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An Examination of Contemporary Fundraising Trends and Support for a Sustainable Shift to Full-Cost Funding

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An Examination of Contemporary Fundraising Trends and Support for a Sustainable Shift to Full-Cost Funding

by

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Abstract

For decades, nonprofit organizations have faced immense challenges securing adequate funding that will not only run their programs, but cover all operational and overhead costs. Traditional funding models often restrict funds to specific projects or services, leaving nonprofits with financial instability, and potentially hindering their ability to fully deliver on their missions. Recently, there has been a shift in the philanthropic landscape that challenges these more restrictive fundraising models. As this conversation has grown, the concept of "Full Cost Funding" has gained traction, which calls for a more comprehensive funding approach that covers the full costs of running an organization, including indirect costs such as overhead, infrastructure, and fundraising costs.

This study seeks to provide an in-depth examination of the challenges and influences that affect nonprofit fundraising. A comprehensive understanding of these issues is crucial for nonprofits to enhance their fundraising strategies, and for funders to better align their funds with the real needs of the organizations they support. Further, this study aims to contribute a recommendation to the Full Cost funding discussion by proposing a Sustainable Full-Cost Coalition Philanthropy Framework. This framework envisions a collaborative approach to Full Cost Funding, involving a coalition of major funders working collaboratively with nonprofit organizations. This analysis and framework are presented in hopes of offering a potential recommendation to enhance Full Cost funding support and strengthen the sustainability of the nonprofit sector.

Keywords: nonprofit, fundraising, development, full-cost, fundraising models, unrestricted funding

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To my parents, thank you for encouraging me to pursue my greatest desires and for cheering me on every step of the way.

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Section 1. Introduction

This study began with a personal interest in philanthropists like Mackenzie Scott and Melinda French Gates, who recently began publicly recognizing the need for a shift in philanthropic practices. Recognizing this need for change, Scott began challenging conventional giving norms in 2020 by giving massive unrestricted grants to nonprofit organizations that have had transformational impacts on recipients (Buchanan & Buteau, 2022).   In addition, Gates has openly discussed her commitment to guide her future philanthropic efforts through incorporating insights from nonprofits, which have firsthand experience and understanding of the issues they aim to address, rather than relying exclusively on funder-set quantitative data and metrics (Daniels, 2022). Research shows that Scott and French-Gates are not the only ones, or even the first ones, to embrace these trust-based, unrestricting funding concepts.

The Full Cost Project was brought about in 2016 by Philanthropy California and the Nonprofit Finance Fund, and was aimed at supporting a funding model that honestly assesses the full-cost for organizations to deliver on their missions and be sustainable over time (Philanthropy California, 2020). This model acknowledges that nonprofits have long been burdened with the expectation to continuously work with largely program-restricted gifts and funder expectations for unrealistically low administrative and fundraising costs, which can come at a very high cost for nonprofit organizations. It is important to note that the Full Cost model is a complementary tool to Trust-Based Philanthropy, a recent four-year project that began in 2020 and aims to push grant-makers to reconsider ways of philanthropy, and redistribute power systemically,

organizationally, and interpersonally (Trust Based Philanthropy Project, n.d.). While this capstone focuses on the Full-Cost project, and nonprofit organizations' engagement in full-cost funding, it also incorporates values from the trust-based philanthropy project.

Definitions

For the purpose of this study, the term "nonprofit" is used as a term to describe not-for-profit organizations, within the U.S. legally. fall under 501(c)(3) tax-exempt status.

Within the nonprofit industry, nonprofits can receive funds from donors that are either restricted or unrestricted. A restricted gift is money that has been designated by the donor towards a specific purpose, typically program related, whereas an unrestricted gift is money that may be used for any legal purpose appropriate to the organization (Foundation Group, 2023).

Finally, this study examines the concept of "Full-Cost Funding", a joint initiative of Philanthropy California and the Nonprofit Finance Fund, which advocates for a funding model that honestly and accurately assesses the full cost for nonprofit organizations to sustainably deliver on their missions (Philanthropy California, 2020).

Research Questions

This study aims to address the following research questions:

RQ1. What are common nonprofit development structures and what influences these structures?

RQ2. Do restrictive grants constrict a nonprofit organization's ability to maximize their impact?

RQ3. How can the nonprofit industry support full-cost funding in becoming a standard philanthropy practice?

Report Structure

Given the variety of models and structures in which nonprofit fundraising can take, this study begins with a literature review in Section 2 that examines 4 main areas: 1) the variety of people and institutional arrangements used to generate grants and donations; 2) the revenue sources for foundations, and associated opportunities and challenges; 3) the move towards Full-Cost Funding; and 4) Impacts of COVID-19 on philanthropy. The study then examines the findings collected from semi-structured interviews in Section 4, and synthesizes these analyses with the findings from the literature review to provide implications and recommendations for a Sustainable Full-Cost Coalition Philanthropy (SFCCP) framework in Section 5.

Section 2: Literature Review

Introduction

The nonprofit sector serves as a critical component to societal structure within the United States, as it provides a variety of essential services and resources to meet critical community needs. As the sector grows, certain challenges that are unique to nonprofit structures become more pronounced, especially in regards to development and fundraising practices. This literature review aims to analyze key aspects of nonprofit fundraising and development, including: the structure of nonprofit development teams within nonprofit organizations, the revenue sources for nonprofit organizations and associated opportunities and challenges, the recent creation and discussion of the concept of Full Cost Funding, and the implications they have for the nonprofit sector, and contemporary fundraising trends since 2020.

Structures of Nonprofit Development Teams

Nonprofit development teams across the United States can vary widely in makeup and size, reflecting a variety of influencing factors, such as organization size, mission, nature of services, or resources. Within nonprofit organizations, these types of structures can be categorized into three domains: the first domain involves in-house formal fundraising staff; the second domain involves informal, "hybrid," non-fundraising organization staff and volunteers who participate in fundraising activities for the organization; and the third domain involving organizations utilizing external entities for fundraising, and conducting no fundraising activities in-house (Hager et al., 2002). This diversity underscores the unique structure of the nonprofit sector, and highlights the flexibility required by nonprofit organizations to effectively and sustainably pursue financial support.

Organization size is a very strong driving factor that influences whether or not an organization will have dedicated, in-house fundraising professionals. Fundraising will typically involve a nonprofit organization's Executive Director, with whom funders typically prefer to interact, given the leadership level. Many nonprofits begin their lives with the executive director and an all-volunteer fundraising effort that is often initially led by a few dedicated board members (Bray, 2022). Midsize organizations may be able to afford one to three-person departments, potentially hiring a Development Director or Development Associate to assist in fundraising efforts in addition to the Executive Director, and larger organizations can often split fundraising tasks into subject areas, and assign development officers to specific areas (Bray, 2022).

While nonprofit development team size varies greatly, often erring on the smaller side, it is well-known that nonprofit organizations with robust fundraising systems, financial systems, and other essential, often-restricted "overhead" costs, are more likely to succeed than those who do not have these systems and associated costs (Howard & Goggins Gregory, 2009). Despite this, organizations have historically continued to cut their overhead costs as thin as possible to fulfill the desires of funders (Howard & Goggins Gregory, 2009). This fear of adapting practices, even when critical to nonprofit success, indicates a need for a shift in discourse on both the funding and nonprofit organizations sides.

