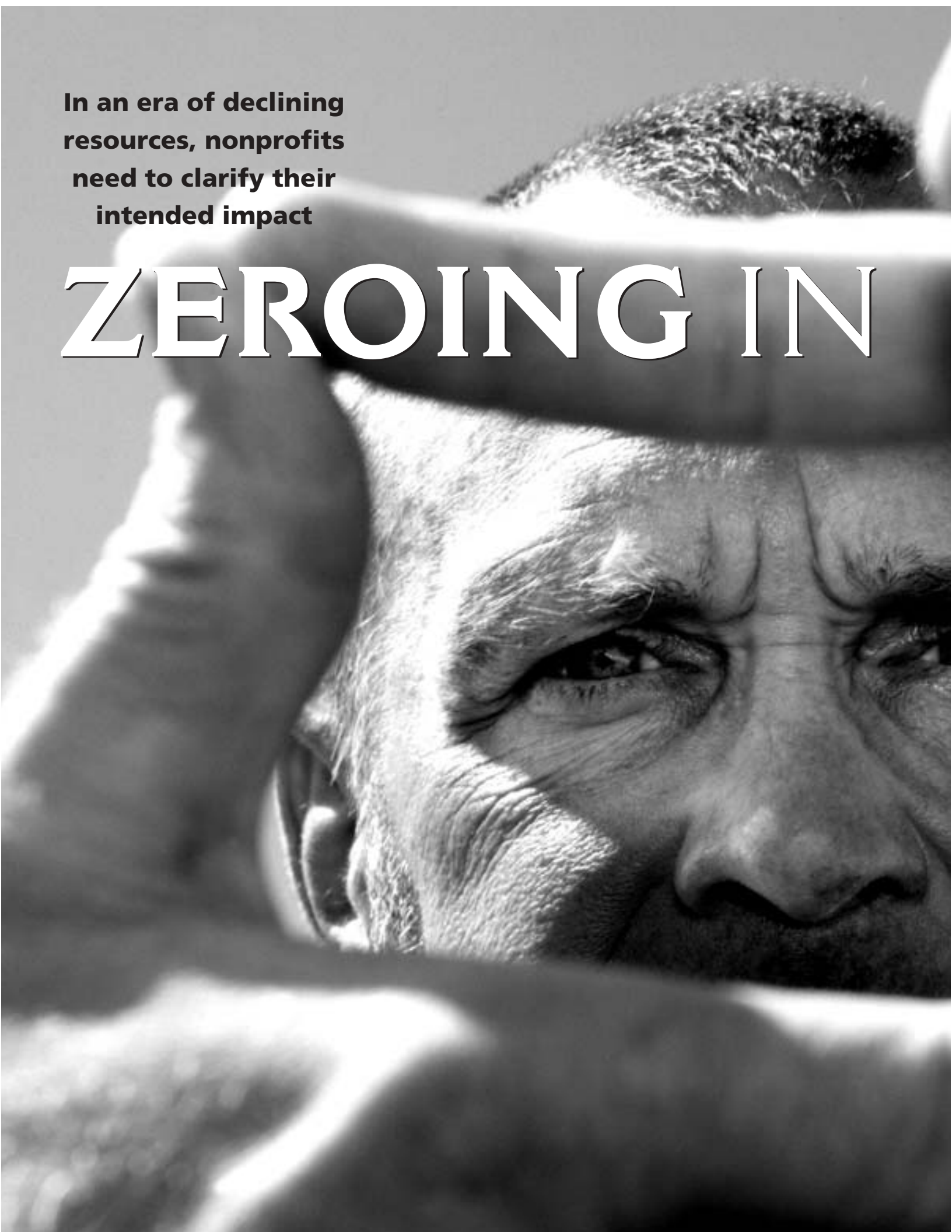


**In an era of declining
resources, nonprofits
need to clarify their
intended impact**

ZEROING IN





by Susan Colby, Nan Stone, and Paul Carttar

ON IMPACT

MANY NONPROFIT ORGANIZATIONS HAVE Goliath-sized aspirations.

