Capital Ideas

Moving from Short-Term Engagement to Long-Term Sustainability

March 15, 2007

Symposium Proceedings

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Citation

This report may be cited as: Buechel, Kathleen W., Elizabeth K. Keating, and Clara Miller, "Capital Ideas: Moving from Short-Term Engagement to Long-Term Sustainability." Hauser Center for Nonprofit Organizations, Harvard University; and Nonprofit Finance Fund, 2007.

Hauser Center for Nonprofit Organizations, Harvard University

The Hauser Center for Nonprofit Organizations is a university-wide research center 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.

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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.

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Acknowledgments

This report would not have been possible without the insights shared by participants at the *Capital Ideas: Moving from Short-Term Engagement to Long-Term Sustainability* Symposium held at the Hauser Center for Nonprofit Organizations at Harvard University in March 2007. We are grateful for the involvement of the speakers, commentators, and participants in this timely and important dialogue. The Symposium was co-sponsored by the Hauser Center and the Nonprofit Finance Fund.

This report represents the conveners' efforts to summarize the issues and amplify the themes that emerged during the Symposium. The perspectives and views expressed in this report do not necessarily reflect those of its conveners the Hauser Center, or the Nonprofit Finance Fund. Although this report synthesizes the roundtable dialogue, it should not be construed as representing a consensus statement or a shared set of ideas or recommendations, but rather a set of thoughts about the state of the field at a particular moment in time.

The Symposium could not have occurred without significant assistance. Tiziana Dearing and Andrea Levere provided helpful insight in the planning of the event and seamless facilitation of the closing session. We thank Laura Ax, Klara Kabadian, Maryann Leach, and Rosita Scarfo of the Hauser Center for their logistical and administrative support. The funder survey would not have been possible without the hard work of Esther Handy, Anne Mathew, Meg Nipson, and Naomi Orensten. We are grateful to Roy Ahn, Catherine Gill, Esther Handy, Saida Hodzic, Anne Mathew, Naomi Orensten, and Rebecca Thomas for their efforts in facilitating and documenting the breakout sessions, and to Sandi Clement McKinley for photographing the event. Anne Mathew merits our heartfelt thanks for managing the organization of these proceedings. Finally, we are especially indebted to Esther Handy, whose exceptional patience, dedication, and superb research assistance throughout the entire process were critical to the success of the Symposium.

Executive Summary

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, and at the NFF website, 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

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.

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.

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 will it be unable to 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.

Foreword

The *Capital Ideas: Moving from Short-Term Engagement to Long-Term Sustainability* Symposium was convened at the Hauser Center for Nonprofit Organizations at Harvard University in March 2007. Its purpose was to examine and extend the role of funders in strengthening the nonprofit sector and enhancing its impact. *Capital Ideas* brought together participants not frequently in the same room to tackle this thorny and important problem: leaders from foundations, intermediary and consulting organizations, nonprofits, academic or research institutions, and government.

The nonprofit sector in the United States plays a valuable role in society. However, there are ongoing questions about the efficiency and effectiveness of public charities and the role that the flow and structure of funds plays in the long-term capabilities of those charities.

Funders have grappled with how to strengthen the sector. Funding approaches that attempt to build capacity as well as extend programs have emerged. These experiments have various foci, for example: developing organizational capacity, strengthening financial health, and leadership development.

Although exciting and often innovative, grants oriented toward sustainability represent not only an exceedingly small portion of the total funding to the sector, but they are often the only contribution of a particular funder's portfolio. The *Capital Ideas* Symposium was designed to profile the diversity of pro-sustainability approaches along with their relative merits and to examine why these approaches are not embraced more fully. A draft set of funding principles—based on insights from informant interviews, participant experience, and a survey of funders with pro-sustainability giving programs—was presented at the outset. Breakout groups enabled participants to discuss and revise the draft principles.

The symposium began as a collaboration among three leaders with differing experiences but a common conviction that funds flowing into the sector were structured inappropriately to meet its social and sustainability challenges. Kathleen W. Buechel, a visiting practitioner at the Hauser Center for Nonprofit Organizations at Harvard University and former president of Alcoa Foundation, was interested in examining how funder practices could improve the sector's longer-term vitality. Elizabeth K. Keating, CPA, a senior research fellow at the Hauser Center, has worked extensively on overhead and financial challenges facing the sector. Clara Miller, founding president and CEO of the Nonprofit Finance Fund, has written widely on the mismatch of funding practices and sectoral needs. They were joined by Andrea Levere, president of the Center for Enterprise Development, a noted nonprofit leader, and Tiziana Dearing, executive director of the Hauser Center, in planning the symposium.

We hope this document and our future work prompts funders to examine their giving practices to look for ways to enhance effectiveness and improve efficiency of their operations as well as those of their grantees. We share with the participants of the *Capital Ideas* Symposium the urgency and importance of working collectively to restructure funding in the sector.

Co-conveners
Kathleen W. Buechel
Elizabeth K. Keating
Clara Miller
June 2007

The Problem/Setting the Stage: The Current Services Trap

Elizabeth K. Keating, Hauser Center, Harvard University

Nonprofits are constantly encouraged to provide more services to more people more cost effectively. Although significant funds flow into the nonprofit sector, they are frequently not structured optimally to meet the true capital, financial, and organizational needs of these organizations over time. While much has been written from the nonprofit perspective, far less has appeared on how funders can address the undercapitalization, resource, and sustainability dilemmas faced by the nonprofit sector.

Speakers in the opening panel set the stage by describing the overemphasis on current service delivery as well as what funders are doing now to address this problem.

Escaping the Current Services Trap

Much of the service-providing portion of the nonprofit sector is trapped into an unfavorable set of dynamics that Dr. Keating labels "the current services trap." Three important factors that assist nonprofits to escape this trap are:

- whether the institution is designed to effectively deliver upon its mission,
- whether it has sufficient organizational capacity, and
- whether its business model is financially sustainable.

While many nonprofits operate in the current services trap, the social services subsector is particularly prone to these dynamics. To understand the issues facing this important subsector, it is useful to contrast the social services organizations with healthier counterparts, which are primarily hospitals, universities, and museums. Table 1 provides an overview of organizational capacities of both kinds of organizations; Table 2 examines their financial attributes. Many universities, hospitals, and museums are situated in the more stable, more sustainable sections of the tables, as they have a more stable organizational capacity and more sustainable financial model. In contrast, many other service-providing nonprofits are operating with less stable organizational capacity and weaker finances, and so are located in the less stable, less sustainable parts of the tables.

What Distinguishes Stable and Sustainable Organizations from Those Less Successful?

Organizations and funders are caught in a "current services trap," responding to pressures to deliver a higher quantity of services today rather than strategically addressing the underlying causes of society's key social problems. As a result, service-providing organizations devote insufficient resources to building organizational capacity and financial sustainability, risking the organization's ability to deliver effective and efficient services in both the present and future. This trap is perpetuated by several myths.

- **Myth #1:** *Our organization addresses an urgent social problem that is large and growing.*

By marketing this proposition, the organization can justify its mission and its need for funding. The organization can then argue that without new funding, the problem will continue to grow.

TABLE 1: The Current Services Trap: Organizational Capacities

CAPACITY	LESS STABLE	MORE STABLE
1. Culture norms		
a. Mission vs. money	No overhead; all $ for programs	Long-term mission and organization sustainability
b. Staffing	Volunteer/charity for labor and staff	Paid program staff and support
c. Financials	Not profitable (not reinvesting)	Finances sustain operations and infrastructure
d. Time horizon	Responds to immediate program needs	Exists to create long-term social value
2. Strategy		
	No or poorly developed strategy or business plan	Strategy supports healthy norms
	Responds opportunistically to funders and potential partners	Strategy augments business plan
3. Capacity		
a. Staffing	High turnover	High retention
	Low pay and few benefits	Competitive pay and employee benefits
	Low experience	Provides meaningful work
	Little training	Provides training and professional growth
	No career path	Plentiful learning opportunities
b. Systems/Infrastructure	Underinvestment	Integrated
	Outdated technology	Capital budgeting
	Short-term focus	Long-term and capacity focus
	Deferred maintenance	Committed to asset maintenance
4. Operational efficiency		
	More is better	Structured experiments
	Keep costs low for programs	Scale, when warranted
		Scope
5. Performance management		
	Focus on current activities and outputs	Root-cause analysis
	Compliance oriented	Outcome/results oriented
	Command and control oriented	Performance-driven management
	Crude, simplistic measures	Total quality management (TQM) philosophy
6. Accountability		
	Reporting driven by regulation and funders	Active, informed board reporting to key constituents

Source: Elizabeth K. Keating

TABLE 2: The Current Services Trap: Financial Attributes

FINANCIAL ATTRIBUTE	LESS SUSTAINABLE	MORE SUSTAINABLE
1. Profitability		
a. Revenues	Urgent short-term appeals	Value or cost-based pricing
	Heavy reliance on one-time donors	Solid base of recurrent funders
	Uncertain revenue streams	Extensive unrestricted revenues
	Restricted programmatic funding	Diversified revenue base
	Time limited funding	
	Costly to raise	
	Undiversified revenue streams	
b. Expenses	Overhead costs not fully recovered from grants	Full costing
	Program delivery absorbs all excess dollars	Rich understanding of cost structure
		Investments regularly made
c. Surplus	Breakeven operations	Regularly runs a surplus
	Additional revenues spent immediately on program	Fully meets financial obligations
		Surplus builds operating and capital reserves
2. Liquidity: Working capital		
	Government reimbursement contracts	Grants and contracts paid in advance
	No cash on hand	3–6 months of cash on hand
	Constant or growing reliance on line of credit	Unused line of credit
	Bill payment difficult	Sufficient cash to pay bills throughout year
3. Solvency		
	Few or no net assets	Operating reserves
		Fixed assets maintenance & plant reserves
		Endowments and quasi-endowments
4. Quality of accounting systems		
	Trust deemed sufficient	Well-designed and functional accounting systems
	Few segregation of duties or internal controls	Segregation of duties and internal controls
	Manual or out-of-date records	Timely and informative internal reports
5. Capital structure		
	Little or no equity or long-term debt	Matched book, i.e., long-term financing sufficient to fund long-term assets

Source: Elizabeth K. Keating

- ***Myth #2:*** *If we all pitch in together, we can solve the problem … and quickly.*

- ***Myth #3:*** *All we need is love …*

Myths 2 and 3 suggest that the problem is not particularly complex and can easily be addressed with sufficient resources in a short time frame. The implication is that, by making the public and funders aware of the problem, the necessary resources—in terms of money and people—can be made available. The resources can then be readily mobilized to effectively address the problem.

These myths often inform the behavior of nonprofits—even those run by managers who do not believe in them. The overall implication of these myths is that the most effective way to address the problems that generated the nonprofit in the first place is through charitable activities. For example, one manifestation of this inference is the belief that "we" Americans are generous with our time and money, and that should be ample to address the pressing social problems confronted by the nonprofit. Based on this view, there is no need for the sector to devote resources to planning, research, coordination with other agencies, and so on.

How Do these Myths Translate into Weak Operating Performance?

Many nonprofits follow three operating practices that result in weak operating performance. First, since the problem is so urgent and pressing and can be solved immediately, then it is appropriate to direct all possible resources toward current service delivery. Giving practices in the United States suggest we want organizations to give priority to the people who are most urgently affected and meet their needs immediately. Organizations feel pressured to provide more services now, potentially to the detriment of services in the future or of the possibility for better-designed services. Nonprofits publicize how almost one hundred percent of any dollar given is spent on delivery of current services, suggesting that to do otherwise is wasteful.

The second operating practice arises because of the inference that organizations in their current form are readily scalable and the problem is temporary in nature. If these propositions are true, there is little need for permanent institutions and thus little need for the long-term financing necessary to support them. It is, therefore, not worthwhile to invest in systems and other forms of organizational capacity.

The third operating practice is the shortage of human capital. If, as the myths imply, the problem is short term and easily addressed, then staffing organizations with young, well-intentioned but relatively inexperienced people is appropriate. Because there is an abundance of twenty-somethings who would willingly and excitedly donate vast amounts of their time and energy to help address urgent societal problems, then low compensation and high turnover of organizational staff is acceptable.

These three operating practices result in nonprofits with a "just-do-it" approach. Another motto for these service providers could come from the final lines of Rudyard Kipling's poem, entitled "If":

If you can fill the unforgiving minute
With sixty seconds' worth of distance run,
Yours is the Earth and everything that's in it,
And—which is more—you'll be a Man, my son!

What Are the Consequences of the Weak Operating Performance?

Organizations that, intentionally or not, endorse the myths operate without sufficient organizational and financial slack. This prevents research and experimentation that would enable them to provide better program delivery. Because the organizations may be temporary in nature, systems, administrative support, and fixed assets are undervalued. The assumption is that when nonprofits need financial resources they will be able to access them quickly by publicizing an urgent need. As a result, financial reserves are kept low.

If This Is How the Nonprofits Are Operating, How Can Funders Help These Particular Organizations?

The funding community must fill a special role in stepping back and looking at what are really the most crucial social problems and how resources should be allocated to them. Funders are the stewards of a set of financial resources, and an important job is to distribute those resources to the organizations that are doing the best job. However, a real "agency problem" exists because service-delivering nonprofits are so caught up in the current services trap. The service-providing nonprofits are going to apply to funders with grants that perpetuate the current services trap. It is the funders' role to guide them in the right direction, otherwise the cycle will be perpetuated, and the organizations will operate in a "sustainably broke" fashion.

How Can Nonprofits Escape the Current Services Trap?

More organizationally stable and financially sustainable institutions may be good business models to emulate. These models are grounded on a different set of beliefs:

- the "problem" is a long-term one that may be fulfilled for one generation of clients, but there will always be demands for these services;
- the problem is not straightforward or easy to address;
- the services create significant public value;
- high degrees of human capital are needed to address the problem effectively; and
- systems and infrastructure are necessary to manage the resources.

These beliefs lead to an operating model in which services are priced at or closer to their public value.

Higher education provides a useful example of a more successful financial and organizational model. Society believes that there will always be people in need of higher education. The business of education is really about building human capital, and that is costly. To deliver the service well, universities need to hire a lot of faculty and staff, paying them well and providing benefits and career paths. Universities create systems and spend time in planning and design to determine how to effectively provide services.

Much of higher education is funded by tuition fees. Tuition is generally not determined by cost or the breakeven point, but instead it is priced closer to value. Methods are created to provide services for those students who cannot afford them, through subsidies such as financial aid. Universities also seek endowment funds from people who have benefited from them in the past, as those people may want to pass on the benefit of the service to others in the future. So universities engage in some steps to provide intergenerational equity. These organizations are not necessarily making decisions that purely benefit the current student body.

Universities also conduct research—often important basic research that benefits society in the future. The funders, particularly the federal government, support university research overhead nicely. (Unfortunately, these same funders do not fund overhead so fully for other organizations.) Thanks to high tuition, financial aid, alumni support, and research grants, these particular organizations can be organizationally more stable and financially more sustainable.

Universities, however, are not without their own funding problems. Even for wealthy, well-endowed institutions such as Harvard, a significant percentage of funds are restricted. Outside observers often question the way wealthy institutions, such as Harvard, use their endowments without realizing that many of those funds are restricted in use. Therefore this group of more robust organizations should not be characterized as "stable" or "sustainable" as though this were an entirely achieved state, but rather as being further on the road to sustainability. The question now is how to move organizations out of the current services trap onto the road to sustainability.

Discussion and Comments

The ideas that follow came out of the discussion resulting from the presentation.

The dominant business models in several industry subsectors would be quite difficult to alter to make the organizations financially sustainable. Collaborative business models may be necessary, and funders may be needed to facilitate this. The need for sustainable organizations has become increasingly discussed by funders, and there are circumstances when service-providing organizations should be prepared to go out of business. Many service-providing nonprofits, especially at the community level, are afraid of financial issues and defer to the mission only. In these cases, funders need to work with partners in the community to educate them—both staff and boards—on financial issues. Also funders' evaluation of nonprofits should be more focused on outcomes than cost control; the current metrics used—such as ratios of program to administrative expenses—are unrealistic and often pernicious.

The Problem/Setting the Stage: What Funders Can Do: Summary of Survey Results and Draft Funding Principles

Kathleen W. Buechel, Hauser Center, Harvard University

This chapter presents a brief summary of the pre-symposium survey results, showing promising practices that funders have undertaken to break out of the current services trap. The chapter then introduces the funding principles that framed the discussion points for the day's deliberations. These principles are subject to refinement and improvement as the discussion and sharing of information evolves.

Survey Results

The Capital Ideas survey was designed to collect giving practices across the sector from funders actively engaged in supporting long-term sustainability. It is not a scientific or statistically significant sample, but rather represents a self-reported funder inventory of initiatives and experienced advice for colleagues. These practices involve three strands: building organizational capacity, addressing long-term financial health, and improving programs. The 82 responses received before the symposium included those from invitees and members of Grantmakers for Effective Organizations (GEO). Nearly 44 percent of the respondents were from private foundations, 15 percent from community foundations, and 12 percent from family foundations, with the rest derived from public charities, health conversion foundations, intermediaries, and operating foundations.

