Shortcomings of Modern Strategic Philanthropy and How to Overcome Them

By Henry A. J. Ramos

During the formative years of modern strategic philanthropy, from the mid-1960s to late 1990s, most leading foundations identified key issues and related fields of interest they wanted to influence, assessed practitioner leadership and ideas on the ground and worked with experts and stakeholders to identify and implement appropriate interventions.

These experts and stakeholders were typically associated with anchor nonprofit organizations – large community-based, self-help institutions and networks whose work created jobs, nurtured local leadership and represented community interests in larger regional discourse and decision-making. These anchor nonprofit institutions and intermediary networks helped support and build the talent, ideas and innovations necessary to tackle large economic, social and cultural problems. They also established close relationships with the people and issues at work in communities served.

Influential foundations, such as Ford Foundation, Rockefeller Foundation, Kellogg Foundation and Carnegie Corporation of New York, developed powerful leadership traditions, aligning themselves around a core constellation of anchor nonprofits. They were committed to building field and nonprofit capacity to expand the benefits, reach and efficacy of their social investment commitments – often given in the form of flexible core support funding over multiple years.

But there has been a notable move away from this kind of responsive grantmaking in recent years. Foundations across the nation increasingly focus on utilizing nonprofit platforms merely as temporary vehicles to advance their own targeted, short-term initiatives. They focus on outcome metrics that are foundation-driven rather than field-driven. They want immediate results and more attribution and credit for this perceived leadership.

This change has been influenced by a corresponding shift in public policy favoring expanded competition, utilitarianism and the interests of more wealthy and powerful groups over the needs of the nation’s most vulnerable populations. Increasingly, those with society’s greatest advantages and means decide what is best for the poor and the marginalized, rather than these disadvantaged groups and the grassroots leaders and institutions that work most closely with them.
As a result, foundations are less likely to support the indirect costs involved in the targeted project activities they fund, including organizational capacity building such as leadership and staff development, research to identify new and better ways for grassroots nonprofits to work, and reserve and endowment funds that give long-term stability to nonprofits.

The recent influx of technology and finance entrepreneurs into the philanthropic sector has contributed to this trend toward greater efficiency. The ideology and methodologies of their day jobs influence their philanthropic investments, and nonprofits are increasingly run like businesses and subcontracting entities.

The net effect is that nonprofits are incented to focus on accommodating funders’ growing demands for metrics that underscore their grantees’ tactical prowess, efficiency and fiscal solvency, at the expense of addressing and solving complex social problems and concerns.

An especially common result of this dynamic is an undue emphasis on maintaining low ratios of overhead to program expenditures, a death knell to meaningful community change and nonprofit sustainability. In a 2009 Bridgespan-supported article in The Stanford Social Innovation Review, Ann Goggins Gregory and Don Howard report how this vicious cycle fuels the persistent underfunding of nonprofits and the overhead required to do their work well:

“The first step in the cycle is funders’ unrealistic expectations about how much it costs to run a nonprofit. At the second step, nonprofits feel pressure to conform to funders’ unrealistic expectations. At the third step, nonprofits respond to this pressure in two ways: They spend too little on overhead, and they under-report their expenditures on tax forms and in fundraising materials. This underspending and underreporting in turn perpetuates funders’ unrealistic expectations. Over time, funders expect grantees to do more and more with less and less – a cycle that slowly starves nonprofits.”

While it is appropriate for nonprofits to strive for efficiency, the extent of this impulse in recent years has been excessive. Today, it is difficult for even highly developed and longstanding community-based nonprofit anchor organizations and intermediaries to survive, let alone thrive, without significant foundation support. Yet, for all but the most-endowed organizations, maintaining currency and stabilization against the backdrop of contemporary fundraising machinations consumes at least as much time and attention as does actual substantive work.

In the recent quest to advance effectiveness and impact through expanded foundation restrictions, I fear that more has been lost than gained. Many important nonprofit leadership institutions and networks have shuttered over the past decade after failing to meet unrealistic requirements. Without a change in course, many more are likely to vanish. This is especially costly in more marginalized, lower-income communities that rely on a thin layer of nonprofit anchor institutions as their only defense against the changing global economy and uncompassionate public policy trends.