Habitat for Humanity, a nonprofit that has built more than 150,000 homes in the United States and abroad since its founding in 1976, constructs a new house every 26 minutes, but its ultimate goal is even bigger – to “eliminate poverty housing and homelessness from the world, and to make decent shelter a matter of conscience and action.”¹ The Natural Resources Defense Council, an environmental action organization with 1 million members and online activists, seeks to arrest global warming on an annual budget of \$39 million,² just 1 percent of what the major car companies spend on advertising alone each year.³ Harlem Children’s Zone (HCZ), a nonprofit community-based organization that provides programming for more than 7,500 at-risk children in New York City, strives to “improve the lives of poor children in America’s most devastated communities” – on an annual budget of less than \$15 million.⁴

Developing practical, workable ways to achieve audacious and inspiring missions like these has always been a key ingredient in successful nonprofit leadership. And the challenge of mapping limited resources against seemingly unlimited needs is especially critical today, given declining government funding and the slowed growth of private contributions to nonprofits.⁵

PHOTOGRAPH BY MASTERFILE

Getting critical resource decisions right – allocating time, talent, and dollars to the activities that have the greatest impact – is what “strategy” is all about. Yet relatively few nonprofits have strategies in this pragmatic sense of the word.

The consequences of this financial squeeze are increasingly evident throughout the nonprofit sector. From small neighborhood organizations to large multiservice agencies, nonprofit leaders and their boards are reordering priorities and reducing programs and staff. The premium on ensuring that the right choices are made is great, and the stakes are high – for the individuals these organizations serve, and for society overall.

Getting critical resource decisions right – allocating time, talent, and dollars to the activities that have the greatest impact – is what “strategy” is all about. Yet relatively few nonprofits – even the most successful – have strategies in this pragmatic sense of the word. They have missions that define their reason for being. And they have programs and services that contribute toward the fulfillment of their missions. But when resource-allocation decisions have to be made among these activities, all of which do some good, determining those that will do the *most* good can be a difficult, often contentious task. Revising the organization’s mission, so that it is narrowly focused on a finite set of objectives, is one way to resolve this dilemma. Another approach, and in our experience a better one,⁶ is to help an organization’s decision makers develop clarity, not about mission, but about what we call “intended impact” and “theory of change.”⁷

Clarifying What Success Looks Like

A nonprofit’s mission is essentially its reason for being, and it often encompasses ambitious – even visionary – goals. Consider Larkin Street Youth Services, a \$9 million San Francisco-based nonprofit founded in 1984 that works with homeless youth. Larkin’s mission is concise but sweeping: “to create a continuum of services that inspires youth to move beyond the streets.”⁸

By 2003, the nonprofit was serving more than 2,000 youth through 18 programs at 10 sites across the city. That year, nearly

SUSAN COLBY is a partner and head of the Bridgespan Group’s San Francisco office. Before joining Bridgespan, she served as co-president of Pharmacia’s (previously Monsanto’s) Sustainable Development Sector, and spent 10 years at McKinsey & Company, where she co-founded and co-led the North American Environment Practice. She can be reached at susan.colby@bridgespangroup.org.

NAN STONE is the Bridgespan partner responsible for leading the firm’s knowledge strategy. Prior to joining Bridgespan, she spent 16 years at the Harvard Business Review, the last five as editor. She can be reached at nan.stone@bridgespangroup.org.

PAUL CARTTAR is a co-founder and former partner of the Bridgespan Group. In 2003, he became the chief operating officer of the Ewing Marion Kauffman Foundation. He can be reached at plcarttar@aol.com.

80 percent of the young people enrolled in its case management services exited life on the street. The breadth of Larkin’s mission contributed significantly to its success by giving the organization the room to innovate and to expand programming in response to the evolving needs of homeless youth. This record of purposeful growth, in turn, has allowed Larkin to attract and retain high-caliber staff, as well as raise funds for its continued impact.

Larkin’s management and board were eager to maintain this healthy cycle of service, innovation, and growth over the next five years. At the same time, the national economic downturn was casting an ever-darker shadow, and it was likely Larkin would have more opportunities to expand its impact than funding to support those opportunities. Faced with this prospect, Larkin’s leadership, in conjunction with the Bridgespan Group, a nonprofit consulting firm, decided to clarify the agency’s priorities in the context of intended impact and theory of change.

Intended impact and theory of change provide a bridge between a nonprofit’s mission and its programmatic activities. Intended impact is a statement or series of statements about what the organization is trying to achieve and will hold itself accountable for within some manageable period of time. It identifies both the *benefits* the organization seeks to provide and the *beneficiaries*. Larkin leadership decided that their intended impact was to help San Francisco Bay Area homeless youth between the ages of 12 and 24 exit life on the street permanently. By specifying *which* youth the agency will focus on and the outcome that will constitute success, this intended impact clarifies Larkin’s strategic priorities in a way the mission statement does not.

