



# THE *NONPROFIT* QUARTERLY STUDY ON NONPROFIT AND PHILANTHROPIC INFRASTRUCTURE



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# Setting the Stage: The Nonprofit Infrastructure as Accelerant

by ELIZABETH BORIS

IF I WERE TO DESCRIBE THE NETWORK OF ORGANIZATIONS that supports the nonprofit sector, I would not use the word infrastructure, which connotes a fixed and unchanging support system.

These organizations are hardly the static bones of the sector; rather, they are the interactive forces that transmit information and propel change. This network connects civil-society organizations through its hubs, which create opportunities for peer-to-peer learning and shared experiences as well as for improving practices, conducting and using research, and developing ethical standards. At their best, support organizations are propellants that drive organizations to excel. They promote an overarching view of the nonprofit sector's role in society by articulating the collective challenges of organizations and their constituents and by developing alternatives to address these challenges.

What are the implications of this dynamic perspective? It puts the focus on how the support network connects a diversity of organizations and facilitates their interaction with the wider environment. The recent presidential campaign, whose Web revolution so engaged the young, illustrates these dynamics. Networks embody speed, flexibility, interactivity, and a high tolerance for volatility, negative feedback, and redundancy. Successful network hubs provide quality content and a variety of communication and engagement options.

Now, with the reality of the current financial crisis, the support network of associations, publications, research entities, and others has a key role to play. If these organizations did not exist, there would be a movement to create them. The support network helps to identify and communicate organizational survival strategies. But more important, it documents and projects the impact of the financial crisis on individuals and communities all over the country. It also generates, communicates, and facilitates discussion of public-policy solutions.

Since the economic downturn may be more extensive than any we've experienced in our lifetimes, the network needs to be more interactive and more open to respond and function at a high level. Such demands call on support organizations to engage in collaborative problem solving and better coordination. The ultimate goal is to strengthen civil-society organizations to fulfill their missions during hard times. With a societal commitment to fund the network and a commitment by the network's hubs to collectively foster innovative capacity building for all civil society, progress toward this goal can be achieved. ■

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## Introduction

**T**HIS REPORT IS ISSUED AT AN ODDLY BUT REMARKABLY APT TIME. Since NPQ began researching the nonprofit and philanthropic infrastructure in early 2008, the United States has descended into an economic slump of historic proportions and has elected a new president. Charitable and public money has withered very significantly, a trend that will likely continue for an extended period. At the same time, the need for the services and advocacy provided by the nonprofit sector has significantly increased. For these reasons and others we are living in an era of intense turbulence. At risk are the vast majority of nonprofits—mostly small- and mid-sized groups—that work in thousands of local communities and provide critical services to millions of people, especially those who are disadvantaged and marginalized. These nonprofits on which millions of Americans depend must in turn depend upon the nonprofit and philanthropic infrastructure to help them re-organize, connect to resources, and access critical, time-sensitive information during this chaotic period. But this study finds that the nonprofit infrastructure lacks the reach to serve the vast majority of the sector which is made up of small to mid-size nonprofits, most of which are very local and very deeply woven into the fabric of their own communities.

### Methodology

Before we summarize our findings, though, a quick review of methodology is in order. First, this project began without hypotheses. As noted in this report's methodology section, the team used a grounded-theory approach; the findings and recommendations are based on several data collection methods and data points that contributed to a theoretical framework for understanding the field. It is important to note that the findings and recommendations are not presented in a vacuum, but instead, situated in the context of current events occurring at the national and global spheres, as well as in the developmental life of the sector.

Second, There are two caveats to this research.

**Caveat one.** This study looks at only the national infrastructure that serves across fields of interest. Many more intermediaries and other elements of infrastructure exist within specific fields and at the local level. The study gives but a nod to these entities on its mapping of infrastructure relationships and in its discussion of state associations and management support organizations.

**Caveat two.** The *Nonprofit Quarterly* participates in the infrastructure. Although we have made every attempt to be as objective as possible, we should acknowledge that, as is the case with any study that employs some qualitative methodology, there may be some bias that has seeped in, despite our best intentions to ensure that that does not occur. It is our hope that if such bias is perceived, it is done so with the assumption that this was not deliberate. ■



## Executive Summary

**T**HE MAJOR FINDING OF THIS STUDY IS THAT THE CURRENT FINANCING SYSTEM for nonprofit infrastructure—including foundation funding—favors organizations that support and represent the larger nonprofits of the sector (which make up a small fraction of nonprofits overall) while networks and infrastructure organizations that serve tens of thousands of small to midsize nonprofits have been consistently under-funded.

### **Infrastructure in a Pinch: Why Reach Matters Now**

Nonprofits in every corner of the United States are interacting at every level with intense social, political, and economic chaos. Unemployment is increasing at record rates and will cause a cascade of other problems even as government budgets are squeezed, foundation assets decline, and individual pocketbooks are strained. This leaves services—services that are provided largely by small- to mid-sized, community-based nonprofits—to the most vulnerable populations at high risk for demise or severe cutbacks. At the same time, a window appears to be opening for smaller, community-based nonprofits to play a more visible and organized role in using their skills, knowledge, and resources to work with residents toward the creation of new social compacts.

To respond to this challenging environment in a rapid and well informed way, nonprofits of all sizes and shapes, but especially, the majority which are small or mid-sized, need the connective tissue of infrastructure to, among other things:

- restructure their practices, services, and organizations to fit a resource-scarce environment;
- identify and pursue available resources;
- track important trends in government and communities;
- identify potentially useful innovations in practice, financing, and organizational structure occurring elsewhere;
- engage in collective policy development and advocacy.

A set of recent events illustrates what can happen when a strong nonprofit infrastructure is absent for nonprofits embedded in affected communities.

Just hours after the planes hit the Twin Towers on September 11, 2001, scores of New York City's social and human service agencies were providing food and shelter, offering counseling and support services and organizing thousands of volunteers. Not all were able to do so equally, however. A study of New York City nonprofits by Dennis Derryck and Rikki Abzug (then of New York University), found that well-networked nonprofits were able to identify and distribute resources faster on behalf of their constituents than those that were unconnected. They were also able to find many effective points of collaboration with other organizations to ensure that clients were served on the most holistic and effective basis possible.

The world also witnessed the devastation and despair of what occurred in the Gulf during and after hurricanes Katrina and Rita when Red Cross infrastructure was not present in a way that tar-

geted the most vulnerable first or, in some cases, at all. Nonprofits, again stepped in to prevent the city from crumbling completely by providing health care and shelter, organizing food drives, and mobilizing millions of volunteers from across the country. Even though many local nonprofits stretched well past their own capacity to ensure that as many residents were kept safe as humanly possible, the lack of a well distributed national infrastructure to help network the disaster response had disastrous consequences.

It is reasonable to look at this current period as a crisis and although the components of a solid national infrastructure already exist to aid local nonprofits in this historic pinch, infrastructure funding is unbalanced and unsystematic. The result is that the national infrastructure does not currently have the reach that it should to the many corners of the sector (rural areas, poor and low-income communities, small communities, etc.). At the same time, many national nonprofit infrastructure organizations have continued to grow and even build significant reserves.

The first—and most striking—finding below underscores this.

***Important capacity-building services and resources have not adequately reached small and mid-sized organizations. This may stem from, but not be fully explained by, the concentration of funding in a limited number of individual institutions, rather than in a comprehensive distributed system.*** This finding is derived from a number of components of the report, reflecting feedback from knowledgeable observers that is backed by the analytical reviews of the financial models of selected infrastructure organizations and the statistical evidence of foundation funding flows. Within the nonprofit and philanthropic infrastructure, size begets size, with consequences that are not consistently positive or supportive of the diverse voices of the U.S. nonprofit sector.

This limited reach does not bode well for the sustenance and growth of the small- and mid-sized nonprofits that comprise the bulk of the sector. As noted, the current economic environment has resulted in what Paul Light calls the “shrinking middle class among nonprofit organizations”—the safety-net organizations providing services to the mentally ill, elderly, neglected and abused children, and other vulnerable organizations. Many of these organizations contract with government and have few reserves. They will

face serious cuts and will need advocacy support and help in reorganization, but given current funding patterns, are most likely to face an uphill climb.

***This limited reach has manifested itself in several other ways that portend serious consequences for the nonprofit sector overall. Funding has been heavily concentrated in a limited number of individual institutions rather than in a comprehensive distributed system of infrastructure.*** During the past five years, 104 infrastructure organizations received foundation grants adding up to more than \$1 million. The top ten of these received more than half of the total (see Table 4 on page 40).

