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# GuideStar: Data About Nonprofits Goes Online

Editor's Note: This edition of the Carnegie Results focuses on GuideStar, an organization that was created to provide a rich database of information about charities and philanthropies through an Internet-based delivery system. It's been a successful effort, but one that faces a number of challenges in regard to costs, fees, sustainability and how best to serve the public, all issues we explore in these pages.

In any marketplace, knowledge is power. If participants have enough information, their self-interested decisions will foster productivity and reward innovation while starving inefficiency. It's the magic of Adam Smith; with enough information, optimal resource allocation ought to take care of itself.

Nonprofits are no more exempt from the laws of the marketplace than they are from the law of gravity. The problem for funders is getting enough information. There are none of the profits that so effectively signal investors, after all, nor any customers to vote with their feet. Although a flight by funders can be equally telling, the decision to continue or pull the plug is much more complicated without the kind of clear messages a marketplace usually delivers. Under the circumstances, just how are donors to know what's going on?

Enter GuideStar, a web site founded in 1994 to improve the dissemination of information about charities and philanthropies. GuideStar (www.guidestar.org) is doing just that; it now makes available, at no charge, 1.5 million IRS Forms 990, the annual disclosures that nonprofits have to file with the government. Some 85,000 charitable organizations have augmented this by adding information of their own, and for a fee users can get more extensive information, not just about any one organization but about a range of them (such as, what do female CEOs of midsize nonprofits get paid in the Northeast?). With more than 400,000 registered users, GuideStar has established itself as the place to go for instant information about America's enormous nonprofit sector.

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But GuideStar itself isn't immune to the laws of the marketplace, either. Hemorrhaging money for most of its life—and determined to sustain itself through profit-oriented services— GuideStar's history makes it a worthy case study of the modern entrepreneurial nonprofit organization. Born at the height of the dot.com bubble, GuideStar is also a sobering lesson in the costs of good intentions. Internet users have rallied under the motto, "information wants to be free." But making reliable and useful information available turns out to cost plenty. The challenge for GuideStar—and others like it—is finding a way to do just that on a not-for-profit basis.

At the same time, GuideStar's very existence challenges donors, nonprofits, journalists and the public at large to make intelligent use of the information it offers. Assessing the performance of a nonprofit, after all, is not merely a matter of looking at what it spends on administration, any more than it is a matter of how much money was raised, how many meals served, or how many acres protected. The real question is how effectively it fulfills its mission, at what cost, and whether that mission is worthwhile to begin with. Both questions are as legitimate when applied to GuideStar as to the million other nonprofits whose doings it attempts to illuminate.

That GuideStar has a worthy mission is not a difficult case to make. American individuals, estates, foundations and corporations gave an estimated \$241 billion to charity in 2003, according to the Giving USA Foundation, a nonprofit that studies these things. But with public trust in the nonprofit sector at something of a low ebb, transparency and accountability are the watchwords of seemingly everyone in this huge field. No wonder: in a recent poll of 1,400 Americans by the Center for Public Service at the Brookings Institution, only 11 percent said charitable organizations do a "very good" job spending money wisely, while just 15 percent had high confidence in charities. The reputation of charities—the ultimate do-good organizations—has been battered by a series of high-profile pay and spending scandals, and also suffered from controversy over the disbursement of relief money after the September 11, 2001 terrorist attacks. Under the circumstances, it's hard to argue against a transparency-boosting outfit like GuideStar.

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"It is an enormously important resource because it's available to any member of the public who can look up any nonprofit organization's tax returns," says Walter Robinson, assistant managing editor of the *Boston Globe*. Robinson heads the paper's "spotlight" team, which mined GuideStar's data for a series of exposés on abuses at foundations. For example, the *Globe* used data from the National Center for Charitable Statistics (which in turn gets its information from



Arthur "Buzz" Schmidt Founder, GuideStar

GuideStar) to identify nonprofits with egregiously high ratios of expenses to program expenditures. Then it probed these organizations further by accessing their 990 forms from GuideStar.

By studying these documents, Robinson says, the paper discovered that one foundation with a mere \$7 million in assets was paying a single official an annual salary in excess of \$1 million. Forms 990 from larger organizations—such as Carnegie Corporation of New York—can run to hundreds of mind-numbing pages, but they can also be revealing. *Globe* reporters combing through one of these managed to discover that a Texas foundation had purchased a \$37 million corporate jet. Those stories didn't help the overall reputation of nonprofits, but they did serve the valuable function of helping root out questionable practices by illuminating them, which in the long run should build confidence in the sector.