Revenue Sources and Restrictions

Literature review data reveals that nonprofit organizations can be funded through a multitude of sources (including many combinations of sources). Among these are: earned revenue (fees for goods and/or services), which has long made up for half of the sectors total

revenue (Candid Learning, n.d.; Summers, 2019), individual donations, bequests, corporate contributions, foundation grants, government grants and contracts, and more (Candid Learning, n.d.). As nonprofits navigate the challenges of raising funds, organizations often encounter funding restrictions that directly impact their development operations. These restrictions, enforced by grant-makers, can constrain how organizations allocate their resources and oftentimes emphasize funding for program-related expenses, at the expense of administrative or overhead costs. While nonprofit organizations are not legally required to restrict spending on fundraising, funder stigma exists that creates expectations for nonprofits to spend very little of their budget on fundraising and administrative costs (Philanthropy California, 2020). Further, it is not uncommon for government or foundation grants to restrict grantees to using no more than 15 percent of grant funds for indirect expenses, which often include operations, finances, human resources, and fundraising (Howard & Goggins Gregory, 2009).

Lack of overhead funding can lead to issues such as the inability to pay decent wages, lack of funds to support growth or strengthening of infrastructure, or slim or lack of reserves, all of which constrict organizational growth and impact (Knowlton, 2020). This has led to limitations in measuring nonprofit organization's true organizational needs and expenses, as organizations have needed to restructure or adjust budgets and grant requests to adhere to funder requirements, and maximize attractiveness, despite the harm this may cause to the organization (Hager et al., 2002; Knowlton, 2019). In examining restricted grants, it can be found that these types of workarounds have harmed more than just the organization applying for the grant, as adherence to over-restrictive grants has actually contributed to funder comfort with these restrictions, and normalized the practice of such workarounds for nonprofit organizations

(Knowlton, 2019). Further, these overly restrictive grants appear to do no good for either the funder or the grant recipient, as they create unnecessary monitoring and compliance checks for the funder while simultaneously creating more work for the organization that could be spent on delivering their services or enhancing their structure, despite not funding overhead costs (Knowlton, 2020). In examining the impact of these restrictions on the nonprofit sector, it is revealed that the overall acceptance from the nonprofit sector of overly restrictive grants has led to a "starvation cycle", in which nonprofit organizations are restricted in impact due to the lack of investment in essential organizational infrastructure, which can create tension and dishonesty between grant makers and grantees (Prasad et al., 2016). This lack of trust can be deadly for nonprofits and contribute heavily to what is known as a "doom loop", in which this declining trust from funders further reduces the chance for unrestricted or full-cost support (Knowlton, 2019).

Restricted grants imply that funders can better assess community needs over the nonprofit organization, and are therefore better able to respond, however, the funders who actually believe this are few and far between, and it is more common for funders to believe that those who are closest to the problem are closest to the solution (Knowlton, 2020). Further, these restrictions only contribute to the enduring issues surrounding the lack of full-cost funding, faced by the nonprofit sector. Restrictions create a situation where organizations are forced to choose between direct program costs and fundamental business costs that are essential to running an effective organization. The traditional funding mindset stigmatizes spending beyond direct program work, which restricts leaders and organizations' ability to invest in long-term impact, and creates an unbalanced power dynamic between funders and grantees.

While nonprofit organizations could make up for budget shortfalls through more commonly unrestricted revenue sources, such as individual contributions or social enterprise models, these funding sources also come with their own challenges, as revealed later in the study.

The Full Cost Project

The idea of Full Cost Funding first came about in 2014 via the "Full Cost Project", a joint initiative of Philanthropy California (a collaboration of Northern California Grantmakers, San Diego Grantmakers, and Southern California Grantmakers) and the Nonprofit Finance Fund (Nonprofit Finance Fund, 2023). This initiative aimed to support a funding model that honestly assesses the full cost for organizations to deliver on their missions and be sustainable over time (Philanthropy California, 2020). While this project is focused on Full Cost Funding, it is important to mention that the Full Cost project has grown into a critical framework that advances equity and is fully aligned with, and complementary to, Trust Based Philanthropy, an equally important funder-led project, which articulates six principles funders can practice to mitigate power imbalances between funders and nonprofit organizations: lead with trust, center relationships, collaborate with humility and curiosity, redistribute power, and work for systemic equity (McGrath & Wong, 2020).

The Full Cost Project accomplished its goal of helping funders and nonprofits better understand and communicate the actual costs required to run effective organizations by training both funders and nonprofits on how to measure the full cost of doing effective business, as well as providing training on how to facilitate difficult conversations that will lead to a culture shift towards full cost. This project, which was aimed at California funders and nonprofits, began

with support from significant California Foundations, including the California

Community Foundation, First 5 LA, The James Irvine Foundation, The William and Flora

Hewlett Foundation, The David and Lucille Packard Foundation, The Parker Foundation, and the

Weingart Foundation ("Full Cost Funder/Grantee Pilot", 2016). This support aligned with the

initiative's aim to involve more foundation partners in cultural change that is essential to altering

funding practices for the industry as a whole.

      The project began with a Full Cost Community of Practice Pilot, a pilot test designed to

test approaches and strengthen the capacity of nonprofits and funders to advocate for full

cost. This pilot involved the participation of 12 nonprofit organizations, as well as the

supporting California Foundations mentioned above ("Full Cost Funder/Grantee Pilot",

2016). Working as peers, these 14 organizations engaged collaboratively in workshops, and

honest dialogue around full cost. These workshops significantly impacted participants' financial

literacy and confidence in communicating organizational financial needs, as shown in the tables

below.

Figure 1

The Importance of Financial Training Workshops for Full-Cost Success

Exhibit 2.   Financial Training Workshop – Outcomes (N=32)
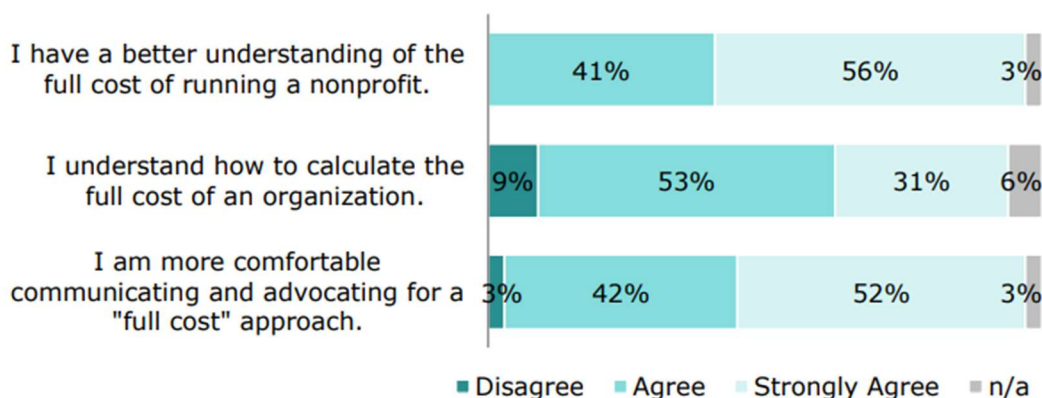
I have a better understanding of the full cost of running a nonprofit.
41%   56%   3%

I understand how to calculate the full cost of an organization.
9%   53%   31%   6%

I am more comfortable communicating and advocating for a "full cost" approach.
3%   42%   52%   3%

■ Disagree   ■ Agree   ■ Strongly Agree   ■ n/a

Note: From *Understanding the Full Cost of Social Impact: A Funder + Grantee Pilot Evaluation Summary Report* by Harder + Company Community Research, p. 3 (https://nff.org/full-cost-evidence)

This pilot test resulted in 4 key findings: As a result of the workshop and discussion: 1) Organizations became stronger negotiators for full cost coverage; 2) Foundations supported full cost in theory, but not in practice; 3) Organizations began to increase focus on longer-term financial planning; and 4) One-on-one capacity was important for full-cost implementation ("Full Cost Funder/Grantee Pilot", 2016).

