

# Capital Ideas

## Moving from Short-Term Engagement to Long-Term Sustainability

March 15, 2007

Symposium Executive Summary

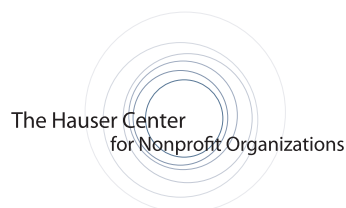
Kathleen W. Buechel

Elizabeth K. Keating

*Hauser Center for Nonprofit Organizations, Harvard University*

Clara Miller

*Nonprofit Finance Fund*



**The Hauser Center for Nonprofit Organizations at Harvard University and the Nonprofit Finance Fund recently hosted a gathering of funders, practitioners, and researchers to address an unusual topic: finance. On March 15, 2007, more than 50 field leaders came together for *Capital Ideas: Moving from Short-Term Engagement to Long-Term Sustainability* to voice their support for a fundamental shift in the way funders support the nonprofit sector. Through shared stories, data, and experience, the group affirmed the need for change in the following essential ways:**

- to broaden the scope from narrowly focused program funding to funding that recognizes and addresses the financial and organizational needs of the nonprofit organization as a whole, even if that funder is interested in only one part of the enterprise;
- to identify the collective impact of funders' financial practices on an organization, and adjust accordingly the application, stewardship, and reporting demands made of the grantee;
- to move toward sectorwide results-based metrics that encompass both organizational and fieldwide dimensions; and
- to lower transaction and stewardship costs by encouraging funders to adopt simplified or standardized reports, processes, and data in order to help the sector focus more resources toward achieving its mission.

The gathering reflected awareness that the sector can make progress against difficult social problems only if philanthropy, government, individuals, and nonprofits are themselves united. Furthermore, grantee success requires adequate organizational capacity and financial resources. Following some simple rules about how money works can help everyone in the field get more value from the dollars they have. Currently, too many practices that are meant to increase nonprofit efficiency in fact undermine it.

Fieldwide change does not happen in one day, even with the commitment of 50 highly engaged leaders. The group recognized the need to share these messages with the broader constituency that is now committed to a more effective social sector. Participants drafted principles to inform funding practices that could strengthen both the operations and impact of nonprofits. The group also considered other action steps to include more funders, foundations, charitable individuals, and government.

Presentations and discussions focused on three framing questions: “What is the problem, and how did we get here? What are we doing now to address it? What more can and should we do?”

### **What Is the Problem, and How Did We Get Here?**

To illustrate how we arrived at our current situation, the group heard about the “current services trap.” The current services trap is grounded in the urgency surrounding critical social problems. Because the problems are urgent, it often appears that they are best solved by expending all available resources with the aim of serving more and more people. This pressure to increase the volume of service delivery at all costs overwhelms the capacity and systems that might help the organization stay in the game over the longer time period required to really solve the problem. Money and effort are invested only in the “now,” with little or no accrual of cash reserves or investment in the organization's infrastructure. A telling sign of this “current services” mentality is the fact that many nonprofits publicize that close to “one hundred percent” of any dollar given is spent on delivery of current services, suggesting that to do otherwise is wasteful. Many nonprofits fall into that trap, and many funders—with the best of intentions—unwittingly lead them to it.

Speakers advocated ways to build organizational strength for the long term. To achieve this, significant changes are needed in funding practices as well as in nonprofit operating methods. One of the funding community's roles is to step back and look at how money or resources can contribute to solving or alleviating social problems. Funders are the stewards of financial resources and they have the responsibility to place these resources strategically to address social needs. They rely on nonprofit organizations to fulfill those needs. The goal is to break the habit of being “sustainably broke” that permeates the sector, even among programmatically excellent organizations.

