

How Can We Raise the Bar for Foundations and Improve Their Practices in the Nonprofit Sector?

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If you work in the nonprofit sector, chances are you know of foundations that do great work and other grantmakers that are awful or irrelevant. They just don't understand your needs or those of the communities you serve. They have the money, but they just don't get it.

What are the key differences between exemplary and lackluster grantmaking institutions? When you survey the nation's more than 75,000 grantmakers, how can you determine the extent to which a funder-in partnership with its grantees-enhances the public good and creates positive impact? The National Committee for Responsive Philanthropy (NCRP) attempts to answer these questions and has devised criteria for gauging grantmaker impact in the report *Criteria for Philanthropy at Its Best*

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Just as profit is the bottom line for the private sector, impact is the best measure for the civic sector. A nonprofit organization serves the public good when it enhances social benefit, such as by improving the lives of individuals, communities, and society. But grantmaking institutions rely primarily on nongrantmaking nonprofits to achieve their missions and to have impact. So in NCRP's report, the four criteria for exemplary grantmakers focus on values, effectiveness, ethics, and commitment and establish reasonable and fair benchmarks to gauge the performance of funders. NCRP developed these criteria to improve philanthropic practice and enhance sector-wide impact.

In 2006 total estimated giving by foundations was \$39 billion, and in 2007, grantmakers' assets increased to \$670 billion, the highest level recorded. While the economic recession has reduced foundation assets, the most recent data from the Foundation Center indicates that foundation assets were worth \$530 billion at the end of 2008, still a substantial figure.² Because institutional philanthropy is largely exempt from taxation, the government forgoes substantial revenue that could be used to expand social-safety net programs or provide for the common good. As public programs continue to dwindle, the nonprofit sector has become more important than ever to ensure that community needs are met effectively.

Grantmakers' monies are partially public dollars, and as a result of generous tax subsidies, government and the public are partners with philanthropists to enhance the public good. And the tax-favored status of institutional philanthropy dictates that foundations practice exemplary philanthropy and puts the onus on grantmakers to maximize the impact of their contributions. To maximize impact, the nonprofit sector must be empowered as a vehicle to carry out the work this money funds.

Fearing retribution, most grantees don't speak out about foundations' bad practices; no one wants to lose important funding. But for grantmakers to improve, well-grounded criticism is vitally important. Nonprofits must ask grantmakers for what they need more boldly, but they have to back up these requests with sound arguments. NCRP developed these criteria to provide a tool for grantees to do just that. Nonprofits need to be engaged partners in creating a new set of grantmaker norms and expectations so that the public benefit of philanthropy can live up to its potential.

NCRP's first criterion concerns values and calls on grantmakers to serve the public good by investing in marginalized communities and by contributing to a participatory democracy. Most nonprofit leaders agree that serving disadvantaged groups should be a higher priority for grantmakers. In analyzing data to establish benchmarks for this criterion, only 33 percent of grant dollars could be classified as benefiting vulnerable populations, even when defined broadly. Although philanthropy and the nonprofit sector aren't a substitute for public programs, this low level of giving to benefit those with the least power, wealth, and opportunity is cause for concern. How can nonprofits that serve marginalized communities-such as lower-income people, the disabled, the elderly, or people with HIV and AIDS-respond to community needs when foundation support for them remains so limited?

The United States now experiences the highest levels of income and wealth inequality it has ever faced. This inequality affects more than the economy and the poor; it has negative implications throughout society and prevents a level playing field in which all citizens are equally empowered to participate. Despite the election of President Barack Obama, the country has not overcome racial barriers: we are not living in a post-racial society. And for any underserved group, overcoming social problems is complicated and has many dimensions. When a foundation uses systems thinking to guide its grantmaking, it recognizes, among other things, the importance of multi-issue work. Foundations need to be comfortable with a certain level of uncertainty. No one is prescient or omniscient: which funder can identify a problem and predetermine the best solution that will most effectively address the intersecting challenges faced by communities?