*A very small number of foundations account for more than half of all infrastructure funding.* Although 1,300 foundations were identified as having made grants to nonprofit infrastructure over the past five years, more than 55% of the funding to infrastructure organizations comes from only 10 foundations, and a mere five foundations account for 40% of infrastructure funding.

*Some of the infrastructure organizations receiving among the highest levels of subsidy are those that are structured to suffer the least if/when there is market failure.* Economic downturns and other sudden crises tend to have considerably less influence on a number of infrastructure organizations that are better suited to withstand them; yet these organizations are also tend to be among the highest-funded nonprofit infrastructure groups in the sector.

*There has been a relative lack of attention to building an appropriate overall financing system for the infrastructure.* A skewed reliance on foundation funding and the lack of capacity (and resources) to pursue more diversified funding streams, including government money and capital funding, has not only led to dwindling resources for infrastructure groups but also, led them to create business models that pull them away from their missions and/or serve only those who “can pay the fee.”

*There has been a relative lack of foundation support to the distributed networks that serve and represent small to mid-sized nonprofits in the U.S. at the state and local levels.* These distributed networks include national organizations that have local or state affiliates that constitute both delivery systems for useful information and a means to feed information regarding local innovations, policies, and solutions to a national audience of peers and into national policy making in a systematic way.

***Relationships and personal politics are perceived by many infrastructure groups as a better indicator of who receives funding than mission, reach, or work product.*** Despite increased attention by funders to outcomes, evaluation, and benchmarking, many nonprofit infrastructure leaders perceive that the relative size of grant allocations to continue to be dominated by subjective and interpersonal dynamics rather than by attention to the health of the sector overall.

While a few of the larger infrastructure organizations that serve larger organizations have been well funded to develop their long-term income streams, many emergent elements of infrastructure have not. Thus, there is a perception that “the rich keep getting richer, and others struggle.”

Evidence culled for this report has found some support for this assertion. Organizations, for example, that have large endowments and fluid reserve funds are positively correlated with large grants, while other efforts—despite their potential impact or effectiveness—are under-resourced.

The relational aspects of who obtains funding are underscored in an exhaustive analysis of the overlapping connections of large infrastructure organizations with large foundations and other prominent nonprofit leaders (including those with other resources). These relationships, say interviewees, “sow the seeds of a closed circle of relationships that even high-performing but smaller infrastructure organizations find difficult, if not impossible, to penetrate.”

***The sector’s capacity to generate useful research is higher than ever, but funding does not link research to practical application.*** Historically, funding for research has been extremely difficult to secure, and that has not changed in recent years, despite a palpable increase in the quality and rigor of nonprofit sector-generated research. What little funding is available for research is still more often than not focused largely on academic or theoretical issues, rather than on finding ways to address the practical and concrete problems and issues facing the average nonprofit. Efforts to compile raw data about the sector, as well as subsectors, for inclusion into streamlined databases accessible to scholars and others interested in mining them, continue to be a top priority for many nonprofit leaders, but funding shortfalls, mismatches, and missed opportunities for prioritizing research themes have undermined broader utility for this data.

Over the past 15 years or so, one of the most impressive advances of the infrastructure has been the development of aggregated databases that have improved the sector’s

ability to understand its own systemic issues and challenges. Although an effort now associated primarily with GuideStar, these databases resulted from long-term collaboration among a variety of infrastructure players.

Our findings suggest that these databases are critical not only as the foundation for knowledge-building research but also for the identity and validation of the nonprofit sector as an element of the economy. Charitable investments have been made in the further development of these databases, but much of that investment has focused on the development and implementation of a business strategy, rather than on ensuring that the data is well structured and accessible. That does not mean that foundations should shoulder all the expense of creating a central database for the sector; most respondents for this study, in fact, believe that given the importance of the sector to the future of the country, the government—just as it funds other economic sectors—should subsidize efforts to create these kinds of broadly accessibly and widely applicable databases.

Funders can help nonprofits advocate for more government support for these core functions, but they can also increase their support for knowledge-building research, including funding convenings between practitioners and researchers for the mutual exploration and delineation of needed research themes.

This also relates to an observation made by local infrastructure organizations and funders; that useful and vetted information has to compete and share space with “information” of questionable provenance and integrity. These interviewees expressed worry about the lack of penetration that more vetted and useful information enjoys against untested and sometimes counterproductive “common knowledge.” Strengthening translation and dissemination venues is crucial for knowledge building in the sector.

***Most infrastructure organizations are not digital natives and need help in rethinking their design to include the most optimal use of new technological tools.*** The Internet has been a transformative event, driving potent cultural shifts in way in which we communicate, obtain information, produce goods and services, and live. Moreover, it happens quickly and is ever-changing, meaning that organizations that don’t keep up risk being overshadowed, failing, or rendered irrelevant. Nowhere is that challenge more prevalent than in the nonprofit sector, where many organizations continue to operate without adequate ability to use tech-

nology in ways that can help them streamline their programs, network with other organizations and individuals, evaluate their efforts, and communicate and distribute information and services more efficiently.

But technology is more than a tool to enhance programming. It introduces and requires new ways of working overall, including a collaborative approach to leadership, transparency, interactivity with constituents/members, rapid response, and others. Technology also offers other benefits to nonprofits, among them, low transaction costs; the ease with which it allows groups to assemble and advocate for issues nonprofits care about; and the ability to encourage the development of new communities of individuals, many of whom may have never had the opportunity to interact, thus, helping to bridge the silos that have sometimes inhibited nonprofits' effectiveness. Technology is also more tolerant of failure because of those low transaction costs, meaning that it can help nonprofits be more innovative without risk of imploding (which may be particularly important now, given an unfolding financial crisis that will have a major impact on many nonprofits).

While there is a new wave of organizations that has restructured themselves in ways that use online media as the main platform for their work (which would not exist without their digital platforms), most infrastructure groups could use help with fully optimizing their uses of technology.

***A notable and welcome trend has been the clarification and analysis of common nonprofit financial patterns and practices that are being presented in ways that practitioners can understand.*** Over the past decade, a handful of nonprofit infrastructure organizations, as well as academics and practitioners, have made substantial progress in developing frameworks for explaining and analyzing common financial patterns among nonprofit organizations. With the right investments in knowledge development and dissemination, these efforts, respondents said, could be “enormously useful” to a sector in financial flux—and a sector in which, according to two leading experts in this area, the state of current knowledge about financial issues is “about a three on a scale from one to ten.”

***Over the next few years, as infrastructure organizations seek to find order from chaos, they must monitor their surroundings constantly and become better able to adapt quickly to***

***rapidly changing circumstances.*** Given the chaotic and uncertain times in which nonprofits now operate (and will likely to continue to operate in the next few years), it is essential that they are able to adapt to new and changing circumstances as they occur. That means, in turn, that they will need more general operating support and/or the kind of support that allows the most flexibility in meeting their constituents' needs and in being able to sustain themselves more cost-efficiently and effectively. It also requires from infrastructure organizations an increasingly collaborative stance that leads to strong networks and promotes results for beneficiaries above institutional growth and positioning. The ability of the nonprofit infrastructure to create strong networks and position the nonprofit and foundation sectors appropriately for new challenges, they said, will likely be derailed by over-emphasizing income-earning products, rather than recognizing (and accepting) that the infrastructure's provision of “public goods” is probably never going to be wholly self-sustaining and/or not reliant, to some degree, on foundation grants and government subsidies. In fact, as the nonprofit sector grows in stature, it may be even more important that it be given the same kinds of government support that other sectors and subsectors enjoy, e.g., a comprehensive database (similar to that of the National Institute of Health), capital pools (similar to the Small Business Administration), technical assistance/training programs and resources, etc.

***Over the next few years—particularly as a national response to the current financial crisis is devised and the place of nonprofits in that response is negotiated—policy monitoring and advocacy, especially at the national level, is critical.*** The ability of the nonprofit sector to have effective input in a new generation of policy development is crucial to the sector's positioning in the dialogue on such issues as the economy, the federal budget, and taxation, among others. Although there are infrastructure organizations working at this level and on these kinds of issues, their efforts were characterized by a number of interviewees as often narrowly focused and defensive and representative primarily of large group interests.

This is an area in which many interviewees saw the need for more balanced funding of the infrastructure that would ensure that the interests of small to mid-size organizations were being addressed in a more informed and comprehensive way.