The results yielded 48 profiles of promising practices, initiatives, or strategies designed to foster long-term sustainability in organizations, 20 of which were circulated to symposium participants with pre-reading materials. All of the profiles are available on the *Capital Ideas* Symposium website, www.isites.harvard.edu/k14620, and at the NFF website, www.nonprofitfinancefund.org.

The strands of funding were represented roughly equally in the sample, with no one area emerging as the leading funding priority. Although important, these initiatives represent roughly 25 percent of responding foundations' work, far from the major thrust of their work. Several of these initiatives command millions of dollars and significant investments of time and engagement. Others appear to be in pilot form in scale, time, and action. One can only speculate on what would happen to the current services trap, and to nonprofit sustainability in particular, if more funders and more resources could be directed to these funding strands, but the inclination is to suggest that more of this activity would correct the current mismatch of funding structures and sectoral needs. The question of how best to encourage additional funders to adopt—and therefore to test and refine—these principles and practices framed part of the day's discussion.

Key Findings

Many of the survey respondents award general operating support (only 17 percent of the sample said they did not provide such funding). The format of their general operating support investments vary: 32 percent of respondents provide general operating support as standalone grants, 24 percent provide such support alongside other program funding, and 27 percent provide general operating support in both forms. When asked to respond to statements about giving practices that support sustainability, several key areas of strong agreement emerged that are later echoed in the proposed funding principles:

- Nearly 94 percent agreed that foundation relationships with grantees should change from oversight to partnership.
- Ninety percent agreed with 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-item 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 potential challenges that may prevent funders from adopting sustainability initiatives and on how they could be overcome.

Funding Profiles

The greatest value of the survey rests with the profiles. They portray initiatives as diverse as citywide data collection, sectorwide learning circles, and core support programs, investment in intermediaries, venture philanthropy models, endowments, development initiatives, and general operating support. They cut across issue areas such as affordable housing, human services, the arts, education, youth services, and domestic violence prevention, and they span regions of the United States from Washington, DC, to Seattle, Washington. The interventions profiled ranged from funding intermediaries to the type of funding instruments themselves for supporting individual organizations.

The average grant size varied considerably—not surprisingly, given the range of foundation assets covered, but somewhat in contrast to the Center for Effective Philanthropy (CEP) data on the median size of grants in general for the 30 largest U.S. foundations. The CEP data show that the average grant size within their foundation sample is $50,000. The median grant size of our *Capital Ideas* Symposium respondent initiatives was $75,000, indicating an inclination toward higher funding levels among the sample. Eight of the profiled initiatives had a median grant size of greater than $1 million, indicating that several programs have reached a significant scale.

When asked about the motivations behind these initiatives, most respondents said they sprang from foundation staff and leadership commitment and concern for the problems grantees were facing. Respondents also highlighted staff issues when reporting challenges.

The two key challenges offered most often were the considerable staff time and expertise these initiatives require. Nearly half of survey respondents reported having to create their own models because none existed for them to follow. This suggests that additional peer-to-peer exchange or sharing could be an important tool that funders can use to populate more of these practices in the field, since—according to the survey—staff are the key champions of these approaches and further outreach could provide more sought after examples.

Funding Principles

The survey informed the draft funding principles, as did the experience of conference organizers, the work of key funders, and the writing of many experts in the field. These funding principles are intended to be leavening for better funder practices. As such, they will need to be kneaded and re-worked. A *funding principle* is an overarching tenet for collective or individual funder action that fosters sustainability through one or more of the three types of support: organizational capacity building, long-term financial health, and program improvement. The use of appropriate metrics underlies these concepts. Some of these embedded ideas may prove to challenge or even be antithetical to funder experience. And although others may seem patently or painfully obvious, research and funder experience indicate that what is obvious is not always in practice today.

Four of the principles call for collective action from funders in concert with others. The rest constitute what individual funders—whether they are foundations, significant individual contributors, intermediaries, or governmental bodies—can do.

Initial Funding Principles to Foster Longer-Term Change

1. Create a learning environment that leads to better practice and emphasizes candid sharing of what has worked or not worked to gain ground.

2. Standardize and share processes wherever possible to lower transaction costs.

3. Pool funds and utilize higher-impact grant structures for greater leverage.

4. Work to change the rules of funding, reporting, and assessment systems to alter the size, structure, and flow of funds into the sector through:

   - policy outreach aimed at government funders;
   - more realistic financial standards, accounting, and auditing practices; and
   - more effective communication.

Funding Principles for Individual Funders

5. Know the nonprofit and fund accordingly. This includes understanding the underlying business and financial model of grantees, and structuring investments to support these organizational dynamics.

6. Know your own organization and adopt enduring, transparent, overarching objectives and funding methods that reflect your investment culture.

7. Count what counts. Support and reward *both* evidence-based performance and organizational health.

8. Use metrics standardized by issue or sector-specific area that are already adopted, if possible.

9. Co-develop and agree to the right metrics with grantees.

10. Direct funding to the organizational or enterprise level, rather than to line items or program specifics.

11. Recognize when small is beautiful, make "right-sized" investments that reflect the proportionality of funding and scale warranted when small and stable initiatives ought not to be grown further.

12. Be patient. Invest for the long-term.

The principles presented in this forum are deliberately succinct and straightforward. They were intended to provide a spring board for the day's work, and symposium participants' enhancements and responses were welcomed.

Discussion and Comments

Conference attendees then expanded and elaborated on these principles with the following comments:

- It is important to ensure that these principles are testable and applicable with specific criteria, rather than so general that funders can agree with them in principle but dismiss them in practice.

- Although it is important to know the nonprofit that is being supported, funders should also know community contexts in which these organizations operate and where the issues they address fit within the community's priorities or challenges. Funders should align grants not only with the nonprofit mission but also with the community's direction. This may require a more networked and nuanced approach than focusing on one organization. Funders should also understand how nonprofits interact with one another and with government funders and businesses, in order to reflect the entire community context.

- Considering "what counts" should not be done in isolation from the community being served. We should consider going beyond how the funder views the services being provided and value how the community being served views the services.

- Given the "sustainable" buzzword, we must remember that while some circumstances or entities—such as universities or museums—require a sustainable organization, there are other circumstances where the nonprofit should be robust instead and at some point should prepare to go out of business because it has achieved its goals so brilliantly.

Challenges

- To understand the barriers to change, we must uncover what it is that the current bad practices optimize in order to understand why funders behave the way they do. It is important to address these issues so that we can actually make the shift, but this involves deeper exploration of the funding world, perhaps through ethnographies or other collection and reflection tools.

- Many mid-sized foundation staff members, who have stronger ties to the board and trustees than staff in larger foundations, have a difficult time adapting such initiatives and principles because their boards have not been educated about the need to adopt these changes. Foundation staff are not always able to educate the board. The board is often mentioned as an impediment to change, preventing foundations from implementing the very practices that staff believe would make them more effective.

- Many nonprofits, especially at the community level, fear financial issues and defer to their mission only as the main driver in allocating resources. Funders must work with partners in the community to educate them—both staff and boards—about finance. A recent workshop on nonprofit finance attracted more than 150 people when only 30 attendees were anticipated. This large turnout suggests a hunger in communities for financial knowledge and tools.

- It may be very difficult to become sustainable or robust within current nonprofit industry structure and business models. Collaborative business models or shared practices (such as back office operations, combined purchasing power, and pooled risk) within some sectors may be necessary. Funders should be willing to provide this type of funding in response to business model fundamentals.

- Developing a sense of realism and modesty about the impact that funding can have and its impact in relation to the project's size relates to challenges of both implementation and explication of funding principles. Realistic and modest expectations about the impact of funding also connects to a discussion of the funders' role in knowing the costs of what it will take to solve a particular social problem.

- The notion of modesty is tied to the difficulties of self-monitoring for honesty and transparency in language and communication. It may be wise to revisit the Edna McConnell Clark Foundation publications on language (see www.emcf.org/pdf/inotherwords.pdf; www.emcf.org/pdf/badwordsforgood.pdf; and www.emcf.org/pdf/whenwordsfail.pdf) as we move forward to ensure that we have the proper humility and precision in our communications.

- Our evaluation of nonprofits should be based on what they produce, not on how little they spend. Yet our current metrics—ratios of program to administrative expenses—are unrealistic and often pernicious.

- Clear public communication is key. Regardless of how well intentioned any of these principles are, if they are not communicated publicly, broadly, and clearly to grantees, and unless the foundations actually stick to them, no problems will actually be solved because grantees will continue to try to guess what foundations "really" want them to say and do.

Enterprise: A Context for Inventing New "Better Practices" on Both Sides of the Funding Equation

Clara Miller, Nonprofit Finance Fund

How can philanthropy, government, and nonprofits, working together, improve the chances that all people have access to the "good life?" How can we make sure that the social sector organizations that serve us will be well financed, well managed, and effective? The Nonprofit Finance Fund (NFF) is working to make that happen, and therefore looks forward to the day when it puts itself out of business!

Success for NFF—and the field—will mean that we are so good at resourcing the sector that there is no need for separate and episodic capacity-building programs, no need for special access to capital services, and no special technical assistance necessary for social sector organizations in particular. In this better world, the people on the front lines will be able to focus on teaching, healing, and fighting poverty—and much less on self-induced financial and management problems. "Capacity building" will be seen as an ongoing business requirement. And nonprofits will have the systems, skills, and capital they need to fulfill their missions. All nonprofit organizations will be able to employ people with appropriate skills, afford well-supported technology, and have adequate access to loan financing from banks—just to name three standard "business requirements" well understood by all.

Sound utopian? It is, but it is well within our reach. In the meantime, NFF is continuing to provide episodic help to individual organizations working to build their capacity, get access to capital, and understand their financial options.

Yet despite our efforts, and those of many others, that utopian day when NFF will go out of business seems far away. Many, if not most, organizations with excellent, innovative programs struggle financially. Why? A major culprit is our sector's own practices in capitalization and finance. And although much time and effort is spent trying to fix nonprofits, there is even more to be gained from improving practices among funders—government, foundations, and individuals. Standard funding and financing practices inadvertently undermine capacity and effectiveness more than any other single factor. And if funders can improve these practices, we can all avoid to some degree the need to continually play catch-up through special, capacity-building programs. While better financial practices cannot guarantee that organizations will be effective, the possibility remains of removing some self-imposed barriers to progress toward the real goal: achieving high-quality, sustainable outcomes.

Together we can take some baby steps toward identifying and dismantling the financial superstition, odd logics, and trusts and estates compliance that we now call "financial best practices" in the nonprofit world. And more important, we can begin to put in its place something that builds on "enterprise savvy" principles, which help the front lines succeed at their missions despite the challenges posed by the very real and very punishing economics of our environment. Whether we work at foundations, intermediaries, or government agencies, we need to start to understand and finance healthy enterprises, and actually build rather than undermine capacity when we provide money (see Box 1).

In the end, no matter how much we protest that it is *really* not about the money, money is the primary tool.

BOX 1: The Returns of Giving

Money!? But that's not what we do…we're interested in social impact! A couple of years ago while at a Council of Foundations conference, I was speaking with a friend who heads a foundation. We were looking at the program together—trying to figure out where to go amid sessions on global warming, poverty alleviation, and racism—and I noticed something I thought was astounding. I asked him, "Why don't foundations ever talk about money? It is the main tool you have, your core business. But there's not one single session about money. In fact, the word doesn't even appear on the program!" He shook his head: "People give for emotional reasons; they don't give for social return and certainly not for financial return. That's what the conference is about—a passion for helping."

Without it, all the other great things we might bring to the table—experience, convening power, influence on policy, expertise—deflate. And once we decide to fling ourselves, against the odds, at a huge problem such as global warming, poverty alleviation, or racism, success relies on a moment of dispassion. We must pause for a moment, reflect, and say, "What does money—our primary tool—have to do with solving these problems? How should this tool be used? What will it be unable to do?" We need to deliberately build the bridge between mission and money. Currently, we do not build that bridge.

But it is well within our power. We must make a new, better-informed run at just this, even though it is not our passion. To do so, it is helpful to distinguish between passion and expertise about a mission and expertise about the art of deploying funds through an enterprise that is the means to accomplish that mission. They are separate disciplines, even though they are linked in practice. NFF has provisionally called the money side "nonprofit enterprise finance." It draws on deep experience and expertise about how all enterprises work—regardless of tax status—while adapting practices and principles to the particular commercial realities of nonprofit economics.

Nonprofit economics? With all the buzz about social enterprise, entrepreneurship, and social-purpose business, it is important to remind ourselves that there is a reason we have a nonprofit sector. It is fundamentally a commercial or economic reason. In a sense, every enterprise is a social enterprise. (There are a few antisocial enterprises out there, but we will not worry about them for now.) Tax exemption is given to help overcome some commercial flaws, some areas around which the nonprofit sector must manage, that make for-profit operations problematic.

Some of the most obvious commercial limitations that justify not-for-profit status are listed here:

- First, nonprofits exist to provide services and goods to people who cannot pay for them themselves, which is difficult to do profitably.
- Second, nonprofits exist to do things where quality would be compromised by commercially attainable scale, such as operating Harvard University, or even a child care center. If the latter were going to operate profitably, you would need 200 preschoolers in a class, the teacher would run screaming from the room, and the children would not get a good preschool experience.
- The third is that nonprofits exist to do things where there is no predictable commercial return at all, whether it is the civil rights movement, or basic research in science, or conceptual art. But there are people who think it is worth doing, and it is part of civil society and we love it.
- And some organizations do all three!

So that is the commercial proposition that we manage around and it is problematic. Our "enterprise world" is subject to all the laws of for-profit enterprise, as well as being subject to another harsher set of economics.

The most difficult proposition to manage around is that, at the core, mission-focused activity is unprofitable. That is why organizations in the nonprofit sector get a tax exemption, and that is why people who give money to nonprofits get tax benefits. It is to make these enterprises whole for the benefit they provide to society. It is not so that their managers can operate with submarginal pricing from customers (such as government), require that employees work long hours with low pay, or tolerate poor facilities and inadequate systems and staffing. The prevailing economic conditions mean that in the nonprofit sector, we compete as much (if not more) for subsidy as for "market share." Access to reliable and adequate subsidy revenue as well as direct service revenue results in profitability that in turn provides access to capital and built capacity.

As an example of the "enterprise level" of a scaled, sustainable nonprofit, look at Harvard University, where despite high tuition, the "mission business" of educating students and performing research is unprofitable. Here is the business proposition for the "mission" side: a student comes to Harvard, plunks down $50,000, and Harvard says, "Thank you very much, but it costs us $250,000 to deliver that education!" So what does Harvard do? They create what we call a *subsidy business*. A classic version is: fundraising from individual donors. They do not raise these funds by adding to the executive director's workload, or by hiring a part-time student intern or asking the professors to call recent graduates to ask for donations. They have a separate, scaled business employing 400 full-time professionals who wield a globally recognized brand, organize well-heeled alumni, and are bolstered by a large force of faithful volunteers. It is not a fragile new item in the annual budget; it is a $40 million business, bigger in itself than most nonprofit organizations. This "subsidy business" is so successful that Harvard can operate another, larger subsidy business—investment management—called the Harvard Endowment. This business takes funds raised but not needed for current operations (profits) and invests those funds for growth and income. And again, it is not student interns and professors who are staffing that business, but full-time investment professionals. Harvard also manages some real estate, and does government contract research, both profitable. And it took 300 years to do it. Oh, yes, and there is a small school attached to those subsidy businesses—Harvard University!

Harvard is not alone in this—there are several others. But the reality is that the most successful, sustainable nonprofits have enterprise models that acknowledge the true economics and costs of achieving their results and invest accordingly. While there are other ways of making an unprofitable proposition profitable—and therefore effective—most often, profitability of the entire organization requires access to subsidy in the form of charitable contributions from individuals. The largest and best built engines that do this have been built and are owned by scaled institutions whose markets include middle- and upper-income individuals—institutions such as big universities.

Thus, a major "enterprise" challenge for the nonprofit sector is to acknowledge the need to build subsidy engines that help a range of social sector organizations. This is most urgent for those serving low-wealth communities. And the rules of the sector make things worse for organizations trying to get there by building capacity. If overhead rate rises because an organization is building fundraising capacity, e.g., funders and charity rating systems are punitive. This is true even when higher overhead will be the route to sustainability and effectiveness for many organizations. If organizations do not make these investments and starve the enterprise, what follows is lack of access to capital, poor systems, skills deficits—everything we try to address with short-term, project-oriented "capacity-building dollars."

As noted above, most of the charitable dollars now go to organizations that serve the wealthy and the middle class. People and organizations who are serving low-wealth communities need to have access to subsidy dollars in the same way as, let's say, Harvard. And although giving is personal and emotional, and people give where they have an emotional commitment, this is not a zero sum game—there are more and more generous people in our world. So what can we do about this? What do we do on the enterprise level to improve access to "subsidy" by building capacity to access it? Or how do we insist on full-cost recovery pricing in government contracts?

We can first change our own misconceptions and imprecision about "enterprise finance." Terms and concepts such as *revenue*, *debt*, *deficit*, *equity*, and *capital* are often used sloppily and interchangeably. We can do better. Moreover, our own accounting practices in the nonprofit sector obscure the enterprise, which reinforces funding practice that is frequently enterprise blind.