When a grantmaker adopts a systems approach, the impact of its contributions is augmented because the solution adapts to the realities of nonprofits and communities. This approach means addressing how various institutions, practices, policies, and structures work in concert to keep all community members from equal opportunities for advancement. And while this approach to long-term problems may seem abstract, it's an issue of changing how funders think about social problems and a challenge to address issues holistically. They can do so by supporting nonprofits that demonstrate a systems approach in action, such as advocacy, community organizing, and civic engagement. These initiatives achieve significant, measurable impact. A foundation that provides 50 percent of its grant dollars for the intended benefit of marginalized groups and 25 percent of its grant dollars for social-justice work meets the two benchmarks under the values criterion in *Philanthropy at Its Best*.

The second criterion is effectiveness: that is, nonprofits' ability to have impact on the issues they care about most. Too often, grantmakers undermine the effectiveness of nonprofit partners by providing short-term, highly restricted program grants and by drowning grantees in a tsunami

of paperwork. This criterion addresses three issues directly related to nonprofit effectiveness: general operating support, multiyear funding, and reasonable administrative requirements.

Core support grants and multiyear funding are crucial to the civic sector's health, growth, and effectiveness. They enable grantees to respond to crises and opportunities as they arise instead of having to wait until grantees can secure new funding. Additionally, multiyear general operating support grants allow nonprofits to plan, retain talented staff, and invest in building their own capacity. In the aggregate, only 16 percent of grant dollars go toward general operating support; multiyear grants show similar figures, and disappointingly, more than 40 percent of the 809 foundations surveyed in NCRP's report didn't provide a single multiyear grant. But exemplary foundations exist and provide at least 50 percent of their grant dollars for general operating support (15 percent of the sample) and at least 50 percent of their grant dollars as multiyear grants (16 percent of the sample).

Applying for grants is cumbersome and labor-intensive. Any nonprofit leader can attest that this task is one of the most frustrating aspects of running a grant-seeking nonprofit. The nation's best grantmakers ensure that application and reporting requirements are proportional to grant size. It makes sense to spend a lot of time applying for and reporting on a six-figure grant, but requiring a major proposal and lengthy report for a \$5,000 grant is inefficient use of grantees' time. Applications and reports or evaluations should include only that which is essential and useful to both the funder and the grantee, nothing more.

Grantmakers' reliance on the nonprofit sector as the means to carry out charitable purposes places the responsibility on funders to engage grantees as true partners. In this approach, grantmakers don't lord the "power of the purse" over grantees. In a meaningful partnership, the funder that controls the supply (i.e., the funds) and the grantees that identify and address the demand (i.e., social and community needs) are on equal footing. Both parties recognize that neither can exist without the other and both advance their missions because of the other. Creating an environment of trust and meaningful partnership demonstrates philanthropy at its best.

The third criterion concerns ethics. An exemplary grantmaker is an ethical steward of the partly public dollars with which it is entrusted. But too many grantmakers continue to abuse philanthropy for personal gain and violate the public's trust in foundations and in the nonprofit sector.

As the ultimate decision-making body of the institution, a grantmaker's board bears the responsibility to ensure that it operates ethically, and thus board composition is critically important. Research indicates that diverse groups are more effective decision makers. But those familiar with foundations know that the majority of trustees share the same class and racial background, are from the same family, or are far removed from the on-the-ground realities that grantees confront daily. For many family foundation boards, adding the grantee perspective has been beneficial, and it is a sound practice for other grantmakers to consider adopting.

Diversifying a board also requires that it have enough members to bring a range of perspectives to its decisions, so a board should have at least five members. It's also important for all voices

to be heard to reach the best conclusions. No nonprofit would consider paying its board members; funders would be outraged at using grant monies in this way. Thus, as a rule, trustees of grantmaking institutions should not be compensated. Two exceptions are when a foundation's CEO sits on the board and when a foundation wants to compensate lower-income board members who otherwise couldn't afford to serve. But organizations must be conscious that every dollar sucked up by trustee fees or other perks is a dollar diverted from charitable purposes.

Operating ethically goes beyond board composition, and the NCRP criteria call for significant measures for accountability and transparency. By maintaining and ensuring compliance with policies that prevent abuse, such as a conflict-of-interest policy, a foundation demonstrates substantive accountability. It's also important for grantmakers to set reasonable executive compensation levels. Most nonprofit leaders are paid modestly, and it can be infuriating to see leaders of grantmaking institutions paid exorbitantly.