Theory of change explains how the organization’s intended impact will actually happen, the cause-and-effect logic by which organizational and financial resources will be converted into the desired social results. Often an organization’s theory of change will take into account not only its own resources but also those that others bring to bear. Larkin’s leaders identified a theory of change premised on the belief that young people need to rebuild (or build) hope, optimism, and self-esteem to take advantage of the educational and employment opportunities that will allow them to exit life on the street. To help homeless youth develop this inner strength, Larkin provides a *continuum* of services, which includes reaching out to kids on the street; addressing their immediate needs for food, medical care, and emergency housing; offering transitional housing and case management; and building life skills. While Larkin’s theory of change entails a broad range of programmatic activities, all of its programs are focused on meeting the specific needs of Larkin’s target beneficiaries.

Although the terms intended impact and theory of change may sound abstract, the effect of using them is anything but. By enabling an organization's leaders to clarify what "success" will look like in the near-to-medium term, intended impact and theory of change create a coherent framework for making tradeoffs that are truly strategic – tradeoffs that reflect the aspirations of the organization's mission as well as the constraints of its bottom line. To illustrate, consider two decisions that Larkin's management team made while developing the nonprofit's business plan.

Guided by Larkin's theory of change, which emphasizes not only meeting youth where they are on the streets, but keeping them engaged until they are able to leave the streets, the management team decided to develop an innovative new residential facility for youth with both mental health and substance abuse problems. But the question remained: Should the facility serve youth with the most extreme disorders or should it concentrate on those with less severe troubles, who have a better shot at leaving the streets? Both options had strong support within the organization, but each population required a different sort of program and Larkin didn't have the resources to support both. To resolve the issue, Larkin's management turned to its newly clarified intended impact statement: The facility would serve less-troubled youth, because they had a better chance of ultimately transitioning to independent living.

Intended impact and theory of change work is an iterative process, informed by an organization's values and beliefs as well as by hard data – its operations and economics, and about the activities of other organizations addressing the same issues or problems. One question inevitably leads to another, and the discussions often cycle back and forth between intended impact and theory of change, as participants engage in the messy work of clarifying what, specifically, will constitute success. Some organizations will start by identifying their intended impact, while others might arrive first at their theory of change. Not surprisingly, therefore, it is usually most helpful to begin the process with one or more open-ended questions (sidebar, p. 28).

To get at intended impact, for example, nonprofit leaders

How Do You Know You've Arrived?

AN ACTIONABLE INTENDED IMPACT...

- Links in a compelling way to your mission and vision for social change.
- Specifies the outcomes you seek to create for your beneficiaries.
- Affords sufficient control over outcomes to enable real accountability.
- Is realistic and achievable, given your capabilities.
- Is measurable on an accurate, timely basis.
- Provides an effective platform for making strategic tradeoffs, especially those related to program focus and resource-allocation decisions.

A COHERENT THEORY OF CHANGE...

- Identifies the most important needs of your chosen beneficiaries.
- Articulates the most important leverage points to meet those needs.
- Links your solutions to your beneficiaries' needs through a chain of cause-and-effect relationships.
- Is empirically plausible if not proven.

can start with questions such as: Who are our beneficiaries? What benefits do our programs create? How do we define success? What *won't* we do? What would make us obsolete?

Nonprofits can clarify their theory of change by asking questions like: What is the cause-and-effect logic that gets us from our resources (people and dollars) to impact? Where are the gaps or leaps of faith in that logic chain? What are the most important elements of our programs' content and structure? What assumptions led us to choose these particular program elements? Are there other ways in which we could achieve the desired outcomes? What is the minimum length of time our beneficiaries need to be engaged to achieve these outcomes? What else do our beneficiaries need to achieve these outcomes?

To illustrate how one nonprofit used this process to clarify its strategy, consider the experience of Harlem Children's Zone.

'We Had Reached the End of Our Ability to Manage Growth'

The Harlem Children's Zone was founded in 1970 as Rheedlen Centers for Children and Families to combat truancy on Manhattan's Upper West Side. The organization grew rapidly during the 1990s under the leadership of Geoffrey Canada, its sec-



TALK BACK: Do you agree or disagree with this article? Join our online forum at www.ssireview.com/forum.