# Lighting the Way

While the Boston Globe was careful to investigate further before assuming wrongdoing when an organization's administrative ratio seemed out of whack, GuideStar executives are conscious that in this arena, as in so many, a little learning can be a dangerous thing. As Stephanie Lowell, Les Silverman and Lynn Taliento wrote in a provocative piece on nonprofit management in the *McKinsey Quarterly* in 2001, the absence of good performance measures in the nonprofit world has led to "an excessive focus on the percentage of donations and revenues spent on overhead. Funders, and therefore nonprofit organizations, watch this crude measure of fiscal responsibility much as

for-profits watch their stock price. Minimizing overhead is a worthy goal, but it is counterproductive when taken so far that it stifles critical investments in the organization."

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Again, GuideStar itself is an illuminating example. Its own Form 990 for 2003 shows that GuideStar president Robert G. Ottenhoff got paid \$220,000 plus benefits. Vice president for sales and marketing Lee Glenn got \$166,198. Tinsley C. Goad, senior vice president for finance and administration, got \$122,941. And three other executives got nearly \$90,000 each. Those numbers sound awfully high for a money-losing outfit that took in just \$5.8 million that year.

Yet it is Ottenhoff and his team who offer GuideStar the best chance of surviving to carry out its worthwhile purpose. Cynthia Gibson, the Carnegie Corporation program officer who recommended funding GuideStar, says the 56-year-old Ottenhoff is now its biggest strength. "The list of accomplishments that Ottenhoff has achieved in less than two years is testament to hisability to lead this organization in the way it needs to go," Gibson says. Ottenhoff has slashed expenses and paid down debt while reducing the organization's dependence on the consortium of foundations that has kept it going during its first six years of existence. (In 2004, in addition to Carnegie Corporation, the consortium consisted of Atlantic Philanthropies and the David and Lucile Packard, Ford, William & Flora Hewlett, W.K. Kellogg, Surdna, Skoll, Omidyar and Charles Stewart Mott foundations.) At the same time, GuideStar under Ottenhoff has increased traffic to its web site by 50 percent and hugely expanded the revenue it gets from selling data and other services to paying customers. (In fact, Ottenhoff and the organization are so committed to the idea of encouraging electronic filing of nonprofits' tax returns, for example—which would both provide easier access to a larger pool of data while at the same time increasing transparency in the nonprofit sector—that GuideStar is writing free computer code that it will donate to this effort.)

It's important to note, in this context, that Ottenhoff didn't start GuideStar. Like so many enterprises, whatever their intentions about profits, GuideStar was launched by a visionary founder, in this case Arthur "Buzz" Schmidt, who started it up in Williamsburg, Virginia, where he lived. The holder of an MBA from Stanford, Schmidt was a former executive at Cargill Inc. whose goal was to make it easier for people to donate to charities by giving them the information to make informed decisions. *The Virginian-Pilot* and *The Ledger-Star* quotes Schmidt as saying: "The theory was that by shining the light of day, we'll help improve accountability, more accurate reporting, more effective operations—and along with that, more donor generosity." In addition to pouring time and energy into GuideStar (its nonprofit

parent is officially known as Philanthropic Research, Inc.), Schmidt has helped keep it going with his own money.

Schmidt's vision of transparency in regard to nonprofits' mission, finances and operations is one that Carnegie Corporation shares. The Corporation funded the establishment of the Foundation Center in 1956, with the goal of promoting information and understanding about philanthropy and about the work of foundations as well as to help better connect grantees with sources of funding. It has supported GuideStar in order to help extend the availability of information about the nonprofit sector to a wider public interested in information about charitable and voluntary organizations working on social, cultural, advocacy, health, civil rights, environmental and other issues.

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# The Challenge: Management and Money

Eventually, just as in a more conventional business, it became clear that the entrepreneurial founder of GuideStar would have to give way to an experienced manager who could lead the organization out of the wilderness of start-up mode into the promised land of long-term equilibrium. When Schmidt relinquished the role of top manager in order to focus on taking his visionary ideas global by founding versions of GuideStar in other countries, Ottenhoff took over. He became full-time chief operating officer in February 2002.



