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## Transparent Reputations and Nonprofit Organizations

Transparency matters for today's charitable donor. About a third of Americans don't trust charities to spend their funds well, and more than 60 percent of people globally don't have faith that nonprofits can accomplish their missions.

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The Puritans required adulterers to wear a scarlet letter "A" as a penance for their wrongdoing. It was a visible symbol of misconduct meant to stigmatize the wearer and warn off others.

For nonprofit organizations, a reputation lacking honesty, integrity, and transparency is approaching the equivalent of wearing that scarlet red letter from the Puritan days, limiting their ability to successfully engage donors.

No longer is the word charity synonymous with virtue and integrity. Nonprofits beware. Comply or wear a scarlet letter for lacking the ethical principles and accountability engrained in true nonprofit transparency.

### Trust Issues

There is a thread between transparency and profit. And that delicate strand is made of trust. Unfortunately, scandals around the mismanagement of donors' gifts—bloated executive salaries, board mismanagement, corruption, and massive amounts paid out to third-party fundraising outfits—have left today's donors questioning the authenticity of benevolent organizations.

"When an endowment or a foundation is less than forthright, it puts a blemish on the nonprofit community," says Eric Bailey, financial advisor at CAPTRUST. "Sometimes it's out-and-out fraud; other times it's a lack of leadership, misalignment, or lack of mission. Nonetheless, it's damaging."

According to the Give.org Donor Trust Report, 32 percent of respondents trust charities less today than they did five years ago. And, 73 percent of respondents to a separate survey rated the importance of trust as nine or 10 on a 10-point scale, with only one out of five of those respondents indicating a high

level of trust in charities.<sup>[1]</sup>

Further, about a third of Americans don't trust charities to spend their funds well, and more than 60 percent of people globally don't have faith that nonprofits can accomplish their missions.<sup>[2]</sup>

The public has higher expectations for organizations whose missions are to do good. "Today, people want to know more about a nonprofit's mission, its goals, its impact, and the outcomes produced. Donors want access to detailed financial reporting, too," says Bailey.

The fact is, donors are doing their homework before making a gift, and, if a nonprofit organization doesn't live up to a certain standard of transparency, it receives 47 percent less in contributions than organizations that proactively provide data to the public.<sup>[3]</sup>

"By committing your agency to a donor bill of rights, those donors have the opportunity for transparency," says Kristye Brackett, vice president of philanthropy at Transitions LifeCare.

Created by the Association of Fundraising Professionals, the Association for Healthcare Philanthropy, the Council for Advancement and Support of Education, and the Giving Institute: Leading Consultants to Non-Profits, [the Donor Bill of Rights](#) assures that a nonprofit merits the respect and trust of the general public, and that donors and prospective donors can have confidence in the charities and causes they support.

"[At Transitions LifeCare], we are constantly having conversations about what does the donor bill of rights look like, and what are we doing to really adhere to that donor bill of rights," says Brackett.

### **The More You Give, the More You Get**

Don't give donors reason to distrust your organization. Safeguard against this by making your organization's financials easy for the public to find.