How Do You Get a Good Discussion Going?

TO CLARIFY AN ORGANIZATION'S INTENDED IMPACT, ASK:

- Who are our beneficiaries?
- What benefits do our programs create?
- How do we define success?
- What won't we do?
- What would make us obsolete?

TO CLARIFY AN ORGANIZATION'S THEORY OF CHANGE, ASK:

- What is the cause-and-effect logic that gets us from our resources (people and dollars) to impact?
- Where are the gaps or leaps of faith in this logic chain?
- What are the most important elements of our programs' content and structure?
- What assumptions led us to choose these particular program elements?
- Are there other ways in which we could achieve the desired outcomes?
- What is the minimum length of time our beneficiaries need to be engaged to achieve these outcomes?
- What else do our beneficiaries need to achieve these outcomes?

ond executive director. By the end of the decade, Rheedlen had grown into a \$10 million agency, serving 6,000 children. It was sponsoring 16 different programs, ranging from its highly regarded Beacon Schools, which offer educational, recreational, and youth development services during afternoon and evening hours, to a senior center, family support networks, and a program to prevent homelessness. Among its most prominent activities was the “Harlem Children’s Zone,” an initiative launched in 1997, which included seven programs ranging from “baby college” classes for new parents to a neighborhood revitalization effort—all located in a 24-block “zone” of central Harlem.

In 2000, the nonprofit was experiencing both the rewards and the challenges of this remarkable growth. Canada and his colleagues had been extremely successful in developing a diverse set of programs to advance Rheedlen’s long-standing mission: “to improve the lives of poor children in America’s most devastated communities.” External interest in these programs was running high among experts in the youth-development field and among potential funders as eager as Canada himself to see the organization expand geographically and programmatically.

At the same time, the bevy of disparate programs was straining Rheedlen’s organizational capacity, management systems, reporting structure, and finances. The agency simply didn’t have the economic or managerial resources to accomplish everything it was trying to do. It was becoming increasingly apparent to Canada that if Rheedlen’s impact were to continue to grow, he and his management team would need to make some hard choices about their activities and programs.

“We wanted to grow,” Canada said. “We planned to grow. But we had reached the end of our ability to manage growth. I didn’t want the limit on our future to be the fact that we weren’t able to think strategically.”

To develop strategic clarity, in March 2000 Canada and his team joined forces with the Edna McConnell Clark Foundation, a longtime Rheedlen funder with expertise in evaluation, and a team of consultants from the Bridgespan Group. Together they engaged in a series of discussions designed to clarify what Rheedlen aspired to achieve and how the organization would deliver those results.

As the Rheedlen team began to talk about the organization’s intended impact and theory of change, the question of ends and means immediately arose. Which was their intended impact: improving the lives of poor children or rebuilding the social fabric of devastated communities? Since the agency’s existing program portfolio pointed in both directions, and the management team’s resource-allocation decisions going forward would be shaped by the answer, the question represented a critical fork in the road. Putting themselves on the hook for improving kids’ lives would lead to very different program priorities than taking responsibility for rebuilding neighborhoods would. For Canada and his colleagues, the answer was clear: The core of Rheedlen’s mission, and thus the primary focus of its intended impact, was “to improve the lives of poor children.”

At the same time, Canada was convinced that without the social infrastructure that brings a community together, it is difficult, if not impossible, to rear healthy children. Heroic efforts might help a handful of children escape from devastated neighborhoods like those of central Harlem, but saving the next generation would require a critical mass of adults versed in the techniques of effective parenting and engaged in common activities. As a result, while the neighborhood wouldn’t be Rheedlen’s primary target, it would become a critical element in its emerging theory of change.

As noted earlier, intended impact and theory of change work is an iterative process. Accordingly, Canada and his team went back and forth between the two, as they discussed which children would be their target beneficiaries, what benefits they would strive to create for the youth, and how they would effect

Heroic efforts might help a handful of children escape from devastated neighborhoods like those of central Harlem. But saving the next generation would require a critical mass of adults versed in the techniques of effective parenting and engaged in common activities.



up by the decision, in April 2002, to rename Rheedlen the “Harlem Children’s Zone.”