One example of this is the lack of distinction between funders who behave as "builders" (equity investors) and buyers, a distinction that George Overholser writes about in his terrific paper, "Builders Are Not Buyers" (available on the NFF website). *Builders* provide funds to build and maintain the enterprise; they want to protect it, to make sure it is able to cradle the mission. *Buyers* simply want to buy something—services, an education, a ticket—because they like what the organization does. If you go to the corner deli for breakfast, you just zip in, plunk down your money, eat your eggs and zip out. You do not care if the board of directors never meets, whether or not the proprietor has a strategic vision for the future, or whether the cook measures results. You're a buyer, plain and simple, so you just want your breakfast. But if you love the deli's food so much that you want them to expand, upgrade their menu, or redecorate, you are thinking and acting like a builder. The price tag goes up, you and the deli take on more risk, and you are in it for the longer term. Essentially, you own a piece of the deli. Then you have the right to ask more questions and go through more process. You're a builder. In the nonprofit sector we often pay or charge "buy" prices for "build" investments: grow, move, acquire a building, or improve quality, to name just a few. This hollows out capacity and leads to problems we are all familiar with. At the same time, we often do long and expensive due diligence for "buy" projects, creating high transaction costs for a small amount of funding. Multiplied over many funders, this increases "overhead" costs to recipients with no added value.

This brings us to a final point, which is something that funders in particular can do something about. There is extensive "enterprise overregulation" in our world. Some of it is from the government, some from the foundation world, and some of it is from our own so-called best practices. Taken together, they create a burdensome business environment. We can, without much technical difficulty, start to shed the optional regulations that do not add value. Reporting on grants in a special format, having extensive due diligence for "buy" grants, and restricting funds very narrowly is enterprise unfriendly and creates unnecessary cost. The concept of "net grants" (total grant minus the grantee's cost to raise, report on, and otherwise administer the grant) helps clarify what is meant by "transaction cost" and illuminates why reducing it will have immediate benefits.

A proposal is now on the table: to create a completely new framework for philanthropic finance, based on visibility into the enterprise and an understanding of how that enterprise aligns its capacity and its capital with the achievement of mission. We cannot simply try to do away with unhelpful metrics and rules of thumb (such as fundraising cost or capped overhead rate) without saying to the world "here are the more meaningful metrics we would like to measure ourselves on." It is essential that we persist at first developing and then linking mission metrics—measures of program production and effectiveness—with capacity metrics such as square footage and number of full-time staff. In this way, we begin to reveal how effectiveness with mission (e.g., did the fourth grade improve its ability to read?) align with both financial and capacity metrics and capitalization (e.g., how much did it cost per pupil? and how many teachers per pupil?) across a subsector or providers. This can lead us to true "comparables" in the sector, releasing us from depending solely on the inward-looking and input-driven metrics we now use.

Panel: Perspectives on Perpetuity and Purpose: What Are We Sustaining and Why?

Moderator: Elizabeth K. Keating, Hauser Center, Harvard University

True Net Worth: New Rules for Capitalizing Nonprofit Organizations

Panelist: Andrea Levere, Corporation for Enterprise Development (CFED)

Ms. Levere opened her talk explaining that she decided to work in finance because she found this to be the scarcest skill among people who were interested in social change and worked in the nonprofit sector. She illustrated this point by describing a training session she taught on nonprofit financial management about 10 years ago, which was attended by one of the first MacArthur Genius Award winners in the field of community and economic development. The award winner, who was the executive director of a nonprofit, was the first person to approach her at the end of the session, and she asked for help reading her financial statements, clearly embarrassed that she could not interpret them herself. Ms. Levere noted three things about the documents she was handed. First, the organization's accountant had provided her with a chart of accounts, not a set of financial statements—something that no manager or executive director should be expected to be able to read. Second, the nonprofit organization was composed of three enterprises—a nonprofit organization, a socially motivated business, and a loan fund, and the financial results were combined. Even though her organization was small in terms of revenues, it was as complex as a Fortune 100 company in terms of the number and diversity of transactions. Third and most importantly, the financial records did not reflect the integration and synergy of these three organizations. Together, the nonprofit, the business enterprise, and the loan fund made this a sustainable enterprise. Since nobody could read the financial statements or understand how to format them and analyze them, the value of the enterprise was missed, and it was completely understandable that the executive director could not make sense of the information that she was provided by the accountant.

This experience set out for Ms. Levere the real challenge that the nonprofit sector faces in understanding its financial situation and accessing the expertise that adapt private sector financial practices to the realities of nonprofit organizations. She structured her remaining talk around three themes:

1. What is the Corporation for Enterprise Development doing?
2. What does sustainability look like for the organization?
3. What are the barriers to progress and ways forward?

What Is the Corporation for Enterprise Development Doing?

The Corporation for Enterprise Development (CFED) has done research on the dramatic reordering, since 1980, of who pays for what—an issue that has been largely unrecognized. Their research shows that we have a significant reduction in the public money spent on certain items. CFED's paper entitled "The Return on Investment" (2006) examined federal expenditures intended to build assets for Americans. One analysis of the 2003 federal budget conservatively found $335 billion in federal expenditures. Of that, 33 percent was spent on services for people making more than a million dollars, and 5 percent was spent on the bottom 60 percent of the income stream. The more recent report found that expenditures had risen to $362 billion, but 45 percent is now going to people making more than $1.25 million a year, while less than 3 percent is going to the bottom 60 percent. Clearly it is important to know and respond to where and how public resources are being allocated. The recent shift is complemented by an unprecedented level of corporate power over how these allocation decisions are made. It is really time to significantly reengage with the public sector and public agencies about how resources are allocated, particularly to the nonprofit sector.

What Does Sustainability Look Like for a Nonprofit Organization?

The diversification of capital sources and level of financial innovation in the private sector has been enormous. The life cycle that many organizations undergo means that sustainability is not guaranteed even if an organization has access to tools and sufficient sources of funds. Participants are urged to try to figure out how to bring the financial innovations enjoyed by the private sector into the nonprofit sector. These private sector financial techniques can be described with the following terms: business models, capital structure, market connections, and a market understanding. To become financially sustainable, nonprofits are encouraged to adopt five business practices:

1. Nonprofits are complimented for being mission-led organizations. Another approach would be to think of them as market-savvy organizations. Perhaps funders should ask nonprofits questions such as: How well do you know your community? How do you know your broader market? How do you integrate those two together?

2. A number of nonprofits have theories of change, which is the key issue for getting a sense of impact. Yet many do not have a business model that goes with the theory of change.

3. Similarly, many nonprofits have strategic plans, yet few relate their organizational strategy to a business plan.

4. Nonprofit managers talk about capacity, but many do not ask whether the financial and human capital structures support the capacity needed to makes things possible.

5. Presently, there is a focus on metrics and bottom-line ratios. The focus needs to be on performance outcomes and, if possible, impact.

What Are the Barriers to Progress and Ways Forward?

There are several barriers that need to be overcome. The largest barrier is presented by transaction costs, particularly costs associated with fundraising and administration. It is useful to consider what to do with one's time if there was no need to raise money. And there is a funders' "obsession with the unique." Funders must be more accountable about what they produce, and they must also learn about the financial products that are available to nonprofits.

As ways forward, nonprofits should be evaluated from more perspectives. The program measures should be organization-wide; the stability of organizational funding streams and the strength of the equity base should also be evaluated. Finally, the funding should be more multiyear and pooled from several funders, sufficient to allow an organization to scale far beyond start-up and have fewer restrictions.

Five Rules of Investment

Five rules of investment apply to the nonprofit sector:

1. *Equity is the foundation on which you and your whole business sector grow.*

   The international donor world is well advanced on this subject. They have been funding institutions for 30 years, and they understand how to fund institutions sustainably. Domestically, grantmakers and the government largely focus on funding categorical programs rather than institutions as a whole.

2. *Match your sources and uses of funds.*
   This point is critical and is the only way to build a strong capital structure. Both buyers and builders should examine the nature of the investing to determine who is investing and whether the funds are matched by other funders in terms of risk level, term, rate, and purpose.

3. *Managing cash is the most important task.*
   The organization needs to have an enterprise model that reflects how cash flows through the organization or business. The managers need to know how to manage and leverage cash.

4. *All investments should have some measure of return.*
   The expected return should be commensurate to the source of funds.

5. *Getting better is more important than being good.*
   In analyzing businesses, it is important to see whether they are getting better over time. This is an important issue for nonprofits. These organizations need to have a benchmark from which to start and then figure out if they are getting better. Because of the extraordinary diversity of the sector, there is no single measure that defines how well an organization is doing.

Finally, although business techniques are necessary, they are not sufficient. Market discipline is crucial in some areas, but social problems addressed by nonprofits exist often because markets are not working effectively. There is also an issue of perspective. When financial incentives are given to middle- and upper-class people, it is called *policy*, when funds are given to low-income and low-wealth people, it is called *subsidy*. Funders should make more policies for the communities we care about.

There are two pertinent major national policy demonstration projects, one focused on children's savings accounts and a second on manufactured housing. Both projects rely heavily on a single foundation funder, so it has put the grantee at risk of failing the public support test. Passing this support test has become a necessary focus within our organization and our strategies. Other opportunities have emerged that would cause the organization to fail this test for the long term. An important policy initiative could be to lobby for modifying this test.

The VPP Approach

Panelist: Fred Bollerer, Venture Philanthropy Partners (VPP)

The Venture Philanthropy Partners (VPP) model is based upon a commercial strategic investment model or a venture investment model rather than a foundation model. VPP was created in early 2000 by entrepreneur Mario Marino, along with Mark Warner, as a demonstration project. They thought that there was a different way of engaging in the nonprofit world and engaging in investing in nonprofits. VPP exclusively funds organizations that improve the lives of children and youth of low-income families. This area is one that has the least access to capital, particularly truly scalable funding, which makes working with these organizations challenging.

VPP raised $32 million in a short period from 27 families from the entrepreneurial and technology community in Washington, DC. The organization focused on a narrow geographic area because it understood that it was essential to understand the local region from a variety of perspectives—politics, business, and the many nonprofit sectors. VPP also wanted a deep understanding of the particular disciplines it would be using, so each of the principals of the organization have at least 30 years of experience in our particular discipline (e. g., finance, marketing, etc.)—again, a somewhat different model from that followed by most nonprofits.

VPP believes in large, sustainable investments. It has made 12 investments since its inception, totaling slightly in excess of $30 million; the average investment is about $2.75 million and has lasted about 4.5 years. This organization gained a reputation for some expertise in funding in its narrow arena; this reputation has attracted, for every dollar VPP invested, another dollar and a half in co-investment. Thus, instead of just being responsible for $30 million going into this arena, an additional $45 million of co-investment funds were included, for a total of $75 million. The idea of focusing narrowly both geographically and by industry has some unintended consequences.

Lessons Learned

The lessons learned from these investments can be extrapolated to other funders. When VPP examines a potential nonprofit for investment, it looks for consistency with VPP's mission. Then it assesses the quality of the nonprofit's leadership. VPP seeks extraordinary leadership because it believes that only extraordinary leadership is going to resolve extraordinarily difficult problems, and betting on average leadership is probably not going to accomplish that.

VPP focuses only on those organizations that it considers to have the capability of being sustainable over the long run. Thus it evaluates early on the sustainability of the organization's business model. If the model is not sustainable, VPP will not invest. VPP bases its decisions on an extensive due diligence process, which takes anywhere from 6 to 18 months. This means that VPP is intrusive in the organization.

If VPP invests, the entire funds it provides to the organization are directed to infrastructure. VPP will not direct one penny into programmatic work. VPP investments will often go into the creation of top development departments, such as those operated by Harvard University. The reasoning is that if an organization has a strong development department, it can create a long-term sustainable model.

The first reaction of many potential grantees is very enthusiastic, as they believe they can obtain a large investment. The grantees initially regard VPP as a large lender with strings attached. For the first 18 to 24 months, most grantees just want the money. VPP has found that the successful grants have been made to organizations in which the managers find more value in the relationship with individual partners at Venture Philanthropy Partners. If the switch in priorities—from just the money to the relationship—does not occur within two years, generally the VPP investment will fail. Hence VPP believes it is transforming nonprofit organizations (a phrase that is not well liked or appreciated in some nonprofit realms). The successful grantees have been able to look at what their organization and management do in a totally different way and rethink their processes.

Investments of 4.5 years are probably about 3 years too short; instead, new investments should probably be in the 7- to 10-year range. VPP must continue to encourage organizations in which it invests to increase the internal level of talent and to help them understand their implicit economic model. VPP has found that those organizations that do not understand their business model will not survive.

Without exception, as an organization grows, the cost of delivering a unit of product or a unit of service goes up; it does not go down. This is counterintuitive: one would anticipate that as these organizations went to scale, as they serve more, the unit cost would go down. That does not happen. As the organizations get to know their business and their model better, and as they understand the requirement for talent, they understand the importance of building the development area. This causes the cost of infrastructure to go up, driving the cost of delivering the services up. Thus it should be anticipated that, for an extended period of time, the cost of delivery will go up.

Evaluating a Prospective Grantee's Potential

VPP assesses a nonprofit's business model to determine if it is likely to be sustainable over the long term and also to determine its potential for scalability. VPP does not have any ironclad policies in evaluating business models, such as the percentage of expenses that can be covered by predictable revenues. One factor that is considered, however, is the reliability of revenues, specifically fees for services and grant sources that are likely to be longer than three years. There is a real barrier to growing if an organization needs to beg annually, for example, through an annual campaign. This is not a sustainable or scalable model.

It is crucial to distinguish between *predictability* of funding sources and *diversity* of funding sources. VPP focuses on the predictability of funding sources. The greater the diversity of the founding source, the more complex the organization. Too many organizations modify their operations to obtain funding, often starting new projects. This behavior makes the organization more complex. VPP accepts the fact that not every organization can scale, that there are going to be a few large, sustainable organizations and many organizations that are small but beautiful.

Prior to investing, VPP considers the likelihood that an investment will succeed. Consistent with the venture model, it is taking risks and making bets on leadership and on organizations. VPP works to understand the aspirations of the nonprofit, how its management wants to take it to scale, what kind of services they want to provide, and what metrics they are going to put in place to determine their successes. The successful investments have attained or exceeded their aspirations around sustainability, their leadership and management skills, their process orientations, and—most importantly—their outcomes. In the end, VPP wants to have specific, definable, evaluative, and evaluable outcomes. If VPP is not accomplishing that, then the investment is a waste of intellectual effort.

The Approach at the MacArthur Foundation

Panelist: Debra Schwartz, John D. and Catherine T. MacArthur Foundation

Ms. Schwartz was unexpectedly unable to attend, so Ms. Levere presented Ms. Schwartz's presentation on her behalf.

Ms. Schwartz runs the program-related investment (PRI) department at the MacArthur Foundation. This Chicago-based foundation gives $200 million annually to organizations working in 65 countries and covering fields ranging from human rights in Russia to preserving affordable rental housing in the United States. The foundation relies both on grants and PRI to build and strengthen key institutions. Four significant examples of PRI follow:

1. In arts and culture, the MacArthur Foundation awarded $5 million in grants to 190 museums, dance companies, and other arts and culture groups in the Metropolitan Chicago area. The Foundation responds specifically to requests of local arts leaders and they provide these in the form of multiyear general operating support.

2. In the area of US policy development, the MacArthur Foundation provided $2.25 million in unrestricted operating support to 10 key policy institutions through multiyear core grants ranging from $100,000 to $400,000 annually. The funding is designed to enhance the independence, efficiency, and long-term sustainability of organizations whose research and analysis broadly informs the foundation's specific grantmaking strategies, such as in housing, education, juvenile justice, and community development.

3. In rental housing preservation, the MacArthur Foundation has helped a dozen nonprofit housing organizations demonstrate the need to preserve affordable rental housing in a national initiative known as Window of Opportunity. The foundation is providing over $35 million in awards that include grants ranging from $150,000 to $500,000 and a 10-year program-related investment ranging from $1.5 to $5.5 million. The organizations use the funding for two purposes: (1) working capital for investment in staff, systems, and business planning; and (2) risk capital that enables these organizations to move quickly and effectively to purchase existing rental properties. This then provides the equity needed to make "earnest money" deposits and quickly raise pre-development and bridge financing.

   One challenge of funding in this area is highlighted by the application process. Probably 100 organizations applied; 10 received funding. No two organizations provided financial statements in the same format. These are same-sector organizations, providing comparable services, yet no two had comparable financial statement formats.

4. The MacArthur Foundation granted awards for creative and effective institutions. Last year, the foundation inaugurated its Small Organization Genius Award. It provides one-time grants of up to $500,000 to each of five or six institutions with annual budgets under $2.5 million. Nominated by program staff, the organizations are chosen for this award because they are considered to be particularly effective in their field of work and at a critical or strategic moment in their development. Awardees included an environmental law group in Peru, the North Lawndale Employment Network in Chicago, and an intellectual property policy organization based in Washington, DC. The recipients are invited to propose the way that the special grant will be used; most of the organizations outside the United States are using it to acquire and expand office space. Most of the US groups are using this to establish cash reserves and to bolster

their ability to withstand unexpected funding shifts and increase their financial security.

In addition to these four examples, the foundation has provided over $200 million in program-related investments for community development financial institutions and other development intermediaries. These are structured as unsecured, general recourse loans.