### What Are Funders Doing Now to Address the Problem?

Most funders are already aware that even the nonprofits with exemplary programs struggle financially. Growth brings additional challenges. Some of these funders chronicled their responses to these issues in a pre-symposium survey. The survey, which was sent to symposium invitees and members of Grantmakers for Effective Organizations (GEO), collected information on giving practices that aim to sustain nonprofits. (Survey results are available on the *Capital Ideas* Symposium website, [www.isites.harvard.edu/k14620](http://www.isites.harvard.edu/k14620), and at the NFF website, [www.nonprofitfinancefund.org](http://www.nonprofitfinancefund.org).)

What did we learn from these funders? Their 82 responses yielded four key areas of strong agreement:

- Nearly 94 percent agreed that foundation relationships with grantees should change from oversight to partnership.
- Ninety percent saw the need to simplify grant applications and reporting, to make grantee effort commensurate with grant size and scope.
- More than 80 percent concurred that foundations should jointly decide with grantees on evaluation tools and metrics, that most grants should have fewer line items and other restrictions, and that foundations should increase the size and length of grants, even if that meant that fewer nonprofits were supported.
- Nearly 70 percent contended that standardization with other funders of grant applications and reporting is advisable.

Views differed on the factors that prevent funders from adopting financial sustainability practices and on how these factors could be overcome, yet all agreed that there *are* significant challenges. A lack of expertise and models was frequently cited as a barrier, as was the considerable staff time investment necessary to create new processes.

Among the symposium speakers were funders that are already taking action. Just a few examples:

- The Pennsylvania Cultural Data Project (PACDP) is a collaborative common data platform developed by seven Pennsylvania-based funders. It streamlines costs and time required for nonprofits to apply for and report on grants, and simultaneously creates a platform for subsector-wide financial and program data.

- The Allegheny County Department of Human Services (DHS) in Pennsylvania pooled resources to increase positive impact by collaborating with several private foundations in the Pittsburgh region to integrate services, build data systems, and pay for the full costs of key social services.
- Venture Philanthropy Partners (VPP) shared their experience in “equity investing,” making large, relationship-intensive and infrastructure-specific investments in Washington, DC, nonprofits.

### What More Can and Should Funders Do to Meaningfully Sustain Nonprofits?

Participants discussed reengineering the funding practices to leave behind “the financial superstition, odd logic, and trust and estates-based compliance” that are too often viewed as financial best practices in the sector. In their place, speakers encouraged “enterprise and market savvy” principles that help the frontline organizations succeed in their missions and alleviate the real and punishing economic pressures they face. Speakers emphasized that all funders—foundations, intermediaries, and government agencies—must help build and sustain financially healthy organizations with robust organizational capacity. The participants called for greater engagement with government and policy leaders at all levels, citing the need to change the funding allocations, structures, and formulae of contracts and awards. Better accounting practices and financial literacy were also advocated.

The symposium participants generated ideas for improved, enterprise-friendly practices, including draft funding principles. These principles are overarching tenets for collective or individual funder action to foster sustainability. The process was informed by the funder survey, the experience of conference participants, the work of key funders, and the written contributions of many experts in the field. These funding principles are part of a living document that the participants hope will evolve with further input. The most recent version is provided here in Box 1.

## BOX 1: Draft Funding Principles

---

### Collective Approaches

*(NB: Collective approaches denote activities that rely on cooperative action among funders that removes barriers and supports fieldwide practices that enable nonprofits to succeed.)*

1. Minimize the transaction costs for grantees and funders of applying for and reporting on grants.
2. Actively pool resources when more funds are required to achieve results.
3. Reform the field's overly complex and expensive accounting, regulatory, and contracting requirements.
4. Create the culture, knowledge, and methods necessary to enable nonprofits to succeed.

### Funder-Based Approaches

*(NB: Funder-based approaches denote activities that individual funders can undertake alone.)*

1. Fund at the organizational rather than the programmatic level, even when your primary interest is in one program.
2. Fund to meet the organization's business needs and operating realities.
3. Avoid frequent changes in funding priorities; signal exit or changes well ahead of time for grantees.
4. Understand when you're "building" or "buying," and fund accordingly.
5. Use evidence-based performance, learning, and organizational health metrics to measure and report effectiveness.
6. Small can be beautiful: make appropriately sized investments and do not encourage growth for growth's sake.