*The report notes an increasing separation of the philanthropic infrastructure from the larger nonprofit infrastructure.* While the nonprofit infrastructure seems structurally and programmatically open to the inclusion of foundations at their tables, a commensurate openness isn't obvious among the philanthropic infrastructure. Foundations and their philanthropic infrastructure representatives appear to be focused "primarily on their specific interests and priorities." Among funders and wider philanthropic circles, the sense of obligation to support and engage the broader nonprofit sector appears to have waned, as evidenced by funding trends and interview responses. ■





## Project Research Methodology

IN ITS PURPOSE, DESIGN, AND IMPLEMENTATION, this research project is uniquely multifaceted. In one sense, it is a set of projects, each of which is intended to gather and report information on one or two facets of the U.S. national nonprofit infrastructure, with the goal of bringing together a broad and reasonably inclusive picture of the infrastructure of today, how it has evolved over the past several years, and how it can develop in the future. Some elements of the project are historical and documentary, some are analytic and evaluative, and some are future oriented. Given the range and breath of focus, the project team has employed a mixed-method research strategy that incorporates both qualitative and quantitative research methods. The table below summarizes methods employed in the project.

Many aspects of the project “plow new ground” in the field. There is a growing and increasingly rich body of research on nonprofit organizations and the nonprofit sector as a whole, but to date there has been little systematic research that examines the infrastructure of the nonprofit sector. Much of the prior material is relatively individualized, case specific, and impressionistic. These accounts tend to reflect the perspectives of specific leaders in the field and, while valuable to understand the development of certain organizations and segments of the sector, they provide little in the way of systematic inquiry into this unique aspect of the sector that we refer to as “the nonprofit infrastructure.”

Throughout the project, we have focused on the U.S. national nonprofit sector infrastructure and the organizations that comprise it. Therefore, each of the research elements of the project has been targeted to the national scale—and this results in the exclusion of mission-specific, regional, and local infrastructure organizations. These organizations have not been excluded because they are any less important but because it was beyond the scope of this project to include a full description and analysis of these smaller, more local and more specialized levels of activity.

Likewise, for purposes of manageability, this project has focused on only legally incorporated nonprofit organizations that serve as elements of the infrastructure. Thus, ad hoc interest groups and for-profit organizations receive no attention in this work. In recognition that these additional elements of the infrastructure do exist, we have included the names of a few organizations of each type on our illustrative maps, but they are listed in sidebars and separate tables. Their information is not included in the financial and other information on the infrastructure, and the results and recommendations of the project do not address issues specific to these organizations.

Since there has been little empirical work to date on the U.S. nonprofit infrastructure, this research effort is a “grounded theory” type of project. This approach reflects the fact that we know relatively little and, therefore, that we need to gather and organize information from a broad array of sources. Some of these sources are quantitative, many more are qualitative. From this data, using general models of systems and organizational development, we work inductively to develop models and hypotheses that can be tested and evaluated in future work.

Given the future-oriented nature of certain aspects of this project, our approach includes both conventional research methods and so-called future studies techniques, such as issues analysis and

scenario development to forecast future conditions for the sector and its infrastructure.

This project includes an explicit evaluation component, and our approach has been to take a formative (versus summative) approach to evaluation. Our emphasis has been on producing information that will inform the next generation of development of the sector's infrastructure. Therefore, this project does not make judgments concerning past practices of specific organizations, but rather focuses on building the capacity of the nation's nonprofit infrastructure as a whole. Discussions and assessment of individual organizations are framed from the perspective of their role or roles with regard to infrastructure and how this infrastructure might most productively develop and function to serve the sector effectively in the future.

The following section provides an overview of the research approaches employed to implement each of the project's core elements.

### **Taxonomy**

An initial element of this project was the refinement of a taxonomy, or categorization, of the infrastructural roles that are essential to the operation of the nonprofit sector. The taxonomy was developed from an earlier model developed by the *Nonprofit Quarterly* and was refined based on a review of the scholarly literature about the infrastructure needed for a social system to function effectively.

### **Mapping the Organizations of the Infrastructure**

The taxonomy was used as the framework by which to categorize the roles that various national nonprofit organizations play within the sector's infrastructure. Information about each candidate organization was gathered from IRS filings (990 and related, drawn from GuideStar and local data sources) and agency reports and Web site information. All is captured in a database that includes mission and purpose, legal status, scope and nature of operations, key contact information, and five years of data on members of management and governing boards (and their other organizational affiliations) and financial status and trends. Final determination of organization infrastructure roles was made through review with research team key informants. More than 250 organizations were evaluated for inclusion in the national data set, and comparable data was gathered for a case study on the linkage between national and local

infrastructure (using the case of Minnesota nonprofit infrastructure linkage to national infrastructure). Resulting information has been summarized in Venn diagrams of organizations serving key sector roles, and additional work was done to map overlapping leadership roles using social-network mapping software.

### **History and Milestones in Funding and Development of Infrastructure**

The foundation funding research is based on grants data drawn from the Foundation Center's Foundation Directory Online and GuideStar's Grant Explorer tool. Using the names of more than 100 infrastructure organizations, we searched the Foundation Center for grants from 2003 to the present. Each grant was classified by the type of grant support (general operating, project, capital, etc.) as well as by amount. Because of past experience that revealed that the Foundation Center is not comprehensive, we then used the GuideStar Grant Explorer tool to review grants identified by GuideStar not in the Foundation Directory database. These grants were added to the database of grantmaking for the study period. In some cases, the Foundation Center entirely omits some foundations, such as the Fannie Mae Foundation, whose grants were captured only from GuideStar. In addition, one of the major foundations providing grant support to the nonprofit and philanthropic infrastructure is the Atlantic Philanthropies, whose grants were fortunately posted and described on the foundation's Web site and therefore added to the database.

To look at the research and data areas of the infrastructure, telephone and e-mail interviews were conducted with two dozen observers regarding their perspectives on the state of nonprofit and philanthropic research. Then the research on the nonprofit and philanthropic sectors was identified by using the Foundation Center's listing of research on PubHub over the past two years. The focus was research about the nonprofit and philanthropic sectors per se as opposed to research about specific subject or program areas addressed by the sectors. The purpose was not to evaluate the research but to determine which entities generate research reports on the sector.

### **Business Model/Financing Assessment**

This element of the project was implemented primarily through case study analysis of 11 national nonprofit infrastructure organizations. The framework for assessing and

interpreting this information was developed through a review of the relevant scholarly and practice literature on funding, financing, and the capital structure of the non-profit sector. The organizations were chosen to represent a cross-section of the different types of infrastructure organizations primarily to see business models vary according to these organizations' varieties of programs and services. While the sample includes one relatively small state association, most surveyed organizations are national infrastructure organizations. Data was gathered from each organization via a semistructured interview with a key financial leader (the organization's CEO or senior finance executive), linked with a questionnaire that gathers specific financial and program activity information (organized according to a basic typology of activities and services).

### **Trends and Emerging Issues**

This facet of the project was implemented through a two-phase process. At the outset of the project, information was gathered through two focus groups conducted with key sector leaders. During this process, initial information regarding trends and issues was identified. Semistructured interviews were then conducted with key informants in the field to ascertain milestones in the development of the field, the current state of development of the infrastructure, and issues and challenges that need to be addressed as the infrastructure develops. Key informants were selected for their centrality and degree of experience in working in the infrastructure of the sector, and nearly all interviewees have long tenure and have worked in multiple infrastructure organizations in the field. A mix of funding and operating organization leaders were selected for inclusion.

### **Project Element Integration**

During the course of the project, the research team integrated its work and findings through a combination of document exchanges and face-to-face meetings in which emerging findings were shared, methods refined, and themes were identified and discussed. Project team members are all experts in different infrastructure settings of the field and, therefore, qualify as an expert panel for development and assessment of project results and recommendations. To enhance the level of consistency and coherence among the various elements of the project, team members provided continual feedback—individually and collectively—about research methods, strategies, and findings. ■



## Context, Trends and Implications

### **Social Context**

Much has transpired since this project began, including a global meltdown of the financial sector and the election of Barack Obama as the new president of the United States. No one can predict how the combination of these two major historical events will affect the nation, but it is quite clear that there is strong potential for profound change in many arenas in which nonprofits are major players, among them, the environment, housing, health care access, employment policy, immigration, and others. As the “DNA of democracy,” nonprofits also will most likely play a more visible role in promoting and advancing civic and political participation across issues, constituencies, and communities—a role that is not only essential to preserving a healthy and strong civil society, but, increasingly, to advancing more informed and responsive public policies at the local, state and national levels; enhancing and building communities; and strengthening the social compact.

