

Building Core Competency

NCRP Meeting Kicks Off Bid to Help Foundations

Boost Core Operating Support for Nonprofits

By Kaycee Misiewicz

While a handful of foundations have made concerted efforts during recent years to give nonprofit organizations grants for general operating support, it is clear that foundations usually prefer to fund specific programs or projects. According to data from the Foundation Center, the 100 largest foundations in 2001 dedicated only 11 percent of their total grant dollars for general operating support, while funding for specific programs and projects accounted for 64 percent of their grant dollars.

To discuss operating support grantmaking and the vital role it plays in the sustainability of the nonprofit sector, the National Committee for Responsive Philanthropy (NCRP) invited nonprofit leaders nationwide to a meeting on June 4 at the Public Welfare Foundation in Washington, D.C. NCRP Executive Director Rick Cohen facilitated the meeting, and NCRP Research Director Jeff Krehely and nonprofit management consultant Ken Wing made presentations. During an open discussion, the nearly 50 participants were encouraged to share their views on the critical issues and concerns regarding core operating support grantmaking. (A more detailed summary of the meeting can be found in the NCRP report *The Core of the Matter*.)

In general, participants were concerned about whether outcome measurements would allow foundations to better understand and appreciate the impact and outcomes of core operating support grants. Participants felt that foundations need to focus on the long-term returns of supporting nonprofit groups instead of relatively short-term outcomes of specific projects or program grants. Nonprofit leaders specifically cited problems with attempting to measure outcomes of operating support grants made to advocacy organizations. Despite the challenges of measuring outcomes, it was suggested that if foundations are interested in seeing nonprofits engage in advocacy efforts—at the national, state and local levels—they could view core operating support grantmaking as a

strategy for funding these efforts. Also, by supporting core operations of nonprofits, participants said foundations may fear they will be held responsible for the success or failure of the overall organization and not just one isolated program.

The sustainability of nonprofit organizations was another recurring theme. It appears to be more common for foundations to fund endeavors that are new, innovative or different, as opposed to funding organizations' general operations that are necessary to support specific programs and projects. This unwillingness to sufficiently support existing organizations threatens not only the organizations themselves, but also the overall nonprofit infrastructure, nonprofit leaders said. Some participants expressed concern that several foundations seem to take a "social Darwinist" approach to their grantmaking in that they fund as few core operating expenses as possible, with the assumption that the "fittest" organizations will survive and those that fail were meant to do so. Additionally, participants observed that politically conservative foundations appear to be more willing to provide grantees with long-term, multiyear operating support, while foundations considered mainstream, liberal or progressive were characterized as placing relatively more restrictions on their grants. If the foundation community is committed to building strong, sustainable nonprofit organizations, nonprofit leaders said, it needs to examine the critical role that core operating support could play.

Some participants also felt that nonprofit organizations pay inadequate attention to funding from foundations, since it makes up a relatively small portion of nonprofit revenues. Charitable giving is only one-fifth of all nonprofit revenues, with merely 10 percent of that fraction attributed to foundation funding. Nonetheless, many nonprofits fail to heed foundation grantmaking practices, particularly those aimed at funding core operating support, because they mistakenly believe their efforts would be ineffective. In reality,

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foundations are capable of providing nonprofits with flexible funds that could be used for core operating costs, while other funding sources are often not that flexible. Because there is so little flexible money available to nonprofits, it was proposed, they can and should focus more attention on the grantmaking practices of foundations—and core operating support, in particular.

Another concern was that some foundations, in their desire for simplicity, may feel that the seeming duplication of services provided by nonprofits could be eliminated if certain organizations were to merge. The reality is that, due to the current slow economic environment, nonprofits will not be able to continue to grow at the rate they had grown during the past two decades. It would be unfortunate, however, if existing nonprofits were unable to continue to provide services and were forced to contract or even shut down. Participants said that nonprofits must do a better job of educating foundations on the importance of diversity in the sector; the myriad issues nonprofits address, the constituencies that would be overlooked and voices that would be stifled if small organizations merged or were absorbed into larger groups, and how nonprofits actually work at the ground level. Furthermore, nonprofit representatives should specifically reach out to foundation trustees in order to educate them about effective foundation grantmaking practices, since trustees ultimately decide what grants to make. Currently, trustees rarely take part in the discourse between nonprofits and foundations.

Some participants said it is not uncommon for a nonprofit to disguise its core operating cost needs as program support in a grant proposal, or to inflate its operating cost needs when such requests are permitted. Consequently, foundations are not as aware of nonprofits' needs for operating support as they could or should be. If both parties are truly interested in more candid dialogue, operating support might be a good place to start.