HCZ adopted an intended impact statement that reads, in part: “Over the next decade, Harlem Children’s Zone’s primary focus will be on children aged 0-18 living in the Harlem Children’s Zone project, a 24-block area of central Harlem. ... Harlem Children’s Zone’s objective will be to equip the greatest possible number of children in the HCZ project to make a successful transition to an independent, healthy adulthood, reflected in demographic and achievement profiles consistent with those in an average middle-class community.”⁹ This statement moves beyond the mission statement by specifying *which* poor children will be served, in *which* communities, and *what* benefits they will receive – within a specified time frame.

HCZ adopted a theory of change that rests in part on two pillars: “First, critical mass: Success in raising healthy children entails rebuilding the institutions and functions of a normal, healthy community, something that has been undermined in central Harlem by years of neglect, disinvestments, and demographic upheaval. Building such a community requires the participation of a critical mass of parents and children in common undertakings, including both effective child rearing and community building.

“Second, early and progressive intervention: Effective early intervention pays long-term benefits by making later interventions less necessary for many young people, and by making those interventions more likely to succeed when they are needed.”

The theory of change goes on to outline target participation rates: 80 percent of children between birth and age 2, 70 percent of kids between ages 3 and 4, 60 percent of kids between ages 5 and 11, 40 percent of adolescents between 12 and 13, and 30 percent of teens between 14 and 18.

These are compelling statements of HCZ’s intended impact and theory of change. The links to Rheedlen’s mission and values are apparent, yet the statements are focused enough to

these changes. Would the nonprofit target participants in specific programs, all children of a certain income status, or all residents of a specific community? What kind of improvement did Rheedlen’s leadership want to see in the children? Did they want to ensure a smooth transition to the next stage of development, say, from infancy to early childhood, or was the ultimate goal to help children become successful adults? And how would all of this come about? Which programs and activities would have the greatest impact?

The answers the management team arrived at were summed

ILLUSTRATION BY ANDREW JUDD/MASTERFILE

inform strategic tradeoffs and resource-allocation decisions. They also establish a definition of success and a time frame that will enable HCZ's leaders to track and evaluate their performance, and be held accountable for the results (sidebar, below).

The Biggest Surprise

Equipped with this new level of strategic clarity, the manage-

ment team could evaluate how well each of HCZ's existing programs was contributing to the social impact they aspired to have. To inform their decision making, however, they also needed an equally clear understanding of each program's economic impact on the organization's financial condition. With the help of Bridgespan analysts, HCZ staff assembled financial analyses that mapped each program's full costs against its related revenues.

Harlem Children's Zone: Gaining Strategic Clarity

A nonprofit's **mission statement** defines its reason for being.

HCZ's mission statement: "To improve the lives of poor children in America's most devastated communities."

Intended impact is a statement or series of statements about what the organization is trying to achieve and will hold itself accountable for within some manageable period of time. It identifies both the benefits the organization seeks to provide and the beneficiaries.

HCZ's intended impact statement reads, in part: "Over the next decade, Harlem Children's Zone's primary focus will be on children aged 0-18 living in the Harlem Children's Zone project, a 24-block area of central Harlem bounded to the south and north by 116th and 123rd streets, and to the east and west by Fifth and Madison avenues. Harlem Children's Zone's objective will be to equip the greatest possible number of children in the HCZ project to make a successful transition to an independent, healthy adulthood, reflected in demographic and achievement profiles consistent with those in an average middle-class community."

Theory of change explains how an organization's intended impact will actually happen, the cause-and-effect logic by which organizational and financial resources will be converted into the desired social results. Often an organization's theory of change will take into account not only its own resources but also those that others bring.

HCZ's theory of change reads, in part: "The organizing principles of [our] plan are: First, critical mass: Success in raising healthy children entails rebuilding the institutions and functions of a normal, healthy community, something that has been undermined in central Harlem by years of neglect, disinvestments, and demographic upheaval. Building such a community requires the participation of a critical mass of parents and children in common undertakings, including both effective child rearing and community building.

"Second, early and progressive intervention: Effective early intervention pays long-term benefits by making later interventions less necessary for many young people, and by making those interventions more likely to succeed when they are needed."¹

Using its intended impact and theory of change, the Harlem Children's Zone made the following decisions:

- Transfer the senior center, located outside the zone, to another agency.
- Transfer the dropout prevention program, located outside the zone, to another agency.
- Discontinue a homelessness prevention program, located outside the zone.
- Reiterate a commitment to the Beacon School centers, located outside the zone, not least because the schools provide safe havens for youth and families inside the zone.
- Open two new Head Start programs, to prepare at-risk 3-, 4-, and 5-year-olds inside the zone for elementary school

¹ Harlem Children's Zone, Inc. Growth Plan FY2001-FY2009.