Embedded in the above social trends are several dynamics that have implications for identifying key trends in the nonprofit sector. Among these dynamics are:

- The increase in the use of technology and social media as communication, networking, and capacity-building tools and resources for both individuals and nonprofits that were on dramatic display during the 2008 election cycle;
- The reemergence of grassroots organizing around the 2008 presidential campaign, including new forms of “virtual” organizing;
- The increased participation of young people, people of color, and other constituencies in the 2008 election cycle that had historically been less politically engaged;
- The snowballing effects of the financial sector meltdown, i.e., budget cutbacks, foreclosures, company and small business closings, diminished public and social services, and many others that are affecting nonprofits and those they serve and represent;
- A palpable decline in investments in nonprofits due to market-driven economic constraints on foundations and other forms of charitable giving;
- The surfacing of difficult questions about economic imbalance between the “haves” and the “have nots,” as evidenced by debates surrounding the bailouts;
- The continued growth of globalization and the decreased importance of nation states, which has had positive (a heightened sense of awareness of the connections between the United States and the rest of the world) and negative (lack of fair trade, low wages, etc.) consequences;
- The growing need—due to financial constraints—to make difficult choices between supporting nonprofits providing vital public services and those engaged in advocacy, capacity building, issue education, and/or research.

How the nonprofit sector responds to the rapidly shifting cultural, economic, and political trends noted above will depend on three general factors:

- The level to which they have access to money, especially unrestricted funding;

- The amount of collaboration among nonprofits—not only those working on similar issues or areas but also among the nonprofit sector at large, which has yet to form a collective identity, sense of purpose, and agenda;
- The ability of the nonprofit infrastructure to provide the capacity-building, research, advocacy, management, and technical assistance needed to sustain, build, and strengthen nonprofits to meet unprecedented challenges.

## Conflicting Perspectives

While there are several specific trends occurring in the nonprofit infrastructure—outlined below—there is also a set of opposing paradigms that are affecting virtually every facet of this space and that need to be considered seriously when making decisions about investments. The central theme of these is division—division between mindsets, philosophies, and/or practices that, if not resolved or adequately addressed, will hamper the progress of individual nonprofits and the sector overall. These mind sets are sometimes interconnected and are admittedly oversimplified below:

**Old Guard versus New Wave:** For nearly ten years we have been engaged in a charged conversation about “social entrepreneurship,” and “venture philanthropy” versus what is lumped together as the old guard’s way of doing things. This calls to mind the insulting oversimplifications of generational battles. One group sees itself as the results oriented bringing the future to the undisciplined wandering around in the fog crowd. Another sees itself as a standing stalwart that is grounded in the face of ridiculously vapid and enthusiastic faddism. And then come the Millennials: loosely organizing themselves to support a successful presidential campaign and do a world of other things planned informally on the basis of loosely knit networks. And while we often hear a conflation of the two streams of the new way as opposed to the one stream of old, this may not be accurate. We are likely just experiencing a series of evolutionary waves. In “Social Media versus Knowledge Management: A Generational War,” Venkatesh Rao puts the picture this way, “The Boomers attempt to understand the world with words, and the best they can do is talk to themselves. The Gen X’ers try to avoid conflict by seeking solace in data and a relentless focus on reality. The Millennials are blissfully unaware of larger dynamics and just go ahead and create.” We wouldn’t worry about these divides in that these types of conflicts tend to resolve them-

selves over time but there is an arrogance on one side and an irritation on the other that seem to be preventing real learning and development of more solid common ground where there is clearly need and room for it.

**Big and well monied versus small and poor:** Paul Light lays this schism out in his essay as a “struggle for the soul of the sector.” To state this battle in extreme terms one grouping sees the sector primarily as a venue for the involvement of people in public life and that the price of promoting widespread grassroots activity is that some efforts may fail or appear to fail as efficient organizations even while they continue to add to the sparks and frictions of democracy and an advancing pluralistic society. Another grouping sees the sector as a place to get social results and achieve impact and there may be an assumption that impact is achieved through scale and, to some extent, through professionalism and predictability. These are two very different “ideal” images with very different implications. Each is powerful to those who promote it but the initiatives that do not declare their image as the precept but view the other as misguided are frustrating to nonprofits and likely lead us into the muck and mire. Is there an “ideal” type of nonprofit? Do we have two sectors?

**Asset versus deficit orientation about nonprofits:** Over the past twenty years or so there has been an increasingly strident narrative that promotes the view that many or most nonprofits are dysfunctional and need to be fixed. A deeper look reveals that the financial and political markets which nonprofits must regularly negotiate are complex and difficult, requiring a variety of what Jim Collins calls high legislative leadership skills. These skills and the willingness of many nonprofits to remain in markets, as Lester Salamon has pointed out in his essay in NPQ’s special issue on infrastructure, even when they become much less lucrative are part of the DNA of the sector. Can nonprofits use help in figuring out how to measure mission against margin, or how to devise a board who can really help service providers negotiate an increasingly turbulent environment or in how to incorporate an increasingly diverse community into governance? No question. Should we assume that this need suggests incompetence? That is more a matter of your chosen mental model. But an assumption that the large majority of nonprofits in the U.S are wandering around in a fog might lead to many other assumptions like a preference for fewer, larger and more centralized organizations and it might lead national policy makers not to consult with the majority of nonprofits on a serious level. ■

## Trends in the Infrastructure as Reported by the Infrastructure

**T**HE FOLLOWING TRENDS WERE IDENTIFIED from 25 interviews conducted with infrastructure leaders (See addendum for names of interviewees). Only trends that were mentioned multiple times are noted. Every effort was made to capture the characterizations given by interviewees, some of whom are quoted without attribution so as to protect their identities and allow them to speak freely.

### **Nonprofit Infrastructure Financing**

*There has been a significant decline in general operating support for infrastructure organizations.*

One of the most repeated trends cited by interviewees was the significant decline in general operating grants provided by foundations to infrastructure groups. This trend was often linked to a belief that foundations increasingly “drive the bus” on programs and services even if the bus is heading in a direction that many organizational constituents do not want to go. General enables many organizations to be more flexible, responsive, and fluid. Project support, in contrast, often forces nonprofits to move away from their core activities (because the focus of these projects are coming from foundation staff, rather than from the organization) and spurs a lag time between problem identification and program implementation if the group has identified the project as needed, or that the conceptualization of the project is coming from the foundation and simply being farmed out to the infrastructure organization.

*It has become increasingly difficult to secure multiyear funding for nonprofit infrastructure groups.*

Coupled with decreases in general-operating support, declining multiyear funding has forced many nonprofits to spend a significant amount of their time scrambling for funds rather than doing the work for which they were established. As one nonprofit sector leader observed, “They [foundations] have to invest longer term. These one-year grants just create exhaustion for organizations.”

*Relationships and personal politics, rather than mission or work products, continue to be perceived by nonprofit infrastructure groups—as well as some funders—as a good general indicator of who receives funding and who does not.* A number of groups are worried about what one funder referred to as the “relational market” prevalent among foundations because they feel that funding does not necessarily follow quality or need as much as it does “political” connection. As one nonprofit leader, who once worked in the private sector, commented “At least in the corporate sector it (investment) gets down to dollars and cents. In this sector, it’s sort of who’s at the right hand of God.”

*Funders increasingly pressure infrastructure groups to become more sustainable by engaging in earned-income activities without acknowledging the extent to which this may limit access and responsiveness.* In some cases, this emphasis has driven organizations into creating or applying financial models that they view as unaligned with their mission. A nonprofit infrastructure leader who has had

to implement a challenging business model noted, “The financial model drives everything, so when you take 10 steps back and look at what the organization is becoming, all the energy is going to where the money is being made rather than what we’re supposed to be doing.” While infrastructure organizations generally expressed enthusiasm for developing earned-income streams, they also emphasized that this process must include adequate time to test these models to ensure that they will match the missions, products and markets of the nonprofits in which they are incorporated. As one interviewee noted, “The problem is that foundations focus on short-term grants: seed money. There’s no mechanism within the structure for the organizations that’s five or 10 years old to build its model of sustainability. There’s no round B or C. There’s no bank.”

### **Competition and Collaboration**

***Competition among infrastructure groups has increased, leading to tension among national groups, as well as between the latter and local organizations that have a national profile*** (e.g., state associations, capacity-building organizations, intermediaries, etc.). A focus on institution building in a competitive environment has led some organizations to grandstand and backbite rather than to find ways to collaborate, share knowledge, and create a collective agenda. The result, say interviewees, is that the sector suffers from a lack of progress. (It should be noted that interviewees said explicitly that redundancy was not a major problem.)