So, the key question is why does institutional support matter?

At the MacArthur Foundation, there is a reliance on recognizing financial strength and organizational resilience in its grantees. It seeks to fund based on four key principles:

1. *Act proactively and with independence when new opportunities or unanticipated issues arise.*
2. *Deploy staff and resources earlier or at greater scale when possible, to allow organizations to take thoughtful risks that lead to new models.*
3. *Adopt a longer-term perspective when working to solve deeply entrenched or complex problems, which will heighten visibility of key issues and policy impact.*
4. *Sustain innovation in major fields of work as public policy and private markets evolve.*

These principles are highlighted in an example from Chicago, where the MacArthur Foundation is based. There has been a tremendous shift in community development practices since the 1970s. At that time, redlining was the dominant problem, and it persisted in the 1980s. Today, the issues are quite different, with predatory and payday lending as key concerns and asset building as a positive development.

Discussion and Comments

The ideas and responses that follow came out of the discussion resulting from the panel presentations.

Performance Measurement

The value of performance measurement was discussed. One participant was critical of watchdog groups that provide ratings, particularly ones that focus on ratios that result in bad decision making such as the program-to-service ratio. An industrywide push back on these ratios and the watchdog groups was urged. Another participant questioned whether more or better designed information was useful. There was concern that the same organizations and people are funded because the leaders are charming and visionary and the organization is compelling. A participant challenged whether having more information would actually change funding behavior.

The issue of sustainability—particularly whether revenues are collectively reliable—is an issue that needs further discussion. Another issue is the ability of an organization to withstand inevitable financial shocks. To have such an ability, organizations need to have reserves—for example, six months' worth of board-designated reserves. These funds can be viewed as risk capital.

Another important indicator of performance is "profitability"—the degree to which revenues exceed expenses. In the nonprofit area, it is not uncommon to have predictable revenue sources cover 85 percent of expenses. In the for-profit realm, one expects recurring revenues, such as sales, to exceed associated expenses, such as cost of goods sold. This gross profit is expected to be positive for a for-profit, with sufficient resources left to cover nondirect costs.

For-profit accounting segregates special and unusual items so that investors can better predict core earnings. The majority of these special and unusual items (about 90 percent) are negative in nature. If these events are as likely for nonprofits as they are for for-profit businesses, then—if organizations regularly budget for breakeven scenarios, a significant percentage will lose money each year. Both nonprofits and funders could better anticipate these eventualities.

For-profit businesses regularly restructure their operations to meet current marketplace challenges. Nonprofit accounting does not make it easy to identify this behavior in nonprofit organizations. About half of for-profit organizations report restructuring charges in their financial statements. Few nonprofits had the resources to undergo such restructurings.

Other key performance indicators include a full management team and active governance. Research could help funders understand the links between four factors: performance, management, governance, and the business model.

Growth Dynamics for Nonprofits

A study by the Nonprofit Finance Fund looked at the size of an organization by plotting revenues on the Y axis and the percentage of revenue provided by the dominant funding sources on the X axis. The resulting scatterplot reveals a U-shaped curve. Both the smallest and largest firms operate with heavy reliance on a single revenue source. The large organizations include organizations such as the YMCA of Greater New York, which is funded heavily by fee-for-service revenue, while Save the Children finances its annual budget each year through contributions. In contrast, mid-range nonprofits tend to have a diversified revenue base. Many mid-sized nonprofits are unable to go to scale because they are so internally complex. This insight runs counter to the commonly held wisdom in the sector that organizations should diversify their revenue sources in order to be more robust and more scalable and to reduce risks. In actuality, organizations actually diversify their lines of business, creating gigantic internal complexity.

In his recent article in the *Stanford Social Innovation Review*, Mr. Foster of Bridgespan looks at nonprofits that have become large (over $50 million in annual revenue) in the last 30 years in the United States Strikingly, 90 percent of these nonprofits rely on a single source to provide 90 percent of their revenue. The particular revenue source varies by sector—as evidenced by the numerous small contributions made to the Make a Wish Foundation and government contracts for many human service providers. Many large organizations operate with a slight negative net margin.

A second Bridgespan article, to be published in *Nonprofit Quarterly*, looks at revenue concentrations. The article notes that not a single large organization relies on foundation support as its dominant revenue, whereas a number of small nonprofits do. For a small nonprofit to grow, it needs to undergo the painful transition to a different economic model. Two sectors—youth services and environmental advocacy—are explored in depth. In youth services, organizations with annual revenue below $3 million have a high concentration of foundation grants. By the time they reach $10 million in annual revenue, almost all are government funded, although a few have individual donors if the organization has strong brand recognition. For environmental organizations, foundations can be the dominant funders until about $10 million, and then the organizations start relying almost entirely on individual donations.

In considering how to assist nonprofits in the early stages of their lifecycles, studies seem to support weaning nonprofits from their early reliance on foundation support. The next stage may look more like venture capital and may rely on different skills. This transition can be eased by patient capital, but it is risky, full of mistakes and inefficiency, and foundations should recognize such risk as an expected outcome of funding growth.

Organizations that are responsive to community needs could find themselves in the bottom of the U-shape curve mentioned earlier. These organizations need to diversify their programs and reshape their business model to respond to the tremendous diversity and depth of community needs. There is a risk of focusing too narrowly in order to gain efficiency and thus missing the complexities of some issues. Concentrating resources in few service providers can also be a risk.

The Relation between Financial Sustainability and Scalability

The audience questioned some of the assumptions underlying the emphasis on financial sustainability. Although several audience members supported the idea of bringing organizations to scale as important, the business models of too many organizations are not sustainable at the organizations' current operational levels. The prevalent business models in the sector do not allow organizations to thrive; current funding strategies are inefficient, and some funders are overly influential.

One participant noted that too often it is assumed that larger organizations or those that are going to scale have higher mission impact or effectiveness. This may not be true. Organizational financial health depends on organizational capacity, yet organizational financial sustainability often depends on an ability to build local capacity in communities in order to solve local problems instead of relying on external or separate institutions that still rely on subsidy funding on a continuous basis.

Scalability and sustainability are not synonymous, and many view them as opposites. Of the 100 largest foundations giving money to youth services, the average grant size is about $50,000 to $70,000. This level of funding enables nonprofits to grow to an uncomfortable middle ground, in which the organizations are too small to operate efficiently on a large scale and too big to be efficient on a small scale. Networks or ecologies may be a way for small community-based organizations to overcome this dilemma.

The Nonprofit Finance Fund wrote a teaching case on the Steppenwolf Theater, which actually looks at three totally different business models it experienced as it grew over time. The three phases can be called "footloose and fancy free," "Edifice Rex," and "multifaceted." What the case nicely highlights are three key points:

- An organization can be sustainable or unsustainable at each level.
- The purchase of fixed assets is generally viewed as a financially stabilizing force, but the ownership of such assets places tremendous long-term financial demands on the organization.
- Finally, it is much better to plan for growth and prepare the organization for the resulting financial and organizational demands rather than to respond to growth opportunities through serendipity. Funders often do not know the business model of the grantee or how their funding will change the model.

Barriers to More Effective Funding Practices

Several barriers impede the adoption of effective funding principles. The discussion included concerns about the use of business and other specialized language by funders and grantees. Donors can have difficulties knowing when terms are intended literally and when metaphorically. Donors may not know what they are committing to, or whether profits are being generated or not. In addition, scalability can be overemphasized, and some nonprofits, just like for-profit businesses, are not designed to go to scale.

Another barrier is a lack of financial literacy. Funders and the organization can have disparate views of the same financial statements; both funders and nonprofits need to be better able to read and interpret financial statements. An understanding of the current financial picture, with trends, future projections, and red flags is needed. Also information sharing and communication among different funders is essential. Such information pooling could help a shared diagnosis of a nonprofit's health and facilitate constructive intervention. Discussions with a third party could be helpful in developing a common understanding of the problems—NFF's nonprofit business analysis could be one such third-party facilitator. Developing a common financial understanding is particularly important if a nonprofit is changing from a relatively asset-free phase to ownership of a key fixed asset.

Potential Methods for Strengthening the Sector: Networked Approaches

Network approaches have the potential to achieve mission impact. One barrier to more effective funding is the lack of understanding by some funders of their grantees. The focus for these funders, too often, is on a nonprofit grantee as the hub for creating social impact. There are well-known nonprofit organizations that are financial successes but community failures. These organizations fail to develop long-term, trusting relationships and are not part of a multi-hub, decentralized network.

By looking at networks of entities, it can be observed that public value can be fostered by peer providers, complementary providers, sometimes competitors, or even cross-sector complementary agents from government, business, and nonprofit organizations. Instead of focusing on the grantee as the way to solve a problem, more can sometimes be accomplished by a constellation of actors.

Funders play a key role in encouraging more effective program operations. Funders have considerable leverage because of their expertise and their ability to determine the partnerships and roles each play. However, they may overlook the tremendous expertise of the grantee organizations and their ability to identify other organizations with which they could partner to achieve greater mission impact. Funders should be encouraged to move beyond the view that they should control the program delivery because they are the source of funds.

Systemic changes are needed to address many of these problems, which cannot simply be solved by individuals or organizations. Some of the greatest innovation is happening in systems solutions in the nonprofit sector. This innovation may require a movement that has short-term, medium-term, and longer-term strategies. Financial education is a key component of the solution, particularly building the skills of the next generation, and it needs to be widely available.

Potential Methods for Strengthening the Sector: Changing Funding Practices

The draft funding principles are missing a principle that looks at leadership. An additional principle could look at nonprofit effectiveness and recognize that it is dependent on government effectiveness as well as political, community, and nonprofit leadership. To be successful, leadership must be evident in the funding decisions.

Potential Methods for Strengthening the Sector: Other Measures

Many funders and other stakeholders want to have an impact on more than a narrow group of top-performing nonprofits. What is needed is to build vibrant sustainable industry subsectors with sufficient industry infrastructure and collaborative business models. McDonald's does not strive to have a few super McDonalds, but instead it attempts to help the average person become a competent business owner. An area of concern for the participants was the focus on a handful of startups rather than on providing general support for the second and third tiers of organizations.

The role of industry-related infrastructure is another area that needs to be addressed. Too little funding exists to support "patient capital," intermediaries, and research think tanks. Such institutions are needed so that funders have access to data, peer learning, and communications to support better funding decisions. There is not sufficient funding for groups such as the Urban Institute and the Hauser Center. In addition, over 400 educational programs exist in higher education—undergraduate, graduate, and continuing education. Working to affect the tens of thousands of students graduating from these programs each year should be considered. Education could be offered to students, nonprofit managers and boards, and foundation staff and boards. Topics could include leadership, business and financial models, the linkage between business models and mission, and financial literacy. A goal would be to provide a short set of items for foundation staffs and boards to focus on when evaluating a grantee.

Nonprofits too need to change their behavior, not simply foundations. Demanding more performance measurement and reporting—particularly of outcomes and organizational performance—is important. Both funders and nonprofits need to focus on the social problem and how to effectively address it. Possible approaches to this include pulling key participants who address a particular social problem to hold a summit to examine how to address the problem, the necessary services and interventions to be provided, the necessary structure and funding of the service-providing institutions.

An underused opportunity in the nonprofit sector is the ability to work together rather than competitively. For example, the credit union industry already works together to provide shared front office and back office services. In the for-profit world, such activities could be considered collusion.

Panel: Working Together: Getting Good Data and Creating Market Basics

Moderator: Clara Miller, Nonprofit Finance Fund

The Data Projects at the Center on Nonprofits and Philanthropy

Panelist: Elizabeth Boris, Center on Nonprofits and Philanthropy, Urban Institute

The nonprofit sector requires data to operate effectively. This is the major motivation for the Center on Nonprofits and Philanthropy, which hosts the National Center for Charitable Statistics (NCCS) at the Urban Institute. The Center is the result of a set of long-term investments. It was funded by operating grants from the Atlantic Philanthropies that were matched by other funders to build a fund to maintain and update the National Nonprofit Data System created by NCCS, as well as the Center's related analyses and convening activities.

The nonprofit sector, like the business sector, needs research and development, but the government does not collect the data or conduct the statistical analyses on the nonprofit sector that it does on business. Foundation funds were used to create the NCCS databases and support the research on the scope and dimensions of the nonprofit sector. These efforts refined the IRS data and helped determine that there are 1.4 million organizations in this sector and that in 2004 they received $1.36 billion in revenue. These data are important for showing the economic importance of the sector and for capturing the attention of policymakers.

Data are also essential because nonprofits exist in communities—both communities of interest and geographical communities. To sustain these entities we must understand the variety of nonprofits and the industries in which they operate. Organizations have different business models. Some organizations—for example, international relief and development—rely heavily on individual and foundation donors. Others—in health care, for example —obtain most of their revenue from fees paid for services.

The geographic community context is a factor in the sustainability of organizations. The Center's research has shown that even in similar neighborhoods—those with the same levels of population and poverty—there are very different numbers and mixes of organizations. Funders are then challenged to figure out why, what are the determining forces, the barriers? How should we think about the nonprofit infrastructure and its capacity in different communities? Assessing community capacity requires data on nonprofits—on their finances, activities, and connections to each other and to other institutions.

Sustainability is about managing the process of change, not arriving at an end goal. Sustainable organizations must have the resources to shape and respond to economic, social, demographic, political, and even cultural environments. They must be flexible, which means obtaining, assessing, and using information about their environment and receiving feedback on their activities. They have to be able to measure their outcomes and they need to have available simple, accessible, and cost-effective systems to measure, use, and report their performance. They have to understand the cost of producing their outputs, measure their outcomes, make sense of this information, and compare themselves with similar organizations.

When they determine that they need to change, they have to balance internal change—change in their own processes and operations, with external change—change in how they try to shape their environments. Both information and operating capital are critical to this process. To assist in such analyses, the Center has created a framework for outcome measurement for nonprofits. When fully operational it will permit nonprofits to choose program-specific performance indicators and data collection tools and report the data to a central database to compare and benchmark their results against those of other similar organizations. A description of the framework and indicators for the first 14 program areas is available at www.urban.org/center/cnp/projects/outcomeindicators.cfm.

Funders need to appreciate that many nonprofit organizations are funded primarily by government, and that they serve people who are affected by government policies. Although economic swings are beyond the control of nonprofits, they need to have their voices heard at the policy level and to have funding to advocate for their clients directly and indirectly through coalitions, infrastructure organizations, and associations.

The resilience of the nonprofit sector is legendary. When the economy and government funding is in retreat, most nonprofits find a way to continue, but the costs of bootstrapping in terms of wasted talent, time, and progress toward mission is not often calculated. The diverse income streams that nonprofits manage are often a source of strength, but they are also difficult to rationalize. Overall, foundations only provide about 3 percent of the revenues of the charitable sector, so their influence and leveraging is often at the margin, but can be critical, if leveraged effectively.

Nonprofits are the point of entry into the labor force for underserved communities, so it is important to understand how nonprofits are managed and the systems they require. Human and social capital are valuable and should be treated like natural resources , nurtured and used effectively to provide long-term sustainable benefits to their communities. There is a need for data on employee turnover, age, years in position, salaries, benefits, and training opportunities.

Data on social capital creation are difficult to obtain but are necessary to understand the impact that nonprofits have in bringing communities together, helping them to have a voice, knitting them in networks, and encouraging them to be involved in the civic dialogue.

Information allows an organization, its investors, its board and staff, and other stakeholders to understand its finances, its programs, and its outcomes over time. It also permits comparison with other organizations. Such information provides the basis for the research and development for this sector, a sector that enjoys minimal government oversight and maximum accountability demands.

Over the past 10 years, NCCS has been building a data platform based on Forms 990—the National Nonprofit Data System. Data standards are required to produce meaningful information. The Uniform Chart of Accounts is one tool that helps nonprofits to report their finances using the same language and metrics. Use of this system can also help the IRS and the states collect better data that will help nonprofit organizations compare themselves with others.

In the quest for better and lower-cost data, NCCS developed software that permits nonprofits to complete and electronically file Form 990s with the IRS (NCCS 990 Online at efile.form990.org). Nonprofits can fill out their Forms 990 with the appropriate prompts, math checking, and controls that prevent a nonprofit from omitting required information. The Center also provides technical assistance to users and helps states build their own systems that dovetail with the IRS, thereby permitting the states and the IRS to communicate. The outcome of this effort will be higher-quality data on nonprofits, lower cost for the data, and improved oversight of the nonprofit sector.

These data and tools to improve information on nonprofits are all possible due to long-term investments made in the National Center for Charitable Statistics over 10 years by the Atlantic Philanthropies and the foundation donors who matched their challenge grant. We owe them our thanks, and it is our collective responsibility to use them well, and to sustain and enhance them for the benefit of the sector.

The Role of the Pennsylvania Cultural Data Project

Panelist: Bobbie Lippman, The Pew Charitable Trusts and the Pennsylvania Cultural Data Project

The Pennsylvania Cultural Data Project (PACDP) started in 2001 with seven funders who agreed to a common grant application process to standardize data collection for cultural organizations in Pennsylvania. It has cost $3 million to actually conceptualize and build the web application, and there is an ongoing staff. The PACDP is a Web-based system designed to be a tool for organizations to better manage and track their institutions over time.