Further examination of the pilot report shows that organizations experienced varying levels of success when applying full cost concepts into their organization. For some organizations, the pilot proved very successful, and upon completion, the participants immediately felt more confident and able to discuss their financial needs ("Full Cost Funder/Grantee Pilot", 2016). Others found the experience to be a good starting point, in which
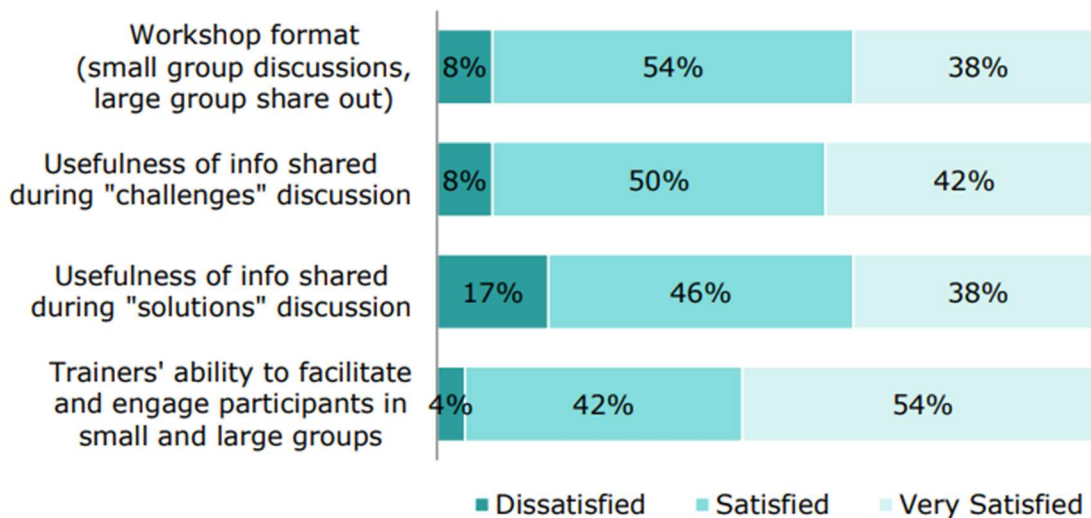
they were empowered to calculate their full cost needs and then utilize this information

for long term planning and prioritization ("Full Cost Funder/Grantee Pilot", 2016). Interestingly,

the most commonly cited challenge in applying the full cost approach for funders and nonprofits

alike, was the required time and capacity needed to incorporate new tools, systems, and

procedures ("Full Cost Funder/Grantee Pilot", 2016). This is unsurprising, given that nonprofit

development structures can be lean, and barely have the resources to pursue an organization's

funding needs. Further, revenue restrictions constrict nonprofits' ability to grow these critical

departments and provide them with the resources needed to expand or strengthen their current

capacity. This highlights a need for an industry wide, critical examination of the current

fundraising structures, and discussion about the effectiveness and impact of revenue

restrictions. Additional challenges for nonprofits included difficulty adapting current financial

tracking systems to the ones outlined in the Full Cost Project, while still meeting their other

funder requirements; and difficulty identifying and working with funders who were not already

using a full-cost approach ("Full Cost Funder/Grantee Pilot", 2016). For funders, the other cited

difficulty was around incorporating full cost discussions into their current communications with

current and future grantees ("Full Cost Funder/Grantee Pilot", 2016).

      The Full Cost Community of Practice Pilot highlighted an important dynamic of in-

person, multi-formatted and moderated conversations between funders and nonprofit

organizations, as highlighted in the table below.

Figure 2

The Effectiveness of Balanced Funder-Nonprofit Relationships on Full-Cost

Conversations and Engagement

Exhibit 4.   Follow-Up Convening – Participant Satisfaction (N=24)

Category	Dissatisfied	Satisfied	Very Satisfied
Workshop format (small group discussions, large group share out)	8%	54%	38%
Usefulness of info shared during "challenges" discussion	8%	50%	42%
Usefulness of info shared during "solutions" discussion	17%	46%	38%
Trainers' ability to facilitate and engage participants in small and large groups	4%	42%	54%

■ Dissatisfied   ■ Satisfied   ▪ Very Satisfied

Note: From *Understanding the Full Cost of Social Impact: A Funder + Grantee Pilot Evaluation Summary Report* by Harder + Company Community Research, p. 5 (https://nff.org/full-cost-evidence)

Almost every interviewee reported that this in-person dynamic was crucial to building trust and positive relationships, with one interviewee stating, "[the Pilot] is almost like an equalizer. It brings funders and grantees on the same level when it comes to communication." ("Full Cost Funder/Grantee Pilot", 2016). The Pilot created an environment of trust and safety, where funders and other nonprofits knew they were mutually participating for reasons of genuine interest, learning and improving their practices, and with no intention of ill will. This level of trust and transparency was critical to the success of implementing Full Cost practices, as most

nonprofit participants also cited this level of trust as being instrumental in permitting them to feel safe enough to truly speak about their financial weaknesses ("Full Cost Funder/Grantee Pilot", 2016).

A "Phase 2" study was conducted by Philanthropy California who contracted again with Harder+Company Community Research, to conduct an evaluation of the Full Cost Project, this time with the goals of learning how nonprofit executives and funders/program officers developed their understanding, knowledge, and practice toward adopting a full cost approach and recognizing what further resources are necessary to adapt their change in practice ("Accelerating a Shift", 2018). Three of the main key findings of this report included: 1) noted inherent power dynamics between funders and grantees, and the importance of honest financial conversations to break down barriers; 2) trainings that explored power imbalances between nonprofits and funders assisted in aiding participants in recognizing the challenges that nonprofits face; and 3) while funders recognize the importance of full cost funding, and plan to review their grant making practices and policies, some report that they were unable to fully adopt the Full Cost approach due to existing funding structures, which lacked flexibility ("Accelerating a Shift", 2018).

The Full Cost Project is currently in phase three, moving away from pilot-testing programs and towards deepening funder relationships and spreading the word of full-cost through in-person workshops and online webinars.

