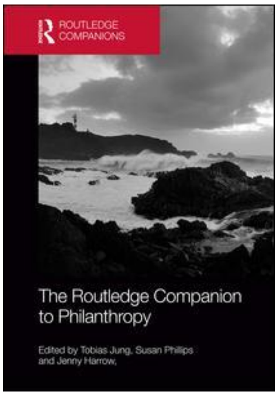

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Measuring impact and recognizing success

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Measuring impact and recognizing success

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With external pressures on, and internal developments of, the philanthropy field, performance and impact measurement have become increasingly prominent themes across policy, practice, and research (Light, 2004; Zimmermann and Stevens, 2006; Carman, 2007). Driving factors include: a public interest in evaluation, better accountability, responsibility and success; the changing nature and characteristics of philanthropy brought about by philanthropreneurs, venture philanthropy, impact investment, and the financialization of philanthropy (Gordon *et al.*, Chapter 21; Defourny *et al.*, Chapter 22; Thümler, Chapter 23; Hebb and MacKinnon, Chapter 29); and, the hybridization of philanthropy itself (Smith, Chapter, 20). As such, there is a growing interest in understanding why, and how, things are done (Evers, 2005; Billis, 2010).

Defining success for, and of, philanthropy is, however, a difficult and complex, undertaking (Murray, 2010). As a core unit of the sector, nonprofits' organizational effectiveness has attracted a lot of research attention. The findings indicate that organizational performance is multidimensional with priority given to nonfinancial over financial criteria (Baruch and Ramalho, 2006). Thus, when trying to identify success, multiple indicators and approaches are necessary. Research also indicates that the perception of nonprofit success is socially constructed, and not consistently valued by different stakeholders (Herman and Renz, 2008). Thus, performance is always the result of a negotiation (Murray, 2010).

Furthermore, within the literature there is neither agreement, nor are there clear boundaries, on how performance and impact measurement should be approached, understood, and used (LeRoux and Wright, 2010). In general, performance measurement deals with the effectiveness of a nonprofit organization (Herman and Renz, 2008; Sowa *et al.*, 2004). Furthermore, performance measurement refers to the ongoing process of defining, monitoring, and using performance measures to improve organizational effectiveness in addressing public problems (Poister, 2003). As part of this process, impact measurement concentrates on the results, especially outcomes and impact, of nonprofit activities. Thus, in the context of philanthropy, impact measurement includes the relevant actions of the funder, the grantee, and the beneficiary (Leat, 2006; Thomson, 2010). However, the societal utility of philanthropic performance goes beyond the success of any single organization. Measuring impact draws attention to the results in society at large. Hence, this extension leads to even more complex evaluation situations (Anheier *et al.*, 2011).

This chapter discusses the complexities of impact measurement, including its underlying drivers, reasons, and relationships, and points to implications for further research. Special emphasis is placed on relationships between funders and grantees. As funders become more and more operationally involved, their part in the impact evaluation goes beyond giving money. Consequently, the question arises as to how the funder itself, as well as its actions, can be included in the evaluation of philanthropic activities (Langer, 2004). The following sections explore the drivers and reasons for impact measurement. The chapter then turns to the role of the funder and how impact measurement is utilized. It concludes with reflections on current research issues in relation to both theory-building and empirical analysis, as well as thoughts on future developments surrounding impact measurement in philanthropy.

Drivers and reasons for impact measurement

The focus on identifying impact is generally associated with measurement and quantification. In the context of nonprofit organizations and philanthropic services, different terms such as assessment, evaluation, or accountability are in use to describe more or less the same process: proving the successful provision of services and goods. Although the increased use of measurement has been perceived as a recent development (Frumkin, 2004), at least within the UK, it has been a longstanding issue for the nonprofit sector (Barman, 2007a). The reasons for measurement have, however, changed over time. Before performance measurement became the focus of funders and nonprofit leaders, measurement activities were targeted to the assessment of community need or pure financial efficiency. As Barman (2007a: 112) concludes, 'measurement emerges in moments of uncertainty and change … [and] … reflects larger debates and contestations over the appropriate purpose and nature of the voluntary sector'. Thus, the actual emphasis on impact measurement reflects a change in the perception of the philanthropic sector by society at large; it is of special relevance to philanthropic activities, where 'one party donates resources to another party for a charitable purpose or to better welfare of society' (Benjamin 2010: 385). What then are the driving forces for the growth and application of impact measurement? Key ones appear to be information asymmetries, risk preferences, isomorphism, and the idea of change.