The funders of the project included The Pew Charitable Trusts, the William Penn Foundation, The Heinz Endowments, the Pittsburgh Foundation, and the Pennsylvania Council on the Arts (PCA). It is a very interesting private/public partnership. It took four years to develop the project, to identify the common fields of data that would be collected, and to think through how this project could streamline the application process for participants. The project is administered by The Pew Charitable Trusts.

The system has an 11-section form designed to allow the groups to have access to the data and to generate their own reports. Many of the data are financial, but one screen is devoted to standardized organizational and non-financial data. The project benefited from sufficient funding and a team of consultants. Focus groups helped to gather feedback from participants.

Since 2004, 484 groups across the state of Pennsylvania have submitted 1,400 data profiles to PACDP. More than half of the participating institutions have budgets under $250,000. All participating organizations complete an updated profile annually. As a result, organizations are able to generate trend reports for their institution.

Screens of the software highlight data integrity and accuracy. Every field has definitions and was designed to help standardize the way organizations report on a particular line item. The project relies heavily on audited financial data and is staffed with a help desk, data verification staff, and a financial consultant on call. These services were not that expensive, but they were tremendously valuable in assisting nonprofits to complete the forms and in ensuring the quality of the data. Access can be granted to the executive director, staff, and even the board of each participating organization.

To get nonprofits to submit data, the project started with the carrot-and-stick approach. Nonprofits were required to submit data into the system for the PCA grant application; the process was not very different from the process for current PCA e-grants. A communications plan highlighted the benefits of PACDP—particularly what an organization could do with its data. Some groups complained about filling out the forms, but when they got to the reporting features of the system, their view changed favorably. Many now comment on how much time the system has saved them. The staff can redirect their time into better project planning or improving the case for a grant.

Funders can use the aggregated data to look at community trends and needs, and the data can be used by researchers to report trends and impacts. One foundation recently joined because their grantees requested it. They indicated how much easier it would be to apply using the PACDP system. The project, however, has not tried to replace the narrative in grant applications.

The website can generate 77 reports that can be made through clicking. An annual report can be produced through only three clicks. Small nonprofits are enthusiastic about being able to produce an annual report in PDF format at low cost. The format includes areas to accommodate text. Trend reports and ratios can be generated, as well as comparison reports. There are some interesting funder-requested reports that look at working capital and deferred maintenance.

This project is now exploring the idea of moving into other states. Maryland is moving forward, and possibly also California. Adapting PACDP to the health and human services sector has also been discussed.

The Role of the Pennsylvania Cultural Data Project in the Cultural Advocacy Work of the Greater Philadelphia Cultural Alliance

Panelist: Peggy Amsterdam, Greater Philadelphia Cultural Alliance

The Greater Philadelphia Cultural Alliance (the Alliance) is a combination of a local arts agency and a chamber of commerce for arts organizations. It works with four goals on behalf of its members: marketing, advocacy, grantmaking, and member services. Member services include health insurance, office supply discounts, hotel discounts, and others.

The Alliance has used the Pennsylvania Cultural Data Project (PACDP) for advocacy. This system has helped tremendously in communicating the true value of the arts by providing accurate data. The Alliance developed the Portfolio report and presentation, profiling the 218 organizations in Southeastern Pennsylvania who completed the PACDP during 2003–04. This presentation has been used to show the size, depth, and impact of the cultural community in the region as well as to help arts managers and policymakers.

The Portfolio report has afforded key insights in terms of the contributions of arts organizations to employment and cultural opportunities for residents and visitors. The Greater Philadelphia Cultural Alliance has used its Portfolio report to increase awareness of the size and scope of the cultural sector in greater Philadelphia to key decision makers, the media, the cultural community, and the general public. Because of this report, the Alliance had six weeks running of press in the local papers, which is unusual. The report shows that the cultural sector is a significant economic engine in the Philadelphia region. One of the greatest benefits of the report is the discussion arising from the data. It is no longer intuitive that the cultural sector is significant because PACDP can document the sector's direct impact: it provides 14,000 jobs and $560 million in spending. The PACDP findings on the financial health of the arts sector showed that these institutions are lean, with many operating with annual deficits. It targets needed advocacy at the local government and corporations.

The main goal of the Alliance is to increase cultural funding, and the PACDP report brought its agenda into the hotly contested mayoral race. When coupled with the Alliance's recently commissioned report from the Rand Corporation "Arts and Culture in the Metropolis: Strategies for Sustainability," all candidates in the election issued position papers on arts and culture.

The Portfolio showed that the revenue base of Philadelphia institutions comprises about half earned income and half contributions. One-third of the contributed income is from foundations and individuals. Local government and corporate support has been low.

The Alliance's secondary goal is to increase participation by organizations in PACDP. Two hundred and eighteen organizations participated in the first Portfolio report; now every organization recognizes the value of participating in the project, wants to be one of the names listed as a participant and get access to reports from PACDP.

Panel: Building Community among Funders: The Role of Individuals, Intermediaries, and Geography

Moderator: Kathleen W. Buechel, Hauser Center, Harvard University

Regional Approaches: The Experience of the New Hampshire Charitable Foundation

Panelist: Lewis M. Feldstein, New Hampshire Charitable Foundation (NHCF)

This foundation has, over the past two years, made some substantial changes in its funding approach. It has shifted significant grant support toward major funding for operating support in a state that can be idiosyncratic and where it can be hard to get the attention of many funders and people otherwise focused on its role as the inaugural presidential primary. Several lessons have been learned from this experience:

1. Of the total discretionary grants awarded by the foundation in the first year, 15 to 17 percent went purely to grants that were for general organizational support, not tied to projects. Only a small number of organizations applied for this funding. Many people held back, despite the fact that when the initiative was announced, as part of a regular report at the foundation's annual meeting with 700 or 800 people, it got a standing ovation. Nonprofits were enthusiastic about the idea at the announcement, but the significance of the small applicant pool may be better understood when the results of a survey about the first two years of the project, which will be circulated at the end of the second year, are tabulated and published.
2. More money is needed for training for boards and volunteers, who found the different basis for grant assessment to be challenging.
3. For a community foundation that looks a lot at trying to raise endowment, and to raise assets and charitable giving, the New Hampshire Charitable Foundation had not considered the impact of this approach on potential donors. People do not give because the balance sheet persuades them—they do not give out of their left brain but out of their right brain and for emotional reasons. And so, for many donors, gifts for core support are not nearly as attractive as gifts for a specific new project. How one talks about this kind of giving is clearly important, and is an area that warrants further consideration.
4. The Foundation recognized that if operating support is so important, then their investments are only a tiny piece of the answer. The key is moving government. The Foundation continues to invest in operating support in order to be able to make the case. But at the same time, the Foundation is spending a good deal of time laying the base for what will be a public policy effort to change the way that state government operates. The goal is to change the state's funding pattern. The Foundation does a lot of lobbying

in the state on public policy, and has three people on staff who are registered lobbyists.

When the current commissioner's term expires, the Foundation hopes to have some influence in selecting the new commissioner of the state's largest agency, Health and Human Services. Health and Human Services accounts for 59 percent of all state expenditures, and the Foundation will work to persuade the new commissioner from the beginning to move the entire Health and Human Services Department to increase its general support for nonprofits. If any change that benefits the nonprofit community takes place, it will probably be far less the result of the changes in the funding decisions of the Charitable Foundation than the result of gains derived from what and how state funders invest.

The New Hampshire Charitable Foundation has been relatively unsuccessful in convincing other foundations to pursue this approach. In addition, as the community foundation it has switched roles with the United Way movement both nationally and in New Hampshire. United Ways are focused now on specific projects and outcomes, rather than general support and capacity building, which have become a major focus of the community foundation.

Government Funders: The Example of the Allegheny County Department of Human Services

Panelist: Marc Cherna, Allegheny County Department of Human Services, Pennsylvania

The perspective of a government funder offers insights into more collaborative practices with private funders such as foundations; this perspective also offers ideas about changing government funding methods to promote nonprofit organizational capacity and health, along with financial and programmatic performance.

Marc Cherna established the Department of Human Services (DHS) in Allegheny County 11 years ago. The department has had stability and consistency to keep moving forward during the decade, something that is so unusual as to be an aberration in the field.

Foundation and Government Collaboration

Pennsylvania government is a mostly state-supervised, county-administered structure, in which the counties really do the bulk of the work. DHS has five program offices, none of which has control of their money, human resources, computers, or publications. These functions are in separate administrative offices, which results in the program offices having to be interdependent. Therefore, there are no silos. The Human Services Department serves Allegheny County, which has about 1.2 million people, and it provides well over 200,000 people annually with services. It touches close to a fifth of the county's population every year. Many of these consumers are served in multiple program offices.

With a budget of $915 million, $775 million is dispersed through nonprofit contracts with 384 different agencies. DHS has 193 different federal, state, and county funding sources. The federal sources comprise about 39 percent, the state 57 percent, and the county only 3 percent. The other 1 percent is funding from foundations and others. There is wide variance in the size of the contracts. People tend to do best when they are served by people they know and trust in their own neighborhood, and if they have a lot of choices about where to go. In this business, one size does not fit all, so it is that flexibility that is most important.

The issues in this sector right now involve several things:

1. The government does not fund the full cost of care, nor does it always cover rises in the cost of living or inflation. The sector loses ground every year as a result, especially in this last federal administration because less money has been available to meet the needs. When there is less federal money, it puts more pressure on the states and counties.
2. There is no added money to cover the new regulations, initiatives, or demands started by legislators. The interpretation of the regulations and rules and requirements results in growing demands.
3. DHS can only give out what it gets, so agencies keep losing ground, which then really adds to the burden of maintaining quality services.

DHS has had quite a bit of success through partnerships, especially with foundations. When the Human Services Department was established, the foundations had the brilliant idea of creating a human service integration fund where the foundations put money in the pot to help the department move forward. Sixteen funders have put money into this fund. The fund supported the kind of things that could never get categorical government money. Projects would be brought forward. If the foundations liked the projects, then they would all vote to fund it. This fund is administered by the Pittsburgh Foundation, so they are able to bypass the bureaucracy of governmental administration. DHS could buy the best services, not just those from the lowest bidder. In eliminating the bureaucratic red tape, the department was able to be especially effective in many programs and projects.

A number of foundation-funded projects have helped not only the department, but also the provider groups and the community at large. These include a data warehouse for all DHS information as well as other external data sets—such as jail and corrections data, and homeless and housing data from state sources such as Temporary Assistance for Needy Families (TANF) Medicaid, and food stamps. These data provided the department with really good demographics and a neighborhood Geographical Information System (GIS) view. Foundations use the data, universities use the data, everybody has access to the data as a community resource, but they certainly benefit the DHS as well.

Other examples of foundation-funded projects include a partnership with DHS and United Way to develop a community asset—humanservices.net—a Web-based system where anyone can locate all of the services in the county. This system includes the geographic location of a service organization, its hours of operation, and bus routes serving the site. It is a system that truly benefits consumers of human services. Foundations can review a request and determine whether others are providing a duplicate or nearby service, as well as what the demographics reveal about community needs.

A number of partnerships involve specific programs. In one program, Mr. Cherna and the administrative judge of the county asked the foundations to double the resources in the courts so that permanency hearings could be held every three months instead of every six months. This foundation-funded project resulted in moving children back home or into other permanent arrangements, thus reducing numbers of children in care and saving the money that was previously utilized to pick up this cost.

In collaborative efforts, foundations start projects and DHS picks them up according to an agreement forged up front. In one example, foundations came forward to help provide gap funding for the mental health court. In addition, foundations recently started a fund to provide matching dollars for the Housing and Urban Development (HUD) continuum of care grants to help the homeless get into housing.

Relatively speaking, the foundations' contributions are minimal compared with the $775 million the county commits, but these dollars are critical because they leverage so much more.

Other Partnerships

The county and foundations also partnered with the Chamber of Commerce, the private sector, community organizations, and the public at large, and the results are very good.

What Can Change the System?

Two key steps to foster changes in government processes would benefit nonprofits and improve the provision of services:

1. Educate lawmakers to understand the implications of the laws they pass and the ramifications of implementing them— in terms of the actual cost to implement—and to understand the gap between reimbursement dollars and the true cost of the service.
2. Provide advocacy with the agencies, boards, their staff, and the consumers. Joining forces that results in legislative change will go a long way toward sustaining organizations.

Individual Donors: The Perspective of Rockefeller Philanthropy Advisors

Panelist: Melissa Berman, Rockefeller Philanthropy Advisors

There are many challenges inherent in bringing individual donors into the discussion of nonprofit sustainability. Rockefeller Philanthropy Advisors works with a very broad range of donors with a wide spectrum of program goals, program areas, and geographic areas as far flung as Indonesia and Costa Rica. They hail from across and outside the United States, and range from institutional donors, to individuals, family units, and family foundations. This array enables them to see many different things in their practice.

The reality that these donors see has an impact on the set of beliefs that many of them have about the nonprofit sector and how philanthropy works; intermediaries and advisory organizations can play an important role in ensuring the effectiveness of the donors' efforts.

Three observations are useful here. The first is that stories matter and are extremely important in our world. The second is that beliefs are often far more popular or far more powerful than data. And third is that there are always three things.

The Beliefs

Many private donors find themselves in a world filled with misunderstanding, mistrust, and mismatch.

Misunderstanding

Many of these donors are new to philanthropy and do not have the family traditions, practices, rituals, or formal procedures that might help them as they reach adulthood to understand what philanthropy means, how the nonprofit sector works, and what it means to be a sustainability funder. If you do not have that kind of opportunity in your life as a funder, you walk into a world where you do not know what any of the phrases mean—for example, *capacity building*. If you are from the business sector, *capacity* means something different than it means in philanthropy. If you have never been part of either the nonprofit or the business sector, it is just a bunch of syllables. As a result, not surprisingly, there is a fair amount of mistrust about how the nonprofit sector works. One of the real hallmarks of newer donors—even at very high levels of sophistication and wealth—is their fear that they are going to be snookered, that they do not understand how these things work, and that the work appears to be like a bunch of black boxes. "I need to understand where my money is going," they say.

Mistrust

In reality, new donors cannot translate what they are hearing from nonprofits; they cannot see how the plumbing system works. In many cases, in the face of this language and its inscrutability, they start to get fixated on program support and things like that because they believe they understand that. The issue of trust is therefore crucial.

Mismatch

The final "mis" is the mismatch of power. Philanthropy in our society is a voluntary act. It is given a tremendous amount of scope and freedom as a result. An individual donor can act on a whim in many ways more than an individual foundation in which trustees have a defined sense of responsibility. One recent comment by a particular donor illustrates this point: "I don't want to have to pay for lightbulbs, somebody else should pay for lightbulbs." Why would donors think their money entitles them to opt out of this form of basic funding? It is a question that should be asked. Other donors lack knowledge of the basic forms of funding, such as general operating support, and are candid enough to ask about them. Still others change priorities apparently on a whim, as reflected in the comment "I'm getting tired of the environment; I'd like to do something in the Middle East."

The Role of Intermediaries

Intermediaries can play an effective part in three ways:

1. Intermediaries translate. They have the capacity, ideally, to be able to speak to donors in terms that they understand, while also speaking to nonprofits in a language that they understand. In this way they help bridge some of this misunderstanding and mistrust. This function is critically important. It is under-recognized as a necessary part of our system, but it is of great importance at all levels.

2. Intermediaries create a safe space where somebody who is used to being in a position of authority and power is comfortable asking "What is general operating support? What do they mean by restricted funding? What if it is only partially restricted?" Intermediaries create a place where people are comfortable asking questions, where they can find a way to explore, to learn from peers, and to get some research and information assembled without having to put themselves in a position in which they feel extremely uncomfortable.

3. Intermediaries help donors, families, and other kinds of funders come up with a structure for thinking about and making decisions about their philanthropy.

These key points inform three recommendations related to funding the solution and not funding the problem.

Recommendations

1. In going forward we must think about how the field of philanthropy can help people marry their passion and commitment with actual data and information. One part of this is the identification of credible spokespeople. Another is a peer-to-peer education campaign and an information exchange about how nonprofits work, how you fund solutions rather than problems, and how you form partnerships that are not adversarial with them. Intermediaries can tap into appropriate media for high net worth individuals.

2. Higher education can be another venue for engaging donors. These intermediaries can also create useful materials and data to share with donors about how the nonprofit sector works. One approach would be to target these materials to development directors in nonprofits, financial advisors, and trust and estate attorneys, for example, who do not have this type of information at their fingertips.

3. Investment in the knowledge industry about the sector is badly needed. The current paucity in the philanthropic field offers a sobering contrast to the diverse and wide range of organizations serving the for-profit and public sector, which range from industry associations to consulting practices, business schools, think tanks, and the analyst community. Information ranges from the academic to the anecdotal, and dwarfs the embryonic but important initiatives in the nonprofit field. More of this capability is needed in the nonprofit sector.

4. The issue of power needs to be addressed. How do we balance the value that our society places in the ability of individuals to make decisions about public resources with the value we place in the common good? There may be an inherent responsibility embedded in our social compact about the potential for abuse that accrues because of this absolute power.

