

A Call to Action

Organizing to Increase the Effectiveness and Impact
of Foundation Grantmaking

Rick Cohen

national committee for
responsive philanthropy

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Rick Cohen, February 2007

Foreword

Before joining NCRP, I served for ten years as the executive director and lead organizer of a grassroots community organization in Miami, Florida. We were linked to numerous nonprofits in the metropolitan area and throughout the state, all of us struggling to find the resources to make our organizations effective and sustainable. Each year, we tried to piece together a budget large enough and flexible enough to allow us to achieve our missions. The lack of core operating support grants from foundations was a serious obstacle.

It was clear to me then and it is clear to me now that unless foundations radically shift their grantmaking posture toward more core operating support, the nonprofit delivery system that foundations rely on to realize their philanthropic missions will not thrive.

In the past decade, there have been efforts to address this challenge, but none have been successful. With this report, we at NCRP hope to reinvigorate the debate and engage a broad group of stakeholders in discussions about the need to change the prevalent approach in foundation giving strategies. We envision this report, which is based on the perspectives of a variety of community-based nonprofits from around the U.S., as part of a strategic process in promoting the acceptance of core operating support among funders and encouraging nonprofits to make their voices heard.

We hope that this report will encourage you to add *your* voice to the discourse. If you want to move the conversation forward, tell us what you think. Visit our website and add your two cents, or send us a letter, or pick up the phone and call. We would like to hear your suggestions on how we can make the case for a change that will have a resounding impact throughout our society.



Aaron Dorfman
NCRP Executive Director

I. Introduction

It is time for far-reaching changes in the way most foundations provide grant support to the vast majority of nonprofits in the U.S. The grantmaking practices of a significant part of the foundation sector may be crippling small community-based and other nonprofit organizations because of one significant factor—the unwillingness of most foundations to provide general operating support to most nonprofit grant applicants.

Whether or not foundation executives fail to provide critical core support due to omission or commission, the reality is that smaller community-based and grassroots nonprofits, as well as other groups, are unable to get the kind of support from foundations that would help them sustain and grow.

F. B. Heron Foundation Board Chair Bill Dietel captured the vital importance of core operating support when he observed that, “Grantees often spend too much time piecing together the financing puzzle of restricted grants. Core support promotes accountability by stressing the destination—social impact—more than the path a grantee takes to get there.”¹

Many nonprofits are choking on the highly restricted grant support they receive from foundations, including many foundations that are most loyal to the nonprofits they support and most dedicated to their goals and aspirations.

Getting foundations to increase significantly their operating support grantmaking to community-based, social change grantees is as important as getting foundations to increase their payout from currently less than 5 percent of their net assets to a level of 6 percent or more of their assets in grants. Most nonprofits—especially small community-based, grassroots, and social change organizations—not only need more foundation support but the right kind of support.

It is impossible to talk with smaller community-based nonprofits without hearing about the challenges they face with foundation funding in general, and the specific problems posed by the foundation sector’s unwillingness to provide flexible grant funds. Core operating support must become a top priority issue for all nonprofits, especially those allied with NCRP’s pursuit of social justice grantmaking.

This report explains how the lack of core operating support distorts and undermines the operations of nonprofits individually and collectively. The report reflects the voices from the field; it tells of the needs and aspirations of nonprofits for core operating support by enabling them to tell their stories in their own words.

Much is at stake. The foundation sector controls a huge tax exempt asset base of over \$500 billion. Organized philanthropy as a whole, through private foundations, public grantmaking foundations, supporting organizations (SOs),² and donor-advised funds, has combined assets of close to a trillion dollars of tax-exempt funds, relatively little of which reach the budgets of nonprofits.

By virtue of philanthropy’s tax exempt 501(c)(3) status, these enormous assets are basically equivalent to public resources to serve the public interest. A few of the nation’s most knowledgeable nonprofit observers have even suggested that the difference warrants a separate tax status for foundations.³ At stake is accountability for ensuring that these resources are used in ways that have the greatest benefit and impact.

Unlike the payout requirement that is legislatively mandated, increasing core operating support requires a change in foundations’ attitudes and practices and does not depend on Congressional action. Success in bringing about this key transformation relies on mobilizing thousands of smaller grassroots nonprofit organizations,

as well as their larger counterparts, to speak up in their own self-interest. They need to create a groundswell call for foundations to change their grantmaking practices in order to build and sustain a vital grassroots network of nonprofits throughout the nation.

Virtually every entity in the nonprofit sector has a role to play in creating dramatic changes in grantmaking practice that will benefit foundations, their nonprofit grantees, and society as a whole:

1. All foundations, regardless of size, mission, and geography, should allocate at least 50 percent of

[Nonprofit organizations] need to create a groundswell call for foundations to change their grantmaking practices in order to build and sustain a vital grassroots network of nonprofits throughout the region.

their grants and 50 percent of their grant dollars in the form of flexible core operating support grants. For all remaining project- or program-specific grants, foundations should include indirect costs or an overhead rate that is calculated to be appropriate to the nonprofit and the project.

2. Those individuals who are planning the agendas for conferences and convenings of nonprofit organizations should raise the question of operating support

as an essential part of the gathering. The question is applicable to nonprofits no matter what their mission or size; raising it is in the interests of the health and sustainability of every nonprofit organization or association.

3. National nonprofit and philanthropic bodies, trade associations, networks, and membership associations should call on foundations to make at least 50 percent of their grants and 50 percent of their grant dollars in the form of core operating support.

4. Academics and researchers in the nation's leading philanthropy programs should undertake research projects that can further demonstrate the value of general operating grant support.

5. Most importantly, nonprofits in every region of the U.S. should come together, with or without the assistance of NCRP, to assess the core operating support grantmaking of foundations in their regions and use the results as tools for negotiating alterations in grantmaking procedures. Nonprofits, especially smaller grassroots nonprofits, should take the lead in such a campaign, keep the heat on foundations and other nonprofit actors to do their part, and assert their rightful claim to a fair share of the nation's vast philanthropic resources.

II. The Need for Change

NCRP has long promoted the notion of core operating support as a necessary element of foundation grantmaking:

- > In May of 2002, NCRP highlighted the issue of inadequate core operating support in a widely circulated article titled, “Something Is Wrong with This Picture”⁴ published by *Nonprofit Quarterly*. The article demonstrated that large and older foundations were less receptive to making core operating support grants than smaller foundations, family foundations, and newly-established foundations.
- > NCRP’s first biennial *State of Philanthropy*⁵ report in 2002 contained a wide array of recommendations for improving foundation policies and practices. The press and public highlighted the report’s attention to the need for increased operating support.
- > In 2003, NCRP convened dozens of national nonprofits to debate the need for core operating support grantmaking. Based on their own experiences, the participants concluded that foundation grantmaking should be at least half core operating support. NCRP published this finding in *The Core of the Matter*.⁶
- > In 2004, NCRP presented testimony to the Senate Finance Committee and, in stark contrast to the presentations of foundation and other nonprofit leaders, made it clear that large increases in core operating support should be an essential component of foundation grantmaking. The call for 50 percent of foundation grant dollars to be devoted to core operating support was contained in *NCRP’s Standards for Foundation and Corporate Grantmaking* (June 2004).⁷
- > In 2005, NCRP made core operating support one of the six focal points for a broadside issued at a meeting of the Council on Foundations on what the philanthropic sector should do in order to be more relevant and productive in the future.⁸
- > An NCRP report issued in 2003 (*Axis of Ideology: Conservative Foundations and Public Policy*)⁹ detailed the successful impact of an alternative funding approach, one focused on long-term core operating support to build an infrastructure for achieving key goals and having a significant impact. The report found that at least one-third to as much as two-thirds of the grantmaking of ideologically conservative foundations was in the form of core operating support grants. This finding is in sharp contrast to progressive, liberal, and mainstream foundations, which make a significantly smaller share of their awards in the form of core operating grants.

NCRP followed this with *Not All Grants Are Created Equal*,¹⁰ a comparison of conservative and “mainstream” or liberal foundation grantmaking in selected nonprofit sub-sectors. This study demonstrated that conservative foundations were far more willing to make unrestricted core support grants than their mainstream and liberal counterparts.

III. More Needs to Be Done

No one should conclude that these reports, supplemented by speeches and presentations by NCRP staff and board members, have created a groundswell of activism on the issue, either among foundations or nonprofits.