Drivers of oversight and accountability

In philanthropic relationships, funders give resources to nonprofits as intermediaries linked with a mandate to provide goods or services to beneficiaries following the funders' purpose. Notwithstanding a thorough selection process of funded projects, funders and grantees have inherently different goals, interests, and motivations (Speckbacher, 2003). The intermediaries might misrepresent their capacities to funders in order to obtain a grant (adverse selection), or might try to elude conditions agreed upon (moral hazard). As a consequence, both funders and grantees are obliged to agree on arrangements of monitoring, measurements, and oversight systems (Van Slyke, 2007). Grantees are held accountable for their use of resources and to the outcomes they have produced assembling these resources (Carman, 2010). Murray (2010) differentiates between two basic forms of accountability: legal and moral. Legal accountability is based on formally, and officially, defined contracts that both parties accept. Moral accountability exists when 'reporting is legally not required but parties believe there is an obligation for one to be accountable to the other' (Murray, 2010: 347). A funder-grantee relationship is usually based on legally valid contracts. However, grantees often feel a moral accountability to other stakeholder groups such as beneficiaries or the community. Benjamin (2010) differentiates accountability relationships from philanthropic relationships by stating that in the former, one party mandates another party with the fulfilment of some desirable aim; in the latter, the funder donates resources for a charitable purpose. Thus, the use of impact measurement should reduce information asymmetries and strengthen the alignment of risk preferences.

Drivers of regulations and expectations

Leat (2006) emphasizes that grantmaking foundations and other institutional funders do not fulfil the basic assumptions of resource dependency and uncertainty usually supposed to nurture isomorphism in nonprofits (Romero-Merino and Garcia-Rodriguez, Chapter 25). Because of their endowed capital, and feeble legal requirements, these funders are relatively immune from external pressures. Leat (2006) rates the foundation sector as being a case of weak institutionalism explained by the considerable variability. However, one can argue that different forms of pressures can explain why impact measurement has become so important in the nonprofit world (Light, 2002).

In nearly all European countries, foundation law regulation has been revised in the past ten years (EFC, 2011). Thus, coercive isomorphism in the form of legal regulation has supported foundation professionalization, as well as anticipatory coercion in the form of governance codes (Dawson and Dunn, 2006; von Schnurbein and Stöckli, 2010). Additionally, open published toolboxes for performance and impact measurement, such as the Program Outcome Model (America, 1996), the Inspiring Impact Initiative (2015), or the Total Impact tool (Cabinet Office, 2014), have increased the pressure on funders to use these measurement tools. Mimetic isomorphism emerges from peer learning. Especially in the area of impact measurement, new approaches such as venture philanthropy or impact investing have changed the attitude towards impact measurement in many other institutional funding organizations. Procedures and vocabulary are borrowed from venture capitalists and transformed into the nonprofit sector (Defourny *et al.*, Chapter 22; Hebb with MacKinnon, Chapter 29). Other factors of mimetic isomorphism are the growing number of conferences on philanthropy, a rising number of members in umbrella associations and the facilitation of communication through digital media (Leat, 2006). The most relevant forms of isomorphism on impact measurement seem to be the ones of normative isomorphism. Along with an increase of professionalism and bureaucracy came the wish to prove that funded projects are successful. New approaches of scaling up and creating leverage ask for impact measurement in order to define which projects are worth being multiplied. With the rising number of employed staff in foundations, information asymmetries between staff and trustees lead to a rising use of performance measurement tools because trustees do not have the same insights as staff members (Anheier and Leat, 2006). As a consequence, forms of isomorphism have nurtured the development of new standards and procedures in accounting and performance measurement (Murray, 2010).