“The biggest surprise was to discover just how much money was going into programs that didn’t meet our core mission. The local senior center that was very dear to a lot of people here just didn’t correlate to helping poor kids.”

The purpose of these evaluations was not to identify money losers; virtually all of the programs were receiving less in program-specific funding than they incurred in program-specific costs. Rather, it was to illustrate where HCZ was investing its unrestricted revenues and managerial capacity, so that the management team could determine whether it was allocating these resources to the most mission-critical activities. Unrestricted revenue and senior management talent are usually the scarcest and most precious resources in a nonprofit. How that revenue is allocated, and how senior management allocate their time, should reflect the organization’s highest priorities. Often, however, they don’t.

Informed by these evaluations and newly committed to concentrating HCZ’s resources on programs that aligned with intended impact (focusing on children, particularly the youngest ones, residing in the 24-block zone) and theory of change (which assumes that early childhood intervention and a critical mass of involved parents are essential to help kids transition successfully to adulthood), Canada and his managers made a number of strategic decisions. For example, they resolved to transfer two existing programs – the senior center and a dropout prevention program (located outside the zone) – to other qualified agencies, and to discontinue a homelessness-prevention program (also outside the zone) that had lost its government funding. All three programs were contributing to improving the lives of individuals, and the decision to relinquish operating control was painful.

“The biggest surprise was to discover just how much money was going into programs that didn’t meet our core mission – that was a big epiphany,” Canada said. “The local senior center that was very dear to a lot of people here just didn’t correlate to helping poor kids. We made the decision to find another appropriate nonprofit organization to run it. It was tough, but doing so has made resources available to other mission-related programs.”

At the same time, Canada and his management team reit-



The Harlem Children’s Zone is dedicated to improving the lives of kids up to age 18 in central Harlem. Specifically HCZ seeks to put Harlem youths on an educational par with their middle-class peers.

erated their commitment to the existing Beacon School centers, even though the facilities housing them were located in host schools outside the 24-block zone. Offering educational, recreational, and youth-development programs during the non-school hours of the day and evening, the Beacon centers drew children from all over Harlem, including youth living in the zone, and thus contributed directly to HCZ’s intended impact.

The new level of clarity about HCZ’s priorities also shaped Canada’s plans for the nonprofit’s programmatic growth. For example, many youth development experts believe that preschool programs such as Head Start (the federally funded program for 3-, 4-, and 5-year-old at-risk children designed to prepare them for success when they enter K-12 programs) and a sound elementary education are essential factors in bringing poor children to parity with their middle-class peers. Yet there was neither an adequate supply of Head Start spaces nor a good primary school within the boundaries of the zone. Addressing these gaps, in conjunction with the city, would have to be part of HCZ’s agenda if Canada and his team were to achieve their goals.

