

RESTRICTED:

A Sector Held Hostage to Good Intentions

The Conversation

At the heart of every good relationship is the ability to have honest conversation about important issues. An honest conversation between a nonprofit organization and a funder can bolster an increased understanding of the former's mission and the critical expenditures necessary to achieve it.

But the relationship between funders and nonprofits is a complicated one, an intricate dance of due diligence and process, of practical and maybe not-so-practical ideas, of appreciation – and sometimes frustration – on both sides. And while this relationship is fueled in almost every case by a desire on both sides to push forward a worthy mission, the conversation that leads to potential investment is often restricted by the best of intentions.

Ask a nonprofit leader on the hunt for funds what he or she needs most and the typical answer will be “core support to sustain our daily operations.” But that's not typically what they ask for. Ask a community funder looking for a way to make a difference for people in need how it wants to provide support, and the usual answer will be “the most effective way that we can.” And it is somewhere between these two powerful perspectives – the need for unrestricted core support and the desire to make the most effective impact – that the conversation stalls.

In response to this impasse, a funder may restrict the use of a gift to support the mission in the most direct way. Feeling trapped, the nonprofit may tailor its request to appeal to the funder's perspective, focusing on dramatic, short-term results rather than essential infrastructure. The result: a grateful nonprofit with a donation it can't use on critical priorities, and a funder who might have the sneaking suspicion that it wasn't told the whole story.

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The mission is, of course, important, but it must be framed inside the ever-changing strategies being developed to achieve it. If nonprofits want to attract the kind of core support that leads to longevity in the sector and the ability to effect real systems change, they need to start engaging funders in this very different conversation.

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Frame It to Win It



Children and Families Watch



Agency in Action:
Oak View Renewal Partnership

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(continued from cover)

Why So Many Restricted Gifts?

While a “nonprofit” business may have a driving social agenda that distinguishes it from a for-profit business, it’s still a business. At the end of the day, it still has to keep the lights on. From an Executive Director’s vantage point, a nonprofit’s successful achievement of its mission is integrally connected to the organization’s ability to meet payroll, buy office supplies, even fix the roof. But can community impact be tied to a leaky roof? This is the equation that must be formulated and shared with funders, who may naturally be more interested in the success of the mission itself, rather than sustaining the infrastructure necessary to achieve it.

It is that same driving social agenda that can also make it hard to focus on the financial realities of nonprofit business. How can you complain about your building’s leaky roof when the very children you are trying to help live in cars or on the streets? How can you advocate for better benefits for your professional staff when the families you serve can’t access health care? These kind of infrastructural issues frequently take a back seat to the moral imperative of the mission, only emerging when organizational needs become crises that can no longer be ignored.

This reality – the placement of core business needs at the bottom of the to-do list – impacts how nonprofits raise funds as well. Nonprofit professionals are articulate advocates for their constituents and can describe their mission, efforts, and the people they serve in great detail.

And frankly, not every donor is going to be ready for this new, honest, nonprofit you.

But their story often stops there. In a natural effort to attract engagement, these advocates may focus on the most dramatic pieces of the story – the very real pain of vulnerable people or the success stories of programs that have made a difference. Why then, is anyone surprised when funders restrict donations to address these singular expressions of the mission?

But there are two sides to this conversation, and it’s not just about nonprofits sharing half of the business story. We like to think that the days when a majority of donors expected nonprofits to run like “charities” and not like “businesses” are behind us, but underlying attitudes often still reflect these traditional values. For many years, individual donors and institutional funders alike have shied away from giving support to core business operations, not wanting to pay for “overhead” or administrative salaries, and not knowing how to ensure whether an unrestricted donation would really make the intended impact.

In some instances, funders define how nonprofits can approach them in such specific terms that the conversation ends before it begins. If a nonprofit doesn’t fit into the restrictions set by the funder, regardless of shared mission, vision, or area of focus, it is out of the running. And most nonprofits have had the unpleasant experience of contorting themselves into unnatural shapes in pursuit of dollars that may or may not sustain its operational needs, but that at least help them meet their fundraising goals. To be fair, the dramatic increase in petitions for support made to foundations and corporations makes this funder strategy understandable; it’s an effective way to control the overwhelming number of requests. The impact, however, is the same – a lens so narrow that the true needs of a nonprofit cannot be seen.

Ironically, these restricted gifts have become the lifeblood of the nonprofit sector – a sector that even now is starving for support.

The Cost of Restriction

We all know what starvation means in personal terms, in theory if not in experience. A person who is starving does not function well. His thoughts are sluggish, his action slow. He is in essence surviving, but not thriving at his full potential. He cannot make fast movements, so he moves forward slowly hoping to find the next meal. Often, he just sits still to conserve precious energy.