Drivers of conceptualization

Social problems, as well as the envisaged solutions thereto, have become increasingly complex. As part of that, the expectations placed at the doors of private donors, or funding institutions, go far beyond the ethic principle of ‘do no harm’ (Wenar, 2010). Thus, philanthropic action requires well thought-out concepts that cover and align the interests of diverse stakeholders. In order to create real change, an underlying theory of change has to be developed and, afterwards, the goal attainment has to be measured. A theory of change stems from the assumption that ‘programs are based on explicit or implicit theories about how and why the program will work’

(Weiss, 1995: 66). One can say that the theory of change is the fundamental philosophy behind the philanthropic actions of an institutional funder. It explains how the purpose of the foundation will be put in place by using a certain type of method or instrument and targeting a social problem in a specific way. Theories of change are usually based on logic models that explain in a causal chain how the resources invested are used and what kind of outputs or outcomes should be achieved (Carman 2010). Thus, only by measuring the contribution of the project to social change, the theory of change can be proven to be right. Accordingly, impact measurement is always oriented to the organization's mission, not only to aspects of effectiveness and efficiency (Sawhill and Williamson, 2001).

Drivers of multiplication and leverage

Despite the global growth of philanthropy, especially the foundation sectors, the economic potential of 'the good economy' is still perceived to be falling far behind public subsidies and investments. Being aware of the scarcity of philanthropic money, new ways of funding have developed (Salamon and Burckart, 2014). These highlight the importance of multiplication and leverage. As a consequence, the understanding of giving has transformed from alms and charity to finance and investment (Thümler, Chapter 23): strategies and techniques from venture capital have been adapted to the financing of social purpose organizations and the notion of investing and reinvesting has been introduced in philanthropy (Letts, Ryan, and Grossman, 1997). This development has been mirrored by an increase of hybrid organizations combining social and economic goals in favour of a better goal attainment (Billis, 2010; Smith, Chapter 20). The basic idea of hybrid organizations is to use economic value creation strategies to solve social problems and by this, increase the utility of the donated money. These new structures on both sides – social investors and social entrepreneurs – call for new forms of measurement that cover economic and social aims. However, the aim to define and measure blended value is a major challenge.

Driving forces

Several organizations have made great efforts to develop measurement tools for nonprofits and to disseminate the idea of impact measurement. In the US, United Way and the Roberts Enterprise Development Fund (REDF) are among the pioneers of this movement. In 1996, United Way published the handbook 'Measuring Program Outcomes: A Practical Approach'. This offered a step-by-step introduction to nonprofit performance measurement based on a logic model approach. The logic model follows a value chain approach including inputs, process, outputs, and outcomes (United Way of America, 1996; Murray, 2010). The aim is to describe a sequence of activities and results that are attributable to the focal intervention or to detect what else can affect the described outcomes. At the same time, REDF developed the Social Return on Investment (SROI) in order to make the value creation of social investments more visible to philanthropists. The innovative idea of the SROI was to monetize social impact in order to allow cost-benefit analyses that go beyond simple cash flows (Emerson *et al.*, 2000). This quickly was adopted and further developed internationally by organizations such as the New Economics Foundation and Social Value UK, formerly known as the SROI Network. While in the original version of SROI equal emphasis was placed on quantitative and qualitative aspects of the evaluation, subsequent developments, especially within the UK, have seen a shift of emphasis away from the qualitative towards the quantitative measurement aspect of the evaluation (Clifford and Jung, 2011).

Alongside the development of new tools and methods for performance measurement, funding organizations have played an important part in paving the way for impact measurement. For example, the Edna McConnell Clark Foundation changed its funding policy into a venture philanthropy approach, supporting organizations not only financially, but also in terms of capacity building and network creation. Additionally, specialized consultancies, such as Rockefeller Philanthropy Advisors and the Center for Effective Philanthropy, have focused on helping foundations and other funding organizations to develop impact measurement procedures for their funding programs, while, more recently, government agencies have started to take a more active, and steering, interest in the area (Harrow and Jung, 2015).

While the number of measurement tools is burgeoning (Mildenberger *et al.*, 2011), their implementation is still lacking behind. One major reason for this may be the specific nature of the relationship between funders and grantees.