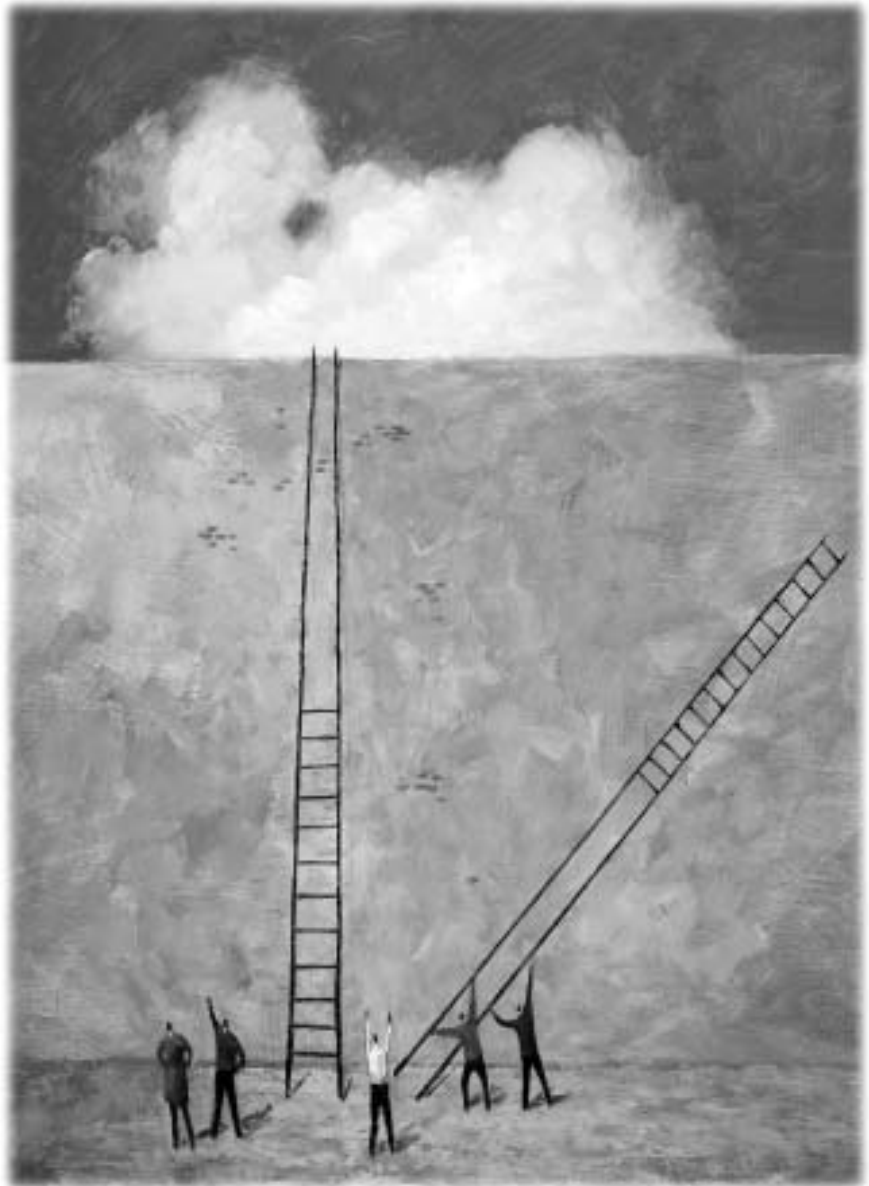
This realization led to an HCZ initiative to open two new Head Start programs (projected to serve more than 200 children) by 2005.

Achieving Strategic Clarity

Developing strategic clarity – making mission strategic – is a process of inquiry and analysis, not a formula. The only universal answer to the question “What is the right degree of focus for our activities?” is “It depends” – on the impact the organization aspires to have; on assumptions and beliefs about how that impact can be generated; and on the actual resources, human and economic, the organization can marshal to do the work.

Consider two organizations, located in the same city and dedicated to the same goal: ensuring that disadvantaged youngsters succeed in school. Both provide individual tutoring, but one concentrates on building reading skills while the other serves breakfast, offers after-school activities, and runs a drop-in center in addition to its academic services. Although we can say with certainty that the first organization has a more limited set of activities than the second, we can't say whether it is more appropriately focused. That would depend on its intended impact and theory of change, its resources, and the presence or absence of other organizations in the community providing complementary services.

The practical reason to engage in a series of discussions about intended impact and theory of change is to develop a set of strategic priorities that are focused enough to be actionable and broad enough to reflect the organization's mission. Often, one of the most challenging aspects of the process is finding the best place to start. Based on our experience with non-profits in a variety of fields, we see three potential ways to anchor these discussions. One is to begin with the beneficiaries the organization seeks to serve. Another is to start with the social benefits it strives to create. The third is to help an organization articulate its theory of change by making the logic underlying its current programs transparent. Determining which option is best usually depends on the organization's mission and institutional history as well as on the passions and values of its leadership, present and past.



The willingness of an organization's leaders and board to set and hold themselves accountable for objectives that reflect their strategic priorities is the dynamic that transforms an intended impact statement and theory of change from expressions of good intentions into strategic decision-making tools. HCZ, for example, established ambitious targets for the number of children in the zone it would serve – including 80 percent of children under 2 over the 10-year period.