The most significant movement was a year-long effort initiated by a few major foundation leaders, suggested by nonprofit representatives, to try to promote more support for core operating grantmaking among foundation executives. There was an initial conference of both foundation and nonprofit executives, which called for the foundation sponsors and their philanthropic colleagues to issue and widely circulate a statement endorsing the need for much greater general operating support. A follow up exploration by two small working groups of foundation executives and a handful of nonprofit advisors took place, although little change in widespread grantmaking practices emerged from these efforts.

The CEO of the Hewlett Foundation became a visible advocate for restricted or negotiated core support grantmaking, speaking and publishing on the topic in multiple venues.¹¹ A draft statement from one of the two small working groups was issued under the auspices of the “Building Value Together” initiative of Independent Sector, which published the statement and some brief explanatory comments. In a press release, the Independent Sector summarized the three core tenets that emerged from the working group:¹²

- > Calls on funders to opt for general operating support over project support when feasible and when the goals of the two organizations are “substantially aligned.”
- > Encourages funders, when providing project support,

to pay “the fair proportion of administrative and fundraising costs necessary to manage and sustain whatever is required by the organization to run that particular project.”

- > Calls on nonprofit organizations to engage in “top-notch performance... in strategic planning, financial management, evaluation, development, and ultimate impact.”

The draft of the Independent Sector statement was met with deafening silence by the formal bodies representing foundations.¹³ The actual language the funders’ working group used was that the funders would call for a foundation “presumption” in favor of operating support.

Since then, whatever spark that may have been ignited has been snuffed out. Foundations have become better at stretching their definition of general support, but they have continued to apply restrictive strings even to those grants. Among many, the “presumption” is in favor of general support to nonprofits that are integrally connected to the ideology and mission of the grantmaking foundations. The implication is that deviations from what the foundations believe to be true and right might well result in rapid retraction of the “core” grant support.

This definition of general support ties grantees to the missions, priorities, and whims of foundations rather than investing in general support to help grantees fulfill their own missions. General support grants subsidize the autonomy of nonprofit grantees; the kind of “general support” indicated in the working group’s “presumption” approach creates dependence rather than independence. This version of “core support” defeats the real value of core support; in reality, it is not core support at all.

The push for core operating support by a handful of foundations was tepid at best, but nonprofits, including NCRP, were no more effective in their influence on foundation grantmaking. The results of several years of expressed concern about inadequate foundation core operating support have had little impact on the finances and sustainability of many small and mid-sized nonprofits. Many organizations are unlikely to attract the “strategic operating support” that is in vogue with some of the more sympathetic foundation leaders.

Several foundations have been vocal about explaining their support for core operating support grantmaking. These include the California Wellness Foundation (which allocates no less than half of its grant dollars to core operating support),¹⁴ the Sobrato Foundation (which indicates that it is unique among its foundation peers in making all of its grant support general operating grants),¹⁵ the William Penn Foundation (which adds on an additional 10 percent in core support to project-

General support grants subsidize the autonomy of nonprofit grantees ...

or program-specific grant requests),¹⁶ and the F.B. Heron Foundation (which specifically reports on the proportion of its grants going toward general operating support).¹⁷ Less vocal but no less committed to general operating support grantmaking have been the Public Welfare Foundation, the New York Foundation, the Scherman Foundation, and the Hewlett Foundation, all of which have been general support grantmaking advocates.

Many words have been written by NCRP and others. The analyses explaining why foundations should sharply and immediately increase their general support grantmaking are widely available and provide overarching analysis of the efficacy of general support grantmaking.¹⁸ Clearly, meaningful change requires more than analysis and facts, however convincing they might be.

IV. In Their Own Words

Nonprofit Voices on General Support Grantmaking

The reports of NCRP and others have not stemmed the tide for smaller community-based nonprofits struggling to survive. Too many organizations are still choking on an excess of restrictive project-based funding and a dearth of flexible core support grant funds. This report may provide an impetus for change; it will not by itself bring about change.

This report will not provide breakthroughs in the foundation sector's understanding of the value and statistical impact of operating support grantmaking. Rather, it is a report focused on the struggles of small nonprofits fighting to survive in communities across the U.S. These organizations are increasingly discovering the difficulty of mere survival, not to mention sustainability, given the predominant foundation grantmaking policies they encounter on a daily basis.

Despite the good efforts of able people in the foundation sector (and of organizations in the foundation-dependent nonprofit infrastructure), change is unlikely to occur from a conversation limited to "insiders." The effectiveness and impact of philanthropy will benefit when debates in the sector include nonprofit organizations in the trenches, doing the real work of social change with the constituencies they represent.

Put simply, the entrenched grantmaking practices of foundations around the nation will only change at the margins, unless the voices of the nonprofit sector are raised and heard. Real change requires nonprofits themselves to mobilize to explain and fight for ways that over \$30 billion in annual foundation grantmaking and well over a half trillion dollars in foundation assets can increase their impact and effectiveness for the people they serve.

The 2006 Nonprofit Congress, billed as a convening of smaller, grassroots nonprofits (or the organizations that purport to represent them), issued pre- and post-meeting reports striking for their commentary on foun-

dations. In the pre-meeting briefing book by the Congress, based on the results of town hall meetings held around the nation, mostly under the auspices of state nonprofit associations,¹⁹ foundations and their grantmaking practices did not merit even a mention. Neither did such issues as foundation payout, the market- or program-related investment practices of foundations, their governance and composition, and the role of general support grantmaking. That could have partly been the result of how note takers and reporters at the various town hall meetings recorded and summarized discussions. Yet the absence of such concerns was noteworthy.

Given the range of issues considered by the delegates at the October 2006 convening, it should not be too surprising that foundations' grant and investment practices did not make it into the final three priorities to be pursued by the participating nonprofits. The final report of the meeting didn't give much more attention to foundations than the pre-meeting briefing book.

What makes this particularly disturbing is that "nonprofit organizational effectiveness" was deemed one of the three priorities of the conference. Among the issues identified by participants as the "root causes of why current nonprofit organizational effectiveness is not as prevalent or successful as it could be" were two closely related items:²⁰

- > The current system is focused on not spending resources on infrastructure, administration; and overhead,
- > Chronic under-funding, particularly of administrative and core operating support.

Nevertheless, none of the solutions addressed the

way that foundations give out—or do not give out—grant funds as a possible strategic solution to the “effectiveness” problem. There was one exception: the Nonprofit Congress called for “(e)ncourag(ing) funders (government, United Ways, foundations, etc.) to ask for and provide incentives to use board management profile assessment and proof of board training/certificate participation.”²¹

How a convening of hundreds of purportedly grassroots nonprofits would not speak to the roles of foundations is difficult to fathom, but it should not be a surprise.²² NCRP’s founder, Pablo Eisenberg, has long decried the reticence of the nonprofit sector when it comes to speaking out about the grantmaking practices of foundations, cowed by what he calls the “mystique of philanthropy.”²³

Outside the gaze of foundations, many nonprofits are telling their stories in ways that have meaning beyond the numbers. Their words, contained in this report, should have resonance for foundations interested in improving organizational effectiveness. Taken together, these nonprofits are calling for a new approach to foundation grantmaking, one that helps rather than hinders their ability to achieve their important missions and increase their impact on social justice issues.

During 2005 and 2006, NCRP convened focus groups of small and medium sized nonprofits in the following areas:

- > Urban locales: Detroit, Minneapolis, Seattle, Atlanta, Denver
- > Rural areas: New Mexico, Maine, Montana

For the most part, whether “small” or “medium” in local terms, the nonprofits constituted small organizations in terms of national philanthropic debates. The rare organization with a million dollar budget was an outlier in these meetings. The voices of smaller, community-based nonprofits are rarely heard in national philanthropic circles.

Three quotes from nonprofit organizations that participated in the focus groups highlight the critical importance of core operating support for helping organizations become more effective in achieving their mis-

sions, goals, aspirations, and impact:

- > *An urban fair housing advocate* described core support grants concisely: “I define it differently than simply the funds needed to keep the organizations administratively alive. It supports the fundamental things that we do, the core purpose of why we exist as an organization.”
- > *Another urban nonprofit perspective* indicated that, “In order to get the dollars, we might pursue a foundation that has the big dollars, but what they want us to do doesn’t line up with our priorities. But we make those adjustments and go with it. I feel the squeeze of what is important to them and what is for us.”
- > *An urban homeless services provider* agreed with these views, saying, “Family Foundations through

“Our board members from the for-profit sector viewed core support as akin to working capital for a business or as a way for us to ‘buy into’ the organization’s business plan.”

—The F.B. Heron Foundation, *Core Support*

relationships are (the best providers of general support). That’s what pays the bills. They trust our organization to do the best thing with the money.”

There is, in addition, an understanding among some foundations about the importance and value of core funding. This provides new opportunities for collaborative partnerships between foundations and nonprofit organizations to achieve shared goals.