The challenging role of the funder

Focusing on the value of nonprofit activities to society at large, impact measurement increases complexity across the nonprofit sector. This results from the fact that in philanthropic exchange processes the beneficiary usually does not pay the costs of the services received. Vice versa, the funder as 'creditor' does not expect any direct return for his or her donation. Hence, on both sides of a nonprofit interaction, incentives for higher involvement, and specific expectations on the service provided, are low. Funders often do not expect more than the good feeling of doing good; beneficiaries accept the way the service, as a gift, is provided and do not ask if it could be done better or differently. The nonprofit organization, as intermediary, can only refer to its own principal aims and assess the compliance of the service with these goals. This might be one of the reasons as to why, for some time, measuring nonprofit success did neither receive major attention by practitioners nor by researchers (Forbes, 1998). Since then, the theoretical discussion on nonprofit effectiveness has made vast progress (Greiling, 2009; Herman and Renz, 2008; Murray, 2010). Additionally, new funding approaches in practice have led to a new understanding of the role of the funder (Letts *et al.*, 1997). Strategic philanthropy or venture philanthropy puts the funder in the position to do more than just donating money (Frumkin, 2006): '[t]he relationship between the venture philanthropist and … the grantee, is more intensive, frequent, and engaging than traditional philanthropic relationships' (Van Slyke and Newman, 2006: 347). The core values of these new approaches are taken from the venture capitalist approaches prominent in early stage investments of enterprises (Defourny *et al.*, Chapter 22). Although differences between strategic, high-engagement, or venture philanthropy appear, the basic principles are more or less consistent: high engagement by the investor through financial, intellectual and social (networking) support, investment in capacity building, investments of three to five years with a clear exit strategy, goal definition and performance measurement (Letts *et al.*, 1997). In covering both the performance of the grantee and the goal attainment of the funder, associated impact measurement is of high complexity. On the one side, funding organizations, especially grantmaking foundations, offer grants according to their purpose. However, by supporting another nonprofit organization, the foundation has no longer fulfilled its mission. The intended benefit will not be achieved until the grantee has established the service for the beneficiaries. On the other side, the grantee is accountable not only to the grantmaker, but to a wide range of stakeholders including government, individual donors, beneficiaries and the general public. This can lead to conflicts of interest that may have negative effects on the project outcomes (Wyser and von Schnurbein, 2011). Barman (2007b) states that funders' involvement, intentionally or unintentionally, influence the way that nonprofit organizations execute their projects and services.

Furthermore, in line with resource dependency theory, this approach means that the nonprofit organization is likely to act more in line with the interests of the funder with those of the beneficiaries (Whitman, 2008). In the search for programmatic improvement, funder and grantee have to make a joint effort for a process that combines the evaluation with the decision-making context (Mayhew, 2012).

Changing logics of the funder-grantee relationship

Mayhew (2012) describes the funder-grantee relationship as a strategic alliance that combines different organizational resources with accordant goals. Benjamin (2010) distinguishes philanthropic and accountability relationships, highlighting that greater accountability may complicate the ability of the funders to consider other philanthropic concerns.

Philanthropic relationship

As already defined, a philanthropic relationship is based on a donation of resources of the funder to a grantee for a charitable purpose. It is noteworthy that, the charitable purpose has to be in alignment with both the funder's (e.g. a foundation) and the nonprofit's core values and mission. Philanthropic action covers a wide spectrum that ranges from single donations to legacies or grants made by a foundation (Harrow, 2010). In the context of impact investing, prevalence is given to the activities of institutional funders that pursue specific, stated, goals. The funding decisions of these actors are dependent on governance structures, networks, and personal preferences (Frumkin, 1998). Thus, philanthropic funding is closely related to underlying values that funders want to see implemented in society, on their perspectives of deserving and undeserving causes (Schervish and Havens, 1997; Whitman, 2009; Harrow, 2010; Healy and Donnelly-Cox, Chapter 12). Based on the goals stated in a foundation's deed, potential fields of activities will be assessed, and ways of creating or supporting social change will be weighed up. This will result in a funding strategy on which basis grants will be made. Only those grant applications in line with the foundation's intended goals will be accepted and grants will be paid out on the basis of a contract that entails – among other issues – evaluation guidelines. A major distinction to other exchanges, such as political or commercial exchanges, is the fact that philanthropic exchanges are not conclusive. Thus, the funders do not get a market price adequate service or good for their donation (von Schnurbein and Bethmann, 2010) and, in order to accomplish its mission, a grantmaking foundation is reliant on the services of the grantee. As a consequence, the philanthropic relationship has shifted from a paternalistic, financial exchange to a partnership structure in which the funder is investor, consultant, and collaborator (Barman, 2007b; Harrow, 2010). This has led to increased expectations of accountability (Harrow, Chapter 31). Combined with this new approach to philanthropy, the notion of accountability has increased. Formerly, when grants were understood as gifts, evaluation was of low relevance. Now, as grants are perceived as investments, evaluation is a necessary part of grantmaking.