Robert G. Ottenhoff President, GuideStar

He brought an interesting background to the job. Ottenhoff founded the renowned jazz station WBGO in Newark, New Jersey, and for nearly a decade was the chief operating officer of the Public Broadcasting System. (He compares GuideStar to Sesame Street, which supports its ability to provide the public benefit of free programming with the profits it makes from toy licensing and the like.) Before joining GuideStar, Ottenhoff spent a couple of years consulting in the realms of new media and business planning, among other things. What he brought to GuideStar was a raft of nonprofit management experience along with a fresh perspective on the organization's dilemma. What he got in return was a decent paycheck and a long commute from his home in Washington's northern Virginia suburbs. (Ottenhoff acknowledges frankly that the organization's Williamsburg base is not an advantage, and GuideStar also has an office in Washington as well as staff members in New York and San Francisco.)

The McKinsey trio, in their 2001 paper, nicely captured the management challenge facing someone like Ottenhoff. They noted that most charitable organizations are not as effective as they might be

because they are too small, lack the ability to invest in staff development and information technology, and spend much of their time and energy raising money—often in competition with one another. Funds that do come in often are earmarked for a specific program or short time period, and thus aren't available for organization building. "By balancing a reliance on grants and donations with other revenue sources, such as income generated from commercial activities or licensing agreements, nonprofit organizations can circumvent some of the problems created by the funding environment," they write. Or as Glenn puts it, at some level, "nonprofit is only an accounting term."

GuideStar had little choice but to go in this direction. In the old days, it might have been able to rely on continuous philanthropic funding, much like the Center for Responsive Politics (CRP), a shoestring operation that puts federal campaign finance information on the web at opensecrets.org. But CRP has an annual budget of just \$1 million—and despite the great job it does letting the public find out who gives what to which candidates—it has few potential paying customers, according to Geri Mannion, Chair of Carnegie Corporation's Strengthening U.S. Democracy Program.

"The difference between CRP and GuideStar, I believe, is that GuideStar provides a service that a wide number of audiences may be willing to pay for: nonprofits, foundations, charity regulators, governments, etc.," Mannion says. "Few organizations want to pay CRP for its data, despite its importance. It's one of the main concerns of the few national funders who support data-gathering groups on money in politics, such as CRP. And while CRP provides as vital a public service as GuideStar, the opportunities for diversifying its revenue sources beyond foundations is extremely limited."

The Corporation's Cynthia Gibson agrees about the challenges of generating income to support mission, cautioning that for many, it's just not a feasible goal. She says, "Balance and diversity in revenue streams are the keys when it comes to nonprofit sustainability. While foundations can encourage nonprofits to explore income-generating venture-type projects and other earned revenue models, it is important to keep in mind that most nonprofit organizations will never be wholly financially self-sufficient, given that their missions are not about the bottom line, but rather, about serving the public good. That is why nonprofits, especially infrastructure organizations, will always have to rely, at least in some part, on donations from foundations, the public sector, corporations, and individual donors. In short, earned income ventures are a piece of the nonprofit financial equation, not the magic bullet that some think they are."

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In the case of GuideStar, it's a good thing the organization has all those potential paying customers, because unlike CRP, GuideStar is a cashburning machine. One reason is the large amount of labor required to digitize all those 990s—a mountain of typing that by itself costs up to \$1 million a year, a number that Ottenhoff has managed to reduce from even higher levels in the past. Another \$700,000 went in 2004 for web hosting, equipment leases and other information technology expenses. (GuideStar's overall annual budget for 2004 was about \$5.7 million, Ottenhoff says.)

Given the potential paying market for what GuideStar does, funders like Carnegie Corporation have had a role more like venture capitalists, willing to invest crucial seed money but determined that the enterprise should take root and find its own permanent source of sustenance. Thus, Ottenhoff and Glenn came up with an ambitious plan to wean GuideStar away from most of its foundation funding and obtain more than two-thirds of revenue from sales by 2006. GuideStar has already made remarkable progress; the figure for 2004 is 31 percent, up from just 2 percent in 2001. Accordingly, GuideStar wants to reduce its reliance on foundations from 98 percent in 2001 to just 21 percent in 2006. So far, it's down to about 59 percent, Ottenhoff says, and the organization is right on schedule.