The F.B. Heron Foundation’s commitment is underscored in its report on core operating support. The explanation of its grantmaking priority for core support makes it clear that Heron is a foundation that truly listens to what grantees say they actually need rather than prescribing what the foundation deems is in their best interest:

“When the Foundation was getting started, staff began by approaching prospective grantees that shared our self-help mission to understand how a foundation could help them to achieve their goals. Again and again, the staff of these agencies emphasized their need for core support. Heron staff took this message to our Board of Directors. Heron’s

board members grasped the need and rationale for core support. Our board members from the for-profit sector viewed core support as akin to working capital for a business or as a way for us to “buy into” the organization’s business plan. Our board members from the nonprofit sector also recognized the need for flexible capital. Bill Dietel, our board chair, observes, ‘Grantees often spend too much time piecing together the financing puzzle of restricted grants. Core support promotes accountability by stressing the destination—social impact—more than the path a grantee takes to get there.’”²⁴

Despite the Heron Foundation’s awareness of what it takes to create and sustain effective nonprofits, the predominant response to the nonprofit effectiveness challenge has been to blame the victim by attributing the problem of nonprofit sustainability to the lack of training, skill and knowledge of nonprofit board members and executives. Nonprofits even blame themselves and their skill shortcomings for the core funding deficits. It is a mindset that was found throughout the NCRP interviews, best expressed by the director of a community arts program:

“To appease them (foundations), I spent all of last year in an executive director training program, doing everything they wanted. At the end of the year, we hadn’t increased our funding. We couldn’t even meet staff salaries. As the director, I had no energy or time for programs. I didn’t want to do anything. So I said that if this is the way it’s got to go, it’s not going any further, I’ll stop getting a salary, which will reduce our need for foundation money, and we’ll just do smaller programs.”

While the technical assistance and training movement has captured the attention of funders across the country, no amount of training will counteract the debilitating funding practices of foundations. More training programs like the one endured by this community arts program director are likely to yield well-educated staff running nonprofits that are still crippled by lack of adequate core support.

For most smaller nonprofits, the times are tougher, the challenges greater, and it feels like a losing battle. As one *rural nonprofit executive director* put it, with a dash of gallows humor:

“Our auditor goes to our board and says, ‘Well, you guys are actually losing money on all these projects, how do you do that?’ So, we kind of have this little slogan: ‘Changing lives and losing money, we’re good at both.’”

The ability of nonprofit executive directors to find a way to keep most operations going against overwhelming odds should not lead anyone to think that a nonprofit version of the survival of the fittest is a good way for the sector to function.

NCRP has identified many problems that need to be addressed in philanthropy. But inadequate core operating support grantmaking and funding for administrative or indirect costs is a crucial issue that is key to all others. Solving the core support challenge will have reverberations and positive consequences for other foundation practices.

Ten key messages about how nonprofits are adversely affected by the lack of core support grantmaking to smaller grassroots nonprofits resonated through all of the focus groups. They include:

- > Grasping the idea of core support
- > Insufficient project overhead
- > The challenge of multi-year support
- > Organizational “slack”
- > Foundations’ mistaken presumptions of resource availability
- > Foundations’ misunderstanding nonprofit costs
- > Cost-offloading through volunteers and volunteerism
- > How nonprofits back into operating support
- > Distorted relationships and distorted organizations
- > Champions for core support grantmaking

1. GRASPING THE IDEA OF CORE SUPPORT:

National nonprofit decision-makers frequently paralyze themselves around debating nuances of definition that prevents people from coalescing around action issues; sometimes that is the intent. While NCRP interviewees and focus groups talked about “operating support,” “general support,” or “core operating” in different ways, they were united in the critical importance of core support to organizational viability. These nuanced differences add up to a picture that foundation grantmakers can absorb and act on to improve the impact of their grantmaking.

The inability of many organizations even to find the unrestricted cash for a staff lunch, underscores how hamstrung some community-based groups really are. As *the fundraiser for an historic preservation group* put it:

“The way I define core support, it’s general operating funds that support the core mission: how do you pay your salary, how do you pay your utility bills, all of those very unglamorous expenses that every nonprofit has. They have to [be] met on a weekly and a monthly basis. That’s

general operating revenue.”

Or as *the representative of a small city before-and-after-school program* summarized the definition, “It’s like trying to squeeze a dollar out of eighty cents.”

A rural youth group executive director reported that:

“What’s best for us is general operating, just do it as you see fit, and what we would invest in would be staff, and that’s what we would say to the foundation.”

In the words of *an urban arts group*, “Core operating is the nuts and bolts, the pure operation of putting on our events.” According to *an urban advocacy organization*:

“It’s difficult for us to separate everything out. It’s not just programs here and advocacy there...Sometimes issues come up that you need extra money for...[W]e need core support to respond to an emergency or crisis or issue as it comes up.”

An urban development participant highlighted the critical importance of core funding:

“[With general support] I can pay the administrative salaries and the rent. Funders don’t understand that during the course of the year, things come up, no matter how good of a manager you are. The roof leaks, the copier breaks down, things happen. These grants can pay for insurance costs if you have liabilities, health insurance, parking and travel, volunteer expenses, and there’s a whole lot more.”

An urban youth development staffer reported that:

“[Our] executive director talks a lot about the use of this money. It’s a nonprofit touchy-feely kind of thing. She sees a need in the community and can’t say no. She wants to take the staff out for a thank you lunch. It’s the nature of the beast, people who are passionate and compassionate.... [It’s] hard to say no to needs, especially when it fits into your mission.”

2. INSUFFICIENT PROJECT OVERHEAD:

There are obvious problems with relying on overhead rates built into project or program grants. Even with federally-accepted indirect cost procedures, the overhead rates end up being lower than necessary and appropriate. Equally important, simply getting funded for overhead in project costs leaves out the kind of flexible, unrestricted capital that nonprofits need not only to pay

their administrative costs, but to have capital to deploy in response to critical issues occurring in the field.

A rural health provider stated that:

“What [state and federal governments] allow for [an] indirect cost rate is so inadequate that, realistically, your operations have to be subsidized in some way. In other words, I would say that a majority of the [project] funding will only allow, say, anywhere from 0 to 6 percent indirect cost rate and our actual indirect cost rates are around 13 percent.”

According to *an urban advocacy group*, “I don’t submit an overhead rate when I apply. It wouldn’t fly, but it’s 10 percent.” In the words of *another urban advocacy group*, “It’s a nightmare to monitor the restricted money. It’s paperwork that you can’t get out from under, which eats away at the grant.”

Many of the interviewees decried a common phenomenon: the feeling that some of their foundation program officers didn’t seem to have much experience in actually running organizations that had to face the challenge of raising money and delivering product. As *a staff member of an urban-based domestic violence program* described the problem:

“Funders just don’t get it, they haven’t had to experience these issues. ...I don’t want to tap dance for the funders. They are controlling us. I kill myself doing these monthly and quarterly and yearly financial reports. That’s time away from the mission of my organization ... Foundations don’t realize how labor short we are.”

3. MULTI-YEAR SUPPORT:

It may be a surprise to some observers that the importance of multi-year grants is clear to nonprofit organizations that have to spend much of their productive time churning out annual proposals and meeting various foundations’ deadlines. Former New Jersey Senator Bill Bradley wrote about the inefficiencies in the current system of financing the nonprofit sector,²⁵ the counterproductive, time-wasting annual grant application process (not to mention filing long and detailed grant applications and mid-year and annual grant reports for small grants).

Lack of multi-year funding, which many interviews and focus groups identified as an obstacle to achieving their missions, had to be one of the practices Bradley and his McKinsey colleagues had in mind. *A rural youth nonprofit staffer* pointed out that:

“Another issue that I think funders should be aware of is

giving us two or even three year grants, because that way the issue of training staff, you know that you're going to have the money over time, the investment is not going to be lost. There's nothing worse than training somebody and it takes that year or so, and then you don't have the money the following year to keep them. So I think grants over a two to three year period would really be helpful to organizations for stability."

This view was seconded by *another rural youth nonprofit organization* that reported:

"Being a model program and having all these national replications... a five year grant initially...allowed us time to implement the program and evaluate it over a period of time that really showed results. ...[With] a one to three year grant, you don't have the time to do that, and it's just like continually starting over again when you have those

"I find that we're not with a lack of good ideas. How do you have that space to think and plan, not just reacting to needs and demands? [Funders] would be outraged if others had the same expectations of them."