What Did We Think and What's to Be Done? Identifying Areas of Agreement and Areas for Further Research

Tiziana Dearing, Hauser Center, Harvard University
Andrea Levere, Corporation for Enterprise Development (CFED)

This section is a summary of the day's proceedings. It looks at the direction of the conversations in the breakout groups, the key points made in the meeting, and thoughts about moving forward with Capital Ideas principles.

Ms. Dearing synthesized the breakout group conversations. These groups raised many similar issues that will be incorporated and reflected in the next round of draft funding principles (the revised draft funding principles can be found in Box 1 of the executive summary and in the appendix of this document). The following is a list of some of these shared issues:

- **Trust:** Every single group dealt with an aspect of trust. Some groups noted that a lack of trust can impede the flow or honesty of information and communication between grantmakers and grant recipients. Several groups noted that, because of the power dynamics in the relationships, few foundation boards hear real truth from grant recipients.
- **Time:** Throughout the day the discussion emphasized the need for time, in relation to both the grantees and the grantmakers. Grantees need time to develop expertise and long-term management capacity, and to get really good at a set of service offerings without the distraction of constantly rotating into new projects that might prevent the development of longer-term traction. Grantmakers need to provide long-term funding to allow these valuable steps to be taken.
- **Information:** On the grantmakers' side, the conversation returned frequently to information, specifically how the field gets and gives good information.
- **Grantee/Grantmaker Collaboration:** To solve social problems, participants advocated for collaborative approaches involving both grantmakers and the grant recipients.
- **Longer-Term Perspective in Funding:** Participants focused on the need for longer-term funding that demonstrates that funders are "putting their money where their mouths are."
- **Mutual Evaluation:** Breakout groups also contended that long-term relationships can enable clear evaluation that goes both ways. In other words, an assessment of the foundations' success as both an investor and a partner should be linked to the success of its individual grantees and projects. Since charity rating systems assess key ratios in the nonprofit sector, there was some animated conversation about whether a corollary process to rate funder effectiveness was in order. The conversation punctuated the need for mutual evaluation, mutual flow of and demand for information, and commitment to long-term funding.

- **Next Steps:** Participants raised the issue throughout the day of how to make anything happen next from this symposium.

On the Funding Principles

With so much rich discussion and so much directional and content advice offered, the principles will be redrafted to ensure consistency with definitions and concurrence with the content offered during the day. The working group will circulate another draft for comments that captures the insights gleaned from the day. This information has been synthesized into the detailed version of the revised funding principles found in Appendix F of these conference proceedings.

Summary Points

Andrea Levere noted that ten important insights from the day's summary are:

1. The fact that we cannot remember that we are really seeking community impact in what we are funding is a critical missing element. We get this impact through the market knowledge of nonprofits. Therefore it is critical to remember the community as we think about the impact of strategy and capital.
2. Financial literacy and knowledge building are absolutely imperative. This pertains to program officers, board members, nonprofits, and the next generation of staff, board members, funders, and donors. How technology is leveraged can affect our ability to do this in the best way possible.
3. Data, messages, and communications must be used to debunk myths, old and new. We must be prepared to share bad practices and horror stories along with our promising practices.
4. Systems, networks, and industry perspectives must be integrated to create the capacity and collaborations that are equal to our aspirations for change and impact.
5. Funds must match sources and uses and claims upon grantees. This insight really addresses the power equation between funders and grantees. It also reflects an understanding about the difference between funders that are builders and the funders that are buyers. It involves bringing in the idea of *net grants*—which has been defined as the funds available after the time spent in seeking and stewarding them is deducted—to see what is left for the organization. It calls for talking about the end of searching for the "unique and special" rather than the effective.
6. The importance of the public sector must be recognized and integrated into all aspects of what we do. An analysis of the DEMOS work on the public's understanding of the public sector and civic engagement illustrates a shocking lack of knowledge by the public about its work. We have had 27 years of perceptions that the public sector is incompetent, which compounds the complexity of changing that perspective. However, we must begin to address that attitude because that is what will solve these problems of scale.
7. The qualitative factors of leadership, management capacity, and collaboration must be balanced with the focus on finance and financial structures.
8. We must begin to standardize terms, definitions, and forms to really build knowledge, increase power, and guide action. Three favorite words in this context are *unrestricted*, *resiliency*, and *thriving*. The Pennsylvania Cultural Data Project illustrates the power of doing all three—building knowledge, increasing power, and guiding action.
9. Do not underestimate the impact of passion, power, and trust—or lack thereof—in influencing donors, especially those you least expect to be moved in this way. Over nine years in underwriting financing for small businesses, the most risk-taking underwriters were the bankers who could not take such risks in their professional

life so took their stewardship of development finance quite seriously.

10. Keep your eye on the prize. Policy change through legislation, regulation, and administrative changes and advances is how we really get to scale.

Discussion and Comments

Participants were invited to add further insights at the "meta" level that were triggered by the presentation of the 10 insights. Some of these meta-level insights are presented here:

- **On Scale:** The issue of scale was mentioned, especially as an elusive element. Anecdotes abound about a number of great working experiments, and yet we have not a clue how to scale those to have an impact on the whole sector.
- **Engaging the Public and Private Sectors:** Integrating the public and private sector into solutions is vital. This is another frequently unmentioned but equally important 800 pound gorilla. To think that the little nonprofit side can attempt to solve some of these problems without the participation of the private and public sector is really foolish. There is a great deal of talk about how the nonprofit field can get to private sector infrastructure. Those are the rails—the plans and pieces upon which things are done. Research at the Aspen Institute, e.g., addresses not only how to build effective networks but also how to integrate or reintegrate in some way with the private sector to take advantage of all the infrastructure out there that could be used to serve some of the sector's purposes.
- **Changing Minds and Attitudes:** DEMOS is a great example of an organization trying to influence thinking. This meeting addressed how to reform the thinking in the sector about finances and organizations, and DEMOS—with its intentional approach to developing the language and the right materials to communicate, and then to educate the public about funding, finances, and organizational management—offers a great example to consider emulating as we take next steps after this symposium. One commentator expressed pique at the chronic perception of the nonprofit sector as not being ably managed, and proposed a target of always composing the rankings of the best-managed companies in America with half companies from the nonprofit sector and half from the for-profit sector—not keeping them in separate rankings. Such combined rankings would help funders recognize that the nonprofits are tough to manage and that the sector has many managers who are equal to or even better than those found in the for-profit sector. If the expectation that nonprofit management is necessarily poor is changed, it could be easier for people to invest in nonprofits for the long term.
- **Connecting to Other Field-Building Initiatives:** It is important to do the simple things brilliantly, meaning to connect this conversation and the interest shown by people attending the symposium to other improvements in the nonprofit industry. Several examples of these improvements are:

  1. The work of the National Center for Nonprofit Enterprise and their writings on nonprofit financing, which move beyond traditional funding to think about what bootstrapping means, about what nonprofit banks might look like, and about fee-generation activities. The Nonprofit Finance Fund (NFF) has been very involved in this financing work; much can be done to connect this work broadly in the field.
  2. The Center on Philanthropy with the McCormack Tribune Foundation will host a conference to examine how far this field and its many infrastructure organizations have come in terms of nonprofit effectiveness and accountability The GEO Change Agent Project is looking at nonprofit barriers and the philanthropic practices that hinder or enhance nonprofit performance; other

data they have collected and published on their website is also relevant.

3. The work of Independent Sector's Building Value Together Committee, NFF, the Hauser Center, and Urban Institute should all be mapped and shared broadly to give a sense of who is working in this field and to avoid the fragmentation of different but similar projects.

4. A co-chair of the Council on Foundation's Host Committee invited the group to think about having topics and conversations springing from the *Capital Ideas* Symposium offered as compelling content and quality programming at the Council on Foundations annual meeting in Washington, DC, May 4–7, 2008. Planning is at an early enough stage that these topics could be valuable sessions.

5. An ongoing central repository of promising practices could keep track of the progress, impact, and lessons learned from key initiatives such as the Pennsylvania Cultural Data Project, the Human Services Integration Fund, and so on. Without a single place to highlight or even review these initiatives, there is now no ability to scale them to any kind of systemwide effort.

6. Ultimately, if funders make this movement it will require greater clarity of purpose, intent, and impact from nonprofits as well. Funders can address parts of the system of change through unrestricted and longer-term funding. They can also work with the nonprofit sector to help them build their capacity to be able to articulate outcomes.

- **Using Power:** Most of the people participating in the symposium are people with some power; our institutions have power, and we have some delegated power, at least. Thinking in terms of education and advocacy alone will not work unless we use the power that we have within our own institutions to change incentives, reward good management practices, and protect our frontlines from being bullied by their business environment every single day. Because they are called to serve, nonprofit leaders will take a bad deal again and again. We can use our collective power to stop the bullying that goes on from either government or funders, and we can vow to change bad practices of all types of funders.

- **Diversity of the Sector:** The diversity of the sector includes many vastly different types of business models and enterprises, each of which has a version that is actually thriving. The enterprise-level or organizationwide approach simply makes us look into that enterprise and its optimized version. That is why financial knowledge is so empowering—because there are no really blanket solutions, but financial knowledge and data can help us make really good, optimal choices with our fundees or our borrowers.

Discussion of Possible Next Steps

The group shared a great deal of passion and expressed a desire to do something concrete and effective. Ms. Dearing asked the group for ideas about what one thing, done soon, or now, would start a tectonic shift. The following suggestions were offered:

1. Decide to do one thing the group can agree on. It could be providing longer-term funding—two, three, or more years.

2. The group could decide to designate the Pew and the Urban Institute systems and advocating that they be adopted and rolled out nationwide.

3. Develop a sign-on process for funders, to get a petition going through the funding and foundation community that says: here are some beliefs that we want our own organizations to start to change toward. Join us.

4. A public statement should come out of the symposium to avoid having these same conversations repeated in small groups in the coming years. This should be a very simple message with just two or three action items.

5. Everyone could pledge to do one concrete thing to bring about change. We should track these pledges and their implementation, and keep in touch. The meeting organizers could send periodic updates about traction and progress in the field, and then the group could re-gather in a year. A little bit of community needs to come out of the group so that the gains in understanding we have made do not die here. We could keep track of each other and each other's progress.

There is a parallel here to the beginnings of the capacity building movement. Eventually that movement led to the creation of a change-oriented organization such as Grantmakers for Effective Organizations (GEO). GEO and the Council on Foundation (COF) and the Committee for Effective Philanthropy (CEP) may soon meet to discuss effectiveness; capacity is certainly a part of this conversation.

Hauser Center Perspective

Dr. Keating provided the perspective of the Hauser Center, which has a keen interest in perpetuating this discussion. The Center might be prepared to provide assistance in several areas:

1. The Center's website is actually a Harvard-based piece of software, which has many capabilities not yet operating. The Center can create a discussion list, and the ability for any of the participants to post things. It could create an ongoing learning community and discussion, and invite comments on what that forum should be doing.
2. The Center will take the funding principles, rework them, and recirculate them to the website and to symposium participants.
3. More extensive tools for nonprofit financial management need to be developed and disseminated. The Center can take a role in ensuring that this is done.
4. More conventional offerings from the university are possible, too, to consider. The list here is only a starting point.

Other Steps Considered

In response to the Hauser Center proposal about standardizing and disseminating information on performance measurement, one participant directed the group to NeighborWorks America's website (www.nw.org/network/home.asp). This organization has compiled over 50 methods of measuring impact and performance for nonprofit organizations that can be downloaded from their website. There is also a training curriculum available. One idea could be to create a "Consumer Reports" of metrics about which indicators are best. Another participant directed the group to the Urban Institute website, which lists 14 program areas where that group has developed logic tables and indicators for measuring outcome and performance.

Another commentator mentioned her own organization's work in creating a platform to support some of the social sectors on the nonprofit side and to connect their innovations with government more effectively to illustrate examples that really work. More of this kind of connection could lead to thinking differently about how we solve problems and create policy in the first place.

Social Marketing Campaign

One speaker suggested creating a long-term, slow, and careful "campaign" that could lead to a tipping point of change in the sector. A good beginning for such a campaign would be to map across 10 years the things we know about how to change opinion and behavior. This campaign could involve research and more effective distribution among thought leaders and policymakers. The campaign would allow us to target and engage the influential people who can bring about these changes. We could engage vehicles such as the Council on Foundation meetings, among others, through an intentional education and outreach effort. The identification of the right audiences, along with peers to influence them, is essential. This speaker contended that we have the pieces but they are never put together appropriately for greater long-term impact. That would be much more worthwhile than a continued conversation about barriers. We have the tools for getting past the barriers, if we just stick it out.

Endorsing the idea of a well-considered campaign, one participant cautioned that such a campaign must ensure that very diverse people who are part of the broader sector are at the table from the beginning and have a chance to buy in so that it is the most powerful. Others advocated the value of capturing stories and not just principles for the campaign, because stories get people's attention and help people move their minds from one place to another. The speaker cited the Pennsylvania story from today as a great, great example.

The Nonprofit Finance Fund Perspective

Ms. Miller spoke next from the Nonprofit Finance Fund (NFF) perspective, about what that group could undertake as an organization. She noted that NFF is in an action mode, developing a practice-based application of models and tools. They do not call it research, but they seek opportunities to take customized tools, some of which are already developed—e.g., lending of various types and knowledge tools such as the NFF nonprofit business analysis. They use various kinds of data to help organizations understand the world, and their funders, better.

Their goal is to reach out with those tools to create capacity and performance metrics that actually change the nonprofit capital market, and to keep the field's eye on the prize of attaining greater social impact. We already have in the sector the tools to go there. Ms. Miller invited the group to co-create more tools that can be readily emulated by program staff with differing level of financial expertise.

NFF is looking for partners and wants to do more practice-based applications of experiments and initiative-based approaches, which pull together funders and groups of cohorts and tries to move everybody up a curve—not just one, not just two, not just stars, but an entire cohort of organizations up the curve to higher performance, better capitalization, and better capacity.

In Closing

Ms. Buechel closed the meeting by noting that the deliverables slated to follow from symposium organizers include these meeting proceedings. Reworked funding principles that reflect the day's discussion will be circulated, and are included in these conference proceedings in Appendix F.

She noted that other ideas have emerged during the course of the day about next steps that speak to policy change and a long-range campaign that involves everything from the tools Ms. Miller mentioned to a better vocabulary and different models. The group had envisioned a social marketing campaign with deep roots in research, outreach, and policy change. Meeting organizers understood the group's need for a map of this landscape and their desire to find places of intersection and leverage. Others advocated for a process where funders could "sign up" through some means—a statement of practice, a call to action, or what individually they will do as an organization.

The group indicated that the solutions are known but the dots are not yet connected. We have to make those connections, Ms. Buechel contended, by using similar language, collecting the stories, and mounting a long-range campaign to change the paradigm and the funding reality. The planning team is drafting next steps and will circulate them to symposium participants. Symposium organizers will then attempt to prioritize them and enlist others to help in a working group and move forward from there.

The participants' ideas throughout the day were numerous and insightful. Many speakers had framed an agenda that represents a moment of change, propelled both by people in the room and by many others whose aid we have yet to enlist. Ms. Buechel thanked the group for an excellent day and a good beginning, and the meeting adjourned.

Symposium Agenda

8:30–8:45 AM	**Welcome and Introductions** Overview of the Day's Objectives
8:45–9:30 AM	**The Problem/Setting the Stage** *Elizabeth K. Keating and Kathleen W. Buechel, Hauser Center for Nonprofit Organizations*
9:30–10:00 AM	**Enterprise: A Context for Inventing "New Better Practices" on Both Sides of the Funding Equation** *Clara Miller, Nonprofit Finance Fund*
10:00–10:15 AM	Break
10:15–11:30 AM	**Perspectives on Perpetuity and Purpose: What Are We Sustaining and Why?** *Andrea Levere, Corporation for Enterprise Development* *Fred Bollerer, Venture Philanthropy Partners* *Debra Schwartz, John D. and Catherine T. MacArthur Foundation*
11:30–12:00 noon	**Considering Guiding Principles** Breakout Discussion Groups
12:00–1:00 PM	**Working Together: Getting Good Data and Creating Market Basics** *Elizabeth Boris, Urban Institute* *Bobbie Lippman, The Pew Charitable Trusts* *Peggy Amsterdam, Greater Philadelphia Cultural Alliance* Luncheon Session
1:00–1:30 PM	Break

(cont'd.)

