

# **Satisfying Donor and Non-Profit Objectives: The Quiet Revolution In Non-Profit Capacity Support**

**Jonathan Peizer**

JPeizer@sorosny.org

The economic downturn of the last three years once again served to highlight the tenuous institutional capacity most non-profits are forced to rely upon to survive in good times and bad. Many non-profits with exceptional programs had to consider closing because funding dried up and they had limited ability to support themselves. While the business environment is cyclical, capacity issues are a chronic problem for the lion's share of non-profits globally. This will continue to be the case until the dynamics of traditional donor support and its detrimental impact on capacity funding is dealt with realistically. It's time for the sector to embrace new paradigms that have evolved naturally and quietly over the last few years with the help of new technologies and a few visionary institutions. Non-profits willing to provide capacity support to their peer organizations and the progressive donors that support them are creating the new strategic paradigm of non-profit capacity support. Non-profits with appropriate organizational capacity deliver on their mission more effectively and are far more effective devising ways to support themselves and limit donor subsidies.

While a subset of non-profits rely on generated income to support their activities, most rely primarily on donor subsidies. These subsidies come from a variety of sources but there is one characteristic typically consistent among all donor groups whether it comes from private foundations, individual donors, governments or membership. Donors are interested in supporting program activities and not accountants, technicians, administrators and organizational infrastructure. Individuals who manage non-profits are often more interested in focusing on the organization's compelling mission than they are on building, managing and subsidizing these organizational support structures as well.

The irony is that most donors and grantees aspire to the same state of civil society Zen mythically referred to as - sustainability. In this karmic state, the donor withdraws support gradually while the non-profit takes on more responsibility for supporting its own operational activities. Ying and Yang are achieved when the non-profit generates enough income to support its operational budget and only approaches donors for underwriting its more attractive

programmatic activities. As in most things Zen, it's all about knowing your positions. A non-profit cannot be expected to assume the position of ever supporting itself if:

- 1) The organization doesn't place the importance on capacity that this issue deserves.
- 2) Donors don't support capacity.

In the traditional funding paradigm, the reason support is provided for program over administration can be logically rationalized from the donor's perspective. All donors are faced with the same issue: how can a single donor demonstrate noticeable effect in the area it perceives important to solve a problem of social value? Noticeable effect is important to donors because their constituents, board members or living donors expect the money they expend to demonstrate tangible results. The vast majority of donors answer the "how to achieve noticeable effect" question by creating well defined niches and funding criteria based on geography, sector and sub-issues within the sectors they choose to support. Donors purposefully try to define a unique niche for themselves, so their first instinct is not necessarily to partner with others and leverage their funding. If that were the case, spreading the burden of capacity support among donors would be more easily accomplished.

Mission focused grantees are often viewed by donors as the tools used to turn dollars into action on the ground - they are intermediaries that assist in solving the problem. A donor supporting a portfolio of organizations does not necessarily view any individual non-profit as the solution to the social problem that it defines as its objective, even if the individual non-profit sees itself that way. Institutional support can change from year to year if another organization comes up with a new or creative way to solve an issue, or if the criteria a donor uses to direct its support changes. Since the donor's primary objective is to solve a social ill, most funding is earmarked for programmatic activity and not on the capacity needs of the intermediary it uses to achieve this objective. In fact, most traditional donor funding criteria is heavily weighted against capacity support. Funding a computer or accountant creates a hard case for demonstrating noticeable effect on the ground – the primary donor objective. So while supporting capacity is a rational investment, it is one step removed from the limited amount of funding a donor has to meet its goals. Aside from that, it's not sexy, doesn't read very well in the annual report of accomplishments and doesn't provide that "feel good" effect to either the institutional donor or granny who is just trying to help those poor starving kids.

In the commercial context, generating income requires investing in institutional capacity. There is a clear cycle of benefit. Investment creates

organizational efficiencies, reduces expenses and most importantly, meets the primary objective of generating more profit which can be recycled into further capacity investment. This clarity of relationship and purpose does not translate as well in the non-profit context. Investment in non-profit capacity does not necessarily generate new revenue to re-support the activity unless that is the purpose of the original subsidy. That is not the primary objective of most donors, solving social problems is. Moreover, a double overhead issue exists because donors use non-profits as vehicles to accomplish their objectives. Donors already support their own overhead so they are reticent to support the additional overhead of interchangeable intermediaries they utilize to address their primary objectives. The most similar non-profit example of a company investing in itself to achieve its objectives is an operating foundation which supports its own program activities through self-subsidy. In most cases however, donors support their own capacity and fund non-profits to meet programmatic objectives effectively splitting capacity and program support between two or more institutions. Logically, without capacity support, a non-profit cannot operate its programmatic activity as effectively let alone come up with an infrastructure that allows it to generate enough revenue to support some of its own activities.