Some interviewees pointed to a meeting in 2003–2004, held at the Pocantico Conference Center, as evidence of this tension, which they said played out in the convening of several of the largest infrastructure groups and their funders. They observed that during the gathering, there appeared to be a competition among organizations to position themselves as leaders, which mitigated the possibility of finding consensus. As one interviewee noted, “We had the power in that room to do something huge, you know? To do something incredibly meaningful that moves our sector—the one we all care about—forward. And we punted. . . . I’m convinced we all need to view our work as just a small piece of a broader puzzle and that we all need to believe in our souls that we cannot achieve our missions alone.”

***Several key infrastructure organizations have made executive leadership transitions that may fuel more collaboration.***

Although the jury is still out on whether these transitions will enhance collaboration and effective results, some believe they are “a much-needed breath of fresh air” and an extraordinary opportunity for prompting new kinds of conversations on consensus and collaboration among the larger infrastructure domain. Funders, they said, can help this process by discarding preconceived notions about infrastructure groups that some perceived to have had less effective leadership in the past. Some of these organizations, in fact, were viewed as having “extraordinary potential” to strengthen the nonprofit sector’s infrastructure, especially now that there are new leaders in place who are not yet “steeped in the politics or tension that has hindered the progress of the infrastructure groups overall.” As one infrastructure funder said, “We need to try to find a way to take advantage of the fact that there are some new leaders of some of these organizations as well as leaders of the more established ones who haven’t been around that long and see if there is some way to have a series of in-depth, one-on-one conversations with these folks. . . . although that would take a lot of time and diplomacy. Then, we could try to bring maybe two of them together that have some commonalities. Then we could bring three of them together who could generate a strategy rather than having the foundation people sit around Pocantico or other nice places, and say, “Gee, what if?”

***Grant officers who fund the infrastructure have also undergone myriad transitions.*** Respondents cited foundation program staff transitions as posing both dangers and opportunities. On the opportunity side, some of the new officers bring less relational baggage and a clearer eye to opportunity. On the cost side, it takes time to build the understanding of new program officers and build relationships with them. As one interviewee remarked, “They’re the devils you don’t know.”

***Efforts to recentralize the philanthropic infrastructure have created mixed feelings.*** Several interviewees raised the issue of the Council on Foundations’ attempts to recentralize the philanthropic infrastructure—because of their recently-stated intent to underscore and promote philanthropy’s organizational diversity—as a trend that bore watching. They were of conflicting views about this trend, as well, with some believing that it was not “unreasonable” (and one funder saying that “the offer they made us was not unattractive”) of some to resist these efforts.



***The Council promotes the idea that the philanthropic infrastructure needs organizational diversity.*** COF has seen a lot of groups separate out over the years. Some of them have become affinity groups that have significant independent staying power either providing a more robust infrastructure for a particular conversation (Grantmakers for Effective Organizations) or serving groups of foundations that didn't feel well represented or served within COF. A few of those interviewed suggested that this recent attempt to re-consolidate seems to be accompanied by some consciousness about the need to ensure a certain amount of autonomy or internal diversity but generally trying to turn back time will not work and the field will probably remain diversified.

Paul Light suggests that there probably is a renegotiation going on between hyper-pluralism and anti-pluralism and that that struggle is likely not to get resolved in favor of anti-pluralism. This then, requires some higher political skills in terms of fluid coalition building and internal support of interest groups. The recent "co-location" of the Forum of Regional Associations of Grantmakers with COF reflects a sophisticated approach to strategic alliance with that need for diversity in mind.

***There is an increasing division between philanthropic and nonprofit infrastructure.*** While nonprofits have long complained that philanthropic institutions do not view themselves as part of the nonprofit sector, in recent years this division is perceived by infrastructure leaders as having deepened. Several respondents to this study, in fact, had difficulty discussing or describing trends, issues, and challenges occurring in the larger nonprofit sector, especially in the infrastructure, because they were unsure as to whether philanthropy was considered to be part of the latter. Evidence of this, some said, was in the increasing penchant among some foundations "to bypass nonprofits altogether in trying to achieve their goals."

### **National Networks**

***The national, non-field-specific groups that have state or local affiliates or chapters have had difficulty managing and maintaining a strong central identity with a membership focus.*** While this duality challenge is one with which most national nonprofits with chapters or affiliates struggle, it is particularly challenging for infrastructure groups whose identity is based less on issue-specificity than on

sector-wide concerns that cross myriad issues, demographics, subsectors, and other diverse (and sometimes competing) factors. These are the same reasons, however, that these kinds of organizations are so "needed," and "important" to strengthening the nonprofit infrastructure. That takes "great skill to negotiate," though, as one respondent noted, especially "if you are a national membership organization . . . where you have members that are also intermediaries. You have to be careful not to step on their turf while giving them stuff to serve their members. . . ."

It also takes a toll on the national organizations' ability to serve as a leader in the larger nonprofit sector, because they have to constantly be aware of members' interests, which may be different from national-level concerns or priorities at the programmatic and policy levels. Having local members who are viewed as influential and expert contributors at both the local and national levels may also mitigate national membership organizations' ability to position themselves (and be perceived by their peers) as the "umbrella" and "voice" for those members at the national level.

For the reasons cited above—and others—organizations with distributed networks have been less successful than other infrastructure groups in securing foundation investments. To many respondents, this has been detrimental to strengthening the overall nonprofit sector infrastructure because these groups have direct and strong ties to thousands of nonprofits of all kinds (especially the small to mid-size nonprofits that comprise the bulk of the sector and that are arguably underrepresented in national policy debates and agenda setting). Thus, finding new ways to improve these organizations' ability to serve their members—while becoming a more powerful and visible "voice" for their interests (and of their constituents)—will be essential to bolstering the overall sector infrastructure.

***Infrastructure funding appears to be concentrated in larger, more established organizations which poses the risk of becoming an "oligarchy."*** Many respondents said that they perceived the lion's share of foundation grantmaking tends to be given to infrastructure organizations serving and representing larger organizations—a perception that has some basis in fact, according to data indicating that the top 10 grantmakers account for 55 percent of foundation grant support to the non-university-based national infrastructure organizations, and the top 10 recipients account-

ing for roughly half of all foundation grant dollars for this field. That level of concentration and dominance has led to what a few people characterized as an “oligarchic structure” of control both of funding and policy prioritization within the infrastructure.

### **The National Policy Presence**

***A largely defensive focus on a federal legislative agenda has crowded out funding for other critical elements of sector building.*** Many interviewees commented on a rejuvenated presence on the federal policy level but repeatedly characterized that presence as both narrow and defensive and as using a “wolf at the door” approach to institution and profile building. Additionally, some respondents expressed concern that the focus on the national policy agenda may be “crowding out” funding for other important elements of sector building.

Some respondents believed even before the economic meltdown that it will be “important to reassess” the national policy agenda in light of current economic realities. Specifically, they would like to see more focus on substantive and fast-approaching “big-ticket issues” that cannot be ignored if the nonprofit sector is to be maintained. Among these are the Medicaid and Medicare budgets, which have enormous impact on what many nonprofits do, especially those in the health-care and social services sub-sectors operating in an economy that is directly or indirectly connected to government-funding programs and income transfers. Protecting and increasing these funding streams, some say, will be “critical in this economic downturn,” as will helping these groups to advocate their own interests, as well as to become part of a larger effort to address broader sectoral issues.

Another issue that was raised by several respondents as a “top policy priority” was the movement to require nonprofits to justify their tax exemption. While the focus has been on the extent to which hospitals and universities use their tax-exempt resources to serve lower-income and minority populations, the issue, they said, could evolve into a question about the social and economic equity of charitable expenditures across the entire nonprofit sector.

A number of respondents also pointed out that many new policies (both supportive and threatening to the work of nonprofits) will emerge and be fought at the state level where enforcement also occurs. Some of these battles, they said, will be “very important” and will, therefore, require

that state-level organizations and affiliates of national infrastructure organizations be “ready to respond” to these issues when they occur and be “more proactive” in anticipating them. As one interviewee said, “In surveys, when we ask nonprofits where they focus their advocacy activity, they’re increasingly telling us ‘at the state level.’ So this means funding of the state associations. We have some great models of state associations that have done some very good work, and I would hope that the funders would find their way back to that as an ongoing responsibility.”

### **Research and Knowledge Development**

***The nonprofit research agenda is viewed as increasingly driven by funder interests.*** Many respondents from research-based organizations as well as those representing organizations that use research in their work, expressed their concern over what they perceived to be funders stipulating which kinds of research should be undertaken. Instead, they suggested that funders “should be inviting nonprofits to weigh in on the kinds of research they believe would be most helpful to them and to the sector.” This is particularly true with infrastructure groups that, arguably, need research to bolster their advocacy efforts but have little access to it because so much of the research has been shaped by funders with narrower interests. As one respondent (who sits on a board of a research organization) noted, “[This] organization’s reserve fund that was raised in the good years has just been dwindling down year by year.... And I’ve seen other groups going to more targeted areas where funders are willing to spend money. The programs really get targeted to foundation interests because that’s where the money is.”