Another reason some foundations may be uncomfortable with providing core operating support is the fear of getting too close to their grantees. The concerns are twofold: Grantees may become too dependent on foundations, and foundations do not want to be responsible for layoffs at nonprofits if cutbacks in core operating support become necessary. A related concern, seemingly

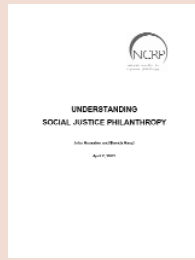
shared by many foundations, is that once they provide nonprofits with core operating support, the foundations may never be able to terminate the relationships with the grantees. In short, foundations fear they might be enabling dependent relationships by providing core operating support.

Although acknowledging that resolving all of these issues will be difficult, the meeting's participants suggested the following seven steps that NCRP and other nonprofit partners can take to further explore core operating support grantmaking:

- First is Section 105 of H.R. 7, the Charitable Giving Act of 2003, introduced this past May. While many foundations oppose efforts like the original version of Section 105, which sought to exclude administrative expenses from a foundation's annual qualifying distributions, or "payout," many of these same foundations oppose giving nonprofits much funding for their administrative/operating expenses. Similarly, foundations argue that they are no different from other 501(c)(3) tax-exempt charitable organizations. In reality, however, a non-foundation organization is incapable of granting itself a sufficient amount of funds to cover its administrative expenses or budget shortfalls. Here is just one opportunity for NCRP and other organizations to help educate foundations about the operating cost challenges that their grantees face.
- Second, compared with private foundations, community foundations (CFs) appear to be providing a much larger proportion of their grants in the form of core operating support. Could CFs act as intermediary organizations through which private foundation funding could flow, in order to promote and facilitate core operating grantmaking? If so, at what costs, and with what changes in the grantmaker-grantee relationship? The intermediary-funding approach deserves serious research.
- Third, several foundations already provide nonprofits with core operating support; these foundations could be showcased as champions of such funding, through case studies or instructional manuals. Participants mentioned the following foundations as potential champions: the

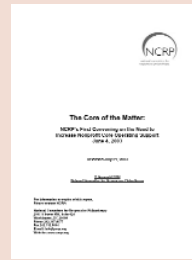
NCRP has announced plans to begin a campaign to encourage foundations to shift their grantmaking to eventually devote as much as 50 percent of their grant dollars toward nonprofit core operating support.

New NCRP Publications Available



Understanding Social Justice Philanthropy explores the meaning of social justice philanthropy and the goal of creating change beyond charity. The paper sets the stage for a report later this year that will assess the size and scope of the field and offer recommendations for practitioners.

NCRP examines social justice from a wide range of perspectives, including philosophy, economics, education, religion and, of course, philanthropy, and suggests a working definition of the term.



The Core of the Matter: NCRP's First Convening on the Need to Increase Nonprofit Core Operating Support reports on a June 2003 meeting examining challenges and opportunities for foundations to step up their vital general operating support for

nonprofits. The event marked the start of NCRP's campaign encouraging foundations to boost nonprofit core operating support to as much as 50 percent of grant dollars.

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- California Wellness Foundation, Ford Foundation, Living Cities National Collaborative, Marguerite Casey Foundation, Public Welfare Foundation, Surdna Foundation and various CFs.
 - Fourth, Foundation Center data suggest that, compared with more established foundations, younger foundations are more willing to grant money for core operating support. Reaching out to a new generation of funders could be beneficial in building a consensus around the importance of core operating support grantmaking.
 - Fifth, NCRP and other supporting organizations need to develop strategies for communicating the importance of core operating support to foundation "gatekeepers," such as the Association of Small Foundations and other associations of "philanthropic advisers" that have influence over the structure and direction of foundations.
 - Sixth, studies show that there is little diversity on foundation boards of trustees as well as within foundations. In order to change the way philanthropy is governed and the current environment in which philanthropy operates, promoting core operating support grantmaking must be accompanied by an effort to diversify foundation boards to include nonprofit executives, people of color and women.
 - Finally, funders need to be educated about the business of running nonprofit organizations. Participants generally agreed that getting funders to view their grantmaking as long-term investments is essential; as such, funders need to better understand the operational dynamics—finances, management, technology, etc.—involved in effectively running a nonprofit organization.
- Shortly after the June core operating support meeting, NCRP announced plans to begin a campaign to encourage foundations to shift their grantmaking to eventually devote as much as 50 percent of their grant dollars toward nonprofit core operating support. NCRP is planning future meetings and research on the subject, and is welcoming participation from nonprofits and foundations alike. ☺
- Now earning a master's degree in public policy at Georgetown University, Kaycee Misiewicz served as a research intern for the National Committee for Responsive Philanthropy earlier this year. She helped to coordinate NCRP's June 2003 core operating support convening. The full report on the meeting—*The Core of the Matter: NCRP's First Convening on the Need to Increase Nonprofit Core Operating Support*—is available free of charge by visiting NCRP online at www.ncrp.org or by calling (202) 387-9177.