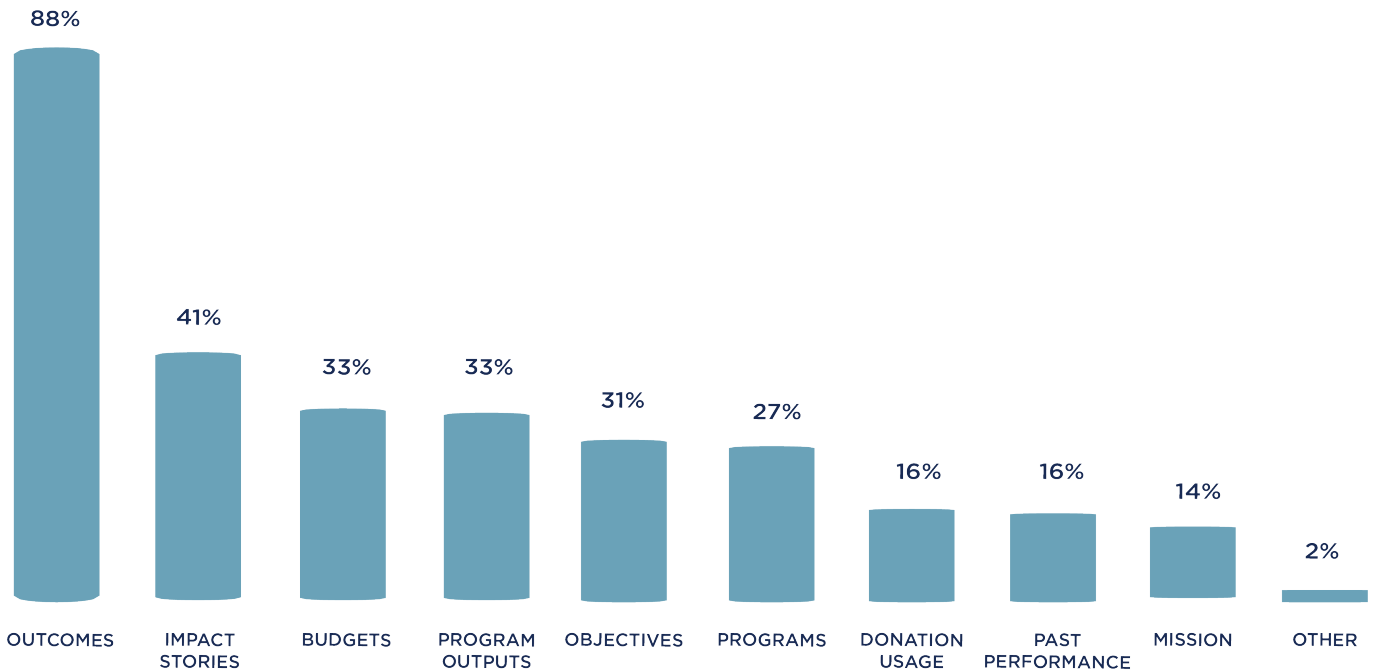
Nonprofits that are more transparent and share things publicly, like audited financial reporting, goals, strategies, capabilities, and metrics demonstrating progress and results, received 53 percent more in contributions compared with organizations that are less transparent, according to a new study.<sup>[4]</sup>

A separate study published in December by the *Journal of Accounting, Auditing & Finance*, titled "Determinants and Consequences of Nonprofit Transparency," hypothesized and found to be true that the decision to be transparent equates greater future contributions.

"When an organization provides insight into how donations are used, I think it adds a depth and breadth to the mission that could not be gained in any other way," says Bailey.

Current reporting provided by nonprofits detailing how donations are being used is expected to stay about the same or increase over the next five years.<sup>[5]</sup> As shown in Figure One, however, donors are most interested in hearing about program outcomes (88 percent) and impact stories (41 percent).