Transparency is equally important. Grantees and the public benefit significantly when foundations make relevant data publicly available. At a minimum, a grantmaker practicing exemplary philanthropy should freely share demographic information on trustees, staff, grantees, and the intended beneficiaries of its grants; information about the types of grants it provides; and information for grant seekers about priorities and application procedures. This increases institutional philanthropy's accountability and transparency, which benefits grantees, policy makers, and the public.

The final criterion concerns commitment and calls on grantmakers to operate in ways that show they are committed to their missions and use their financial assets to that end. The purpose of foundations' tax subsidies is to enable these institutions to serve the public interest by creating social benefit. When a foundation warehouses its assets instead, it ignores its charitable purpose at the expense of taxpayers and the civil-society sector.

While some foundations pay out more than the legally mandated minimum of 5 percent of their assets to maintain their exemption, the majority do not. And most grant less than 5 percent because of allowable expenses that count toward the payout requirement. An exemplary foundation is one that pays out at least 6 percent of its investment assets as only grants. Our sector desperately needs additional monies to do work in and for communities, and allocating 6 percent or more for grants is consistent with grantmakers' goals of perpetuity. Some foundations, especially newer and smaller ones, already do so and they have no intention to sunset.

Finally, by engaging in mission investing, grantmakers can leverage their tremendous assets in ways that extend beyond grantmaking. Research shows that aligning mission with investment decisions yields similar rates of return as those of traditional market investments. Grant seekers can benefit from this use of assets as well. A foundation that votes its proxy after screening its investment portfolios, for example, has real power in the private sector. In NCRP's report, field-leading grantmakers invest at least 25 percent of their assets using screens, shareholder advocacy, and proactive mission investing. This is the benchmark for philanthropy at its best.

Trustees of grantmaking institutions can use these criteria to examine their practices and make changes. But nongrantmaking nonprofits have an important role to play as well. These criteria are an effort to create new norms and expectations for U.S. grantmakers. Whenever nonprofit leaders can reinforce these criteria in discussions with policy makers and grantmakers, it will help vulnerable communities as well as the entire sector. The time is now to begin redefining excellence in grantmaking to maximize the social benefits of philanthropy.

NCRP's Four Criteria for Exemplary Grantmaking

Criterion One: Values

A grantmaker practicing philanthropy at its best serves the public good by contributing to a strong, participatory democracy that engages all communities.

- An exemplary grantmaker provides at least 50 percent of its grant dollars to benefit lower-income communities, communities of color, and other marginalized groups.
- An exemplary grantmaker provides at least 25 percent of its grant dollars for advocacy, organizing, and civic engagement to promote equity, opportunity, and justice.

Criterion Two: Effectiveness

A grantmaker practicing philanthropy at its best serves the public good by investing in the health, growth, and effectiveness of its nonprofit partners.

- An exemplary grantmaker provides at least 50 percent of its grant dollars for general operating support.
- An exemplary grantmaker provides at least 50 percent of its grant dollars as multiyear grants.
- An exemplary grantmaker ensures that the time to apply for and report on a grant is commensurate with grant size.

Criterion Three: Ethics

A grantmaker practicing philanthropy at its best serves the public good by demonstrating

accountability and transparency to the public, grantees, and constituents.

- Such a grantmaker maintains an engaged board of at least five members who include a diversity of perspectives and who serve without compensation.
- An exemplary grantmaker maintains policies and practices that support ethical behavior.
- An exemplary grantmaker discloses information freely.

Criterion Four: Commitment

A grantmaker practicing philanthropy at its best serves the public good by engaging a substantial portion of its financial assets in pursuit of its mission.

- An exemplary grantmaker pays out at least 6 percent of its assets annually in grants.
- Such a grantmaker invests at least 25 percent of its assets to support its mission.

Endnotes

1. The National Committee for Responsive Philanthropy's March 2009 report Criteria for Philanthropy at Its Best is available at www.ncrp.org/paib. Since its release, the report has generated significant controversy, fueling much-needed discussions about the difficult issues that foundation leaders need to address. Please visit www.ncrp.org/paib for ongoing media coverage of supporters and detractors and also endorsers of the report who express substantial agreement with the recommendations made in the report.
2. Steven Lawrence and Rena Mukai, Foundation Growth and Giving Estimates: Current outlook, 2009 edition, the Foundation Center, 2009 (<http://foundationcenter.org/gainknowledge/research/pdf/fgge09.pdf>).

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