Contemporary Fundraising Trends

The idea of Full Cost funding was created in 2014 and piloted in 2016, with the support of a few foundations in California. Just a few years later, in 2020, the world was thrust into an unexpected global pandemic, which drastically affected the nonprofit sector in a number of

ways. Given the requirement for human distancing, traditional fundraising events such

as galas, donor recognition events, auctions, and more, were forced to shut down and transition

away from face-to-face services (Van Steenburg et al., 2022).   This rapid transition left a

number of nonprofit organizations unable to generate sufficient revenue, and left one in three

nonprofits in danger of shutting down (Van Steenburg et al., 2022). At the same time,

immensely powerful and national social movements were taking place, such as the George Floyd

protest and Black Lives Matter movement, which finally spurred a critical turning point in public

discourse on racial justice, systemic racism, police activity and power in the United

States. These movements had a strong effect on public thoughts and conversation, and brought

together people across the world to speak out against the treatment of Black people (Shaker et

al., 2022). These widely publicized events and conversations assisted in fostering a broader

awareness and understanding of these critical issues, and as a result, within the nonprofit sector,

corporate social responsibility (CSR) as a philanthropic behavior, became a mainstream practice

for many foundations and corporations in the U.S. (Van Steenburg et al., 2022). The positive

reciprocal effect of corporate and foundation philanthropy is that corporate (and foundation)

philanthropy can have a positive effect on the social perception of said corporation or foundation

(Saiia et al., 2003). In alignment with this rise in CSR, in 2020, Foundation giving increased by

15.6 percent, or increased from $76.1 billion in 2019 to $88.55 billion in 2020, which accounts

for over half the total rise in giving that year (Dubb, 2021).

In addition to increased gifts, the adoption of trust-based practices by funders began to

grow unexpectedly rapidly. While the concept of "Full Cost Funding" was not explicitly named,

or specifically followed, foundations quickly adapted their practices to meet the needs of

nonprofit organizations. Foundations, such as the Durfee, Satterberg, and Stryker Johnston foundations have begun adopting trust-based approaches, and have together made over $73 million in grants since 2019, and cumulatively hold around $600 million in total assets (Finchum-Mason, 2022). These trust-based philanthropic approaches include unrestricted funding, participatory governance and grant-making. In addition, as mentioned earlier, high-profile mega-donors like Melinda French Gates and MacKenzie Scott have also begun to adopt trust-based approaches, helping to underscore the importance of full-cost funding and trust based philanthropic practices by driving media attention and discourse to these new changes in philanthropy (Daniels, 2022; Finchum-Mason, 2022). Unfortunately, despite these positive effects, some nonprofit organizations have begun to see a decline in COVID-19 relief unrestricted gifts, despite a continued, very demanding need for their services (Sinclair, 2023). This is an unfortunate development, as recently, researchers have begun to explore the effects of unrestricted funding on nonprofit organizations, and they illustrate steps towards a more sustainable nonprofit sector. This is shown by a study conducted by The Center for Effective Philanthropy, which notes early observations on the impact of unrestricted grants made by the Ballmer Group in 2017 (Fleming et al., 2023). Report findings indicate that: 1) Organizations invested in building their foundations as well as their programs; 2) Leadership, not just organizations, transformed; and 3) Leaders imposed strategic rigor when it came to spending these unrestricted funds (Fleming et al., 2023). These impacts indicate transformational shifts for nonprofit organizations, underscoring the importance of full-cost, unrestricted funding.

Section 3: Methods and Approaches

This study utilizes a mixed-methods research approach, including a literature review as well as four expert interviews presented in Section 4. These interviews provide primary qualitative data, and are synthesized with findings from the literature review of Section 2 to form implications and recommendations for a sustainable full-cost fundraising model.

These four semi-structured interviews were conducted with four different executive-level development professionals in the nonprofit sector, who each have a specific focus on development and fundraising within their respective roles. Given the sensitive nature of the topics discussed, these interviews are anonymous.

For the context of this study, it is important to note that all four organizations associated with these interviewees are located, or have a location in the San Francisco Bay Area. These organizations represent a wide variety of services within the nonprofit sector, and vary considerably in organization size and reach. The data gathered from these interviews is not meant to represent the entirety of the nonprofit sector, but rather to sample a small subset of organizations and explore first- hand perspectives of current funding practices, and implications for full-cost support.

Three of these interviews were conducted using a full list of open-ended questions, and due to time constraints, one of these interviews was conducted using the full-list of open-ended questions, however not all were able to be addressed. Three interviews took place over remote-communication platforms, with one interview conducted via Google Meet, and two others conducted via Zoom. The fourth interview was conducted in-person. All four interviewees

consented to participating in the interviews and interview recordings. The length of the

interviews ranged approximately from 25 minutes to one hour. Additional email follow-up

requests were also utilized to clarify information.

Section 4. Data Analysis

Introduction

This capstone project utilized four expert interviews, whose identities and organizations have been anonymized. The organizations represented by each expert interview have been named "Organization A", "Organization B", "Organization C", and "Organization D" to ensure this anonymity. These four organizations represent a wide variety of services the nonprofit sector provides, and also vary significantly in organizational size and community reach. While several of these organizations operate in more than one city, all of these organizations have some form of operation in the San Francisco Bay Area.

Roles and Experience of Interviewees

All interviewees hold significant leadership positions within their respective organizations, with a variety of backgrounds varying from starting in direct service positions to being founding employees of the organization. All roles are entirely focused on development, or primarily focused on development.

Organizational Development Structures

Organization A hosts the largest development team and structure, with 10 individuals in a hierarchy of roles, including a Chief Development Officer, Directors of Development, and development support staff. Despite this considerable size, fundraising and administrative costs constitute just over 20% of the organization's budget, indicating the organization's impressive size. In contrast, Organization's B, C, and D maintain leaner teams, with just two- or three-member development teams, with all organizations containing at least one hybrid development staff member, and Organization D consists only of hybrid development staff. All organizations

perform some form of direct-service operations, however, the organization focus and overall percentage of direct-service operations varies significantly between organizations. While neither Organization B or D mentioned concerns with their organizational percentage allocated towards fundraising and administration, Organization C is supported by another nonprofit, and as such must allocate a portion of its total budget to this supporting organization, on top of its own administration and fundraising costs, reporting nearly 30% of its total budget spent on fundraising and administrative costs.

Despite varying development team sizes, three of the four interviewees emphasized a lack of dedicated staff or role that is targeted towards individual donor cultivation, with a "Major Gifts Officer" or equivalent being identified as key to developing these meaningful, personal donor relationships. Hiring such high-cost fundraising-specific roles, however, has proved challenging for these organizations due to a variety of reasons, including budget constraints and hiring costs, especially in high-cost living areas.

Funding Sources and Restrictions

All organizations involved in the study revealed commonalities in their funding structures, with the main source of funding being Foundation funding. Interviewees noted that having multiple sources of income made their organization both more resilient and also more attractive to other funders, in line with expectations of revenue diversification noted in the literature review. Restrictions associated with funding were perceived differently across all organizations, however none of the interviewees felt that their organization's funding sources and associated restrictions immediately hindered their fundraising needs.

Organization A was the only organization among the four that discussed reliance on government grant funding as an additional significant revenue source. In alignment with findings from the literature review, it was observed that this organization suffered from accompanying grant restrictions that placed large constraints on spending funds on overhead costs. To combat this, the organization has turned to Earned Revenue, which now accounts for approximately 30% of the organization's total revenue annually.

In contrast, when discussing earned revenue, a different interviewee appreciated the importance of earned revenue and noted a potential future interest, but mentioned that they were intentionally staying away from it for the current time. This interviewee expressed some concern over earned revenue reliance in current times, noting the findings from recent data and research that reported that those nonprofit organizations who relied heavily on earned income, suffered the most during the pandemic. In addition, this interviewee mentioned personal struggles with earned revenue, stating concerns of mission drift and misalignment of organizational goals, should the organization begin to take earned revenue.