***A significant amount of nonprofit sector research continues to focus on academic, rather than practical, questions.*** As one interviewee summed it up: “The connection between the academics, the researchers, and the practitioners has to start at the beginning: in the design of the research...It’s not just a matter of communicating findings.”

While there has been some progress in pinpointing nonprofit concerns and developing a research agenda based on these concerns (rather than vice versa), there is still a perception that “too much research is academic, rather than applied.” As one respondent noted, “We’ve got to get much better at connecting the research and academic work to things that will drive real practical change.” Another sug-

gested that “research has to move from an overemphasis on analysis of organizational behavior and leadership development to also include broader questions and challenges facing the nonprofit sector, and its sub-sectors.” Other issues that respondents indicated were important for more research were challenges emerging from current economic transformation (both in the U.S. and globally); major demographic changes; social and economic inequality, including poverty; and the “greening” of the economy—all of which, they said, will have an impact on what nonprofits do, how they do it, who will be included or excluded, and the consequences of these responses for everyone in society.

***There has been progress on some research fronts.*** In particular, as noted above, this has occurred in the aggregation, production, and availability of large, aggregated data sets, as well as research in the areas of financial and capital structures.

***But barriers to accessing this research remain.*** While respondents are upbeat about the progress noted above, they are frustrated by the lack of accessibility to some of this information. This lack of access was attributed to the need for data generators to charge for access to their data, outdated data, and inadequate products. Moreover, certain networks of researchers and academic forums tend to be institutionally disconnected from nonprofits working on the frontlines of major social, economic, health, and civic challenges. Further, mechanisms or at least models for the research communities to tap the expertise of workers on the front lines of responding to important challenges seems lacking.

***Research is not disseminated widely or effectively to nonprofits that need it.*** A few interviewees expressed concern about the inability or disinterest of most research-oriented organizations to distribute vetted information in the market. “I think the fact that we can’t yet push things out through the sector at higher volume is frustrating,” said one interviewee, “and I see that as a failure of the infrastructure. If the infrastructure were well connected and networked, good things would push through it faster. Right now it’s so localized.” In addition, nonprofits that have the ability and desire to distribute and market these resources more effectively remain unable to do so because of a

general aversion among funders to provide support for marketing and communications. This has led, several respondents observed, to nonprofits being forced to turn to unreliable sources of information, including those on the Internet, because of its accessibility and low cost. Infrastructure organizations, they add, could “do a better job in establishing relationships with credible research entities so as to distribute their knowledge more effectively through technology.”

**Miscellaneous—But Important—Gaps and Shifts**  
***Capacity building.*** Although it is one of the oldest and most geographically distributed fields in the infrastructure and one that is most directly available to answer the individual and collective management concerns of nonprofits, the field of capacity building continues to struggle to find support and recognition (particularly among funders) of its centrality to nonprofit performance and effectiveness.

Interviewees pointed to several issues that prevent capacity building from being “front and center” in the minds of investors, one of the most significant being the diversity and fragmentation of the field. Although there is a network that links capacity builders, it has been less effective in developing the field’s national presence than in providing a space for practitioners to learn from and connect with one another on issues of common interest. Today, the capacity building infrastructure includes everything from local management support organizations (MSOs) to independent consultants who periodically work with the MSOs on projects and engagements. There are also a number of field-specific organizations that provide capacity building to their members and national firms that specialize in capacity building.

Some respondents felt that there is a tendency for foundations to prefer “the big firms” over smaller, more locally-based MSOs or other intermediaries for capacity building, yet, the latter, “are where a lot of nonprofits want to go when they have capacity building needs.” There was also some concern that bigger firms are more likely to “partner with philanthropy on a prescribed set of activities that philanthropy wants, as opposed to what nonprofits need.”

Some respondents pointed out that among MSOs, there are pockets of excellence, where the practice and thought leadership are exemplary. These organizations, they added, also tend to combine capacity building with research and publishing. However, there are also examples of learning

clusters through which capacity builders convene around topics in which they wish to build collective knowledge and expertise. These are still under-funded and overlooked, some respondents said, and an “important area to consider for investments.”

**Human resources.** Many described the area of workforce concerns as behind the curve, with people and groups “playing around the edges” or addressing discrete issues such as executive transitions and recruitment. One interviewee suggests that the conversation has been too narrowly cast, and that discussions of the sector’s use of “human capital” should include ideas on how to effectively engage and retain unpaid as well as paid talent. This discussion is, no doubt, going to be played out loudly in the next few years as national initiatives based on service gain traction and steam.

The question of capital. Several interviewees said that the philanthropic and nonprofit infrastructure needs to focus considerable attention to addressing—comprehensively—the capital needs of nonprofits and, particularly, on “mobilizing, utilizing, and leveraging the assets in the foundation world to address them.” One interviewee suggests that foundations could use the infrastructure as a test case for capitalizing a field. Other interviewees discussed the network of program-related investments as warranting more attention for their potential to leverage foundation assets for mission impact.

Public understanding of the sector. According to several interviewees, no infrastructure group effectively takes responsibility for systematically building the public’s understanding of the nonprofit sector and its role in civil society.

**Watchdog function.** A few interviewees suggest that the infrastructure needs to actively encourage and fund investigative reporting about nonprofits and philanthropy as a part of a system of accountability. Today—as in the past—interviewees said, “there needs to be a critical watchdog voice,” especially on philanthropy, and expressed concern that there is inadequate effort focused on filling that role.

**Nonprofit governance.** While there is an enormous volume of advice on nonprofit governance, interviewees expressed concern that some of the major outlets were not providing “thought leadership” but instead clinging to a dominant model that did not recognize the diversity of types of boards and governance needs. “Governance is just not being covered well,” said one interviewee. “Local

institutions that are more nimble, progressive and responsive are struggling to come up with the right models and to rework or discard where necessary the dominant model to get governance that makes sense in community nonprofits.”

**Dissemination of information.** Local infrastructure groups and funders consistently expressed concern that even very well-researched, grounded, relevant, and useful information produced by the infrastructure does not get circulated as it should. This information, respondents said, “should have higher penetration” and “be able to push useful, relevant, and credible information out there” because there “are still a lot of small organizations not receiving information they could use.”

**Evaluation and measurement.** Interviewees emphasized the increasing importance of measuring impact, but their comments varied considerably, with some simply saying “it’s needed” to others expressing need for a more consistent resource for evaluation design and to promote aggregate evaluation and learning efforts. ■

# The U.S. Nonprofit Infrastructure Mapped

by DAVID O. RENZ

**T**HE NONPROFIT QUARTERLY'S MAPS OF THE U.S. NONPROFIT INFRASTRUCTURE provide a snapshot circa October 2008 of the dynamic and complex community of organizations and initiatives that comprise the national infrastructure of the U.S. nonprofit sector. These maps identify the nonprofit organizations that make up the core of the sector's infrastructure and list them according to the primary roles they play to support the entire nonprofit sector. These maps feature infrastructure roles and functions.

So what is the infrastructure of a sector, and why should we care about it? In general, infrastructure is the underlying framework or foundation that supports the activities of a system or community. In a typical city, for example, the physical infrastructure comprises roads and bridges, water and sewer lines, telephone and electrical power lines, and other foundational support structures. In a social community, the infrastructure is the framework that undergirds and supports members' activities within that community. Each of these key components of the infrastructure addresses one or more aspects of the need to support the effective operation of the overall system or community. Most aspects of an infrastructure are relatively unseen and underappreciated—at least until their disappearance makes clear that they provided an important element of support. And just as communities need an infrastructure to enable them to operate, the nonprofit sector has infrastructure that enables it to operate.

To help clarify relationships in the infrastructure, we have separated the nonprofit infrastructures into two key maps. Map 1 (see page 32) illustrates the set of operating nonprofit organizations that serves one or more infrastructure functions, excluding infrastructure organizations that support the philanthropy segment of the sector (i.e., the funding and grantmaking segment). Map 2 (see page 33) illustrates the set of philanthropy-specific infrastructure organizations, again presented according to role and function. Organizations that address functions for both segments of the nonprofit community appear on both maps, and this dual role is indicated on each map with an asterisk following the organization's name.