Accountability relationship

In an accountability relationship, one party delegates authority to another party for achievement of some desirable end (Jensen and Meckling, 1976). Following the underlying assumptions of agency theory – self-interest and information asymmetry – a funder has the obligation to overview the activities of the grantee in order to assure usage of the given grant that confirms with the mission. Hence, the accountability relationship is always based on a process of formal evaluations of past activities (Murray, 2010). Carman (2010) describes the underlying assumption of the 'accountability movement' as follows:

> If funders require nonprofit organizations to provide them with reports about performance information, and funders require that they engage in program evaluation, then nonprofit organizations will learn from this and, in turn, be able to provide more effective services in more efficient ways.
>
> *(2010: 5)*

Thus, the accountability relationship starts with the grantee receiving the grants and planning the activities. Based on the strategic planning, the goods and services are provided. Afterwards, the activities are evaluated. Finally, the grantee checks if the planned goals were accomplished and reports to the funder.

As discussed above, the founder-grantee relationship can be described from a philanthropic perspective and from an accountability perspective. Although there are similar participants and comparative actions, the underlying logics are different. As highlighted in Figure 30.1, the directions of processes are diametrical. In a philanthropic relationship, the process starts with the core values and mission goals of the funder and ends with the contribution of grants to the grantee (Leviton and Bickel, 2004); the accountability relationship begins with the resource demand of the grantee and ends with the contribution to the accomplishment of the funder's mission. Impact measurement consists of the methods, procedures, and instruments that add to the understanding of this final aspect of the accountability relationship. The different logics are critical for the way that impact measurement is executed. Funders that prioritize the philanthropic relationship may prefer qualitative data and storytelling that helps them determine how

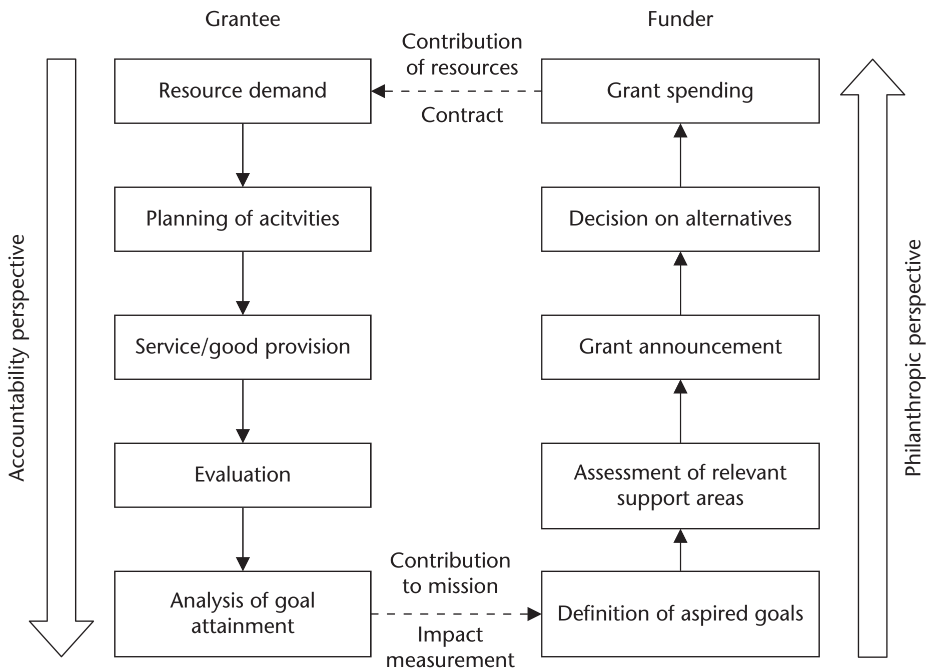

Figure 30.1 Diametrical logic of philanthropic and accountability relationship

a funded project served to fulfil their main purpose. Funders with an accountability perspective, though, may ask for quantitative data and scientifically proven explanations in order to measure cost-benefit relations.