To accomplish its goals, GuideStar is doing all kinds of things to make money—including simply asking for it. Its web site features a "Donate Now" button enabling grateful users to give something back; from January to mid-September 2004, nearly 10,000 visitors had viewed the page but only 186 had given an average of \$21.20 each, totaling \$3,942. "A lot of our energy is focused on the fact that 20,000 users a day come to our site and hardly any of them is giving us a dime," says Ottenhoff. "We've got to break that cycle."

GuideStar figures the big boys should contribute too. Its TrueNorth program offers foundations and corporations a flexible opportunity to make a grant or pay a fee for services (thereby allowing givers some leeway as to whether the money is a "grant" or an "expense" for the giver).

But GuideStar's greatest hope rests with the array of value-added services that it offers to its growing base of users for an extra fee. Some examples:

- GuideStar Salary Search allows paying subscribers "to access the
  most comprehensive resource for nonprofit salary information.
  You set the parameters for the data you need and Salary Search
  returns your results instantly." You can also buy the Nonprofit
  Compensation Report, which has salary data on more than
  68,500 U.S. public charities.
- GuideStar Grant Explorer allows grantmakers and grantseekers to search for grant information by a variety of criterion. The data covers more than 42,000 of the largest foundations and more than 1.6 million grants of \$5,000 or more.
- GuideStar Analyst Reports are available covering more than 200,000 nonprofits, complete with comparisons to peer groups in various categories
- GuideStar for Professionals and GuideStar for Grantmakers offer various resources to help for lawyers, accountants, donors and others with due diligence and research.

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In addition, GuideStar offers custom data services, slicing and dicing its extensive data into various tailor-made data sets that it sells for anywhere from a few thousand dollars to perhaps \$75,000. "We'll do \$800,000 this year in data sales," says Glenn, whose work experience included stints with Broadcast.com (later sold to Yahoo) and AmericaOnline.

What you can access for free on GuideStar are 990s in the widely used Adobe Acrobat format—basically a photo of each 990 page, provided by the Internal Revenue Service. You can save or print these, but they aren't searchable, and if you want to extract information about more than one nonprofit, you have to compile it one at a time. This is because nonprofits are still overwhelmingly filing their 990s on paper; universal electronic filing is in the future, but for now only a tiny number of nonprofits do it this way. To make the data more usable—and more marketable—GuideStar pays an outside firm to key it into a computer. The Council on Foundations and Independent Sector, two leading organizations of nonprofits, have urged nonprofits to file their 990s electronically, but so far relatively few are doing so, and government efforts to make electronic filing the norm have been hampered by inadequate funding and structural constraints, both of which we'll get into later.

GuideStar is so effective at making all this information available that even the government uses it. "The IRS is buying digitized data from us," Glenn says. A host of others also utilize both GuideStar's free and paid services, as the Corporation's Geri Mannion, notes: "Given the increased interest by policymakers and the public in nonprofit accountability, GuideStar provides a vital public service. So much so that foundations, charity regulators, and even offices of the states' attorneys' general consult regularly with GuideStar's database." Financial firms that want to market their services to, say, philanthropies with more than \$25 million in assets comprise another set of customers, but since "commercial" use of GuideStar isn't officially allowed, the organization has been able to hit up these firms for additional fees.

GuideStar also has a "private label" program, under which it sells its services for use under another brand. One example: Fidelity Charitable Gift Fund, the nation's largest donor-advised fund, pays GuideStar so

that it can give its donors access to GuideStar analyst reports at no charge. (Fidelity declined to comment, saying it doesn't discuss vendor relationships.) GuideStar data can also be accessed via justgive.org, a web site devoted to connecting people who want to give with charities that need their money.

"The thing that's holding us back is working capital," Ottenhoff says, noting that he had just secured additional financing to carry the organization forward. What does he need more money for? Marketing and promotion, which presumably would result in more sales as well as greater dissemination of information on nonprofits. "I'm concerned that a majority of our potential users still don't know we exist," he says. And two more very specific hires to augment the 44-person staff already in place: Ottenhoff says GuideStar needs someone focused on new product development, and it also needs someone to concentrate on researching just who its customers are and what their needs might be. Meanwhile, "67 percent of our users come to look at 990s," says Glenn, meaning most pay nothing. "Free is a really hard price to come off of."