## In Conclusion

It was the common agreement of the participants that funding practices need to change collectively. All funders—at private foundations, intermediaries, and government—need to start to financially strengthen and maintain healthy nonprofits, and build rather than undermine capacity when providing money. Collective action, shared practices, common data, standard metrics, and a longer-term perspective are required.

In tackling huge problems such as global warming, poverty alleviation, or racism, success relies on a moment of dispassion. Funders must pause for a moment and reflect, "What does money—our primary tool—have to do with solving these problems? How should this tool be used? What won't it do?" Nonprofits and funders alike need to deliberately build the bridge between mission and money to create a more robust social sector and even greater social good.

### **Hauser Center for Nonprofit Organizations, Harvard University**

The Hauser Center for Nonprofit Organizations is a university-wide research center at Harvard University that seeks to expand understanding and accelerate critical thinking about nonprofit organizations and civil society among scholars, practitioners, policymakers, and the general public by encouraging scholarship, developing curriculum, fostering mutual learning between academics and practitioners, and shaping policies that enhance the sector and its role in society.

### **Nonprofit Finance Fund**

The only national community development financial institution (CDFI) focused exclusively on nonprofits, Nonprofit Finance Fund (NFF) helps organizations strengthen their financial health and improve their capacity to serve their communities. With NFF's help, nonprofits build and renovate facilities, expand operations, fund growth needs, and sustain operations over time. NFF serves both nonprofits and their funders, offering an integrated package of financial and advisory services.

## **ABOUT THE CONVENERS**

**Kathleen W. Buechel** has worked for more than 16 years in philanthropy, most recently as president of Alcoa Foundation. She is involved in a number of civic and sector-wide organizations including the Independent Sector. She is a visiting practitioner at the Hauser Center for Nonprofit Organizations, where her focus is on advancing funding practices that support the longer-term sustainability of nonprofits.

**Elizabeth K. Keating**, CPA, PhD, teaches, writes, and consults extensively on nonprofit financial issues, including financial distress, financial disclosure, fraud, employee benefits, overhead, and governance and accountability.

**Clara Miller** is president and CEO of Nonprofit Finance Fund (NFF), a national leader in nonprofit, philanthropic, and social enterprise finance. She is a board member of Working Today, GuideStar, GEO, and is a community development advisor for the Federal Reserve Bank of New York. Miller speaks and writes extensively about nonprofit capitalization and finance, and has been published recently in *Stanford Social Innovation Review*, the *Nonprofit Quarterly*, and *Worth* magazine.

---

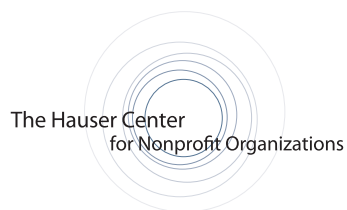
This symposium was made possible by funding and support from the Hauser Center for Nonprofit Organizations at Harvard University and Alcoa, Inc.

**For additional information**

Visit the *Capital Ideas* Symposium website, [www.isites.harvard.edu/k14620](http://www.isites.harvard.edu/k14620), and the NFF website, [www.nonprofitfinancefund.org](http://www.nonprofitfinancefund.org).

**Contact**

Kathleen W. Buechel	<a href="mailto:kwb4752@verizon.net">kwb4752@verizon.net</a>
Elizabeth K. Keating	<a href="mailto:lizkeating@earthlink.net">lizkeating@earthlink.net</a>
Clara Miller	<a href="mailto:Clara.Miller@nffusa.org">Clara.Miller@nffusa.org</a>



---

**The Hauser Center for Nonprofit Organizations**

John F. Kennedy School of Government  
Harvard University  
79 John F. Kennedy Street  
Mailbox 143  
Cambridge, MA 02138

NONPROFIT ORG US POSTAGE <b>PAID</b> BOSTON, MA PERMIT NO. 1636
-----------------------------------------------------------------------------