Utilizing impact measurement

Given the problems of defining nonprofit effectiveness and the complexities of funder-grantee relationships, critics highlight the lack of objectivity, and question the sense, of any measurement that goes beyond assessing outputs (Campbell, 2002; Moxham, 2010). Easterling (2000) names three practical limitations of measuring outcomes. First, outcome evaluation is expensive as the assessment tools require additional efforts of staff and clients in nonprofit projects. Second, due to their socially constructed nature, the outcomes of nonprofit programs are elusive. Finally, grantees are resistant to outcome evaluation: it is associated with judgment, punishment, and cost reductions (Bass and Lemmon, 1998). On the other hand, some studies see potentially positive effectors of outcome and impact measurement, for both funders and grantees, especially in relation to strategic decision-making and goal attainment (Carman and Fredericks, 2008; LeRoux and Wright, 2010). Consequently, there have been calls for research to guide and improve evaluation systems (Murray, 2010). As impact measurement is cost-intensive and time consuming, it can only be justified if it has the right focus, verifies the intended goals, leads to a better understanding of the situation, and, finally, consolidates at least one of the funder's aims.

Clarifying the measurement range

Due to the fact that impact measurement deals with multiple dimensions, value prioritization, and convertibility over time, deciding on an appropriate measurement range is an essential prerequisite for any successful evaluation (Herman and Renz, 2008). From the funder's perspective, the standard scope of an evaluation is a single grant, and the associated activities paid for. However, as previously highlighted, there has been an increasing trend to move away from simple grants. In many cases – and especially in those of interest to impact measurement – funding is more complex; it ranges from perennial support and program funding to cooperations and multigrantee funds, but also to more nuanced support, such as organizational capacity building support, alongside the core grant (Cairns *et al.*, 2011). Furthermore, the specification of the measurement range has implications for the people involved. Depending on the evaluation's focus, different people in the foundation and the nonprofit organization will be responsible to carry out the evaluation process. For a single project or program, the project or program manager will supervise and steer the process, whereas in a complex initiative with multiple grantees, the foundation's director or even the trustees will be integrated in the evaluation process. Taken together, these factors mean that, from the grantee's perspective, evaluation is a difficult balancing act; it is not always obvious which aspects and activities need to be included in any one evaluation. If only one project is funded by a foundation, why should the nonprofit organization as a whole be the focus of the evaluation? Hence, the assessment range must be wide enough to allow comprehensible and significant statements on the success of an intervention, yet narrow enough so as to reduce complexity and external factors to a manageable level (Mark and Beery, 2004). As such, a valid case can be made against a blanket approach to impact measurement: the process should be limited to larger grants, programs, and initiatives that play a major and important role in the strategic direction of the funder.

Verifying the intended goals

Funder and grantee may have related, but not always concordant goals. Thus, funder and grantee have to align the major aims of the intervention at the beginning. However, as philanthropic projects are often uncertain in their development, the initial goals may become partly obsolete or inappropriate. As a consequence, impact measurement only leads to a useful result if the goals are adjusted and still in alignment with the foundations mission (Leviton and Bickel, 2004). Additionally, the foundation has to check if the goals are measurable and applicable for the analyzed intervention (Sawhill and Williamson, 2001).

Breaking down complexity

Philanthropic action usually aims at the development of society at large. However, reducing or solving societal problems is never easy because many components and stakeholders are involved or affected by any one intervention; it is often difficult to identify and trace the full consequences of activities. In this respect, the underlying methods and instruments of impact measurement help to reduce complexity and to focus on core aspects. In this respect, logic modeling has established itself as a relevant and useful approach to impact measurement (Carman, 2010). From an institutional perspective, it serves as an instrument of normative isomorphism, stating that a successful logic model may be transferred onto other projects or scaled up to a larger program setting (Leat, 2006). Although there are a large number of different evaluation tools existing, only few of them have reached a larger attention in both theory and practice (Murray, 2010; Mildenberger *et al.*, 2011).