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The limited searchability of 990s stored as Adobe Acrobat files can be frustrating. The *Globe's* Robinson says GuideStar was important to the newspaper's work, but the paper augmented what it got from GuideStar by paying \$179 a month to the Foundation Center for a time to access the powerful search features of its database. "You could put in the name of Walter Robinson and get all the foundations he was connected to," Robinson says. "You could look up Harvard and find out every foundation gift they'd received."

But GuideStar is making progress on this front too. If Robinson's team were investigating foundations today, it would find those same capabilities on GuideStar, according to Glenn. "We offer detailed information on more than 42,000 foundations and 1,600,000 grants (based on grants of \$5,000 or more) for \$49 per month," Glenn says. "Plus, we have 990 images for all filing foundations," which means about 77,000 of them. He adds that while the Foundation Center doesn't get its data from GuideStar, Foundation Center staff members do use the site.

You can also get data about nonprofits from the National Center for Charitable Statistics (NCCS), a unit of the Urban Institute that has been involved for years in efforts to get data on this sector into the hands of scholars, journalists and the public. The NCCS developed the National Taxonomy of Exempt Entities, a coding system now used by the IRS to make that data on nonprofits more useful. Today NCCS makes the data (which it gets from GuideStar) available to researchers for free or at modest cost. The work that the organization has done with the IRS has helped NCCS to become widely recognized as "the" expert on IRS regulations and it provides extensive technical assistance in these areas to scores of nonprofit infrastructure organizations and government agencies.

NCCS project manager Linda Lampkin says her organization focuses on serving researchers, and toward this end further encodes and categorizes the data it receives in order to make it more useful to academics and policy wonks. "We charge a sliding scale," she says, "and we don't sell to commercial vendors," who are the very customers GuideStar most eagerly targets. Lampkin adds wryly: "Anything that doesn't pay well, we get."

NCCS and GuideStar are in somewhat the same business, which raises

questions about whether each ought to remain independent of the other. In the for-profit world, after all, competition is healthy, but among nonprofits it can be difficult, absent the ruthless judgment of the marketplace, to distinguish healthy competition from wasteful duplication. NCCS has some of the same funders as GuideStar and has an annual budget—in what Lampkin calls its "building" phase—of about \$1.5 million, a figure she says will settle at \$500,000 or \$600,000 a year in the near future. But those numbers far exceed GuideStar's 2003 deficit of \$240,000 (as reported in its 990).

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So why not merge the two organizations? It's probably not a bad idea; the McKinsey trio—Lowell, Silverman and Taliento—argue that too many nonprofits are too small to be fully effective, and that "donors must also more actively encourage nonprofits to consolidate and cooperate with one another." That said, GuideStar and NCCS clearly have different orientations and cultures, and for data consumers having more than one seller may be preferable to coping with a monopoly, even if it is a nonprofit monopoly. Besides, as Lampkin says with a chuckle, there's the issue of determining "which is going to absorb the other." Ottenhoff, for his part, argues that GuideStar and NCCS are very different animals. "NCCS was very helpful to GuideStar's initial start," he says. "Since then GuideStar has gone on to become a force in its own right for generating important nonprofit data. GuideStar aggregates and processes data about nonprofits and private foundations from a variety of sources, creates and manages a database, offering much of the information free on our web site. Finally we do something no one else does-digitize the data and license it through value-added tools and services. We deal with all kinds of users and customers-from nonprofits, to governments, to commercial companies—many who want to use the data for their business, in their own special way."

In his view, NCCS and GuideStar do different things for different people: "It's a nice and practical division of labor."

# An Electronic Future?

Despite these differences, GuideStar and NCCS do share a commitment to electronic filing by nonprofits. Unfortunately, the era of electronic filing isn't coming as soon as it might. NCCS has been working for several years to get the IRS, state regulators and nonprofits to embrace it, which might someday end the crazy quilt system of multiple filings, keyboardings, error entry and (hopefully) error correction that now characterizes nonprofit disclosures to government overseers. The system is as expensive as it is unilluminating; Lampkin says the states estimate that half of what they spend regulating nonprofits goes for paperwork.