Social investment leaders can do more to find a better working balance of community, nonprofit and funder interests. And given what is at stake looking to the future, we must do so. To this end, I offer three recommendations to establish the essential elements of next stage foundation investment.

These investments would enable leading nonprofit organizations and networks to focus more fully on their missions, thus stabilizing and leading to greater innovation in the field. Working holistically, their impact on their communities would far exceed what funders can achieve by solely supporting particular program strategies and allied grant allocations.

1. PROMOTE A STRONGER INTEGRATION AND ALIGNMENT OF EFFORTS

Remarkably little of today’s work in social investment is integrated and aligned to maximize impact. Instead, grantees are typically caught in a web of overlapping and often contradictory funder performance and reporting requirements, while funders, too often lacking coordina-
tion of efforts, unwittingly promote competition among groups doing similar work. Leading funders should do more to coordinate their efforts, as well as those of their grantees, to achieve greater complementarity and rationalization of efforts.

Funders are in a unique position to encourage more discussion and corrective action on these issues. Even within most large foundations, there is still too little cross-program coordination and joint-program investment, even though it has the potential to markedly increase social investment responsiveness and impact. By rationalizing the field in these ways, funders could better ensure the results we all seek and minimize the burdens on our grantees to decipher competing funder imperatives and outcome expectations.

2. USE FOUNDATION ENDOWMENT ASSETS IN MORE CREATIVE AND PURPOSEFUL WAYS
While a growing number of foundation leaders are championing impact investing as a progressive and responsive approach to philanthropic capital management, a strong case can be made for more aggressive philanthropic leadership in this arena.

There is so much untapped potential in this space to steward and grow endowment funds while addressing many of the issues covered by economic justice nonprofits like the one I run. Foundations should explore ways to employ a more generous portion of their endowment assets to mitigate the persistent pressures on low- and moderate-income Americans – including debt from high interest student loans, health care and household maintenance and the difficulty of amassing the necessary capital to become homeowners or entrepreneurs. For example, housing investment funds in places like Detroit and South Central Los Angeles could help revitalize communities while providing an opportunity to collaborate with local nonprofits.

Foundations could also use their endowment investment resources and reliable nonprofit partners to establish an alternative credit-lending model to payday loan establishments, or establish a comparable revolving fund that could significantly reduce educational loan burdens.

An incredible wealth of program-related and allied investment potential exists in these spaces for major philanthropic organizations to build out in partnership with grassroots and regional nonprofit anchor organizations.

3. RECOMMIT TO SUSTAINING ANCHOR ORGANIZATIONS AND FIELDS
Foundations must rethink their retreat from supporting anchor organization sustainability and field-building investments. The lack of funds for planning, leadership development and organizational self-sufficiency is hurting the long-term vitality of the entire civil society sector.

It is not possible to sustain the kind or quality of work and leadership required to move societies and institutions forward without investing in institutional capacity.

The current problems are especially profound for organizations and networks created by and for people and communities of color, whose needs and public responsibilities are growing exponentially. Especially given the profound racial and ethnic demographic shifts we see taking hold across our society, we need to help these organizations and networks to perform at the highest possible level of quality and impact.

It is time for leading funders to find new and responsive ways to help grantees build the institutional wherewithal essential for achieving social change. Perhaps they could consider innovative ways to support organizational sustainability that are more time-contingent, such as experimenting with time-bound endowment commitments for select anchor partner organizations. Recipient nonprofits would have to meet certain performance indicators and formula matching donations at key points of the term, say a decade in most instances. After 10 years, the initial investment could be returned to supporting funders for new field-building investments; but successful recipient nonprofits would still be left with comparable endowment levels based on their matching fund efforts. Surely, some versions of these ideas will have to emerge as standard practice in the years to come.

Foundations have always done their best work by being visible leaders and innovators in the philanthropic investment space. In today’s rapidly changing society and economy, with so much added responsibility bearing down on organized philanthropy to meet new needs, it is not a time for our leaders to be unduly cautious; rather, this is a time for bold new ideas and experiments. Who better to make this happen than the leading funders that have committed themselves to addressing the societal inequalities that have beset our economy and civic culture in recent decades?

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