The choice of the evaluation tool depends on various aspects, e.g. the defined goals, resource constraints, or the selected perspective onto the project. If the foundation wants to gain a broader understanding of the performance of an intervention, stakeholder-related analyses such as the Foundation Assessment Tools (CEP, 2002) are helpful to cover the different points of view. The aim of this tool is to cover the perceptions of different stakeholder groups and to benchmark the results with comparable projects. Primarily developed for business analysis, the balanced scorecard was also adapted to serve nonprofits for their performance evaluation (Kaplan, 2001). It covers financial and nonfinancial measures and is oriented to a long-term value (Murray, 2010). Patton (2003) further develops the approach by presenting a dashboard for social enterprises. A stronger focus on the outcome, instead of means, is offered by the aforementioned Program Outcome Model, developed by United Way (United Way, 1996). It follows a clear logic modeling approach and puts an emphasis on the implementation process. The tool suggests quantifying all results through the definition of specific and measurable indicators. Finally, Social Return on Investment (SROI) has gained a lot of attention (Kehl *et al.*, 2012; nef, 2004). Based on a classical cost-benefit analysis, it not only tries to quantify results, but tries to monetize social outcomes; it emphasizes the fact that social projects provide more benefit than just the direct action. By monetizing the social investments, it offers a way to capture side effects and long-term social benefits. SROI's most compelling advantage is that it can present one final figure to picture nonprofit success. This, however, needs to be arrived at in a reliable and appropriate way, which, in the past, has not always happened. Hence, critics concentrate less on the general idea of SROI and more on the methodology (Lingane and Olson, 2004). Nevertheless, SROI is constantly developed and adopted in practice (Clifford and Jung, 2011; Kehl *et al.*, 2012). Taken together, a central concern with these tools is that they always can only arrive at an approximation of impact, not a decisive impact statement. Consequently, foundations face the task of continually re-evaluating their methodological choices and practices, which in turn raises concerns about the longitudinal comparability of any impact assessment findings.

The effects of impact measurement

Ideally, impact measurement should play a positive role in philanthropy. First, it should improve the effectiveness of the philanthropic activities and leverage added value for any resources provided. Second, it should improve the funding process and the funder-grantee relationship. A good starting point for this is the counterfactual question 'what would have happened without the project?'. While impact measurement frequently ends with the presentation of achieved goals, its biggest potential is future advancement (Easterling, 2000). Thus, the primary aim of impact measurement should not be external pressures for legitimacy or accountability, but to develop learning capability (Buckmaster, 1999). Unfortunately, though, evaluation and decision-making are rarely ever linked (Stone *et al.*, 1999). Only a limited set of studies focuses on the use of performance data for strategic decision making (Siciliano, 1997; Moynihan and Ingraham, 2004; Carman and Fredericks, 2008). Given empirical findings that performance measurement can have a positive effect on strategic decision-making (LeRoux and Wright, 2010), and the vision of evidence-based philanthropy that projects' funding should be decided on the basis of a scientific or research-based approach that has been tested in quasi-experimental designs or randomized control trials (Williams-Taylor, 2008), it becomes clear that funding is increasingly a consequence of antecedent experiences and requires systematic evaluation.

Consequences for the actors involved in any evaluated intervention, such as funder, grantee, and beneficiaries, are both positive and negative. On the one hand, an impact assessment approach provides funders with helpful guidance when faced with tough choices, such as when to cease supporting underperforming projects. At the same time, the grantee might learn to become more effective by gaining a better understanding of an issue's complexities, or find opportunities to scale up an outperforming project.

In any case, a precondition for the successful implementation of lessons learned is an open and constructive communication of the evaluation results. Mayhew (2012) shows that a more collaborative approach between funder and grantee to evaluation utilization leads to a higher performance. Given the difficulties associated with defining 'success' in the nonprofit field (Herman and Renz, 2008), guidance on how to recognize and reward nonprofit success is scarce (Sanger, 2008). Nonetheless, a couple of important themes can be identified. First and foremost, the success of philanthropy is always a means to an end, such as the well-being of beneficiaries or the achievement of the organization's major aim. Consequently, it is important to bear in mind that the outcomes of a funded project, or lack thereof, are rarely ever the achievements, or failures, of only one actor; they emerge from the collaboration and interaction of several constituents, at least the funder, the grantee, and the beneficiaries. Thus, the success of a project or program has to be shared with all parties involved; similarly, failure and the lessons it offers needs to be embraced and understood across all participants. Within this context, responsiveness and flexibility is paramount (Herman and Renz, 2008). To this end, and given the fluid nature of impact, benchmarking with other projects or comparisons over time means that the outcomes and impacts of a project or an organization become more visible and easier to interpret over time. To develop learning, documentation and communication about good examples create archetypes for other organizations to follow.