—A spokesperson from an urban religious organization

short term grants. So the fact that somebody had the foresight to offer a five-year grant really made the difference for us. It was the thing that helped us to be successful and nationally recognized."

A *rural health organization* described the barriers that lack of multi-year funding creates:

"[I]t gets difficult when you have a variety of smaller grants, when they have so many rigid rules in there. One wants one thing; the other wants the other thing, and so forth. In a small group like ours, that gets very difficult to try to meet everybody's expectations.... [T]hey're not looking realistically at the overall organization as to what we could do if we could get them together and get them to realize that we're not a big corporation, we don't have the staff, we don't have secretaries, everyone here answers the phones."

According to *an urban nonprofit organization*:

"The paperwork just isn't worth the effort any more. They have told me repeatedly that they will do it [make a grant]

more than once, but nothing additional unless we have a gimmick."

And *an urban civil rights organization* identified short-term funding as:

"A hot button issue for us. Funders send us in all kinds of different directions to get money, creating new programs. It's a constant, ongoing hand-to-mouth kind of effort."

4. ORGANIZATIONAL "SLACK":

In business terms, organizational slack means anything but time wasted or goofing off. Slack is a well known concept of organizational effectiveness that has somehow escaped the attention of nonprofit theorists. This may be because of their awareness that most nonprofits don't possess the flexible grant support to use as slack resources. A standard definition of organizational slack is:

"A cushion of actual or potential resources which allow an organization to adapt successfully to internal pressures for adjustment or to external pressures for change in policy, as well as to

initiate changes in strategy with respect to the external environment."²⁶

As such, funding for organizational slack becomes a buffer that protects an organization during "environmental turbulence," a resource that an organization can draw on to address particularly difficult problems, and a pool of funds that allow the organization to "experiment with new strategies such as introducing new products and entering new markets."²⁷

The only significant nonprofit analysis of organizational slack in recent years has been the paper of Woods Bowman, Elizabeth Keating, and Mark Hager,²⁸ who note that, "[I]ump sum subsidies contribute more to organizational slack than other forms of subsidy because they do not affect decisions at the margin." Because they don't have to be immediately and restrictively pumped into program operations, unrestricted resources can be used for important organizational slack purposes that enhance effectiveness and impact. In their view, investment income is a particularly appropriate source of revenue for organizational slack, but the proportion of nonprofits that will be able to gener-

ate large sums for this purpose is slim.

Lacking large amounts of investment income, smaller grassroots and community-based organizations need unrestricted grant support to give them the buffers and flexibility for adjusting to “environmental turbulence” or investing in new product development. The experience of 9/11 made that very clear, as the analysis of Dennis Derryck and Rikki Abzug made clear:

“For organizations to rebound from crisis, flexibility and organizational slack are keys to shock absorption. Contracts that stipulate by line items rarely allow the creative problem-solving necessary to respond quickly to turbulent environments and, therefore, end up leaving organizations vulnerable.”²⁹

Derryck and Abzug were talking about government contracts, but the lesson for foundations is clear and even more practical—funders should make more grants as flexible, general support as opposed to restrictive program grants unless they want to leave crucial nonprofit service providers and advocates unable to withstand changes in their environments or markets.

For nonprofits without core support grantmaking, there are no spare dollars for the kinds of internal infrastructure investment—planning, new product development, or problem-solving—that for-profit businesses routinely do with their slack funds.

Many organizations talked about the way that lack of resources for organizational slack affects their work and hinders their effectiveness and impact. *An urban religious organization dealing with racial/ethnic discrimination* spoke for many nonprofits:

“What comes to mind for me is that [with effective general operating grant levels] I could be doing marketing, fundraising, [and] creative thinking. I find that we’re not with a lack of good ideas. How do you have that space to think and plan, not just reacting to needs and demands? [Funders] would be outraged if others had the same expectations of them. They would be outraged. It feels like a set-up right from the beginning.”

This point was reinforced by a *small city historic preservation group* that reported:

“[We] are in a position where we can[not] even think

about creating new programs because...we so desperately need money for their existing programs...We don’t have the resources to be able to bring on new initiatives.”

A local funder highlighted the importance of slack to increasing impact:

“I think at a minimum it should be 10 percent of the budget that should be devoted to evaluation. It’s really hard to get people to do that because those are precious dollars, but if we don’t know how we’re doing... [T]he biggest question is how do you know that you’re really having an impact on the problems that you say you are.”

A rural youth services organization stressed the importance of this issue:

“That’s the hardest money to find, because it seems like the foundations just assume you have support for that function. They don’t want to give you money for that, and some of the foundations are really strict about it, they just won’t give you

“Core money gives you time for relationship-building, for forward-thinking.”

—A participant from an urban nonprofit organization

money for that...[Because we are] in a situation of being a program that’s being replicated all over the place...people just make a lot of assumptions, they think that you have the support you need, they just assume that...Actually, the more of that kind of work [replication] that you try to do, the more strain in puts on your organization.”

A rural health provider indicated a concrete way that inadequate slack weakens their effectiveness:

“All of our staff are...going for their degrees, in fact three of them will finish their two-year degrees and they’ll be signing on for more, and they were given time off from work to go to the classes, but unfortunately because of money constraints, we’ve had to cut back on that; if they take the classes, they have to take them after hours.”

The negative impact of restricted project-based funding was also stressed by a *rural youth group*:

“There [are] a lot of hidden costs in doing business as a nonprofit [that] you really have a hard time recovering anywhere. ...Our whole kind of staff training and recruit-

ment is a big issue out here. You can't assume that you're going to find a person that's qualified for the job, so every time we hire somebody, we have to train them, too. So it's double duty on our staff to get this person up to speed so they can do the work, and sometimes it takes a year of training before you can actually turn them loose with a group of kids and feel confident that they're going to know what they're doing. There [are] all kinds of hidden costs, financially and otherwise, in trying to run an organization like this."

A rural youth program reported that, "We used to be affiliated with [a national organization]...[but] we couldn't keep up with the costs of being affiliated with a national nonprofit. I am the only employee." And an urban group doing community advocacy health and environment research highlighted how lack of slack hinders their ability to achieve their core mission:

"[We] spent two weeks in cancer alley, and that was all unfunded. If I had operating money, I could pay for that. Now I've got to work two times as long on the project going forward that funds my salary. There is always another group of folks that need some partnering or digging. ...How do you say no?"

What is the missing flexible money that nonprofits need? As one urban nonprofit participant put it, "core money gives you time for relationship-building, for forward-thinking." That definition applies internally and externally, but it is hard to see most foundations signing off on a nonprofit's "organizational slack" line in an annual budget.

5. MISTAKEN RESOURCE AVAILABILITY:

Some funders don't provide general support simply because they assume that other funders do so or that the nonprofits have access to resources that actually do not exist. For example, many foundations incorrectly assumed that organizations serving Native American populations were affiliated with and had access to Indian tribal funds. Foundations assumed that the tribes were flowing with casino revenues, making the Indian service organizations presumptively self-sufficient.

For many organizations serving disadvantaged urban and rural tribe members, nothing could be further from the truth. In fact, to be able to serve people in need, some organizations chose to be independent of the tribes, giving them the ability to provide services where needed and to advocate when necessary. One Native American health service provider reported that:

"No, we have nothing to do with the tribe at all. And maybe it sounds awful...but it's better that way. We don't have to go through the bureaucratic you know what. ...There are a lot of misconceptions about our program, because most of the people, even though the information is available, they still think that because we have an Indian name, that we're supported by the tribes or the Indian health services. That's the furthest from the truth. We have absolutely no money from the tribes or the Indian health service."

Another Native American youth services agency made the same point:

"There's a major assumption around the country that all the tribes have casino money, too, that every Indian program has more money than they know what to do with. We frankly have never, well, I wouldn't say never. I think in the last ten years, [we] have probably had less than \$10,000 donated by the tribes. So that's the stereotype. I think it hurts."

Environmental organizations face a similar dilemma: the assumption that they are swimming in unrestricted grant support due to national funding networks, such as the workplace fundraising structure of EarthShare.³⁰ For other nonprofits, assumptions based on geography can be a problem. Some funders assume, for example, that groups in the Pacific Northwest have automatic access to flexible grant support from the Bill and Melinda Gates Foundation and, therefore, do not need more or alternative sources.

The reverse can also be true. Groups working with federal funds (and federally-approved overhead or indirect cost rates) find themselves facing federal auditors who assume they are getting comparable overhead rates built into their non-federal project- or program-specific grant. This barrier was stressed by a rural youth group:

"In the past when we've had a couple of big federal grants, we reached a funding level with federal funding where we had to negotiate an indirect cost rate with the federal government. They determined that our indirect cost rate should be 19 percent, [but] we don't get anywhere near that from 90 percent of the grants we have. That's what's really got us in a bind right now. We're used to having that 19 percent indirect cost rate on a big grant... [but] when the big grant ran out in September, it really put us in a bind."