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A business that is starving exhibits many of the same traits. When a business can barely make payroll, it's unable to focus on strategies for the future. Desperate for any help, these nonprofits-in-crisis may manage to find a grant that saves the day for one month or more, but this equivalent to the "Hail Mary" pass is hardly a path to sustainability. Less visible, but more common, is the nonprofit-in-quiet-desperation, always hungry while putting on a brave smile to donors and stakeholders alike, trying to focus on its mission while praying that the server doesn't crash or that the loan comes through. This is the nonprofit that, while not living month to month, does not have the strength or financial flexibility to address the core systems issues or capacity needs that can make them better, faster, and stronger advocates for its mission.

A New Business Model for Change

In a time of economic downturn and shifting political realities, the danger is that the conversation about support becomes either too desperate or remains too vague. Rarely is there open communication about the struggles nonprofit professionals face when trying to promote change inside of an outdated business model that no longer matches the day-to-day economic reality. Furthermore, what nonprofit leaders sometimes forget is that the funders with whom they engage have often run successful business ventures themselves and are well-equipped to grapple with the struggles that any organization – nonprofit or for-profit – faces. Return on investment, the bottom line, economic viability, and hard budgeting decisions are all familiar territory to many philanthropic investors. Bonding over these challenges is an effective way to find common ground from which to build a trusting, long-term relationship.

With this common ground established, the ensuing conversation needs to identify the overlap between the funder's focus and the nonprofit's mission. The mission is not limited to the program or to only the most visible efforts of intervention and support. The mission is linked all the way down to that broken server and up to that leaky roof. It's linked to the ability of a business to attract quality staff and diversify away from vulnerable revenue streams. It's about programs, capacity, infrastructure, debt reduction, accounting systems, and HR. It's about people and processes, both the people served and the people who serve.

Yes, it's hard to talk about a deficit, to admit that your valuable staff members are making less than they deserve. It's hard to say you've had to abandon a program to keep the doors open. But it's the only way the real priorities of the business can be identified. And while you are exposing all your needs to reorient the conversation to the immediate priorities of the mission, remember that you can't stop there. Even your needs need to have a context, and that context is a vision for growth and change and a plan to ensure that the investment in these priorities leads back to the mission in the way that you say it will.

This can be a painful conversation, one that usually only occurs, if a nonprofit is lucky, with a loyal and longstanding funding partner willing to support difficult change over time. It invites a level of scrutiny and opinion from those outside your inner leadership circle that may not be pleasant. It takes the focus off the people you serve and places it on your accounting. And frankly not every donor is going to be ready for this new, honest, nonprofit you. But it is this hard conversation and this level of honesty that is our sector's only chance at attracting investment in its collective organizational health, which is ultimately the only way we as public benefit organizations will achieve our missions.

Sustaining the Sector

The nonprofit sector is in the crosshairs of the debate over public or private intervention in some of our most difficult social challenges. While arguments rage over tax structure and health care reform, people continue to fall through the widening cracks of the safety net, and a shrinking middle class struggles to maintain vibrant communities with quality education, access to the arts, open space, and safe environments. Whatever the policy outcomes, the nonprofit sector must be ready to turn on a dime, to adapt to the new political and economic reality ahead of us. And whatever is ahead of us, we all instinctively know that the sector will be asked to do more.

It's still en vogue to talk about the "double bottom line" – the ideal that a business can deliver both a social and economic return on investment. If nonprofits can start attracting the right kind of investment, we might just survive long enough to get there.

FRAME IT TO WIN IT

If you are an experienced professional working at an established nonprofit, it's probably safe to make the following assumptions:

1. **There is no source of money hiding from you that you don't know about.**
2. **The economic landscape is not getting any easier.**
3. **The needs that your organization addresses are only growing more urgent.**
4. **Other similar organizations may not survive – a possible advantage to you.**

It's the nonprofit sector's best-kept secret: while collaboration and strategic partnerships are effective strategies for promoting change, nonprofit organizations compete for assets and revenue just like competitors in any other sector. Whether a nonprofit organization fills a unique space in the market or not, competition means that **whoever frames the discussion wins.**

How can your organization best frame the discussion to further its mission? Communicating your story depends on identifying your strengths, highlighting your challenges, and portraying both to your advantage. Ideally, your organization's frame addresses the following key questions:

1. **Are you telling your full financial story? Deficits and all?**
2. **Are you describing where you fit in the market of services?**
3. **Can you envision the true impact of your success? Of your failure? Is that information a part of your story?**
4. **Are you raising money with your long-term goals in mind? Or do you speak to your vision at all?**

But the traditional venues for higher level support (e.g., grants and sponsorships) often require nonprofits to force their organizational story into a "one-size-fits-all" framework, ostensibly in an effort to more easily compare potential grantees and to keep competition fair. Under these conditions it is difficult to make your most compelling case. Fight against these constraints by making sure that your story presents your passion and your purpose inside a discussion of realistic business challenges that set you apart. Intentionally positioning your organization to *best effect in the current social, political, and economic context* will help you stand out from the crowd and attract more thoughtful, long-term support.