Similarly though, it is equally important to embrace failures. Various studies report that representatives of both funders and grantees tend to ignore or knowingly misinterpret negative evaluation results (Murray, 2010) or struggle with the contradictory pressures of legitimate organizational protection and the importance of sharing learning from *all* directions (Jung *et al.* 2012). While success stories are widely spread and communicated, projects that went wrong are rarely analyzed systematically. Instead, funders in particular should be interested to offer lessons learned from projects with negative outcomes in order to ameliorate resource allocation. Since nonprofits are lacking market pressures, improvement can only establish through oversight and accountability.

Outlook: Opportunities for future research

Impact measurement has become an essential task of nonprofit organizations and foundations. The notion of nonprofit performance has shifted from cost effectiveness and output orientation to outcomes and social impact. However, what one cannot measure, one cannot control. Thus, the question of social impact cannot be answered by reporting inputs and outputs. In the beginning of this chapter, several other drivers for impact measurement were presented. Another important aspect of impact measurement is the relationship between funder and grantee. The discussion showed the great variety of funders, and the specific complexities arising within the funder-grantee relationship. Especially, the goal alignment between the two actors in terms of social impact may be difficult. Despite the great improvements already achieved in the research on philanthropic impact, the importance of the topic calls for further, more scientific, work. Based on the preceeding discussion, major research gaps include: a better understanding of the role of the funder, operationalization of impact measurement, benefits and effects of impact measurement, and, most of all, how to recognize success. Mayhew (2012) states that the funder-grantee relationship has a strong influence on the success of evaluations. Thus, it is essential to better understand the ways that these relationships develop and the influence that the funders have on the project success. As funders become more actively involved, self-evaluations are not sufficient anymore. Additionally, difficulties remain in the operationalization and implementation of measurement and evaluation, relating to both timescales, as well as content. It is one core characteristic of nonprofit performance that it is not easy to measure; outcomes are difficult to define and have often long-term consequences. Not surprisingly, nonuse is still a major problem in practice (Fleischer and Christie, 2009). The current tendency towards an increased use of metrics facilitates the implementation of standardized tools. But, critics question whether quantification based on assumptions and estimations is really the right way to capture the multidimensional social benefit of nonprofit action. Additionally, more research on the benefits of measurement and evaluation for nonprofits has to be carried out. What are the consequences of impact measurement for the organization's management, future funding opportunities, or the greater community? Examples such as the studies of Millesen *et al.* (2010) and LeRoux and Wright (2010) offer promising starting points that show how measurement may help in developing the nonprofit sector. Referring to the thoughts on recognizing success, aspects of lessons learned and how to implement impact measurement results in daily practice offer a lot of space for future research. The issue of dealing with failures by funders and grantees is of high relevance, especially as new funding approaches emerge such as venture philanthropy.

Another promising field of future research on measurement is theory building. Most of the existing measurement tools are not embedded in a theory, but build on practical experience (Kehl *et al.*, 2011). Thus research should make attempts to develop a theory of impact measurement in order to develop a better foundation for further research. One possibility is the use of governance theories in order to capture the relationships informing evaluation situations. Additionally, further research should improve the understanding of nonprofit effectiveness (Herman and Renz, 2008).

Fueled by practical experience, impact investing is a new direction of research. As a consequence of the financial crisis since 2008, funders are more aware of the dormant capital invested in traditional economy instead of using it for their mission's purpose (Phillips, 2010). Combining impact investing with the existing literature on impact measurement might help develop better strategies to define indicators and reporting standards. From a practical point of view, many nonprofits and foundations lack experience in implementing impact measurement. Thus, a consequent and systematic use of measurement tools will help to improve the practicability and the informative value of the results conducted. Most of all, funders and grantees have to learn to better communicate amongst each other on focused goals and the processes to achieve these aims. A better collaboration and partnership among the actors will have the highest impact on the development and effectiveness of evaluation and measurement.

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