The two maps illustrate the overlapping roles and relationships of nonprofit infrastructure organizations with Venn diagrams. The boxes on each map indicate the specific infrastructure functions that support the sector, and the appearance of an organization's name in a box indicates that it is a primary role for the organization. Many organizations serve more than one key role, and organizations that are listed in the overlapping areas of two or more boxes serve the sector in each of these roles.

These maps reflect our best assessment of the most significant roles that each organization serves for the entire nonprofit sector. These judgments are based on information provided by these organizations in their annual reports, Web site home pages, and filings with the IRS. We identify each organization's primary support roles based on the mission and program information reported in these sources.

It should be noted that many of these organizations provide additional services that complement and advance their primary sector roles, but we have categorized them only by their primary role or function. It is reasonable to assume, for example, that all associations and networks listed in the maps communicate and disseminate information to their members. But these organizations are not listed in the “communication and information dissemination” function unless this role is a key element of their stated organizational purpose.

So too, many infrastructure organizations are integral to the sector but do not appear on these maps because they are not incorporated nonprofit organizations that are national and sector-wide in scope. Because these organizations serve important complementary functions, examples are illustrated separately: one table illustrates infrastructure organizations that are regional or local in nature; another provides examples of field-specific nonprofit organizations and initiatives (i.e., they work only with nonprofits of a specific mission type, such as those devoted to the environment, education, juvenile justice, etc.). Also included in this table are examples of notable for-profit organizations that are part of the national nonprofit infrastructure (e.g., the Chronicle of Philanthropy); for-profit organizations are not included in the main map. Together, these maps provide a sense of the landscape of the U.S. nonprofit infrastructure (see Maps 1 and 2).

### **Parsing the National Nonprofit Infrastructure**

What does it take to keep the nation’s nonprofit sector up and running? There are 10 primary functions or roles that are fundamental to supporting an effective third sector. These functions, which are outlined below, are the basis for our maps of the infrastructure of the nonprofit sector.

**Accountability and self-regulation.** Organizations serving this function promote accountability, transparency, and performance levels among nonprofits, often through the development of standards, codes of conduct, and benchmarking systems that can be applied by individual nonprofits and the sector at large. These roles—from watchdog functions to engagement and enforcement functions—are implemented with varying degrees of rigor.

**Advocacy, policy, and governmental relations.** Organizations serving this function represent and provide a voice

for a significant segment of the sector in regulatory and policy venues by engaging with and advocating for external constituencies on its behalf. They monitor and participate in the promulgation and implementation of government policy, including the exercise of regulatory powers over the sector and its organizations by all levels of government.

**Financial intermediaries.** These organizations facilitate the collection and redistribution of financial resources to nonprofit operating organizations. Some do so through combined fund drives to gather funds that are then allocated or distributed through grants; others do so through the arrangement of loans or other financing structures.

**Funding organizations.** These organizations provide financial resources to nonprofit operating organizations through the distribution of funds from asset pools that they own, manage, and allocate. Some do so through gifts and grants; others through arrangement of loans or other financing arrangements. Most organizations of this type are private foundations and individual donors, but this role includes nonprofits and some for-profits as well.

**Donor and resource advisers.** Organizations in this category are distinctive intermediaries in that they provide information and advice to assist funding organizations and donors as they implement their roles as funding and financing sources.

**Networks and associations.** These organizations are vehicles for linking various organizations to address collective interests and, in some cases, to facilitate collective advancement of interest-based or mission-relevant activities. Many of these organizations are membership associations, but this category also includes organizations that range from informal special-purpose collaborations to more intensive forms, such as formal alliances and networks.

**Workforce development and deployment.** These organizations recruit, prepare, educate, develop, and deploy employees and volunteers in the nonprofit sector. Some organizations work with those who are midcareer, others focus on pre-career or early-career training and development.

**Education and leadership development.** These organizations focus on preparing nonprofit staff for leadership roles in the nonprofit sector. This work may take the form of formal education and training, but it can also take shape through informal activities that help nonprofit leaders serve more effectively (including in executive, board, and other voluntary roles).

**Capacity development and technical assistance.** Organizations in this category build the capacity of individual nonprofit organizations through management assistance and support, organization development, and other consulting and support services. Often such technical assistance involves an area of specialization, such as capacity building in the areas of governance and board development, fundraising, financial management, and accounting, information systems, marketing and communications, and other specializations.

**Research and knowledge management.** These organizations engage in research and analysis to inform those in the nonprofit sector. This work includes the production, organization, and distribution of various types and forms of information about the sector and its components.

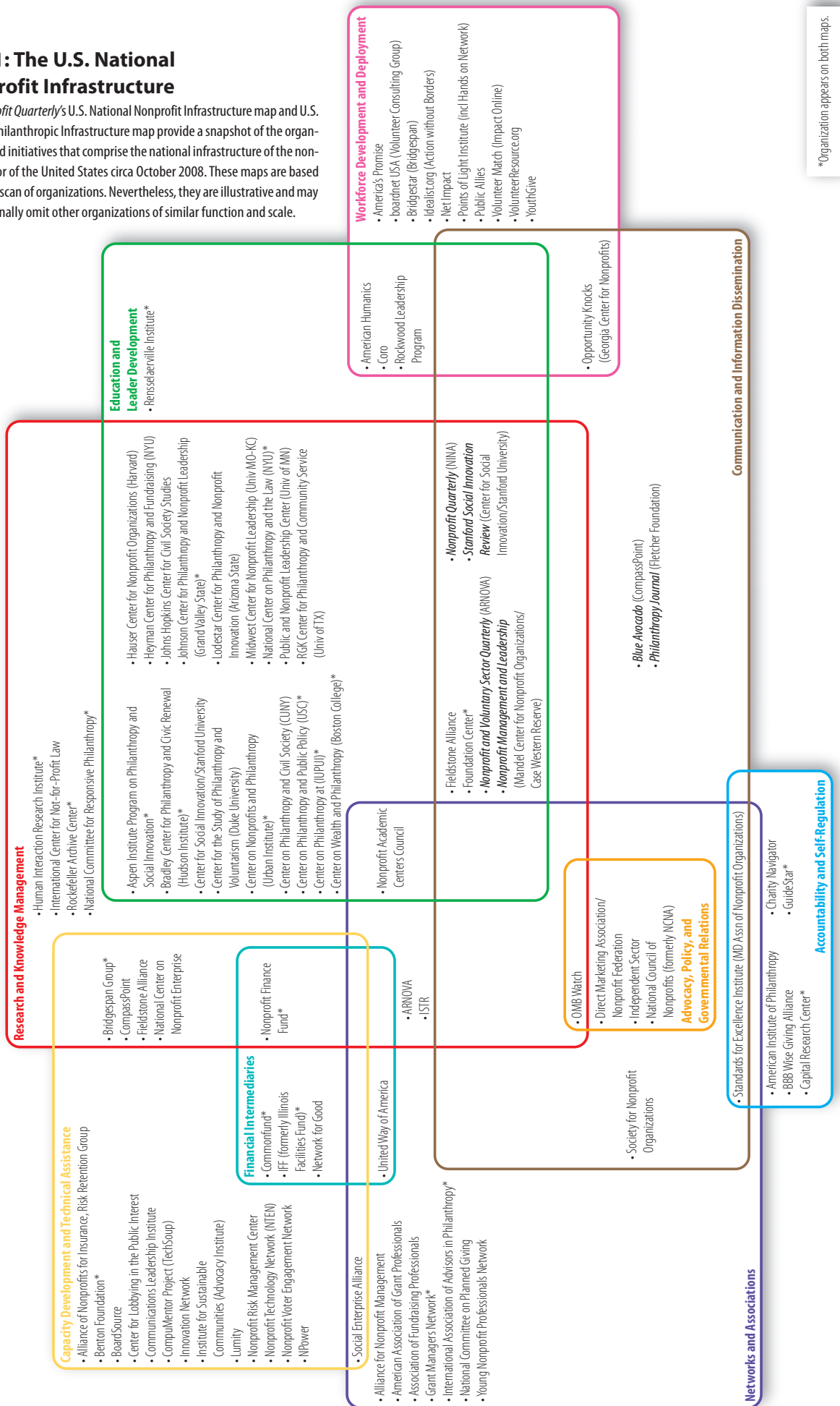
**Communication and information dissemination.** These organizations facilitate communication and the dissemination of information among the organizations in the nonprofit sector. They provide opportunities and support tools that help individuals and organizations to develop and share information, intelligence, and knowledge. ■

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*The maps featured in this story are based on research conducted at the Midwest Center for Nonprofit Leadership by Erin Nemenoff and Teresa Kwon and are based on the information presented in individual organizations' Web sites, annual reports, and IRS Form 990 and 990PF filings. We would like to thank GuideStar for providing the researchers with access to the GuideStar Web site to gather this data.*

# Map 1: The U.S. National Nonprofit Infrastructure

The *Nonprofit Quarterly's* U.S. National Nonprofit Infrastructure map and U.S. National Philanthropic Infrastructure map provide a snapshot of the organizations and initiatives that comprise the national infrastructure of the nonprofit sector of the United States circa October 2008. These maps are based on a broad scan of organizations. Nevertheless, they are illustrative and may unintentionally omit other organizations of similar function and scale.