Full Cost and Unrestricted Funding

All organizations acknowledged the importance and value of unrestricted funding, and three of the four interviewees specifically mentioned direct efforts made in recent years to secure further unrestricted funding. Through interviews, it was observed that organizational focus and type of service had an impact on the organization's success in securing unrestricted funding, with organizations that were more programmatic focused experiencing more challenges in securing unrestricted funds. For example, when it came to securing unrestricted funds, Organization B appeared to be the least affected by overhead-cost restrictive grants due to its organizational

focus, which is clearly on relationship building and therefore its staff. As such, it is clear to Organization B's funders that the costs associated with Organization B's business are directly tied to investing in these roles and individuals. Unsurprisingly, as Organization B has received mostly unrestricted funding, Organization B is the only organization of the four involved in the study that did not explicitly mention intentional moves towards unrestricted funding.

Three of the four interviewees explicitly stated that, in recent years, their organizations have made a conscious effort towards unrestricted funding. Interestingly, all three cited outside professional training relating to finance and fundraising as essential in building their skills towards this move. This professional development came in many forms, including graduate school and professional development workshops, yet had similar effects on the leader in encouraging an in-depth financial understanding of the organization and reconsideration of the organization's current funding model.

One interviewee expressed that while they have been mostly successful in moving to unrestricted funding, when applying for funding from new foundation sources, these foundations often do not offer unrestricted support as a first-time gift, instead preferring to start with restricted support, and over time and evaluation of the relationship, moving to unrestricted funding, if deemed appropriate. This has led to the organization creating new projects for funders purely as a means for bringing in new support. While these projects do genuinely meet the needs of the organization, they are packaged in such a way that is meant to resonate and appeal to the funder's interests. These restricted grants may be aimed at programmatic needs, however, the organization has managed to ensure that the funds will still support the overall

mission and programmatic needs of the organization. In addition, the organization has ensured its ability to cover overhead costs by securing a multitude of other unrestricted funds.

Funder stigma around overhead costs also poses a challenge for nonprofit organizations. As mentioned, Organization C has a higher than average percentage (nearly 30 percent) of its budget allocated towards fundraising and administration, which has raised some question and concern from its funders. Although most of the organization's funds are unrestricted, some of these funders still request a report of the percentage spent on overhead costs, which causes a need to justify or explain these percentages.

Interestingly, for Organization D, the move to unrestricted funding caused it to examine and restructure its current funding structure and way of doing business. It determined that some of its current funding sources were not entirely aligned with the mission and growth of the organization, and therefore better utilized as "fees for service". Similarly to Organization A, Organization D began to take on earned revenue, which has now become a steady income source, making up around 15 percent of the organization's total annual revenue. In addition, this organization is now proudly supported entirely by unrestricted grants, individual gifts, and earned revenue.

COVID-19 and 2020 Social Movements

When discussing Full-Cost, all interviewees recognized the impact of the COVID-19 pandemic on their organizational operations and fundraising efforts, though these impacts were much more pronounced for one interviewee. All three organizations that had made intentional moves towards unrestricted funding began doing so before the COVID-19 pandemic. For some, this move occurred earlier than for others, which seems to have affected the impact on each
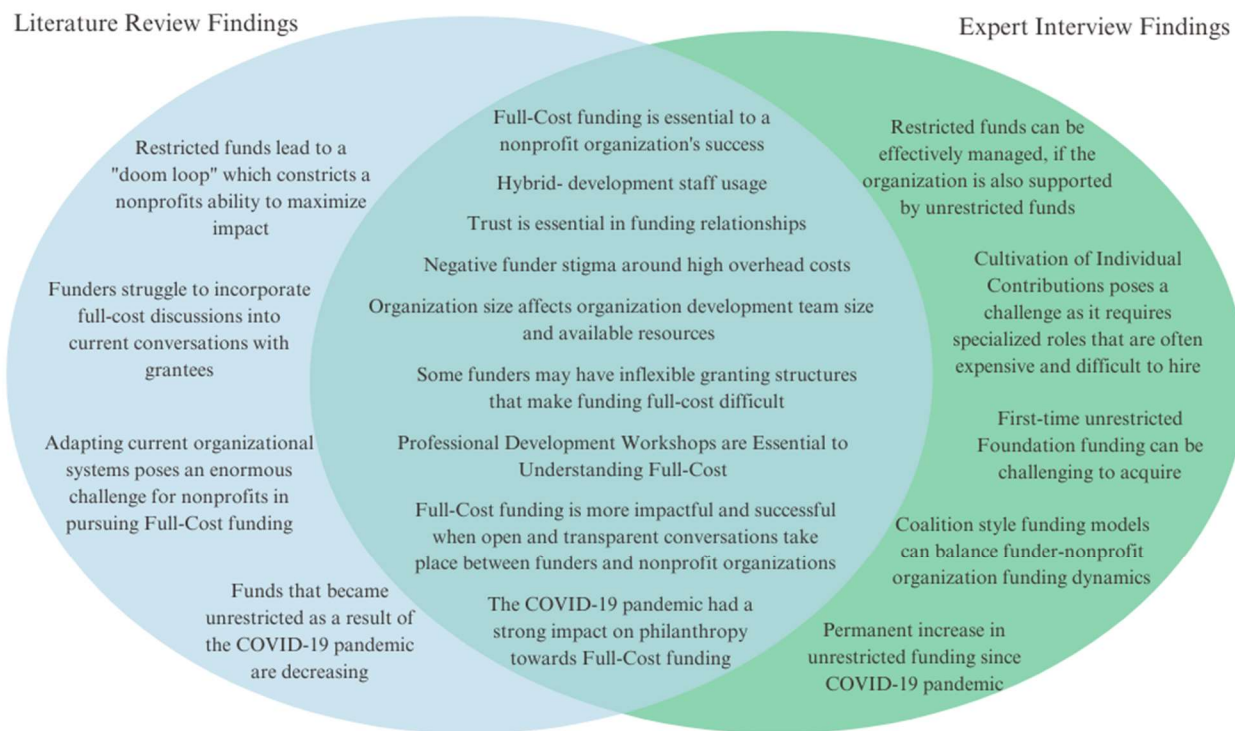
organization. Organization D began shifting towards unrestricted funding in 2019, the

closest to the pandemic of all the organizations. Prior to the pandemic, Organization D had

received a major restricted Foundation gift, however, when the negative effects of the COVID-

19 pandemic became alarmingly clear, this funder adjusted the gift to be unrestricted. While no

other interviewees expressed nearly as transformative of effects stemming from the COVID-19

pandemic on their restricted funds, they did express a perceived change in attitude from funders,

which assisted them in open conversations around their greatest needs. One interviewee also

discussed the changing philanthropic landscape as a response to the Black Lives Matter

movement, noting a shift in nonprofit leadership to be more inclusive of demographically diverse

leaders as well as a shift in philanthropy towards trust-based philanthropic practices.

Comparative Analysis

The following diagram presents a comparative analysis summary of the Literature

Review findings synthesized with findings from expert interviews.

