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## Member Area

### Perspectives

#### September 2007

In May's Perspectives, Clara Miller of the [Nonprofit Finance Fund](#) examined a specific example of problems unwittingly created via widely accepted "best practices" -- in this case, revenue diversification. Paul Shoemaker, executive director of [Social Venture Partners](#), responded so thoughtfully to Clara's column that we encouraged the two of them to talk in more detail about the difficulties of improving the "social capital market" -- and about steps people in the nonprofit / philanthropic community might take to begin to do so.



Clara Miller



Paul Shoemaker

#### More on Examining the Social Finance System

**Paul:** One line stood out for me in your May piece, "[Examining the Social Finance System](#)." You wrote, "... a foundation program officer remarked, 'I get the concept in the abstract that our "best practices" sometimes hurt grantees, but what do I do on Monday morning back at work? I can't quite connect our procedures to the problem, our Board doesn't get it, and nobody thinks it's urgent...' Why is it difficult for program officers to make real change in this area of their practices?"

**Clara:** For one thing, very few program officers think of the grants they give as part of a "system of social finance." In fact, pretty much nobody in the nonprofit sector thinks finance is what the job's about -- and they're right! I, for one, wanted to help build wonderful communities for everyone. It was emotional, not financial. For most of the sector, "finance" is rote processes, not empowerment or fun. I can see peoples' eyes go dead when I say the word...they're thinking "lemme outta here," and conjuring things like overhead rate, regulatory compliance, charts of accounts, budgeting and bank balances...But we have to make a shift from struggling nonprofits who aren't effective over time because of financial challenges to the empowering part of finance that can help these organizations to succeed.

**Paul:** But the example that's in your May column -- Sister Rose -- is pretty stark. "Revenue Diversity" is seen as one of the traditional financial best practices. In fact, some funders make it a requirement. Revenue diversification can be wise in some cases... but not always. In many cases, it can actually hurt the organization it's intended to help. And revenue diversity is only one example of many "best practices" with unintended negative consequences.

**Clara:** Yes, there's a substantial list of what Ed Skloot calls, "pretty bad practices" that are financial in nature. And I think many of them started out with a reasonably positive idea, even as a "best practice," but turned into a rule that is widely misapplied. Like revenue diversity. I think it started because organizations with a large percent of their income coming from one funder or from government seemed dangerously dependent on one financial source. It seems simple enough, but in fact it's more complicated. If carried too far, the quest for revenue diversification can divert energy and resources from core activities, and this likewise can destabilize organizations and inhibit reaching scale. William Foster recently published a terrific article on this in *Nonprofit Quarterly*, and it's been our experience at NFF as well. What has been your exposure to these kinds of "best practices" at SVP?

**Paul:** What we've found at SVP is that there are ways to get donors moving in a new direction. While the issues are complicated, starting to take action doesn't have to be so difficult. Change has to start somewhere. So let me be tangible about a few ideas for discussing changes to funding systems within a funder's organization:

Program officers can raise this topic and convey their sense of urgency at internal meetings. It's important that they be clear when explaining the challenges organizations face when attempting to diversify revenue sources.

Funders can ask their grantees for specific examples of how this quest has affected them. They can encourage grantees to be frank about their experiences with this and other so-called "best practices," and then can use these examples to make the messages real to their leadership and co-workers.

**Clara:** Starting a dialogue, both within your organization and with your grantees, is a critical first step in creating awareness. And awareness can lead to action.

**Paul:** People can also check out the considerable body of good work that is building on this:

- The recently released [draft funding principles](#), in the proceedings from the 'Capital Ideas' Symposium co-hosted by Harvard's Hauser Center and the Nonprofit Finance Fund;
- Also, work underway from the [Building Value Together Committee](#) at IS;
- A closely related issue is addressed in GEO's piece, hot off the presses, the [Guide on General Operating Support](#);
- And also in a recent piece from [The Center for Effective Philanthropy](#), which uses data to inform the debate about operating support;

And once they check these out, they should share them with colleagues.

The "rubber hits the road" in the board room. Significant change will not happen until the message gets on the foundation board agenda in a serious way. I think there's a line up of colleagues available -- myself included -- who would volunteer to have that conversation with a Board. The bottom line is that our sector's system of social finance sometimes unintentionally creates problems rather than solving them -- and we can fix it!

**Clara:** And don't forget your own terrific work at SVP in capacity building locally. You're bringing in individual philanthropists and a handful of public sector leaders as well. While today we've talked about foundations, it's important that all types of donors be aware of how traditional funding practices impact the organizations they support. This comes home to us in our financing and advising work at NFF every day. Nonprofits must be supported in ways that allow them to focus most of their attention on doing what they do best -- providing vital services to their communities. And that's what makes action urgent!

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