1:30–2:30 PM	**Building Community among Funders: The Role of Individuals, Intermediaries, and Geography** *Lew Feldstein, New Hampshire Charitable Foundation* *Marc Cherna, Director, Allegheny County DHS, PA* *Melissa Berman, Rockefeller Philanthropy Advisors*
2:30–3:00 PM	**Considering Guiding Principles** Breakout Discussion Groups
3:00–3:45 PM	**What Did We Think and What's to Be Done? Identifying Areas of Agreement and Areas for Further Research** *Tiziana Dearing, Hauser Center for Nonprofit Organizations* *Andrea Levere, Corporation for Enterprise Development*
3:45–4:00 PM	**Wrap Up and Next Steps**
4:00 PM	**Adjourn**

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Harvard University

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President
Greater Philadelphia Cultural Alliance

Gregg Behr
Executive Director
The Grable Foundation

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Laura Paul
Chief Financial Officer
New England Foundation for the Arts

Hilary Pennington
Director of Special Initiatives
Bill and Melinda Gates Foundation

Geeta Pradhan
Program Director
The Boston Foundation

Jon Pratt
Executive Director
Minnesota Council on Nonprofits

Julie Rogers
President
Meyer Foundation

William Ryan
Research Fellow, Hauser Center for Nonprofit Organizations
Harvard University

David Sanders
Executive Vice President, Systems Improvement
Casey Family Programs

Janet Sarbaugh
Senior Director, Arts & Culture Program
The Heinz Endowments

Emily Satterthwaite
Chair, HEKDESCH
Dorot Foundation

Debra Schwartz*
Director, Program-Related Investments
The John D. and Catherine T. MacArthur Foundation

James Siegal
Vice President, Nonprofit Sector Programs and Practice
Independent Sector

Paul Shoemaker
Executive Director
Social Venture Partners, Seattle

Shannon St. John
Senior Advisor
Synergos

Christopher Stone
Guggenheim Professor of the Practice of Criminal Justice
Kennedy School of Government, Harvard University

Kim Syman
Partner
New Profit Inc.

Rebecca Thomas
Associate Director, Advisory Services
Nonprofit Finance Fund

Jane Wei-Skillern
Assistant Professor of Business Administration
Harvard Business School

* Debra Schwartz's presentation was delivered by Andrea Levere.

About the Conveners

KATHLEEN W. BUECHEL is a visiting practitioner at the Hauser Center for Nonprofit Organizations at Harvard University. From 1999 to January, 2006, she was president of Alcoa Foundation, where she led the reorientation of Alcoa's philanthropy toward active community investment, expansion of investable assets, and corporate citizenship. For eight prior years she directed the Foundation's operations and programs as vice president. Over this period, Alcoa Foundation assets grew to $500 million, and combined contributions reached $38 million from both Alcoa Foundation and Alcoa in 2005. During her tenure, key pieces of the Foundation's strategy included globalized giving in 31 countries—giving that is locally rooted but regionally coordinated and internationally connected; the addition of three worldwide employee engagement programs; the introduction of corporate contributions; and the sharing of corporate products and knowledge. The Foundation focuses now on four key areas and recently inaugurated a large-scale, multisectoral international fellowship program in Conservation and Sustainability. To complement and inform grant making, she helped to establish Alcoa's social metrics for its triple bottom line reporting, and collaborated on the introduction of stakeholder engagement and community consultation.

Ms. Buechel serves on the board of the Independent Sector as well as a number of other nonprofit or civic boards, including the World Affairs Council of Pittsburgh, the Finance Council of the Diocese of Pittsburgh, and Marian Manor. She is vice chair and a mayoral appointee to the City of Pittsburgh's Ethics Hearing Board. She was immediate past chair of the Contributions Council of the Conference Board and past president of Grantmakers of Western Pennsylvania. She has been involved in education and several efforts that advance the participation of women and girls in the new economy. At the Hauser Center, she has examined funding practices and principles that contribute to the long-term financial sustainability of nonprofits and holds a joint appointment as a Visiting Practitioner at the H. John Heinz III School of Public Policy and Management at Carnegie Mellon University. Ms. Buechel has a Masters of Public Administration degree from the John F. Kennedy School at Harvard University and an A.B. from Brown University in international relations and political science.

ELIZABETH K. KEATING is the Eli Goldston Lecturer on Law at Harvard Law School and a senior research fellow at the Hauser Center for Nonprofit Organizations. In addition, she teaches in the Kennedy School's Executive Education program and is affiliated with the Center for Business and Government's Regulatory Policy Program and the A. Alfred Taubman Center for State and Local Government. Her research focuses on nonprofit and governmental accountability, retirement funding, and organizational financial distress. She recently co-authored two reports on retirement security for public sector employees: *Blue Ribbon Panel Report on MA Public Employee Pension Classification System* and *The Elephant in the Room: Unfunded Public Employee Health Care Benefits and GASB 45*. She has taught accounting and financial management at the Kennedy School, the Kellogg School of Management at Northwestern University, the Stern School of Business at New York University, and the Not-for-Profit Institute at Columbia University. Prior to becoming an academic, Dr. Keating ran a consulting firm serving nonprofit organizations and worked as a credit officer and research analyst on Wall Street. She is a CPA and received her PhD in management from the Sloan School of Management at MIT and her MBA from the Stern School of Business at New York University.

CLARA MILLER, president and CEO of the Nonprofit Finance Fund, is currently a board member of GuideStar, GEO, Working Today, Inc. (the Free-Lancers Union), and Community Wealth Ventures, a subsidiary of Share Our Strength. She is treasurer of the Robert Sterling Clark Foundation Board and is also a member of the Federal Reserve Bank of New York's Community Development Advisory Council and the Independent Sector's Building Value Together Committee. Ms. Miller was voted one of 2006's Power & Influence Top 50 by *The NonProfit Times*. She has written and spoken extensively on nonprofit capitalization, and is the author of a number of articles on the subject, including "The Looking-Glass World of Nonprofit Money: Managing in For-Profits' Shadow Universe" (*Nonprofit Quarterly*, Spring, 2005) and "Hidden in Plain Sight: Understanding Nonprofit Capital Structure" (*Nonprofit Quarterly*, Spring, 2003) cited by Jim Collins in his monograph, "Good to Great and The Social Sector." Recent articles by and about Ms. Miller have appeared in *Hispanic Outlook in Higher Education* and *Worth* magazines. Ms. Miller was appointed by President Clinton to the U.S. Treasury Department's Community Development Advisory Board in 1996, advising the then newly created Community Development Financial Institutions Fund. She served until 2002, chairing it from 1999 to 2002. Ms. Miller was a board member of the National Community Capital Association from 1992 to 2001, and was its chair for six years, from 1995 to 2001. Before her tenure at NFF, Ms. Miller worked at the New York Community Trust and the National Academy of Sciences, and as an economic development planner in Corning, NY. Ms. Miller has a Master's Degree from Cornell University College of Architecture, Art and Planning, and she completed the Institute for Nonprofit Management at Columbia University.

About the Panelists

PEGGY AMSTERDAM is president of the Greater Philadelphia Cultural Alliance, the region's leading nonprofit organization dedicated to advancing the cultural sector. The Cultural Alliance serves as a vital resource to its 298 nonprofit member organizations and the broader cultural community. Under her direction, the Cultural Alliance has launched major marketing and grantmaking initiatives while moving to the forefront of the sector's advocacy efforts. Ms. Amsterdam also serves on the board of the Philadelphia Foundation and the executive committee of the Greater Philadelphia Convention and Visitors Bureau. She is a frequent panelist for the National Endowment for the Arts, and has served on the steering committee of the Arts Education Partnership. Ms. Amsterdam formerly served as Governor Tom Carper's Director of the Delaware Division of the Arts from 1993 to 2000, and was a founding member of the Delaware Arts Stabilization Fund, which now serves as a national model for private, public, and corporate collaboration for sustaining arts organizations.

MELISSA BERMAN has been president and CEO of Rockefeller Philanthropy Advisors since January of 2001. Previously, she served as senior vice president, Research and Program Development at the Conference Board, a nonprofit, independent business research organization. She oversaw all research and publications on management practices, including global corporate citizenship and governance. Ms. Berman is a director of City Harvest and Rockefeller Philanthropy Advisors. She is a member of the national advisory panel for New Ventures in Philanthropy. She serves as a judge for the Ron Brown Award for Corporate Citizenship, a presidential award. Ms. Berman holds a BA from Harvard University and a PhD from Stanford University.

FRED L. BOLLERER is a partner at Venture Philanthropy Partners, with a special focus on financing and asset management. He has served as a partner since 2001, and has been a management advisor at the Morino Institute since 1998. Prior to that, he was president and chief executive officer of the Institute's Potomac KnowledgeWay project. Mr. Bollerer has an extensive background in the banking industry. He spent four years as president and chief executive officer of Riggs Bank N.A., and served as chairman of the board and chief executive officer of First American Bank of Virginia. He also served as chairman and chief executive officer of First American Metro Corporation, the operating entity that oversaw the three First American Banks in Virginia, Maryland, and the District of Columbia. Prior to joining First American, Mr. Bollerer was executive vice president of First City National Bancorporation in Houston, Texas. He began his career in banking in 1967, at Continental Bank in Chicago. He received his BBA Degree from Ohio University and his MBA from the Thunderbird School of Global Management in Glendale, Arizona. Bollerer serves on the boards of Child Trends, Heads Up, and the District of Columbia Education Compact, as well as on several for-profit boards.

ELIZABETH T. BORIS became the founding director of the Center on Nonprofits and Philanthropy at the Urban Institute in Washington, DC, in 1996. The Center conducts research on the role and impact of nonprofit organizations and the policy issues that affect them. The Center also hosts the National Center for Charitable Statistics, which builds and maintains the nation's largest database on nonprofit organizations. From 1991 to 1996, Dr. Boris was founding director of the Aspen Institute's Nonprofit Sector Research Fund, the first grantmaking program devoted to supporting research on the nonprofit sector and philanthropy. Prior to her tenure at the Aspen Institute, she was vice president for research at the Council on Foundations, where she developed the research program and directed it for 12 years. The author of many research publications on nonprofits and philanthropy, she edited *Nonprofits and Government: Collaboration and Conflict* with C. Eugene Steuerle, (now in its second edition) and is an author of *Working in Foundations: Career Patterns of Women and Men*, with Teresa Odendahl and Arlene Kaplan Daniels. Dr. Boris is actively involved as an advisor and board member for a variety of organizations in the nonprofit sector, has many affiliations with nonprofit organizations, and is also on the editorial board of the *Nonprofit and Voluntary Sector Quarterly* and the Advisory Board of *Nonprofit Management and Leadership*. She holds a PhD in political science from Rutgers University.

MARC CHERNA was appointed director of the Allegheny County Department of Human Services more than 10 years ago. This integrated department includes five programmatic offices: Aging, Behavioral Health, Children, Youth and Families, Community Services, and Mental Retardation/Developmental Disabilities. He immediately implemented systemwide changes that have resulted in better permanency outcomes for children. These reforms received national recognition and were showcased twice by *ABC World News Tonight* as well as CNN's *NewsNight*. Under Mr. Cherna's direction, the DHS State Forensics Program was the recipient of a 2005 Innovations in American Government award given by the Ash Institute for Democratic Governance and Innovation at Harvard University's Kennedy School of Government. His innovative practice and leadership abilities have garnered him prestigious awards by numerous child welfare, humanitarian, and civic organizations. He serves on many boards and committees, including the University of Pittsburgh School of Social Work's Board of Visitors, the University of Pittsburgh's Institute of Politics Board of Fellows, and the Executive Committee of the National Association of Public Child Welfare Administrators. Mr. Cherna began his career in human services as a youth worker 34 years ago. He has extensive work experience in the field, including 4 years as the Director of Planning, Allocations and Agency Relations with the United Way of Union County, New Jersey, and 13 years with the New Jersey Department of Human Services as an assistant director with the New Jersey Division of Youth and Family Services. He received his BA from the State University of New York at Binghamton and his MSW from the Hunter College School of Social Work in New York.

LEWIS M. FELDSTEIN is president of the New Hampshire Charitable Foundation (NHCF). He worked with the civil rights movement in Mississippi and served for seven years in senior staff positions to New York City Mayor John V. Lindsay. Prior to coming to NHCF, Mr. Feldstein served as Provost of the Antioch/New England Graduate School. He is a graduate of Brown University and holds a Master's Degree in law and diplomacy from Tufts University. Among his singular achievements were a seven-year tenure as the MC of the International Zucchini Festival, and a stint as wine steward and personal assistant to John Wayne on his yacht in the Mediterranean. Mr. Feldstein serves on the boards of directors of the Independent Sector and the National Center for Family Philanthropy. He co-chaired the Harvard University three-year Executive Seminar *Saguaro Seminar: Civic Engagement in America*. He has received six honorary doctorates. Mr. Feldstein was selected as one of the 100 People Who Shaped New Hampshire by the *Concord Monitor*, and one of the 10 most influential people in New Hampshire by *Business NH Magazine* in 2001.

ANDREA LEVERE is president of Corporation for Enterprise Development (CFED) in Washington, DC, and has overall management responsibilities for the consistent pursuit of CFED's mission, for its long-term strategies, and its day-to-day operations. Under Ms. Levere's energetic direction, CFED has thrived in its mission to expand economic opportunity for low-income people and disadvantaged communities. At the helm of CFED, Ms. Levere has developed an unprecedented partnership with the Federal Reserve System to address the inability of many Americans to build personal savings and assets. Together CFED and the Federal Reserve System have held a series of forums highlighting innovations in asset-building policy, products, and programs and continue to identify long-term initiatives with national impact. Ms. Levere has also launched CFED's new initiative to address the challenges faced by the 10 million American families who live in manufactured homes. She also oversees CFED's largest program, a 10-year initiative to test and promote children's savings accounts called SEED (Saving for Education, Entrepreneurship and Downpayment). Ms. Levere has added staff and resources to CFEDs policy and communications efforts, leading to a number of policy victories in state legislatures and growing attention to the issue of asset-building in the national media. Her leadership has been recognized by donors who have contributed more than $2 million toward CFED's endowment fund and are making multi-year commitments to CFED's efforts at policy change. She received a Bachelor's Degree in 1977 from Brown University and a Master's Degree in public and private management from the Yale School of Management in 1983. She was awarded the Alumni Recognition Award from the Yale School of Management in 2001 for exemplary commitment to the field of economic development and the mission of the Yale School of Management.

BOBBIE LIPPMAN is a senior program officer for culture at The Pew Charitable Trusts and project director for the Pennsylvania Cultural Data Project (PACDP). PACDP is a Web-based data collection, management, and reporting tool created to strengthen arts and cultural organizations, inform grantmaking strategies, and enhance cultural planning policies throughout Pennsylvania. A total of 470 cultural organizations in that state are currently using PACDP. Ms. Lippman also manages the Trusts' Philadelphia Cultural Leadership Program, which awards three years of operating support to cultural organizations that demonstrate strong management, planning, and financial practices. Currently, 37 organizations are receiving a total of $8 million dollars in support. Prior to joining The Pew Charitable Trusts in 1999, Ms. Lippman taught at the University of the Arts in Philadelphia, where she also served as assistant dean of the College of Art and Design and then as director of Adult Education and Extension Programs. She earned her BA from Sarah Lawrence College and a certificate from Pennsylvania Academy of the Fine Arts.

DEBRA SCHWARTZ is director of Program-related Investments for the John D. and Catherine T. MacArthur Foundation, one of the largest private foundations in the United States. Program-related investments (PRIs) are an innovative grantmaking tool that provides below-market financing for nonprofit organizations and other enterprises that accomplish charitable goals. Ms. Schwartz oversees the Foundation's $225 million PRI program and leads the Foundation's national $75 million initiative, Window of Opportunity: Preserving Affordable Rental Housing. Before joining MacArthur in 1995, Schwartz served as finance director for a child welfare agency in Chicago and was an investment banker in public finance for John Nuveen & Co. A former presidential appointee to the U.S. Treasury Department's Community Development Advisory Board, Ms. Schwartz graduated summa cum laude from Yale University with a Bachelor's Degree in history. She earned a Master's Degree in finance and nonprofit management from the Kellogg Graduate School of Management at Northwestern University.

Funder and Initiative Profiles

List of Funding Initiative Profiles

The pre-symposium survey yielded initiative profiles from the following funders (profile details are available on the *Capital Ideas* Symposium website, at www.isites.harvard.edu/k14620 and on the Nonprofit Finance Fund website: www.nonprofitfinancefund.org).

The Annie E. Casey Foundation*
The Ball Foundation
Bank of America Charitable Foundation
The Boston Foundation
The Chasdrew Fund
Common Good Ventures
The Edna McConnell Clark Foundation
Endowment for Health
Eugene and Agnes E. Meyer Foundation*
F.B. Heron Foundation
Fannie Mae Foundation
Fleishhacker Foundation
Girl's Best Friend Foundation
Grand Rapids Community Foundation
Grand Victoria Foundation
Hartford Foundation for Public Giving*
Hawaii Community Foundation
John D. & Catherine T. MacArthur Foundation
Kate B. Reynolds Charitable Trust
The Kresge Foundation
Lumina Foundation for Education
Maine Community Foundation
Mary Reynolds Babcock Foundation
The McCune Foundation
MetroWest Community Health Care Foundation
Neighborworks America
New Hampshire Charitable Foundation
New Profit, Inc.
Nokomis Foundation
Northwest Area Foundation
Opportunity Finance Network
The Pew Charitable Trusts*
REDF
Richard and Susan Smith Family Foundation
Robin Hood Foundation
Rotary Charities
Siebert Lutheran Foundation
SLO County Community Foundation
Virginia Tobacco Settlement Foundation
The Whitman Institute
Wilburforce Foundation
The William and Flora Hewlett Foundation
Woods Charitable Fund, Inc.
Z. Smith Reynolds Foundation

Funder Profile Statistics

The table on the following pages provides a summary of funding profiles.