6. MISUNDERSTOOD COSTS:

Sitting at a distance, foundation program officers face significant information-gathering challenges when negotiating grant applications from diverse nonprofits. NCRP has long pointed out that the tendency of some program officers to lump nonprofits into groups that don't take into consideration geographic and other cost differences is troubling. This inclination is clearly seen in how foundations deal with operating support, failing to perceive the true nature of some nonprofits' program and service costs, an issue raised by a *statewide rural youth service agency*:

"It's very important [for us] to do educational outreach around the state. There's a perception, as we all know, that...the frontier areas and the [rural] underserved areas are cheated...[We] hear all the time that you are all the stepchildren and [what] we want to do is make you the Cinderella...[But] there's only three of us part-time to cover the entire state, and we've been trying to educate people in different communities and set up local organizing groups so they can do the education outreach that's so necessary."

An *urban advocacy group* indicated a similar problem, saying that:

"They still think people can be paid with \$25,000 and run an office on a third of what it actually costs. They don't get that at foundations. We always have to figure out how to allocate things so we're within their perceptions of our needs."

7. COST-OFFLOADING THROUGH VOLUNTEERS AND VOLUNTEERISM:

Funders sometimes assume that smaller, community-based nonprofits have access to community volunteers and that volunteers can pick up the slack. In some cases, they can, but often they cannot. Turning to volunteers is frequently the result of shortfalls in foundation general support grantmaking, one that cannot compensate for inadequate resources. In the words of a *rural health advocacy organization executive director*:

"I'm the file clerk, the editor. We don't have an office. Thank goodness for e-mails. Our budget is around \$79,000, most of it comes from foundations. ...A big chunk of it comes from one foundation...and then we have some smaller grants from different religious organizations, but we operate on shoestrings and it's volunteers that make this really go. It's unbelievable the dedication of the volunteers."

Nonetheless, volunteers can be a vital resource, especially for small nonprofits that operate on a shoestring budget. A *rural youth mentoring group* reported that, "The administrative costs are all raised from [a] bowl-a-thon. So all my administrative comes from what we raise in our communities." A strong volunteer base of support requires, and is an indicator of, strong roots in the community being served. Another *rural health service provider* made this important point:

"[W]e had our first annual family BBQ potluck in May...The people are so much behind what we do... [T]here has never been an organization such as this, that's why I have such a huge volunteer base, they realize that we have a drastic need for the services that we're able to provide, so they are willing to help out as they can."

8. BACKING INTO OPERATING SUPPORT:

If nonprofits followed every restriction to the letter, many could not function, not to mention survive. Reading these stories, one might conclude that if nonprofit leaders looked at the challenges of running and sustaining their organizations, given the predominant funding bias against core operating support, they would conclude that the job is impossible. But nonprofit leaders forge ahead anyhow, relying on their innate creativity and perseverance to get past objectively daunting problems.

The lack of flexible foundation funding forces nonprofit directors to do the impossible. They have to succeed in the face of a daily organizational decathlon that burns out staff and prevents nonprofits from achieving what they can and should. Their stories of how they survive the lack of general support grants include doing the impossible over and over again. This reality emerged consistently in interviews and focus groups.

A *rural youth group* said:

"We've had to design our budget [where] we have to take a piece from every grant to cover the cost of the audit and things like that. You just have to sneak some things in every once in a while. If you say it up front, they're probably not going to allow it, so you have to do things like that some time."

The response of another *rural executive director* mirrored this experience:

"You have all of these costs that have to be covered somewhere...[O]ur auditors would freak out, but we're

always taking money from one place and using it for something else, and you can't talk about it..."

Another urban advocacy group reported that, "You have to be creative. It's not lying. It's how you allocate and what you call it and how you phrase things...nothing illegal or immoral, it's just how you allocate things." An urban manager of a mainstream youth group put it straightforwardly: "For us, one of the tricks or secrets is, well, funders give a restricted gift, but for us, we treat it as core support since we planned for it as core support." And an urban advocacy group made the point that, "[Asking for overhead] depends on the funder. You do what you think they want to hear. So, usually, you don't put the real number in there."

The lack of adequate core funding that is essential to effectiveness and impact poses strong barriers to the

really meant to be general operations.

A representative of an historic preservation group at one of the urban focus groups asked, "Do the foundations know what a fallacy they're creating?" The same point was also made by a rural health provider:

"You know, [foundation policies on core support grant-making] force you almost to be dishonest. If you really want to do the work, you have to compromise your integrity a little to do what has to be done."

In the words of a statewide rural arts theater program, "You're trying to modify what you do to what they're funding and see if you can sneak [it] in." Or, as an urban advocacy group put it, "A question I've started getting is how we plan to sustain the project once their support ends. I tell them what they want to hear.

It's a bizarre exercise."

The lack of candor isn't simply about the dynamics of conversations between foundation program officers and nonprofit staff. It concerns the damage that these foundation

"You know, [foundation policies on core support grantmaking] force you almost to be dishonest. If you really want to do the work, you have to compromise your integrity a little to do what has to be done."

—A rural health provider

mutual honesty necessary for foundations and their nonprofit grantees to achieve shared missions and goals.

In response to consistent comments that focus group participants were experiencing flat or decreased levels of general operating support from foundations, an urban youth services provider highlighted the pervasive reality of making do with less:

"You know, someone might ask, how can you be flat-funded for five years? We've had to go and do a lot better at buying oil, buying food, being more thrifty. Overtime is something we've had to cut. Before it was never an issue, now we do no overtime."

9. DISTORTED RELATIONSHIPS AND ORGANIZATIONS:

A well-known funder that supports discretionary core funding has talked publicly about the positive change in foundation/grantee dynamics that occurred after switching to core support grantmaking. Grant recipients opened up with candor about their capacity problems when they didn't have to maintain the fiction that they were applying for project grants when the uses were

practices do to nonprofits that have to dissemble in order to have access to the necessary dollars. This is why foundation practices contort and distort the finances and programs of the nonprofits they purport to serve.

10. CORE SUPPORT ADVOCATES:

General support grantmakers are few and far between for smaller, community-based advocacy organizations. But community foundations and some national foundations such as the Public Welfare Foundation were mentioned frequently as champions for general support grantmaking. Interviewees repeatedly cited the importance of community foundations, family foundations, a small number of national foundations, and corporate philanthropy in meeting their need for unrestricted core operating support.

A rural health group strongly commented that:

"Most of the [program officers] that we have come for our site visits are really our angels, because they go back and actually plead our cause at the foundation level. We don't have that kind of thing where our people can go. We have to convince these people that we're the best in the Southwest and they go back and advocate for us."

Another rural youth group commented that:

“It’s not easy to get funding for something like [general support] from national [foundations]. What we get funding from are small grants locally, where people know us, and then from the Public Welfare Foundation in DC...They do operational grants and have visits and have been the most amenable. I praise Public Welfare and the few local foundations here, but I have no way of communicating that message, that’s why I’m thrilled about what you’re doing.”

Expanding on this issue, an urban advocacy-oriented group noted that:

“Family foundations seem to be the most supportive. We have received repeated general support grants from them. It’s our track record that speaks to them. They see that and want it to continue.... There’s not that much of a difference between a family foundation and individual giving.... If you want stable general support, the small family foundations are the way to go. As an advocacy organization, you need more individual-like support.”

And an urban service provider pointed to the importance of corporate grantmaking for core support:

“The greatest chance of core operating comes from the corporate community. Large foundations are interested in the projects and programs. We have to figure out

how to engage the company’s employees in the life of your program. The extent to which you are able to engage their employees in the program, that generates a deeper investor.”

Despite the remarkable obstacles these groups virtually all reported, they did not express hostility toward foundations or toward foundation staff. Too many foundations take complaints and criticisms as arrows through their hearts. Even as nonprofit representatives bemoaned what sound like thick-headed foundation actions, they liked their foundation funders and wanted the relationships to improve—primarily through larger, multi-year core operating grants.

Notwithstanding the existence of potential or actual advocates for core funding, these groups nearly unanimously reported declining actual amounts and numbers of core operating support grants. By all accounts, less than 20 percent of foundation grants distributed every year go to general operating support.

One *urban environmental group* reported a five year plunge from “huge” core funding to only one remaining unrestricted grant. Another suggested that funders now only support “specific campaigns.” Community-based nonprofits should not be assuaged by national foundation statistics that overall foundation grantmaking for general support is on the rise. It is still an ice age for access to flexible grant support for smaller community-based and advocacy organizations.