But according to Lampkin, the IRS tends to focus its resources on revenue-generating aspects of its operation, as opposed to returns filed specifically to avoid paying the government anything, with the result that government funding has been scant and progress has been slow. This is nothing new. It was the NCCS, Lampkin says, that obtained donor funding to pay for scanning equipment for the IRS so that 990s could be stored electronically in the first place.

GuideStar, too, is laboring to get everyone aboard the electronic filing train. Dan Moore, formerly New Mexico's chief charity regulator and now GuideStar's vice president of public affairs, is especially keen on corralling the states. He notes that nonprofits have to make filings to state regulators in every state in which they solicit—and that an entire industry has sprung up to help them do this.

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To conquer the burden of multistate filings, paper management and keyboarding—and to produce consistent data that people can readily use—Moore is working with the National Association of State Charity Officials (of which he is former president) to try and develop shared standards, a common database for information on state enforcement actions and of course, a uniform way for nonprofits to make regulatory filings. Like the IRS, states don't have much money for this, and there are cultural issues as well. Moore says that from an administrative standpoint, the fact that many state charity regulators are part of an Attorney General's office means that functioning as a repository—and making that repository digital—isn't always their strength. "It's so unlike the other things Attorneys General do," he says.

But digital filing of tax returns and regulatory disclosures is one key to more effective regulation as well as greater transparency and accountability in the nonprofit sector. Moore says there are three main barriers: a lack of commercial software for paid preparers that do the great majority of the filings; a lack of consolidation between IRS and state filings; and at the state level, information systems that are geared for paper, which could be costly to change. To help accelerate the process, Moore says, state officials and the IRS are shooting for a single-point filing solution via the IRS by 2006. He notes that about 80 percent of the required fields for the various states are the same (name and address, for instance), but that the computer code GuideStar is creating to aid this effort—and as noted earlier, will make available free of charge—can respect the diversity of state requirements in the same way that commercial payroll software, for example, can take account of the state in which workers are being paid. GuideStar is also helping to convene a national advisory committee of CPAs, lawyers and state nonprofit regulators to work on all this.

When electronic filing does become the norm, the data itself will become something of a commodity. What will matter than will be the value added. Ottenhoff says GuideStar wants to be both a wholesaler of the data—and thus perhaps agnostic about its use—as well as a provider of substantial additional value, which is where he expects the money to be. Meanwhile, GuideStar is well aware of the many issues raised by all this searchability and disclosure. Debra Snider, vice president of communications and nonprofit relations, says GuideStar routinely holds meetings to educate donors and nonprofits about what the 990s reveal (for an instant education on this subject, the Nonprofit

Coordinating Committee of New York offers a handy guide to making sense of 990s at <a href="http://www.npccny.org/Form\_990/990.htm">http://www.npccny.org/Form\_990/990.htm</a>). Snider also notes that these forms are not just thrown up on the GuideStar web site raw. The IRS removes nonpublic information—such as the names of contributors—before turning them over to GuideStar, and signatures are also blacked out. GuideStar also tries to educate nonprofits about what to leave out. Snider notes that sometimes organizations include the home addresses of board members, or bank account numbers or even social security numbers. None of these are required, and Snider urges nonprofits to exclude such information. "Protect your board," she tells charities.

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As in other walks of life, success breeds success. If GuideStar really does manage to establish itself as *the* indispensable place for information about America's nonprofits, it will probably gain pricing leverage with its various stakeholders. Right now, for instance, it works hard to persuade nonprofits to augment their 990s by adding information of their own to GuideStar's web site. If this effort is successful enough, it's not hard to imagine it reaching a tipping point beyond which nonprofits would have to pay a little something for this privilege. Similarly, GuideStar might someday drop its distaste for "evaluative" reports on nonprofits and produce something akin to what Morningstar does for mutual funds or Value Line does for stocks. Or how about the Moody's approach? Perhaps GuideStar someday could charge charities for a rating, the way Moody's charges bond issuers to rate their debt. Nonprofits might be happy to pay because the rating might help with fundraising.

Of course, the goal isn't to make money from nonprofits; it's to make money from those who profit from information about nonprofits. That way, GuideStar can continue to produce a public good—reliable information about the nation's nonprofits—at private expense. Maybe users enjoying this form of the proverbial free lunch will be motivated to act as GuideStar's founder hoped, and give more to charity. Who knows? Maybe they'll even give more to GuideStar.

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