*Figure One: What Areas of Nonprofits Are Donors Looking to Learn About?*



Source: "Foundation Reporting Study," Social Solutions, 2019

**Make Your Impact Known**

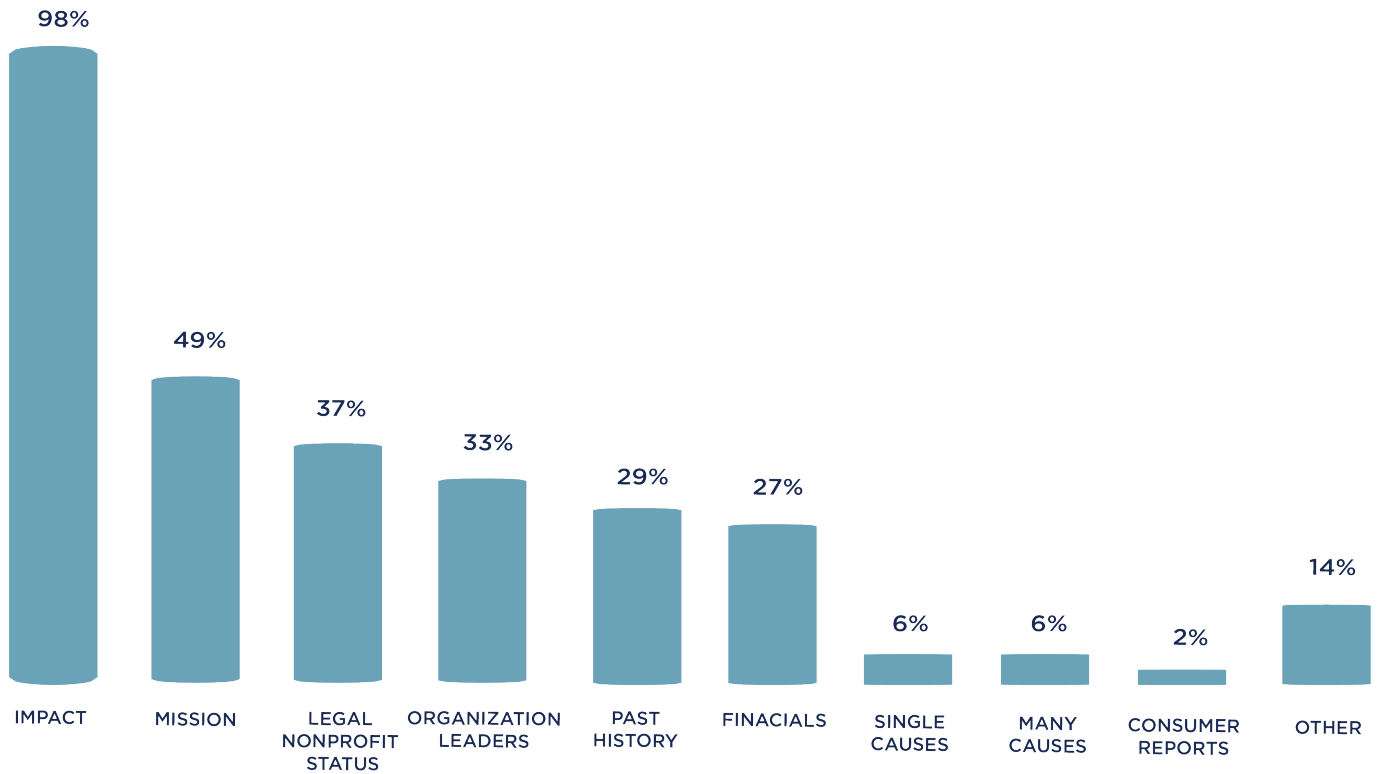
Donors are motivated to understand who, where, and what exactly their charitable gift will go toward. Understanding how an organization demonstrates its impact is important to donors. They want to know who a nonprofit is helping, how the organization is helping them, and how their gift was used.

"We know savvy people are doing their due diligence before they come to the table. Donors expect to see low administrative costs per dollar raised, with the greatest impact going back to service needs," says Brackett.

As shown in Figure Two, 98 percent of donors ranked impact as the most important factor when considering making a charitable donation, followed by mission (49 percent) and legal nonprofit status (37 percent).

"In every donor conversation, we tie it back to what their dollar is impacting in the service line. We do that in not only our larger gift asks but also in our annual appeals and our thank-you notes. And we hold to the standard that the [IRS Form] 990 reflects back on that. It is spelled out in all of our materials," says Brackett.

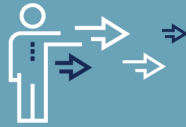
*Figure Two: Impact Is the Most Important Consideration among Donors*



**Big Brother is Watching**

Fortunately for donors, there are watchdog organizations like the Better Business Bureau Wise Giving Alliance, the American Institute of Philanthropy, CharityWatch, and GuideStar, whose goal is to help inform donors by grading, monitoring, and measuring how donations flow into and out of nonprofits in relation to the goal they report. These organizations are in the business of advancing nonprofit transparency by gathering, organizing, and distributing information about U.S. nonprofits. Donors leverage these organizations to help them consider various aspects of a nonprofit’s transparency.