Sources of funding may be shrinking, but there is still money out there. Why shouldn't you get it?

Agency in Action



Founded in 2005, Oak View Renewal Partnership (OVRP) is a pioneer organization for what today's community development field is calling "place-based." After a century of rich history, the Huntington Beach neighborhood

of Oak View – the former Japanese farming community, turned Mexican-immigrant community, then turned 'tough' neighborhood – has begun to renew itself. Within Oak View's one-square mile border is a dense Latino population of nearly 10,000 residents, where nearly 40% live in households of seven or more, the crime rate is 200% that of Orange County as a whole, and 97% of students qualify for free or reduced price lunch. Working alongside numerous community-based organizations and city agencies providing direct services to the residents in the area, OVRP focuses on promoting innovative solutions to community problems, empowering residents, and facilitating the process of neighborhood renewal in this very poor community.

The premise behind the OVRP mission – renewal through residents at a community level – seems simple. But it's not. In addition to facilitating change, OVRP works hard to evaluate community renewal through its own Community Wellness Index (CWI) that measures whether or not collaborative efforts in the neighborhood are narrowing the cultural, social, educational, health, and economic gap between the Oak View Community and the remainder of Huntington Beach. "Moving the needle" on these community-wide indicators is a difficult, but important job.

Children and Families Watch



If you've been keeping track, this year's political battle between the State's First 5 Commissions and the Governor of California is starting to look like a ping pong match. Here are the plays:

- In an effort to address the state budget deficit, Governor Brown reanimated a previously defeated proposal to take \$1 billion in Proposition 10 funds and 50% of all future Prop 10 revenue, promising that the funds redirected to Sacramento would be used to support programs and services for vulnerable children and families.
- In March, the State legislature approved AB 99, which authorizes the diversion of \$1 billion of local Proposition 10 funds, but does not redirect future tax revenue. Commissions around the state believe the lawmakers' action violates the intent of the voters, who approved Prop 10 in 1998 to use state tobacco taxes to fund programs that benefit infants and children younger than 6 years old, and who defeated previous measures to divert funding when they went to ballot.
- County Commissions (Orange County, Los Angeles, Marin, Fresno, Madera and Merced) responded in early April with law suits contesting the legality of the legislation, while simultaneously developing strategies to meet the payment demand that is required by the passage of AB 99 by June 30, 2012. In the case of the Orange County Children and Families Commission, that payment would be \$51 million currently dedicated to vital health, education, and safety net programs. The Los Angeles First 5 Commission is facing the largest payment, \$425 million due to the State.
- In May, Governor Brown released his revised budget for FY 11/12. The revised budget excludes the transfer of \$1 billion in Proposition 10 Funds due to the pending litigation.

This latest play is not, unfortunately, a clear victory for local nonprofits who have already been impacted by the reductions of local commission budgets. AB 99 is still the law of the state, and the money, while not being spent at the state level, is not being spent at the local level either.

The impact of this stalemate will not be limited to the nonprofits themselves, or even to the children and families they serve. As agencies across the state scramble to replace funding to keep programs and services alive, other regional funders will be bombarded with new requests, and other nonprofits not serving children and families will feel the pressure of the instant and increased competition.

We don't know who will win this match politically. We just know for certain that our children and families will lose.

The overarching strategies guiding OVRP's approach include advocacy and engagement with residents and service providers; acquisition of partnerships and resources; and accountability, which means OVRP assumes responsibility for measuring the global impact of renewal efforts across CWI outcome areas (Safety & Security, Education, Health, Jobs and Housing). These strategies have led to the launching of a collaborative Mobile Health Clinic, a Community Clean Up Initiative, and Soccer League for more than 700 youth that are all run by local residents and supported by community partners, and a Community Farmer's Market that is a social enterprise for the neighborhood.



As OVRP continues in its mission to narrow the gap and renew the Oak View community, it understands that empowerment of local residents is the catalyst for change. It also understands that its model of change does not reflect the typical activities of a more traditional nonprofit. OVRP is not out to eliminate poverty or to run its own programs, but to generate systemic change by

bringing cities, schools, funders, service providers, and residents together in effective ways. In the short-term, funding facilitation can be a hard sell. But over the long-term, it may be just this kind of facilitation and support that brings the most substantial impact to the entire community.

For more information on how OVRP is facilitating change, contact ED Iosefa Alofaituli at iosefa.ovrp@gmail.com.



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