And yet, as HCZ's experience demonstrates, establishing pri-

ILLUSTRATION BY ANDREW JUDD/MASTERFILE

Establishing priorities can be wrenching on several dimensions, not least in that it compels nonprofit leaders to say what their organizations *won't* do as well as what they will.

orities can be wrenching on several dimensions, not least in that it compels nonprofit leaders to say what their organizations *won't* do as well as what they will. By choosing to focus on a specific set of children and families, Canada and his management team were also “choosing” not to serve seniors, or equally needy children living in other parts of the city. “The seniors were very upset that we were severing our relationship with them. And my staff was stunned,” Canada said. “[But] if you are focused on children, would you make an investment in seniors or in children? That became a much easier conversation to have with staff.”

Questions about what's in – and out – of the scope of an organization's activities are among the thorniest that nonprofit leaders committed to developing strategic clarity have to confront. As an organization matures and the scope of its activities expands, the links between particular programs and the mission often get lost in the mists of institutional history. Everyone genuinely believes that they are advancing the organization's chief priorities and working on the most important tasks, and yet their decisions lack cohesive force. Intended impact and theory of change discussions can be particularly helpful under these circumstances, because they enable the leadership at complex organizations to create a common language for discussing what they are trying to achieve and a common set of criteria for evaluating choices and making tradeoffs. As a result, the management team is in a better position to make decisions that are consistent with the organization's overall goals.

Strategic clarity can also provoke discomfort. Some staff and key constituents may have to practice new behaviors, more aligned with the organization's intended impact or theory of change. Others may have to adopt new priorities or ideas. A few are likely to feel, and may actually be, disempowered by changes in programs and norms. Decisions to terminate existing programs that aren't well-aligned with the intended impact and theory of change can be hard for emotional reasons, since these programs inevitably do *some* good, and may be legacies from the organization's past, or staffed by loyal employees and volunteers. And these decisions can be difficult for financial reasons, because eliminated programs that are attached to steady funding streams can mean reduced funding in the short term.

Not deciding is also a decision, though, and seldom a particularly good one. It is hard to argue that organizations engaged in the important work most nonprofits undertake shouldn't try to maximize the good they can do with their always-limited economic and organizational resources.

Yet, practically speaking, this is the very path many nonprofit leaders run the risk of taking, if they cannot explain clearly, to themselves and to their supporters, what their pri-

orities are, why the organization's programs and services contribute to these larger goals, and how they know that they are making progress. □

1 “Habitat for Humanity Fact Sheet,”

<http://www.habitat.org/how/factsheet.html>.

2 Natural Resources Defense Council's IRS Form 990 (2001).

3 Average of Ford and GM's advertising expenses in 2002, as reported in U.S. Securities and Exchange Commission filings.

4 HCZ's IRS Form 990 (2002).

5 The 1990s were a period of unprecedented growth for nonprofits. Between 1987 and 1997, private contributions to nonprofits increased from \$95 billion to \$133 billion, according to the Independent Sector's New Nonprofit Almanac & Desk Reference. During that same time span, according to the almanac, government contracts and grants to nonprofits increased from \$115 billion to \$206 billion.

Today, this pattern has sharply reversed, as philanthropic resources have flattened. Charitable giving (excluding bequests) amounted to \$184 billion in 2002 – a decrease of 0.9 percent from 2001, adjusted for inflation (Giving USA 2003).

According to the *Chronicle of Philanthropy*, “Toward a Cautious Optimism” (February 19, 2004), charities saw only modest gains in giving during 2003. Government funding has also been shrinking dramatically. The *Chronicle* reported that “state and federal money is expected to be flat or face cuts.” In a June 26, 2003 article, “Charities Brace for Shakeout,” it reported that “major cutbacks by state governments pose a big problem for many charities.”

6 Two of the authors of this article are currently affiliated with the Bridgespan Group; the third is a co-founder and former partner. Several nonprofits mentioned in this article – Larkin Street Youth Services, the Natural Resources Defense Council, and Harlem Children's Zone – have been Bridgespan clients.

7 Social scientists in a variety of fields have used the term “theory of change” for several years; there is no common definition. We borrow the term here to apply to nonprofit strategy specifically as discussed in this article. We are not familiar with other uses of the term “intended impact.”

8 “Larkin Street Youth Services: A Case Study in Sustaining Success,” www.bridgespangroup.org/BSGweb/case_study_detail.asp?id=50.

9 Harlem Children's Zone, Inc. Growth Plan FY2001-FY2009, http://www.hcz.org/downloads/hcz_busPlan_april04.pdf.