## Leading by Example: Direct Relief



One organization that really understands transparency is Direct Relief.

Direct Relief is a global network working to equip doctors and nurses with life-saving supplies to care for the world's most vulnerable people.

This nonprofit takes the number one spot on the Charity Navigator list of the 10 Best Charities Everyone's Heard Of, not to mention a handful of other notable accolades from *Forbes*, CNBC, and *Fast Company*.

And this is for good reason.

Direct Relief maintains a policy of complete transparency in all facets of its work, including how the organization uses donations to advance its mission. On a daily basis, Direct Relief maps, tracks, measures, and publicizes the aid it distributes throughout the world. Further, their investment in partnerships with businesses and organizations of relevant expertise has led to more than 175 healthcare manufacturers and other corporations providing in-kind contributions of goods and services that would otherwise need to be purchased through raising cash.

Direct Relief's long record of managing in-kind resources so efficiently has been a central part of its success.

In a report examining if the [GuideStar Seal of Transparency](#) had an effect on fundraising, organizations with a Seal were shown to be more likely to receive donations than those that had only claimed their profiles and opted to receive contributions through GuideStar. And 78 percent of the organizations that received a donation through GuideStar's website last year were Seal holders.<sup>[6]</sup>

Depending on how much information a nonprofit provides in its GuideStar profile, the organization is identified by a Seal indicating its level of commitment to transparency. There are four levels—the more information provided, the higher-level Seal of Transparency awarded. Bronze is for basic information, Silver indicates full financial information has been shared, and Gold means the organization has shared all of this plus goals and strategy. Finally, the highest Seal is Platinum, which indicates everything aforementioned, in addition to proven progress and results.

"Having that GuideStar Platinum Seal of Transparency is something each endowment or foundation should strive for. Donors are definitely reassured by it," says Bailey.

Which Seal an organization earns matters. In general, GuideStar reports that profiles with Gold or Platinum Seals receive twice the views of other profiles. The average donation for Gold and Platinum Seal holders in 2017 was 11 percent higher than the combined average donation for non-Seal holders and organizations with Bronze or Silver Seals. Further, the combined average donation for all Seal holders was 7 percent higher than that for non-Seal holders.<sup>[7]</sup>

### Transparency Drives Traction

Charitable organizations are not powerless in shaping public perceptions about the nonprofit sector. Luckily, the dynamic nature of trust suggests the third sector can make changes that positively impact public opinion.

Transparency is not just about releasing a box of documents for public consumption. It can be a real tool for nonprofits to increase their impact through more accurate self-assessments and public engagement, leading to increased donations, volunteers, and positive press.

Transparency is not a one-size-fits-all equation. What is comfortable for one organization may not be comfortable, realistic, or appropriate for another. The best transparency policy will be one guided by an organization's mission, catered to its supporters and potential supporters, and considerate of the organization's needs, policies, and legal issues.

"Establish great mission work that's held accountable back to philanthropic investments. Rely on that philanthropic investment as an up-lifter of your mission and treat it very seriously," shares Brackett. "And with that treatment and transparency, there will be more. People want to give. They are generous."

[1] Give.org [Donor Trust Report](#)

[2] Paynter, Ben, "[More Transparency Means Nonprofits Get More Donations](#)," *Fast Company*, 2019

[3] Hrywna, Mark, "[Accountants Prove Transparency Boosts Giving](#)," *The NonProfit Times*, 2019

[4] Ibid.

[5] "[Foundation Reporting Study](#)," Social Solutions, 2019

[6] "[Earning a GuideStar Seal of Transparency Pays Off—Gold and Platinum Seal Holders Received the Most Donations in 2017](#)," GuideStar, 2017

[7] Ibid.

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