as mutual funds offer for the private investor.

Finally, government agencies should rethink the way they operate. Fund providers should demand mission-oriented results from the organizations they support rather than focus on easier to measure metrics such as activity levels or administrative ratios. And they should be willing to pull resources from less effective organizations and programs. Policymakers may even want to consider whether current tax subsidies to nonprofits deliver the appropriate balance between annual charitable spending and endowment growth.

The nonprofit sector in this country has always been uniquely positioned to take the long view, in terms of both its own operations and society's needs. It has risen before to meet the nation's challenges, and when sector leaders turn their enormous energy and talent to these questions, they will surely find ways once again to capture the value – ways we haven't begun to imagine here. In the end, it's not $100 billion a year but rather millions of Americans with better health, safer streets, cleaner air, stronger schools, more affordable housing, greater hope, and bigger dreams that represent the real potential – and the truest inspiration to action.

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