V. Foundations' Own Actions Show the Need for Change

The internal operations of foundations themselves demonstrate the importance and value of unrestricted core support and multi-year resources to organizational effectiveness. There is a fundamental difference between the way foundations allocate their own operating resources and their own grantmaking practices. If foundations treated nonprofit grantees as they treat themselves, far more grantmaking would be in multi-year discretionary core operating support.

Whether or not foundations hew to a 5 percent spending (payout) ceiling, if foundations need additional funds for administrative purposes, salaries, offices, or program development they can simply write themselves a check, so to speak, by drawing on their endowment or the income from their investments. Most non-foundation nonprofits, however, do not have any comparable administrative cash resources.

Foundations use their own internal funds for general support that are allocated and used by foundation trustees and staff to meet the mission and goals of the foundation in their entirety, as opposed to being limited to specific parts of the foundation's mission by external authorities. Foundation resources are not restricted to one or another slice of the foundation's mission except by the foundation's own decision. As a result of grantmaking practices, however, most of the grantees' resources are tied to highly restrictive project-based funding.

As endowed institutions existing mostly in perpetuity, foundations are always benefiting from the kind of multi-year funding that most nonprofits cannot imagine. As a result, foundations are able to take a long term perspective while grantees can only look ahead one or two years to achieve goals that require a more long-term strategy.

As institutions created for the most part in perpetuity,

foundations do not have to answer to other funders to demonstrate outcomes and impacts that warrant their continued access to their endowment assets. Nonprofits are accountable to foundation funders or government agencies for their productivity and impacts. Based on the results, foundations can decide to continue, increase, decrease, or terminate future funding. All too often, accountability is based on short-term measures for a large number of specific projects rather than long-term benchmarks for capacity building and achieving major goals driven by their core missions. As a result, foundations rarely become trusted partners in achieving shared goals.

Some foundations explain their reluctance to make unrestricted grants as a result of their alleged inability to find reliable outcome measures for core operating grants. The irony of asking nonprofits to explain, measure, and justify their outcomes, particularly for restricted project-based grants, when foundations rely on surveys of grantee satisfaction (not impact) as feedback on their own effectiveness was noted in many interviews and focus groups. Development of more long-term measures and benchmarks for achieving core missions and goals would enhance the impact of both foundations and their grantees. A number of innovative funders with successful practices for core operating support have taken steps toward developing more meaningful benchmarks and milestones targeted to the achievement of shared missions.

The distinction between foundations and non-foundation nonprofits turned ironic on the issue of operating support during the debate concerning the Charitable Giving Act of 2003, which would have altered the composition of private foundations' payout (qualifying distributions) by excluding foundations' own administrative costs.

The philanthropic sector has organized long and effectively to protect its autonomy, or lack of accountability, for how it uses its resources. Since most foundations operate with few or no staff and incur limited administrative costs, the net result would have been to increase the de facto foundation payout from 5 percent to 5.4 percent.³¹

The foundation sector reacted harshly at congressional intervention in how they calculate and spend their funds for administrative costs. They contended that restrictions on their “administrative overhead” were at best counterproductive and at worst designed to drive foundations out of business. Ironically, foundations don’t recognize the importance of administrative overhead to the viability and impact of the nonprofits they fund. Remarkably, some of the foundations leading the charge against the Charitable Giving Act were those that did not favor general support grants or provided

The grantmaking sector that generally provides very little grant support to political or community organizing did a great job at organizing on its own behalf when it perceived a threat to its self-interest.

abysmally low or no administrative overhead on project- or program-specific grants.

Foundations were successful in organizing around their own core operating cost issues and getting congressional allies to weaken the bill and ultimately leave it to die.³² The grantmaking sector that generally provides very little grant support to political or community organizing did a great job at organizing on its own behalf when it perceived a threat to its self-interest. The Charitable Giving Act story is a clear example of effective organizing around issues in philanthropy, an object lesson to grassroots nonprofits whose bread and butter is community organizing and constituent mobilization. If nonprofits want to affect foundation grantmaking behaviors, they would be well advised to emulate the grantmakers themselves—mobilizing and organizing is the key to success.

VI. Organizing for Change

Foundations represent one of the most unaccountable sectors in our society, with structured immunity to critical feedback about the negative impact their grantmaking practices might have. This is not a radical notion. Government regulation of nonprofit accountability “is, for all practical purposes, slight” and foundations themselves enjoy a “freedom from accountability.”³³

The foundation sector controls a huge tax exempt asset base of over \$500 billion. Because they are virtually free of government regulation, foundations are not accountable to the public interest they are designed to serve in return for their nonprofit status. Nor are they accountable to the nonprofit organizations they fund or the people and communities those organizations serve.

Because they are not accountable, research and publications about how foundation practices may be damaging the long-term sustainability and impact of nonprofits are not enough to provoke action and change. Given the glacially slow changes in philanthropy achieved by over 30 years of advocacy by NCRP, cynics might suggest that the poignant nonprofit voices in this report mean little or nothing – that foundations are impervious to change, and certainly impervious to yet another report on general support grantmaking.

The facts are clear and they are on record. Change in foundation practices toward significantly more core support and multi-year grantmaking could dramatically improve the effectiveness and impact of the nonprofit sector. It is a critical step toward building a sustainable infrastructure to achieve the shared goals of the nonprofit and philanthropic sectors. But more reports, even reports like this based on the authentic voices of nonprofits suffering the consequences of foundation grantmaking practices, are not enough.

That is why this report is a call for action and organizing for change. The time has come for nonprofits, with

their allies in the foundation sector, to come together and organize – to bring their concerns and their hopes for the future to the doorsteps of foundations and philanthropic trade associations in order to compel their attention and action.

This will not be easy, but it is the only way that change will come, change that increases the impact of nonprofit organizations on the people and communities they serve.

There may be many reasons why national nonprofit organizations have tread carefully and generally uncritically around foundation issues, whether in the Nonprofit Panel reports on charitable accountability or the more recent Nonprofit Congress convenings. The nonprofit world is a heterogeneous sector of very large and extremely small organizations, national and local organizations, and service delivery, grassroots organizing, and advocacy organizations.

These diverse nonprofits are affected differently by foundation grantmaking practices. Just as there are winners and losers under current grantmaking policies, different kinds of nonprofits are likely to be affected differently by change.

At the national level, the nonprofits with the largest voices tend to be relatively better off in financial and funding terms than smaller, local groups. Larger well-funded organizations also tend to be more closely aligned with the large foundations. As foundations’ strategic grantmaking focuses larger and larger grants on smaller arrays of national nonprofits, those nonprofits are going to be unlikely allies in criticism of foundation grantmaking practices.

POTENTIAL ALLIES AND ADVOCATES

The foundation world is also a highly heterogeneous sector made up of large and small foundations; local,

state and, national foundations; community and family foundations; and corporate funders. This diversity of grantmakers means that nonprofits can be treated very differently by different funders. It also creates potential allies within the foundation world in the struggle for a shift toward longer term core operating support as the rule rather than exception in grantmaking.

NCRP's focus groups and interviews identified geographic differences in how nonprofits relate to local grantmakers. The importance of local community foundations, local family foundations, or even local corporate funders as allies and advocates cannot be understated. While most nonprofits cannot imagine getting a hearing with key decision-makers among some of the nation's largest foundations, they know it is a possibility in cities and metropolitan areas where local funders, including some of significant size, are located.

Some local and national funders can advocate for operating support on behalf of and with nonprofits for change in grantmaking practice. Some funders have had positive experiences with longer term core operating support funding and have seen how it can increase success in achieving shared goals. Some of these funders may provide insight into best practices and evidence of success for multi-year and unrestricted core funding. The NCRP interviews suggest that potential advocates are most likely to be found in the following philanthropic categories:

- > **Community foundations:** The interviews and the literature suggest that some community foundations “get” the operating support issue. While they are constrained in their flexibility regarding the grantmaking they administer from donor-advised funds, they appear to emphasize general support in the grants they make from their unrestricted pools.
- > **Small family foundations:** NCRP's previous reports, as well as the interviews and focus groups conducted for this study, suggest that many small family foundations also appear inclined toward general support grantmaking. It may be a reflection of size—that small size instills modesty in grantmakers. As a result, they may be more likely to invest in and trust

nonprofits they support as compared to the more instrumental or “strategic” grantmaking motivations of larger foundations with substantially more revenues at their disposal.

