

James Austin: Thank you very much.

What is a community? You know, the traditional definition of where people reside together simply does not hold for our conversation, because the Internet has obliterated geography. So this pushes us into the second definition, “Community is a group of people bound together by shared activities, purpose and values.”

And so for us, a basic question is, “How are new communities built?” The Internet is this century’s Petrie dish of community-building, where disparate microorganisms interact and potentially emerge as new entities.

I wish to comment on the state and prospects of one important community in formation, namely the e-philanthropy community. Its emerging constellation of interacting organizations is a technologically induced community. It is a creature of the Internet.

Web-based philanthropy holds enormous potential for impacting the independent sector. The Internet allows the philanthropic capital market to function more efficiently and effectively by creating greater access and a closer relationship between nonprofit organizations and donors. And initial results suggest that web-based philanthropy brings in new donors and increases giving levels.

The e-philanthropy community, in reality, is in its infancy. It is important, therefore, for us as researchers and practitioners to deepen our understanding of its shape, its nature, and its prospects.

In that regard, let me briefly address two questions. First, what does the e-philanthropy industry look like now? And second, what are the key challenges facing the building of this technology-based community?

First, the math. The social-enterprise group at the Harvard Business School’s ongoing research project on the e-philanthropy industry has identified 276 e-philanthropy enterprises in the following segments: click-to-donate, 36; online giving directories, 35; charity malls, 33; information hubs, 25; volunteer matching, 7; charity auctions, 11; donor-advised funds, 6; workplace giving, 3.

And then there are a whole set of application-service providers and Internet enablers totaling around 87 or so that facilitate those other web-based organizations.

Seventy-two percent of these are dot-coms. The dot-orgs are mainly in the online-giving directories, the information hubs, the volunteer clearinghouses, and the donor-advised funds.

The predominance of dot-coms is understandable. It’s a result of simply the significant capital that Internet companies require and the lack of that capital coming from the traditional nonprofit foundation sources.

The e-philanthropy industry, like the rest of the Internet, in fact has been undergoing stress and consolidation. Over the last year, our survey indicates that about 47 e-philanthropy enterprises, constituting about 15 percent of firms in the industry, have either closed or gone inactive. These include some prominent enterprises like *CharitableWay, *GiveNation, *Shop to Give, and *Shine.

However, 13 new ones appeared.

In addition to the interactions with these e-philanthropy enterprises, nonprofit organizations, of course, either on their own or through the application service providers or other Internet support agencies, have increased their presence on the Internet in the fundraising arena.

In 2000, we estimate that over \$2 million was raised via the Internet, which is five times greater than in 1999. But much less than the industry, in fact, had predicted.

That’s the math of the industry where it is right now. Now let us turn to the challenges. The e-philanthropy community, consisting of the web-based enterprises and the nonprofit organizations that they interact with, and the donors that are engaged by the two of them, is suffering through inevitable birth pangs.

There will be more closures and consolidation, but the space will not go away. There is, as David implied, a revolution under way. Revolution implies significant, structural, irreversible change. And the Internet technology has irreversibly changed the philanthropic capital market.

So our spotlight should really be on the challenges that in fact will shape the emergence of this new technology-based community. We see the following four as the critical shapers in terms of these challenges.

First, economic pressures. The downturn in the Internet market has made raising additional capital much more difficult. And the result of that is that both the number of new entrants and the growth of existing e-philanthropy enterprises have slowed down. There is increasing pressure on the various revenue streams that the e-philanthropy enterprises have; that is to say the commissions, the transaction charges, the advertising fees. Consequently, margins are shrinking.

As margins shrink, viability is dependent upon volume. The need to have greater volume will lead to consolidation and some closures. Those are the economic pressures, and you’ll see those trends play themselves out. How they are handled will determine the functioning of the sector.

The second challenge? Mistrust. The social glue that holds communities together is trust. The e-philanthropy enterprises that we have surveyed report that a persistent barrier to establishing relationships with the nonprofits is the mistrust that those organizations have in the dot-coms. The e-philanthropy enterprises that are in fact organized as dot-orgs have a clear advantage, because the nonprofits have a higher comfort level due to the perception of shared values.

In contrast, the suspicion of the dot-coms by the nonprofits due to their profit-making motives, and the fear of exploitation that comes along with that – and even displacement – really impede the development of constructive relationships.

However, our surveys of many of these e-philanthropy dot-coms reveal organizational cultures with a strong sense of social purpose, which suggested that in fact there may be greater congruency of values in the dot-coms and the nonprofits than has been perceived by many of the nonprofit organizations.

For the community to be built, nonprofits should lower their suspicion level. But dot-coms also have to reveal that they are able to bring greater value to the nonprofits. An alliance is only viable if the value exchanged is balanced and significant.

What is more important than organizational form – dot-com, dot-org, whatever it may be – is in fact the value created. So that’s where the value should be.

Third challenge, clashing cultures. Beyond this issue of trust is this other complication facing both the nonprofits and the e-philanthropy enterprises, namely overcoming differences in organizational cultures, and the processes that characterize those organizations.

For example, typical decision-making in nonprofits does not operate at Internet speed. Risk-aversion is also quite different in the two types of organizations. So dot-coms need to have staff members who understand and have credibility with nonprofits and vice versa.

Fourth challenge, technological readiness, which both of the previous speakers mentioned. Let me simply reinforce their comments. Dot-coms report that the lack of technological readiness in nonprofits is a serious impediment to realizing the full benefits of the Internet. The digital divide across sectors and among nonprofits is real.

The application service providers, the other sets of technology support organizations that are growing and are really an important part of the e-philanthropy community have a very important role to play in accelerating the journey of the nonprofits’ movement along the technological learning curve.

Furthermore, it is extremely important and one of the major challenges facing the sector at large and the outcome of the e-philanthropy space on that sector, that traditional foundations move beyond the miniscule grantmaking that they have been engaged in in terms of flowing into technology and technology readiness. They really need to deploy significant funds, hopefully on a collaborative basis, that will allow the whole sector to ratchet up its technological capacity.

The other part of the technological challenge is how to get existing donors, and new donors, to engage online... to give online.

Interestingly, one of the most successful subsegments in this regard has been the financial-services companies that have created their nonprofit charitable-giving organizations. So you have, for example, Fidelity Investments’ creation of the charitable gift fund back in 1992, which since then has collected, mobilized and then dispersed over \$1 billion to nonprofit organizations. Its donors, its clients, are extremely Internet ready. And they are migrating increasingly to doing their giving, which is large-sized giving, through Fidelity’s Charitablegift.Org online mechanism.

This affluent-donor segment migration to the net is going to be one of the important pressures that moves and propels the wave in the e-philanthropy engagement.

How these four challenges – economic pressures, mistrust, clashing cultures and technological readiness – are met will greatly determine the shape and the strength of the emerging e-philanthropy community.

The potential is enormous. But its realization will depend fundamentally on the willingness and the ability of nonprofits and e-philanthropy enterprises to forge new and mutually beneficial relationships rooted in shared mission and purpose.

That is what communities are built on.