Figure 3

Comparative Analysis Results

Literature Review Findings

Expert Interview Findings

Restricted funds lead to a "doom loop" which constricts a nonprofits ability to maximize impact

Funders struggle to incorporate full-cost discussions into current conversations with grantees

Adapting current organizational systems poses an enormous challenge for nonprofits in pursuing Full-Cost funding

Funds that became unrestricted as a result of the COVID-19 pandemic are decreasing

Full-Cost funding is essential to a nonprofit organization's success

Hybrid- development staff usage

Trust is essential in funding relationships

Negative funder stigma around high overhead costs

Organization size affects organization development team size and available resources

Some funders may have inflexible granting structures that make funding full-cost difficult

Professional Development Workshops are Essential to Understanding Full-Cost

Full-Cost funding is more impactful and successful when open and transparent conversations take place between funders and nonprofit organizations

The COVID-19 pandemic had a strong impact on philanthropy towards Full-Cost funding

Restricted funds can be effectively managed, if the organization is also supported by unrestricted funds

Cultivation of Individual Contributions poses a challenge as it requires specialized roles that are often expensive and difficult to hire

First-time unrestricted Foundation funding can be challenging to acquire

Coalition style funding models can balance funder-nonprofit organization funding dynamics

Permanent increase in unrestricted funding since COVID-19 pandemic

Source: Author Created

Section 5: Implications and Recommendations

Implications

This data reveals the many complexities across nonprofit development teams in the

U.S. In response to Research Question 1, "What are common nonprofit development structures

and what influences these structures?", study data shows varied structures and sizes of

development teams across nonprofit organizations, and suggests many influences for these

structures and sizes. As noted in the literature review, nonprofit fundraising structures often

utilize staff in both dedicated fundraising roles, as well as hybrid (part fundraising, part

programmatic or other responsibilities) roles, and this utilization of hybrid roles was evident

among all four organizations interviewed, indicating a common expectation for flexible

development structures. In addition, the inclusion of certain roles, such as the CEO or marketing

and communications roles were variably considered part of "Fundraising and Development",

indicating differing opinions for who belongs on the "Fundraising and Development" team, as

well as differing budgetary allocations for "Fundraising and Development". These varying

definitions of a development team "make-up" may also indicate additional reasons for the

varying sizes of nonprofit organizations across the U.S.

When analyzing the influences of these team structures, literature review results pointed

to organizational size as the main influence for development team structure, and interviewee

research results align with and expand on this, indicating that the main factors that influence an

organization's development team size are organization size, service provided, and scope of

operation. However, research also indicates that larger development teams may not meet an

organization's full development needs, with 75% of interviewees explicitly expressing a need for

specialized, expensive roles focused on individual gift cultivation, despite having

incredibly diverse development teams. This suggests that nonprofit organization's may become

over-reliant or over-focused on one type of revenue, and while organization's might expand their

team to support increased efforts in this direction, these expansions do not support diversification

of fundraising sources.

Finally, while the literature review pointed to use of volunteers and consultants as an

effective way for nonprofits to achieve their development efforts, only one interviewee discussed

involving volunteers (the organization's board) in its fundraising efforts. Given the importance

of governance for a nonprofit organization, this suggests a need for increased strategic utilization

of board resources or consultants for nonprofit organizations development and fundraising

purposes.

Regarding Research Question 2, "Do restrictive grants constrict a nonprofit

organization's ability to maximize their impact", study findings suggest that certain funding

sources, such as government grants, can be more restrictive than others, especially in regards to

overhead costs. In addition, while not explicitly stated as a restriction, interviewees expressed

difficulties with funder stigmas around overhead costs, with higher annual fundraising and

administrative percentage costs leading to funder scrutiny or difficulty in obtaining funds,

indicating a need for a shift in the philanthropic discourse around administrative and fundraising

costs. Interview data indicates that restrictive grants can be effectively utilized to support a

nonprofit organization's core needs, however this requires additional work and time to repackage

general program information into attractive projects that could be better spent cultivating other

fundraising sources. In addition, this utilization of restricted grants still requires the nonprofit

organization to possess diversified revenue sources, that include unrestricted funds to cover overhead costs.

Literature review findings indicate an immense volume of unrestricted funds contributed by Individual giving and Earned Revenue each year, however interview data reveals difficulties in obtaining these unrestricted funds, either due to lack of support from current funding structures or concern over implementation, especially given the effect of the COVID-19 pandemic on earned revenue. Despite these challenges, interview data also indicates that participants have been very successful in utilizing earned revenue as a steady revenue source, which for one organization allowed them to effectively manage its restricted funds. This supports the idea behind effective restricted grants management, and demonstrates the importance of steady, unrestricted, revenue streams, should an organization also rely on restricted funds.

All interviewees expressed an organizational reliance on Foundation funding, which for 75% of interviewees, was at one point very restrictive in terms of funding overhead costs. As a countermeasure, some organizations turned to other forms of unrestricted funding, specifically earned revenue, which now makes up a sizable portion of one organization's total annual budget. This shift to earned revenue was described as transformational for some interviewees, as it shifted their entire way of considering fundraising and development. This suggests that over-reliance on Foundation support may lead to more restrictive funds, if not carefully managed. Additionally, this suggests that the utilization of revenue diversification as a method to seek unrestricted, or full-cost funding, can lead to more thoughtful and sustainable nonprofit development operations.

Interestingly, despite the previous heavy reliance on restricted Foundation support, the majority of Foundation gifts for these organizations are now unrestricted, which helps to promote financial flexibility and long-term sustainability. Data indicates that this shift towards unrestricted funding was consistently made as a conscious leadership decision by the organization that emphasized understanding the true costs of the organization, and that for some organizations this shift was easier than for others. This demonstrates a need for financially literate, strong nonprofit leaders to engage funders in full-cost conversations, with an understanding that success of these discussions will oftentimes depend on the trust level with funders.

Literature review results indicate that some Foundation philanthropy structures may be too inflexible to allow for full-cost funding practices ("Full Cost Funder/Grantee Pilot", 2016). However, interview data and literature review results also suggest that, in some instances like direct ask or the COVID-19 pandemic, some foundations and individual funders are willing to reexamine and change these structures, suggesting further flexibility than initially anticipated.

Unsurprisingly, trust and transparency were observed to be crucial in shaping strong funding relationships. Study data indicates that this trust needs to be mutual. On one hand, foundations and other stakeholders need to trust that the nonprofit organization can achieve its desired results and have a significant impact. On the other hand, nonprofit leaders and fundraisers require a certain level of trust that the stakeholder is genuinely committed to an organization's cause and willing to trust their expertise in doing what is best for the organization.

This trust can be difficult to establish without a long-standing funding relationship, and it was observed that some organizations struggled to obtain first-time unrestricted Foundation funding. As mentioned earlier, this can cause organizations to be required to find work-arounds to obtain this funding, repackaging programs or content to fit a funder's need, and in the case of the literature review, at times obscuring budgets or other data to fit funder needs. Normalizing these types of misleading practices only harm the nonprofit industry, and continue to enforce difficult expectations on nonprofit organizations. This illustrates a clear need for open conversation around the importance of unrestricted funding, and the impact it can have on nonprofit organizations. In addition, it indicates a need for nonprofit development professionals to understand the negative effects of such workarounds as well as an industry need for more available resources to assist organizations and fundraising professionals through these situations.