- > **New foundations:** Both grantmaking statistics and reports from the NCRP focus groups indicate that newer foundations tend to be more inclined toward giving unrestricted grant support to their favored nonprofits.
- > **Venture philanthropists:** This may overlap with “new foundations,” but the venture philanthropy model includes investing in nonprofits as organizations, capitalizing them to be effective, and not slicing and dicing which pieces of the organization merit restricted support and which should be starved.
- > **Corporate funders:** Surprisingly, NCRP has consistently encountered a finding that corporate funders,

Progress toward more effective grantmaking will require the development of a strategy for change and mobilization of a strong nonprofit voice for funding practices that build an infrastructure for greater impact.

particularly the philanthropic arms of banks and other financial institutions, are more open toward core operating support, though nonprofits have to be concerned with corporate funders regarding expectations of marketing-oriented quid pro quos.³⁴ However, corporations generally seem to be providing less operating support than they used to.

At a national level, few foundation leaders have publicly advocated for greater general operating support—and with little or no perceptible impact. At a local level, recruiting philanthropic advocates might have greater impact. Local and regional philanthropy involves more frequent interaction and exchange among grantmakers than is possible at the national level among the largest foundations.

The higher frequency of possible encounters at the local level is due to the likelihood that local philanthropic leaders may encounter each other in non-philanthropic as well as foundation venues. At the grassroots level, the notion of recruiting and energizing issue champions is an integral tool in the community organ-

izing toolkit. It should work equally well for organizing within and about institutional philanthropy.

BUILDING A MOVEMENT FOR EFFECTIVE CAPITALIZATION OF THE NONPROFIT SECTOR:

Despite the best of intentions, the possible flaw in national efforts for core support grantmaking has been their top-down direction. This undermines the strength and vitality of the U.S. nonprofit sector which is, at heart, a grassroots movement on the model that Alexis deTocqueville described nearly two centuries ago. Too often, the nonprofit sector forgets that its strength is not dependent on national organizations doing research and spinning press coverage, but on the ability of hundreds of thousands of groups speaking with authenticity about the needs of families, communities, and the role of nonprofits closest to them in improving their lives.

Progress toward more effective grantmaking will require the development of a strategy for change and mobilization of a strong nonprofit voice for funding practices that build an infrastructure for greater impact. With this report, we are asking nonprofits around the nation, in multiple metro and rural areas, to join us in a discussion of how to advocate for significantly higher levels of core operating support grantmaking. Those nonprofit organizations at the table for this discussion should be joined by local family, community, and corporate foundations that advocate for change in the same direction. A “grassroots up” dialogue across the county can and should spark a movement that captures national and philanthropic sector attention about the real capital needs of nonprofits and the often debilitating funding practices of some funders.

Nonprofits need to come together around the view that foundation moneys are really their moneys, that nonprofit organizations are the essential delivery system for foundations to realize their missions, and that nonprofits can propel change in the foundation sector. General support grantmaking is not going to be legislated. But a grantmaker’s ethic that no less than half of all grant dollars should be dedicated to core operating support is a threshold and principle that can and should be embraced at all levels of the foundation sector.

The goal is *investing* at least half of foundation grantmaking dollars in the long term sustainability of grassroots community-based nonprofits, a philanthropic commitment to the vitality of the American civic sector. This will make a dramatic difference in the capacity of nonprofit organizations to better meet the needs of the people and communities they serve. All this is achiev-

able. But it depends on nonprofits coming together and being willing to stand up and speak truth to philanthropic power. This change agenda is a win-win proposition for foundations and their nonprofit grantees, both of whom will have greater impact on achieving their shared missions and goals.

Notes

1. The F.B. Heron Foundation, *Core Support*, http://www.fbheron.org/viewbook_coresupport.pdf, p. 3.
2. Cf. the Internal Revenue Service for a discussion of the relatively little understood function and structure of “supporting organizations”: <http://www.irs.gov/charities/article/0,,id=137609,00.html>.
3. Jan Masaoka and Jean Bell Peters, “What We Really Need: Eight Reforms to Make Nonprofits More Accountable and Effective,” in *Stanford Social Innovation Review* (Summer 2005).
4. Rick Cohen, “Something Is Wrong with This Picture,” *Nonprofit Quarterly* e-newsletter, <http://www.nonprofitquarterly.org/section/305.html> (May 2002).
5. http://www.ncrp.org/publications/index2.asp?action=viewitem&Item_Id=10.
6. *The Core of the Matter*, http://www.ncrp.org/downloads/PDF/The_Core_of_the_Matter.pdf (July 21, 2003).
7. *Standards for Foundation and Corporate Grantmaking: An Accountability Statement by the National Committee for Responsive Philanthropy* (June 2004) (<http://www.ncrp.org/downloads/NCRPAccountabilityStatement061804.pdf>).
8. http://www.ncrp.org/downloads/NCRPinTheNews/AR-031705-COF-What_Can_and_Should_Philanthropy_Do_in_the_Future.pdf.
9. Jeff Krehely, Meaghan House, and Emily Kernan, *Axis of Ideology: Conservative Foundations and Public Policy*, <http://www.ncrp.org/PDF/AxisofIdeology-ExecutiveSummary.pdf> (March 2004).
10. Jeff Krehely and Meaghan House, *Not All Grants Are Created Equal: Why Nonprofits Need General Operating Grants from Foundations*, http://www.ncrp.org/downloads/PDF/core-op_final_low_res.pdf (September 2005).
11. The President and CEO of the Hewlett Foundation, Paul Brest, was engaged in the issue long before he and others (notably the Surdna Foundation’s Ed Skloot, Open Society Institute’s Gara LaMarche, Mike Bailin of the Edna McConnell Clark Foundation, and Stephen Heintz of the Rockefeller Brothers Foundation) convened the conference on general support. Among Brest’s writings on general support are “Smart Money: General Operating Grants Can Be Strategic—for Nonprofits and Foundations,” in *Stanford Social Innovation Review* (www.ssireview.org/pdf/2003WI_feature_brest.pdf, Winter 2003) and a May 8, 2005 memorandum he wrote for the Hewlett Foundation’s own staff, “The Rationales for Modes of Foundation Support for Nonprofit Organizations” (<http://www.grantcraft.org/pdfs/generalsupport.pdf>).
12. <http://www.independentsector.org/issues/buildingvalue/opsupport.html>.
13. The Council on Foundations did, prior to the results of the working group, issue a paper offering perspectives on core operating support contrasted with project- or program-restricted support as part of its series of “board briefings” documents: “At Issue: Project vs. Operating Support—Which Is the Better Strategy?” http://www.cof.org/files/Documents/Governing_Boards/BProjectOperating.PDF (December 2002).
14. http://www.tcdf.org/grants_program/core_support.htm.
15. <http://www.sobrato.com/foundation/guidelines.htm>.
16. http://www.ncfp.org/FGN-Feb_2006/Increasing_Impact_Innovation.pdf.
17. http://www.fbheron.org/viewbook_coresupport.pdf.
18. The Nonprofit Finance Fund President and CEO Clara Miller’s article “Risk Minus Cash Equals Crisis: The Flap about General Operating Support” (http://www.nonprofitfinancefund.org/docs/CMiller-NCRP_StateofPhilanthropy2004-Risk%20Minus%20Cash%20Equals%20Crisis.pdf) on why foundations “are” providing more operating support, published in NFG Reports (Spring 2004), and California Wellness Foundation’s Gary Yates explaining why he established a minimum 50 percent operating support grantmaking threshold for that foundation (Gary L. Yates, “Good to the Core”, *Foundation News & Commentary* (July/August 2001), <http://www.foundationnews.org/CME/article.cfm?ID=1009>), are all, in addition to Brest’s “Smart Money” article, excellent examples of cogent analysis regarding the trends in core operating support grantmaking. Also see Pablo Eisenberg’s “The Case for General Support,” *Nonprofit Quarterly* (Winter 1999), pp. 51-53.
19. *Voices from the Field*, http://www.nonprofitcongress.org/sites/nonprofitcongress.org/files/theme_editor/npcongress/NonprofitCongress.BriefingBook.pdf (2006).
20. *Deliberations, Decisions & Planning: National Meeting Highlights*, http://www.nonprofitcongress.org/sites/nonprofitcongress.org/files/theme_editor/npcongress/national_meeting_highlights.pdf (2006), p. 21.
21. The Nonprofit Congress did call for institutional funders and individual philanthropists to become more aware of nonprofit advocacy roles and for networking with funders to help the nonprofit sector “rebrand our image,” reflecting a concern with the terminology used to describe and classify nonprofit organizations, but requests for any specific changes in how foundations used and distributed the billions of tax exempt dollars at their disposal were missing in the final report.
22. Institutionally, NCRP did not participate in the Nonprofit Congress town halls or in the meeting of the delegates in Washington in October 2006. Had NCRP participat-