Unfortunately, the donor grantee-relationship is not appropriately defined as a partnership of equals providing different types of resources to meet the same objectives. This exacerbates the problem because both sides typically dance around the issue of capacity rather than addressing it realistically. The typical donor-grantee support step [to varying degrees] goes something like this: The overly solicitous grantees cow-tow to the wishes of an overly imperious donor or one that must act as a gatekeeper, insuring all proposals meet specific support criteria. The grantee's role is to make a pitch and craft proposals that will result in the release of the most funding dollars. It's obvious to most that capacity is not high on the funding agenda so donors are pitched what they want to hear about – programs that provide solutions to the social ills they are trying to satisfy. Smart grantees pad a fraction of whatever capacity support they really need into the request for program support. In the context of such discussions and behaviors, it's no wonder capacity support remains the wallflower no one wishes to approach. Since it takes two to tango, the onus does not rest completely on the donor's shoulders. Some non-profits are managed as personality cults. They revolve around a few very, very committed individuals who believe strongly in an issue. Less importance is attached to developing a well-managed institution with long term sustainability plans and management structures designed to outlive their association with the institution.

This article is not designed to be a rant about the endless limitations of capacity support in the non-profit environment. There are non-profits that manage themselves well and take great care in developing appropriate

infrastructure. There are also donors that focus on supporting individual organizational capacity. However, this doesn't change the fact that the institutional funding paradigm on the macro-level is not designed to efficiently handle capacity support to the vast majority of NGO's that need it in the same way it is set up to effectively provide program support.

Better solutions do exist and have been evolving naturally over the last few years, thanks in part to technologies like the Internet. These technologies have allowed institutions to network, share, and aggregate and distribute information, services and products far more easily than was historically possible. Defining the capacity support issue as a sector-wide problem, a few bold institutions and donors have addressed it using technology and other tools to aggregate the capacity support needs of client non-profits. Rather than supporting internal capacity of individual non-profits, a model of external capacity support around aggregated demand has evolved. Non-profits are buying into a high quality capacity support service delivered at a reduced cost by other non-profits.

I've written about these intermediary organizations from a technology perspective in the past; organizations like NPower, Tech Soup, Aspiration, One Northwest, Ninth Bridge, Groundspring, etc. which aggregate user demand for IT services and deliver a variety of support including online tools, high touch technology support, software development assistance and discounted IT products. These providers are referred to as Technology Support Organizations (TSOs). This same capacity support paradigm has evolved to address other non-profit activities as well. Intermediary capacity support organizations identified as Management Support Organizations (MSOs) have evolved to provide organizational, fiscal, evaluative and other necessary management support services to non profits. Innovation Network, Alliance for Non-Profit Governance, Bridgespan and Compasspoint fall into this category.

Finally a third set of intermediary Advocacy Support Organizations (ASOs) has evolved. Organizations like Media Rights, Greenmedia Toolshed and the Center for International Media Action provide nonprofits with advocacy and promotional expertise to better craft and distribute their messages. Lack of capacity is not the only obstruction to effective non-profit message crafting and advocacy. These activities are often part of a mission driven program to affect a particular social ill so they suffer less from lack of support related to administrative overhead. Lack of expertise is often more the result of non-profit's general cognitive dissonance related to promoting and marketing their activities. In a sector where the currency of choice is the trusted source relationship, non-profits rely on their work and not what they advertise about it to enhance their standing with peer organizations and donors. As a result, promotional and advocacy skills are often underdeveloped, and become capacity issues.

I label the range of these organizations operating across disciplines as Intermediary Support Organizations (ISOs). The benefits of ISO non-profits providing high quality capacity support services to other non-profits are significant:

- The ISO model is far more efficient because it allows for the introduction of standards of service/support delivery and sharing best practices across institutional clients. Non-profit clients typically compete for funding and are often pressed for training time. They don't necessarily learn from each other or from donors without a trusted source intermediary providing them support and delivering best practices as a part of it.