Examining Research Question 3, "How can the nonprofit industry support full-cost funding in becoming a standard philanthropy practice", literature review data indicates that there needs to be an inherent change in the power dynamics between funders and nonprofit organizations, with more equal or balanced power given to nonprofit organizations, which will lead to more financial transparency. In line with these findings, interviewee data indicates that nonprofit organizations can be very successful in moving towards full-cost, unrestricted funding, especially if led by an Executive Director or CEO that is specifically seeking unrestricted funding, and willing to challenge traditional funder-nonprofit dynamics. The importance of professional development training in assisting nonprofit organizations in growing their financial literacy and fundraising skills was imperative to the success of study participants in moving

towards full-cost funding, illustrating the importance of regular financial professional development in a fundraising professional's toolkit.

Literature review and interviewee data also indicates that unrestricted funding has become more accessible since the COVID-19 pandemic, and has had incredibly transformative effects for recipients. Unfortunately, securing unrestricted first-time funding appears to remain a challenge, as some foundations prefer to start with restricted funds. In addition, funder scrutiny around overhead costs can still present a challenge, suggesting a necessity for further discourse on this issue.

Finally, while only one interviewee explicitly mentioned the COVID-19 pandemic, it clearly impacted this interviewee's organizational funding dynamics. They explained that the combination of the onset of Covid-19 and the resurgence of the Black Lives Matter movement after George Floyd's and Breonna Taylors' deaths served as a turning point for their fundraising as well as philanthropy as a whole. This is in line with literature review data, which shows that these tumultuous and powerful events promoted a significant shift in the philanthropic approach, with funders offering unrestricted grants to help organizations adjust to the new challenges, indicating a shift towards trust-based philanthropy. These shifts show that the philanthropic landscape is subject to change, and will change in response to drastic community and nonprofit needs. Further, these events appear to have caused a transformative and more thoughtful shift from philanthropy towards trust-based philanthropic practices that will support nonprofit organization's full-cost needs. Unfortunately, there appears to be recent declines in this shift as the country begins to recover from the COVID-19 pandemic, despite continued needs for

nonprofit services, indicating a strong need for a reinvigoration of the conversation

around Full-Cost, and further exploration of its positive impacts for funders and nonprofits,

alike.

Recommendations

Using the insights gained from the above literature review and interview analyses, this

capstone next proposes a comprehensive framework named the "Sustainable Full-Cost Coalition

Philanthropy" Framework (SFCCP), aimed at creating and supporting a sustainable, full-cost

funding model and evening the dynamic between funders and nonprofit organizations. This

model also serves to further address research question 3: How can the nonprofit industry support

full-cost funding in becoming a standard philanthropy practice?

Interview and literature review data point to a number of critical needs in successful

fundraising relationships, namely: 1) A need for comprehensive understanding of full operational

costs; 2) The importance of unrestricted, or full-cost, funding; and 3) the need for balanced,

equitable funding relationships that are built on trust and transparency. This model works to

address these needs, while supporting a sustainable and long-term shift towards unrestricted

funding and trust-based philanthropy practices.

Figure 4

Sustainable Full-Cost Coalition Philanthropy Framework
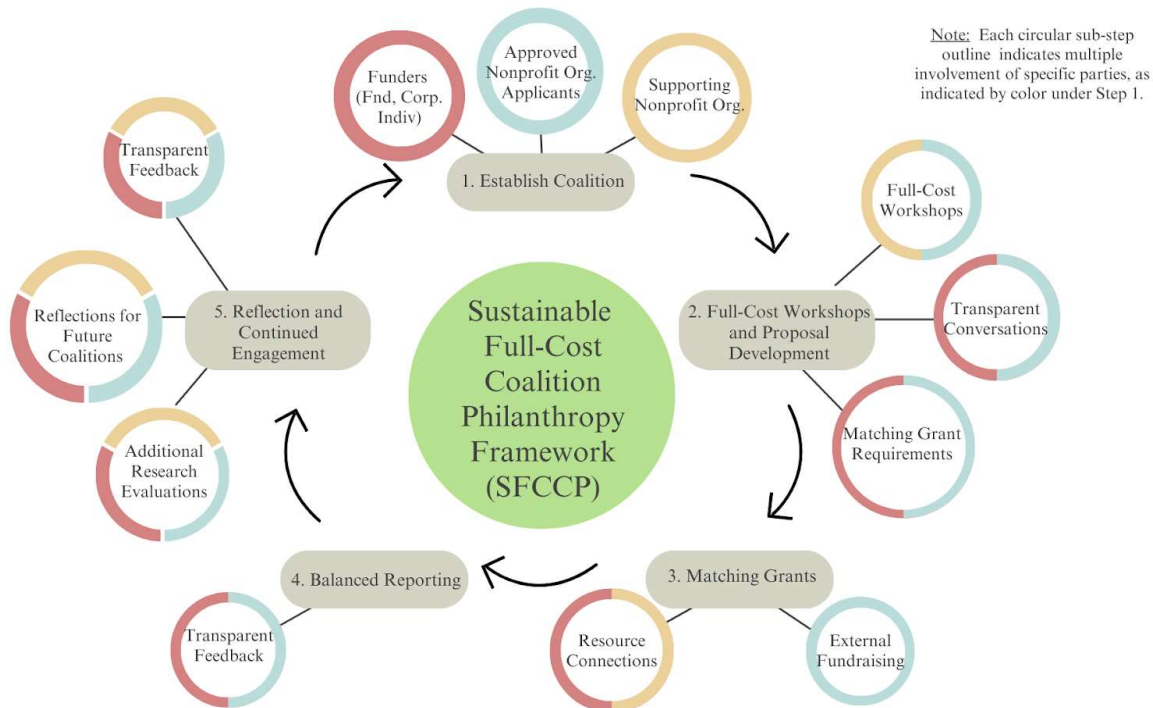
Source: Author Created

While there appears to be a promising shift within the philanthropic landscape towards unrestricted funding, the aim of the SFCCP framework is to facilitate and support a sustained and holistic industry-wide transition to full-cost funding. To achieve this, there must be a permanent shift in philanthropic perceptions and practices for both nonprofit organizations and funders. Nonprofit organizations who are accustomed to receiving restricted funds must also be equipped with necessary resources and tools to manage newly unrestricted funding, in order to ensure sustained success. The key to this particular funding framework is the establishment of a coalition or group of major funders, both individuals and foundations, who have previous experience with full-cost philanthropic practices, and who support trust-based philanthropy

practices. An ideal set of funder candidates for this framework would be the

Foundations who took part of the Nonprofit Finance Fund and Philanthropy California's joint

Full-Cost Funding pilot program. This group would also be facilitated by a nonprofit

organization similar to the Nonprofit Finance Fund or Philanthropy California, who had a

specific interest in Full-Cost Funding, and who could offer resources and workshops to assist in

this shift. Once this group is established, the framework would take place in five recommended

steps:

1. Establish a Funding Coalition

2. Matching-Grant Proposals with Full-Cost Workshop and Resource Support

3. Matching Grant and External Fundraising Support

4. Balanced Reporting Structures

5. Reflective Evaluation and Continued Engagement

Establish a Funding Coalition

After the initial funding and resource support coalition has been established, the coalition

would then develop an application process for nonprofit organizations who are interested in

making the transition to unrestricted, full-cost funding. The coalition would review these

applications, specifically examining them for nonprofit organizations who demonstrate a

commitment and understanding to full-cost fundraising. While this initially may seem

unbalanced, as the funders would be pre-selecting all potential candidates for funding, this pre-

selection would be done in hopes of reducing the number of misalignment issues that could

potentially arise as a result of differing values or visions between the philanthropic support and

nonprofit organizations.