- ed, NCRP-affiliated delegates could have and probably would have spoken out on issues that NCRP has long stood for and which were missing in the Congress reports. These include not only foundation-specific issues, but also the question of the need for more government regulation, which received consistently disparaging commentary in the briefing book. However, based in Washington and working on national nonprofit “infrastructure” and policy issues, NCRP’s potential ability to put foundation grantmaking on the table of the Nonprofit Congress convening would not have constituted an authentic grassroots nonprofit voice raising the issue.
23. Cf. Pablo Eisenberg, “Penetrating the Mystique of Philanthropy,” *Nonprofit Quarterly* (Fall 1999); also Pablo Eisenberg, “We’ve Got Relationship Problems: How can we improve grantee/grantor relations? Here are a few suggestions,” *Foundation News & Commentary* (July/August 1999); and Pablo Eisenberg, “The Nonprofit Sector in a Changing World,” *Nonprofit and Voluntary Sector Quarterly* (June 2000). Eisenberg is no less critical of the lack of intestinal fortitude among foundations themselves, cf. Pablo Eisenberg, “A Lack of Guts and Intellectual Vigor Hobbles the Foundation World,” *Chronicle of Philanthropy* (February 21, 2002).
 24. The F.B. Heron Foundation, *Core Support*, op. cit., p. 3.
 25. Bill Bradley and Paul J. Jansen, “Faster Charity,” in the *New York Times* (May 15, 2002) and Bill Bradley, Paul Jansen, and Les Silverman, “The Nonprofit Sector’s \$100 Billion Opportunity,” in *Harvard Business Review* (May 1, 2003); cf. also Paul J. Jansen and David M. Katz. “For Nonprofits, Time Is Money” (http://www.mckinseyquarterly.com/article_page.aspx?ar=1148&L2=33&L3=95), another similar piece done by McKinsey researchers.
 26. A citation from L.J. Bourgeois, in Justin Tan and Mike W. Peng, “Organizational Slack and Firm Performance during Economic Transitions: Two Studies from an Emerging Economy,” in *Strategic Management Journal* (2003), p. 1250.
 27. Tan and Peng, *ibid.*
 28. <http://ksghome.harvard.edu/~ekeatin/papers/organizational%20slack.pdf>.
 29. Dennis Derryck and Rikki Abzug, “Lessons from Crisis: New York City Nonprofits Post-September 11” in *Nonprofit Quarterly* (Spring 2002).
 30. <http://www.earthshare.org>.
 31. Cf. *Helping Charities, Sustaining Foundations: Reasonable Tax Reform Would Aid America’s Charities, Preserve Foundation Perpetuity and Enhance Foundation Effectiveness and Efficiency* (NCRP, June 2, 2003).
 32. The foundation sector mobilized aggressively against the Charitable Giving Act of 2003, recruiting expensive Washington lobbyists, particularly former Republican Congressman Bill Paxon of Akin Gump Strauss Hauer & Feld, to carry the sector’s message against tampering with the payout rule. Eventually, the foundations and their lobbyists got Texas Republican Senator Kay Bailey Hutchinson to introduce a Senate bill that did not support the foundation spending provisions in the House bill. Ultimately, however, it took the intervention of Republican Majority Leader Tom DeLay to get the bill’s sponsor, Rep. Roy Blunt (R-Mo.) to change the bill by dropping the administrative spending exclusion and by making other changes, particularly one that would include up to \$100,000 in trustee fees per foundation trustee as eligible items in private foundations’ qualifying distributions.
 33. Rick Cohen citing Joel Fleishman in an upcoming review for the *Stanford Social Innovation Review* on Fleishman’s new book, *The Foundation: A Great American*. Public Affairs (January 2007).
 34. While this was not a focal point of these interviews, reports of corporate funders expecting something in return for their support makes some corporate grants for general support problematic. For example, one urban focus group participant said, “I’ve had two major corporations turn us down because we didn’t choose them as our vendor.” For mechanisms to negotiate these grant relationships with corporate funders, cf. Rick Cohen, “Fundraising Medicine: Creating Gift Acceptance Policies,” in *Grassroots Fundraising Journal* (January/February 2002).
 35. The list of organizational participants is incomplete, as several of the focus groups attracted additional nonprofit participants unanticipated by NCRP or its local co-hosts, participants who nevertheless participated actively in the discussion without necessarily providing information on the organizations they represented. Although organizations are listed below, the level of participants included executive directors, development directors, program staff, and other professional staff people. In no way should any of the comments above be seen, even though they are all presented anonymously, as attributable to a specific organization in this list.

Appendix: Focus Group and Interview Organizational Participants (by organization and city/state, as self-identified in the focus group discussions)³⁵

ATLANTA

Georgia Music Industry Association
JJEM Group Inc.
Anti-Prejudice Consortium
Georgia Writers association
HBCU Library Alliance
Gwinnett Coalition for Health and Human Services
Atlanta Urban Ministries
Decatur Preservation Alliance
SCLC/W.O.M.E.N., Inc.
Georgian Nurses Foundation
Gilda's Club Greater Atlanta
Restorative Justice Center
The Michael O'Neal Singers
NCBI Atlanta
Boat People SOS
Georgia Law Center for the Homeless
DeKalb Rape Crisis Center/DeKalb Prevention Alliance
Image Film and Video Center
Boat People SOS
Crossroads Community Ministries
Helping Teens Succeed
The Study Hall
Southeast Community Research Center
American Institute for Managing Diversity
Prevent Blindness Georgia
People TV
Partnership Against Domestic Violence
Trees Atlanta
Georgia Youth Science and Technology Centers
YWCA Atlanta
St. Judges Recovery Center
Georgia Justice Project
The Bridge
Statewide Independent Living Council of Georgia
CIS
Hi-Hope Service Center
Center for Family Resources
Goodwill
Atlanta Community Food Bank
100 Black Men of Atlanta
NAESM
Atlanta Habitat
GCN
Girl Scouts – Northwest Georgia
Georgia Center on Nonprofits
ANDP
Cobb Microenterprise

ATLANTA (continued)

Big Brothers Big Sisters
Families First
Latin American Association
CMC
AIDS Survival Project
DeKalb Prevention Alliance
Regional Council of Churches Atlanta
AIM, Inc.
Pedestrian Educating Drivers on Safety
PEDS
St. Vincent de Paul Society
Canterbury Court CCRC
Atlanta Union Mission
Voices for Children
Action Ministries
Northern Georgia Housing and Homeless Council

DENVER

Accelerated Schools
Metro Volunteers
Accelerated Schools
Grassroots Institute for Fundraising Training (GIFT)
Accelerated Schools
Habitat for Humanity – Colorado
Colorado Association for Non-Profit Organizations
Children's Campaign
Anchor Center for the Blind
Dominican Sisters

DETROIT

Making in to the Finish Line
Jackets for Jobs
Arts and Scraps
Fair Housing Center
AEOS – Acclaim
Young Detroit Builders
WARM Training
L.I.F.T. Women's Resource Center
Neighborhood Centers, Inc.
Gleaners Food Bank
Traveler's Aid Society
Simon House

MAINE

Friends of Fort Knox
Family Focus
Bangor YWCA and YMCA
Rumford Group
The Community School
Crossroads

MAINE (continued)

Partners in Ending Hunger
Discovery Museum
Frenchman Bay Conservancy
Border Area Mental Health Services
Institute on Money and State Politics

MINNEAPOLIS

Minneapolis Mediation Program
WATCH
MCC

MONTANA

Montana Arts
Museum at Central School
Montana Family Support Network
Flathead Land Trust
Montana Shakespeare in the Park
Mentor Program

NEW MEXICO

Shima Yazhi Home Health Visiting Program at Gathering Place
Health Security for New Mexicans Campaign
National Indian Youth Leadership Project
Domestic Unity
New Mexico Coalition Against Domestic Violence
Border Area Mental Health Services
El Puente del Socorro
El Resugio
La Pinion Sexual Recovery Services of Southern New Mexico
Resources Inc.

SEATTLE

Northwest Environmental Education
Art with Heart
One Northwest
Washington Environmental Council
Lambert House
Earthcorp
Children's Museum Seattle
Plymouth Housing.
Earthshare Washington
Audubon Washington
Northwest Alliance Foundation.
National CASA Association
PATH

A Call to Action: Organizing to Increase the Effectiveness and Impact of Foundation Grantmaking

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