- ISOs provide pragmatic service at a lower entry cost to fellow NGOs than most of their for-profit counterparts. They are also far more trusted because the provider organizations share a basic set of mission principles similar to the non-profits they serve. This is very important in a sector where the currency of choice is the trusted source relationship.

- Many ISOs collect significant and invaluable meta-data on a statistically relevant number of non-profit clients. This data can be used to identify strengths and deficiencies on a sector-wide basis. Objective data polled from non-profit clients allows for developing more effective support strategies for the entire sector rather than relying on circumstantial data, conjecture or assumptions.

- ISOs offer a realistic opportunity to solicit donor support for capacity using a behavioral funding pattern they already subscribe to rather than changing the entire paradigm - and they create a much cleaner cycle of benefit and reinvestment for all involved. Donors are familiar with intermediaries because they use non-profits to fulfill their programmatic goals in much the same way. Donors can more easily support the programmatic mission of an intermediary which is defined as supporting the mission of other non-profits through delivery of capacity services. After an initial donor investment, most ISOs are built on models of sustainability that cover their administrative costs through services rendered to the non-profit community. Non-profits buy into more efficient capacity support at lower entry costs, improving their effectiveness and leaving them money to utilize more appropriately on other necessary activities including self-support.

- ISOs provide a much more efficient way to insure that all the non-profits a donor uses to meet its objectives in the aggregate operate at peak efficiency. Most donors fund initiatives vertically, by program area.

However, capacity issues cut horizontally across the entire portfolio of non-

profits they support to achieve these objectives. Donors can opt to employ intermediaries to fill in the capacity gaps of their entire portfolio rather than approaching the issue from the perspective of individual institutions which change from year to year. Individual institutions also benefit of course, but the important point is that both the practical and perceptual needs of both donors and non-profits are met with this approach.

- It's far easier to solicit donor support for a single institution whose mission is to support the capacity of a thousand NGO's in a consistent manner than it is for one thousand institutions to solicit that same donor for their individual and inconsistent capacity needs.

The natural evolution of ISOs to cover a variety of needs suggests to me that a quiet revolution in the support for non-profit capacity is taking place. This new paradigm should be considered and leveraged far more strategically by donors, non-profits and the ISO sector itself. Issues that individual ISO expertise areas address are all related and reflect a problem suffered by NGO's globally. In defining the good, better and best of all possible worlds for the process going forward I'll make the following observations:

1. Supporting discreet intermediary organizations for a particular sector, geography or problem area is good.

It is necessary to support the development of leading ISOs to cover each area of capacity support. Intermediaries should be nurtured in their initial development across sectors, geographies and capacity problem areas so that they have the greatest impact on the most NGO's. These models need to be adapted to different local circumstances (i.e. the developing world). International E-riding which provides technology support to various sectors and geographies is an example of this.

2. Supporting a coalition of intermediary organizations dealing with capacity issues in a single problem area like technology is better.

Grant Maker's for Effective Organization's (GEO) is a coalition of domestic US grant makers focused on moving philanthropy forward in the direction of strengthening grantee organizations that are supported. The Alliance of Non-profit Management is another such organization as is the non-profit Technology Enterprise Network (NTEN), a coalition of organizations focused on non-profit technology support.

3. Recognizing and supporting ties between MSOs, TSOs and ASOs is best. This is still a largely unaddressed issue. Both the funding community and the nascent intermediary support sector must appreciate that the work of TSOs, MSOs and ASOs are interrelated just as they would be if they were individual

support functions performed within a single organization. Collaborations and interchange needs to be supported.

While this new model of capacity support may not help all NGO's everywhere at once, it will assist far more non-profits address their capacity needs than the current, less strategic approach does. As with most civil society initiatives, progressive donors acting in collaboration rather than as lone wolves will be required to underwrite the initial investment. However, this model of capacity support is built upon the precepts of ISO sustainability and aggregated demand - more importantly there are already working models and empirical data out there that suggest it works better than the current approach.

We must recognize that the current system of donor support is not set up to address capacity in an efficient and fair manner. Therefore, other approaches that work far more efficiently, leverage new technology but still operate in the framework of traditional donor support must be employed.