Given that these foundations and individual funders will inevitably have their own funding priorities, in addition to full-cost funding, this preliminary stage of selection would ideally serve as a filter to identify nonprofit organizations that share similar missions and goals. However, as this framework is aimed at recognizing the importance of constructive feedback, this SFCCP framework also proposes the option of optional feedback for those organizations that are not selected. This feedback could provide valuable insights into specific areas where the organization could improve to meet future requirements of the coalition. Additionally, the framework proposes that the coalition keep track of any differing funding priorities, and include funding sources that support these in following years. By doing so, this framework aims to ensure strong alignment between selected nonprofit organizations and funders, and also foster a constructive learning environment for both funders and nonprofit organizations, helping to cultivate standard philanthropic practices built on shared commitment to full cost funding, transparency, and mutual growth.

Matching- Grant Proposals with Full-Cost Workshop and Resource Support

Once selected, nonprofits who are invited into the coalition would begin to develop proposals outlining their funding needs, clearly and transparently outlining the full-cost of their operations. As many interviewee's noted, this task can be difficult without outside professional development or help. As such, this framework proposes the addition of a supporting nonprofit organization to provide these resources, or if not possible, perhaps a funder-supported, professional development training that covers basic financial literacy and fundraising skills. In addition, this framework would encourage regular check-ins between the Foundation or Individual funder or program officer and the nonprofit organization, with open discourse about

what the Foundation desires within the proposal, and what the nonprofit organization

needs to achieve this. Similarly to the applications required to be accepted into the coalition,

proposals that are not accepted would also be granted optional funder feedback for future

success.

Matching Grant and External Fundraising Support

A key part of this framework is that all proposals are geared toward matching-

grants. The reason for this is twofold, first, matching grants serve as a catalyst to spark an

industry-wide shift towards full-cost funding. The concept of matching grants requires that

nonprofit organizations actively seek out additional support beyond the coalition, spreading the

idea and understanding of full-cost throughout the philanthropic community. As these

organizations engage other funders in conversations about these needs, this would both educate

and potentially convert more funders to making the shift to full-cost funding, and also provide

nonprofit organizations with critical, direct experience in making a full-cost "ask" in a

"standard" philanthropic environment. Given that this model would be supported by major

foundations and individuals, this hopefully would spark an interest and change in thinking from

other major foundations and donors, whose current funding models may not make space for

unrestricted or full-cost funding. Secondly, the matching grant format could help nonprofit

organizations further diversify their funding sources, as well as encourage nonprofits to explore

and consider other potential funding avenues that they may not have considered otherwise. As

GivingUSA points out, Individual donations are a massive resource to the nonprofit sector

(2022). Despite this, study data indicates that nonprofit organizations may struggle to cultivate

individual donations, instead focusing their efforts on institutional giving. As such, this model

encourages resources and support for participating nonprofit organizations in cultivating Individual-specific funds.

The SFCCP framework also recognizes the reality that some nonprofit organizations may not be equipped or experienced in effectively utilizing unrestricted funding, despite its clear benefits. As such, another crucial part of the SFCCP framework lies in providing support and resources to these nonprofit organizations to help them optimally leverage these unrestricted funds. By providing training, resources, and ongoing support, the SFCCP framework can provide these organizations with the necessary tools and skills to effectively utilize unrestricted funds, and facilitate sustained impact.

Balanced Reporting Structures

The next part of the SFCCP framework includes a discussion of reporting requirements, upon grant commitment. While external matching funders are likely to have non-negotiable reporting requirements, within the coalition, the reporting process would be aimed at establishing an equitable dialogue around realistic reporting requirements that fulfill the funder's needs, while not overburdening the nonprofit organization. These balanced reports would ensure that reporting requirements serve a purpose beyond just "checking a box", and could present learning opportunities for both nonprofit organizations and funders. For nonprofit organizations, it would provide a chance for insightful reflection and true understanding of impact, and for funders it would provide valuable insight into the challenges and successes of the organizations they support, potentially informing future philanthropic decisions. In addition, establishing an environment of transparency and open dialogue around reporting encourages a shift from the

traditional and transactional reporting dynamic between funders and nonprofits,

helping to redefine the current power dynamics in philanthropic spaces.

Reflective Evaluation and Continued Engagement

The final step of the SFCCP framework would involve comprehensive evaluation upon

the completion of the grant term. This step is crucial in gauging the successes and challenges

experienced by the participating organizations and funders throughout the framework

cycle. This process would involve detailed review of the grant's impact, and a thorough

examination of the challenges encountered with potential solutions for future iterative models.

This reflective evaluation would serve as yet another area for nonprofit organizations and

funders to engage in open conversation that leads to mutual growth and improvement and

enhance all party's ability to work more effectively towards their shared missions or

goals. Further, the framework would encourage continued engagement, and nonprofit

organizations that previously benefited from the coalition would be required to contribute to

support future participating nonprofit organizations. This engagement could take place in

various forms, such as further funding, mentoring, sharing of knowledge, or networking

assistance. This framework approach aims to create a sense of community and reciprocity within

the nonprofit industry, and support the transition to full-cost funding with shared experiences and

successes.

The SFCCP, by design, does necessitate a significant amount of initial involvement and

commitment from foundations and other funders. While this might appear to place an initially

heavy onus on these entities, it is important to recognize this framework's transformative

potential. This proposed framework requests initial investment from the philanthropic

community to support a move towards normalizing an environment of full-cost

funding, which can then be supported equally by both the nonprofit industry and the

philanthropic industry.

Section 6: Conclusions

In conclusion, through literature review and interview analysis, this capstone provides an exploration into the complex structural and financial intricacies relating to nonprofit organization development structures within the U.S. Data examined revealed the harm that restrictive grants can impose on nonprofit organizations, and the importance of full-cost support for a nonprofit organization's sustainability. Study results also show the impact of significant external events, mainly the COVID-19 pandemic and 2020 social movements like Black Likes Matter, and their profound impacts on philanthropic practices, including the embrace of Full-Cost Funding and Trust-Based Philanthropy. These findings were then synthesized with expert interview data and led to the development of the Sustainable Full-Cost Coalition Philanthropy Framework, which is presented as a solution to spark a sustained shift in the philanthropic landscape towards unrestricted, full-cost funding, supported by principles of trust-based philanthropy.

Limitations and Future Research

Given that this topic involves an in-depth analysis and understanding of a philanthropic, cultural shift towards full-cost funding, a longitudinal analysis consisting of a much larger sample size of nonprofits is recommended for future research. As such, given that this capstone study utilized a small sample of interviewees, all located in the San Francisco Bay Area, this capstone study is limited in scope and potential for a true representation of the nonprofit sector. Additional considerations may include sampling nonprofits from different states, as well as interviewing funders or other philanthropic professionals to determine their perspective on the topic. When interviewing nonprofit participants, it might also be helpful to examine both the

role of marketing and communications in nonprofit development, as well as the role of

board and governance in nonprofit development. Additionally, while interview participants

represented a diverse variety of demographics and fundraising backgrounds, examining the

effects of fundraiser demographics and Diversity, Equity, and Inclusion (DEI) on successful

fundraising and philanthropy is recommended. Finally, if implemented, a rigorous evaluation of

the SFCCP framework would provide insights into its effectiveness, areas for improvement, and

potential for future success.

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