* Provided profiles of two initiatives

Funder Profile Statistics

Foundation	Foundation type & location	Foundation asset size ($ millions)	Funding initiative	Type of funding initiative (capacity building, partnerships, data collection, etc.)	Year initiative began	Typical or median grant size for the initiative ($ thousands)	Annual number of grants awarded for the initiative	Total annual giving for the initiative ($ thousands)	Total annual giving for foundation ($ millions)
The Annie E. Casey Foundation	Private Foundation Baltimore, MD	3,000.0	Supporting mission-critical organizations	Technical assistance	2002	50.0–100.0	3–5 large $100,000; 10 small $20,000–$50,000	1,300.0	172.0
The Annie E. Casey Foundation	Private Foundation Baltimore, MD	3,000.0	Making connections	Sector/citywide capacity building	1999	1,200.0	10	30,000.0	172.0
The Ball Foundation	Private Foundation Glen Ellyn, IL	35.0–40.0	—	Funding communitywide partnerships: School systems building capacity	2006	200.0	2: One for each school district partnership	400.0	2.0
Bank of America Charitable Foundation	Corporate Foundation Charlotte, NC	n/a	Neighborhood excellence initiative	General operating support & leadership development	2004	200.0	88	17,000.0	200.0
The Boston Foundation	Community Foundation Boston, MA	830.0	Nonprofit program	Sectorwide capacity building	2004	Varies	Varies	4000.0–5000.0	70.0 (18.0 discretionary, 50.0 donor advised)
The Chasdrew Fund	Operating Foundation Chevy Chase, MD	3.2	Capacity-building initiative	Capacity-building grants	2001	n/a: direct work; seldom provides grants	3–4 partners a year	450.0 for personnel, etc.	n/a
Common Good Ventures	Public Foundation Brunswick, ME	0.7	Nonprofit networks strategy	Capacity-building grants	2005	—	—	—	0.4
The Edna McConnell Clark Foundation	Private Foundation New York, NY	850.0	The Edna McConnell Clark Foundation	Capacity-building grants	1990	2,500.0	20	35,100.0	36.5
Endowment for Health	Hospital Conversion Foundation, Concord, NH	100.0	Development of a statewide nonprofit association	Foundation partnership	2005	25.0	1	25.0	3.5
Eugene and Agnes E. Meyer Foundation	Private Foundation Washington, DC	212.0	Management assistance program	Capacity-building grants	1995	15.0	34	500.0	8.0
Eugene and Agnes E. Meyer Foundation	Private Foundation Washington, DC	212.0	Exponent award	Executive leadership development	2006	100.0	5	500.0	8.0
F.B. Heron Foundation	Private Foundation New York, NY	300.0	Core support funding	General operating support	1994	60.0	70% = 90 (approx.)	6,400.0	9.1
Fannie Mae Foundation*	Private Foundation Washington, DC	72.0	Alliance of high-performing organizations	Nonprofit partnership	2004	250.0–350.0 to organizations; 50.0 for initiative activities	17	5,100.0	40.0
Fleishhacker Foundation Partnering Funders: Walter & Elise Haas Fund, William & Flora Hewlett Foundation, Mimi & Peter Haas Fund, San Francisco Foundation, Zellerbach Family Foundation, Clarence E. Heller Charitable Foundation, Koret Foundation, San Francisco Arts Commission	Family Foundation San Francisco, CA	17.0	San Francisco arts education funders collaborative	Pooled data systems	1992	10.0–20.0	1 from Fleishhacker, 10 total from private foundations, 1 from San Francisco Arts Commission, a city agency	10.0 from Fleishhacker, 246.0 total from collaborative	0.8

* Ceased operations Spring 2007

Funder Profile Statistics *(cont'd.)*

Foundation	Foundation type & location	Foundation asset size ($ millions)	Funding initiative	Type of funding initiative (capacity building, partnerships, data collection, etc.)	Year initiative began	Typical or median grant size for the initiative ($ thousands)	Annual number of grants awarded for the initiative	Total annual giving for the initiative ($ thousands)	Total annual giving for foundation ($ millions)
Girl's Best Friend Foundation*	Family Foundation Chicago, IL	1.0–2.0	Overall grantmaking approach	Multilayer grants & technical assistance	2002	19.5–37.5	75	960.0	1.2
Grand Rapids Community Foundation	Community Foundation Grand Rapids, MI	225.0	Nonprofit technical assistance fund	Technical assistance	2004	50.0	1	50.0	6.0
Grand Victoria Foundation	Other Private Foundation Chicago, IL	126.0	Communityworks	Sectorwide capacity building: Community foundations	2003	60.0 plus 200.0 challenge	17 participating organizations	1,020.0 + challenge match	7.5–9.5
Hartford Foundation for Public Giving	Community Foundation Hartford, CT	731.0	Nonprofit support program	Technical assistance	Early 1990s	20.0	70	1,441.0	24.4
Hartford Foundation for Public Giving	Community Foundation Hartford, CT	731.0	Multiservice agency initiative (MSAI)	Capacity-building grants	2000	320.0	n/a	4,400.0	24.4
Hawaii Community Foundation	Community Foundation Honolulu, HI	430.0	Organizational capacity building	Capacity-building grants	2001	30.0	60	1,500.0	23.0
John D. and Catherine T. MacArthur Foundation	Other Private Foundation Chicago, IL	6,000.0	Window of opportunity: Preserving affordable rental housing	Sectorwide capacity building: Low-income housing preservation	2001	1,500.0– 5,000.0	55–60 organi- zations over a 7- to 8-year period	75,000.0	200.0
Kate B. Reynolds Charitable Trust	Private Foundation Winston-Salem, NC	600.0	Recurring grants	Long-term program support	1973	140.0	13	2,830.0	22.8
The Kresge Foundation	Private Foundation Troy, MI	3,000.0	Special opportunities initiative	Capacity-building grants: Fundraising development	2003	200.0	7	1500.0– 2000.0	150.0
Lumina Foundation for Education	Private Foundation Indianapolis, IN	1,000.0	Achieving the dream	Sectorwide capacity building & intermediaries	2004	Varies	Varies by year	12,000.0	50.0
Maine Community Foundation	Community Foundation Ellsworth, ME	200.0	Program for nonprofit effectiveness	Technical assistance	2001	15.0	3 new partners selected every other year	100.0	18.0
Mary Reynolds Babcock Foundation	Family Foundation Winston-Salem, NC	175.0	Babcock philosophy	Capacity-building grants	1995	50.0	n/a	n/a	7.0
The McCune Foundation	Private Foundation Pittsburgh, PA	620.0	Wilkinsburg service center	Long-term program support	1993	220.0	17	300.0	26.8
Metrowest Community Health Care Foundation	Hospital Conversion Foundation Framingham, MA	103.0	Youth substance abuse initiative	Funding communitywide partnerships	2004	200.0 for each community + 415.0 for technical assistance + 85.0 for evaluation	5 grantees + 1 technical assistance provider + 1 evaluator	1,500.0	5.0
Neighborworks America	Intermediary, Washington D.C.	n/a	Organizational underwriting	General operating support	2003	60.0	235	18,000.0	68.9
New Hampshire Charitable Foundation	Community Foundation Concord, NH	390.0	New futures	Sectorwide capacity building; Substance abuse treatment and prevention	2002	130.0	20	2,000.0	29.0
New Profit, Inc.	501(c) 3 Venture Philanthropy Organization, Cambridge, MA	n/a	New Profit's funding strategy	High-engagement capacity building	1999	1,000.0	5	5,000.0	5.0

* Closing in 2008

Funder Profile Statistics *(cont'd.)*

Foundation	Foundation type & location	Foundation asset size ($ millions)	Funding initiative	Type of funding initiative (capacity building, partnerships, data collection, etc.)	Year initiative began	Typical or median grant size for the initiative ($ thousands)	Annual number of grants awarded for the initiative	Total annual giving for the initiative ($ thousands)	Total annual giving for foundation ($ millions)
Nokomis Foundation	Private Foundation Grand Rapids, MI	18.0	Women's technology consortium	Funding communitywide partnerships	2000	7.5	11	90.0	0.9
Northwest Area Foundation	Private Foundation St. Paul, MN	350.0	Community ventures	Funding communitywide partnerships	1998	1,000.0	5	4,600.0	20.0
Opportunity Finance Network	501(c) 3, Philadelphia, PA	50.0	CDFI assessment and rating system (CARS™)	Sectorwide capacity building: CDFI evaluation system	2001, suspended and restarted in 2004	n/a	n/a	n/a	n/a
The Pew Charitable Trusts	Charity, Philadelphia, PA	4,000.0	Pennsylvania Cultural Data Project (PACDP)	Pooled data systems	2001 start; 2004 launch	n/a	n/a	n/a	n/a
The Pew Charitable Trusts	Charity, Philadelphia, PA	4,000.0	Philadelphia Cultural Leadership Program	Capacity-building grants & general operating support	1997	45.0–2,000.0	37 over 3-year cycle	12,000.0	147.0
REDF (Formerly the Roberts Enterprise Development Fund)	501(c) 3 grantmaker San Francisco, CA	n/a	Measurement of impact and social enterprise development	Capacity-building grants: Social enterprises	Initially 1990; more current version 1997	100.0–300.0	5 to 10	1,000.0– 3,000.0	2.0
Richard and Susan Smith Family Foundation	Family Foundation Chestnut Hill, MA	185.0	Capacity-building grants program	Capacity-building grants	2002	100.0–200.0	Started with 4; grown to 13	2,500.0	9.0
Robin Hood	Public Charity New York, NY	180.0	Capital grants initiative	Capital grants	2003	500.0–1000.0	13	75,000.0–10,000.0	76.0
Rotary Charities	Public Foundation Traverse City, MI	46.0	Organizational capacity-building grants	Capacity-building grants	2005	25.0	8	320.0	1.2
Siebert Lutheran Foundation	Private Foundation Brookfield, WI	100.0	Inner city Lutheran schools	Capital & general operating support grants	1998	50.0–400.0	3	3,000.0	4.5
SLO County Community Foundation	Community Foundation SLO, CA	20.0	Nonprofit organizational strengthening	Capacity-building grants	2004	5.0	12	60.0	0.8
Virginia Tobacco Settlement Foundation	State Political Subdivision Richmond, VA	13.0	Evaluation	Evaluation support	2001	260.0 for evaluation contract	75–100 grants + 1 to contractor	260.0 to contractor	4.2
The Whitman Institute	Private Foundation, San Francisco, CA	17.0	General operating support	General operating support	2000	25.0–50.0	16	650.0	0.7
Wilburforce Foundation	Private Foundation Seattle, WA	n/a	Training resources for the environmental community	Funding intermediaries	1996	n/a	n/a	1,100.0	9.0
The William and Flora Hewlett Foundation	Private Foundation Menlo Park, CA	8,100.0	Organizational effectiveness program	Capacity-building grants	2004	30.0	30	2,000.0	250.0
Woods Charitable Fund, Inc.	Other Private Foundation Lincoln, NE	41.1	Capacity-building initiative	Foundation partnership, capacity-building grants	2005	32.0	6	875.0	1.9
Z. Smith Reynolds Foundation	Family Foundation Winston-Salem, NC	450.0	Data system for domestic violence prevention programs	Pooled data systems	2004	n/a	No grants, only contracts	25.0–40.0	20.0

Source: *Capital Ideas* Symposium Funder Survey
Note: n/a, not applicable

Post-Symposium Funding Principles to Enhance the Effectiveness of the Sector

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.
   - Standardize grant request formats, reporting, and stewardship methods to avoid the taxing costs associated with "special" requirements or idiosyncratic processes.
   - Do not invent special performance metrics for grantees. Use your grantees' or commonly accepted sector-specific performance metrics when possible.
   - Share data and data platforms (e.g., common electronic reporting and information or trend analysis) to avoid repetition in information collection and assessment.
   - Adopt a "net grants" approach that recognizes and limits the time and therefore cost that grantees spend applying for, securing, and reporting on a grant to a very small proportion of the grant itself. This is called the *net grant principle*, where the smaller the grant, the simpler and cheaper the process should be for the applicant, since the actual award realized is "net" the cost of getting it. Remember this principle when saying "no" as well—the net grant is always negative, and must be paid for from other sources within the organization.

2. Actively pool resources when more funds are required to achieve results.
   - Match amount, type, and duration of funding to the ambition and life cycle of solutions being undertaken. If a grant or contract is not going to be adequate to cover costs, reduce the scope or help find other funders.
   - Employ existing pooling mechanisms where possible, resisting ad-hoc creations.
   - Do not create new layers of administration.

3. Reform the field's overly complex and expensive accounting, regulatory, and contracting requirements.
   - Advocate revising Financial Accounting Standards Board (FASB) accounting rules to make nonprofit financial statements management-friendly and comprehensible to a wider range of users.
   - Develop a policy outreach agenda to improve IRS rules including Form 990, the public support test, and tax deduction standards.
   - Require that accounting and auditing firms use a standard, organizational-friendly format in audits for grantees (within existing FASB rules).
   - Use meaningful financial and program metrics rather than facile ratios such as overhead rate. Draw on existing standard, industry, or issue-specific measures.

- Advocate for full-cost recovery or value-based pricing in government and foundation contracts with nonprofits.
- Press for parity between nonprofits and for-profits in basic government contracting and compensation rules.

4. Create the culture, knowledge, and methods necessary to enable nonprofits to succeed.
   - Make finance part of grantmaking; educate key internal and external constituents on realities, appropriate tools, and vocabulary of nonprofit financial principles, management, and accounting.
   - Fund experiments without punishments if results falter or corrections are required.
   - Find ways to support networked, "supply chain" and social ecosystems–type approaches that advance entire fields of service and social impact.

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.
   - Recognize that the nonprofit is an enterprise or system, not a set of hermetic programs and discrete line items.
   - Limit or eliminate grant restrictions.
   - Fund to enhance organizational capacity and financial health by building reserves as well as offering growth capital and unrestricted support.
   - Understand what the amount of money your foundation can invest can actually enable the grantee to accomplish.
   - Do not confuse control with accountability. Avoid reliance on input or activity-based ratios (fundraising costs, overhead) to assess grantees' effectiveness. Instead, use output metrics (outcome quality, change accomplished) and work to improve effectiveness over time.
2. Fund to meet the organization's business needs and operating realities.
   - Develop with the nonprofit a common understanding of its underlying business and its financial model and associated funding needs.
   - Understand the state of organizational development and build capacity (i.e., systems, skills, metrics, and reliable routines).
   - Understand the nonprofit's community and "industry" context and role so that funding reflects this reality.
   - Use these factors to determine grant size, structure, and intent as well as auxiliary services such as technical assistance.
3. Avoid frequent changes in funding priorities; signal exits or changes well ahead of time for grantees.
   - Keep requirements simple, consistent over time, and commensurate with grant size and intended impact. Publish them.
   - Avoid repeated changes in funding priorities and application and reporting requirements. Avoid "unfunded mandates"—i.e., extra reporting or compliance for no more money.
   - Share standards of reporting with other funders to maximize grantee efforts on improvement rather than simply on compliance.
   - Fund from the premise of trust or not at all; avoid making accountability rubrics and due diligence a substitute for a basic belief in the organization or its idea.
   - Signal far enough in advance for the nonprofit to be able to respond if you need to change or review priorities.

4. Understand when you are "building" and when you are "buying," and fund accordingly.

   - Make sure you and your grantee know the difference between "buyer" and "builder" funding roles.

   Buyers:

   - Are you funding the grantee to continue its current, excellent services again this year? You are a buyer. Either pay for a unit of service or give general support, and refrain from requests for massive documentation.

   Builders:

   - Are you asking a grantee to do anything new—serve more, provide better quality, etc.? You are a builder, expanding or improving the "factory." Make sure you and others are providing for the full costs of growth (expanded skills, systems, mistakes, etc.) on top of continuing to fund regular operations at existing levels over the period it takes to arrive at a new "steady state" of effectiveness. The grantee will need a combination of operating revenue and capital and "equity" investment commensurate with the size and ambition of the change envisioned.

   - Never premise funding on pushing the grantee to do more or do it differently unless you are willing to be a "build funder" and will help develop, organize ongoing funding for, and stay with a grantee through the several years needed for this growth.

   - Fund pilots and smaller initial ventures as proving grounds for larger action; understand and honor incremental growth and ongoing need for reinvestment.

   - Be reliable. If you want to support growth, provide larger and longer investments. Match the investment to the job at hand: Consider longer-term investments to help the grantee gain traction and experience.

   - Acknowledge that funding start-ups and growth activities require even higher levels of funding and support than might be expected.

   - Prepare your own organization for the financial, policy, and attitudinal fortitude and alignment required to fund for the long term.

5. Use evidence-based performance, learning, and organizational health metrics to measure and report effectiveness.

   - Embrace commonly accepted industry-specific metrics rather than ad hoc measures.

   - Encourage joint agreement on both a theory of change and how to capture and reward the non-numeric performance elements.

   - Fund self evaluation, candid learnings, and course corrections.

6. Small can be beautiful: make appropriately sized investments, and do not encourage growth for growth's sake.

   - Fund recognizing that nonprofits have an appropriate scale and business model.

   - Enable small, high-performing organizations to stay small and receive consistent funding.

   - Support the use of "sharing mechanisms" (e.g., back office operations, group purchasing programs, etc.) to achieve efficiencies.

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

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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**,
and the NFF website, **www.nonprofitfinancefund.org**.

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