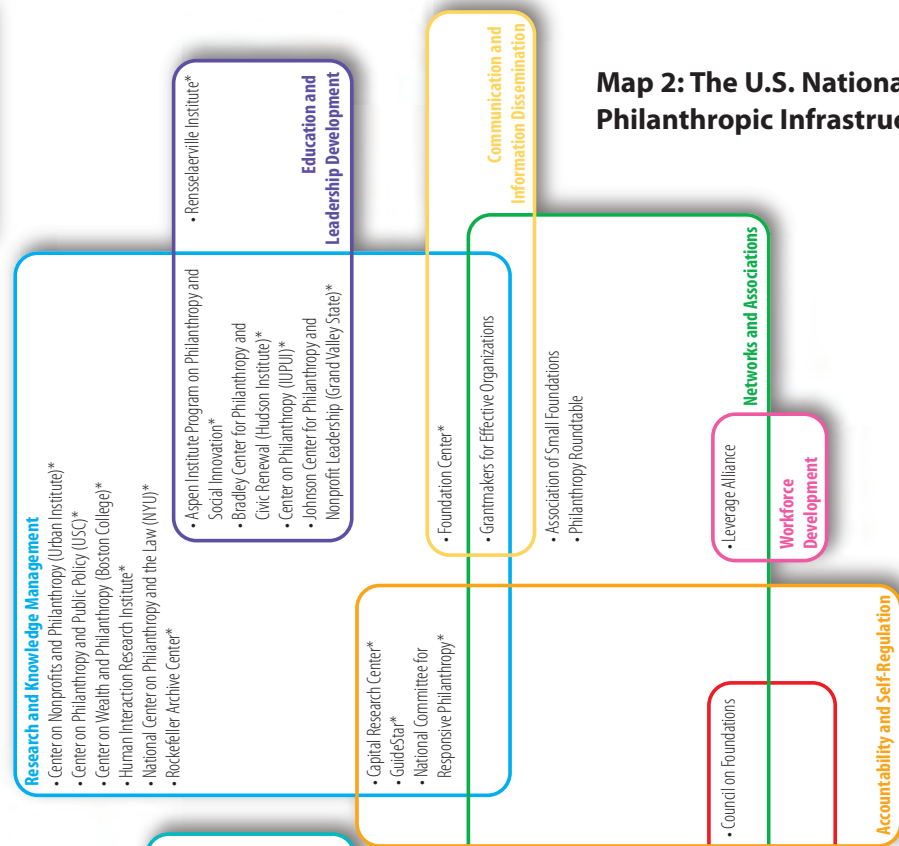
\*Organization appears on both maps.



### Leading Foundations Engaged in Funding Infrastructure

- Annie E. Casey Foundation
- Atlantic Philanthropies
- Benton Foundation\*
- Bill & Melinda Gates Foundation
- Carnegie Corporation of New York
- Charles Stewart Mott Foundation
- Cleveland Foundation
- Community Foundation for the National Capital Region
- David and Lucille Packard Foundation
- Doris Duke Charitable Foundation
- Edna McConnell Clark Foundation
- Ford Foundation
- John D. and Catherine T. MacArthur Foundation
- John S. and James L. Knight Foundation
- Kresge Foundation
- Lynde and Harry Bradley Foundation
- Robert Wood Johnson Foundation
- Rockefeller Brothers Fund
- Skull Foundation
- Surdina Foundation
- Tides Center
- UPS Foundation
- William and Flora Hewlett Foundation
- William Penn Foundation
- W.K. Kellogg Foundation

\*Organization appears on both maps.



#### Research and Knowledge Management

- Center on Nonprofits and Philanthropy (Urban Institute)\*
- Center on Philanthropy and Public Policy (USC)\*
- Center on Wealth and Philanthropy (Boston College)\*
- Human Interaction Research Institute\*
- National Center on Philanthropy and the Law (NYU)\*
- Rockefeller Archive Center\*

#### Financial Intermediaries

- CommFund\*
- IFF\*
- Nonprofit Finance Fund\*

#### Donor Resource/Advisers

- Center for Effective Philanthropy
- FSG Social Impact Advisers
- Resource Generation
- Rockefeller Philanthropy Advisors
- Social Investment Forum

#### Capacity Development and Technical Assistance

- Giving Net
- National Center for Family Philanthropy

#### Capital Research Center\*

- GuideStar\*
- National Committee for Responsive Philanthropy\*

#### Education and Leadership Development

- Aspen Institute Program on Philanthropy and Social Innovation\*
- Bradley Center for Philanthropy and Civic Renewal (Hudson Institute)\*
- Center on Philanthropy (IUPUI)\*
- Johnson Center for Philanthropy and Nonprofit Leadership (Grand Valley State)\*

#### Communication and Information Dissemination

- Foundation Center\*
- Grantmakers for Effective Organizations
- Association of Small Foundations
- Philanthropy Roundtable

#### Networks and Associations

- Leverage Alliance

#### Workforce Development

#### Council on Foundations

- Council on Foundations

#### Accountability and Self-Regulation

#### Advocacy, Policy, and Government Relations

- Forum of Regional Associations of Grantmakers
- Alliance for Charitable Reform (Philanthropy Roundtable)

#### Notable Philanthropy Affinity Groups and Projects

- Asian Americans/Pacific Islanders in Philanthropy
- Association of Black Foundation Executives
- Committee Encouraging Corporate Philanthropy
- Disability Funders Network
- Emerging Practitioners in Philanthropy
- Foundation Partnership on Corporate Responsibility
- Funders for Lesbian and Gay Issues
- Funders' Committee for Civic Participation
- Grantmakers Concerned with Immigrants and Refugees
- Grantmakers in Aging
- Grantmakers in Health
- Grassroots Grantmakers
- Hispanics in Philanthropy
- International Funders for Indigenous Peoples
- Jewish Funders Network
- National Center for Black Philanthropy
- Native Americans in Philanthropy
- Neighborhood Funders Group
- Philanthropic Initiative for Racial Equity
- Philanthropy for Active Civic Engagement
- Women's Funding Network

## Map 2: The U.S. National Philanthropic Infrastructure

The infrastructure maps were developed through research conducted by Erin Nemenoff and Teresa Kwon of the Midwest Center for Nonprofit Leadership at the University of Missouri—Kansas City, and are based on the information presented in individual organizations' Web sites, their annual reports, and their IRS Form 990 and 990DP filings. (And we thank GuideStar for providing the research team with full access to the GuideStar Web site to enable collection of this data). David Benz, Rick Cohen, and Ruth McCambridge are responsible for the development of the taxonomy and these maps. Jim Ahlerton designed the graphic layout, and Andrew Cosby managed the project to completion.



# Infrastructure Grantmaking: Summary with Key Findings

by RICK COHEN

## Summary

**Key Finding.** Most of the grant support for the nonprofit sector's infrastructure comes from a few foundations, and most philanthropic investments are concentrated in relatively few infrastructure organizations.

## Other Findings

- The top 5 foundation grantmakers to infrastructure provide two-fifths of the philanthropic grant support, and the top 10 account for more than half.
- The top 25 account for three quarters of the investments in a field that includes an additional 1,283 foundations.
- Similarly, the top 10 grant recipients out of 104 received more than half of the philanthropic investments made though admittedly, in some cases, this data is skewed a bit by pass through or regrating funds (and sometimes technical assistance funds) administered or delivered by some grant recipients.
- Flexible money, made available through membership dues and fees and unrestricted program support account for less than one-third of total grant dollars to national infrastructure organizations, even with the possible inclusion of "unspecified" grants as general support.
- It appears (based on data and trend interviews) that there is always a strong correlation between the perceived centrality, need for, and skill of the organization and the amount of philanthropic investment.

## Recommendations

- In light of the drift of major funders from funding the nonprofit infrastructure, institutional philanthropy needs to uncover new foundation champions who can promote foundation involvement in this area. (In part, this was the purpose of the meetings of funders for some years at Pocantico, an effort that dissipated after 2004.)
- The funding challenges faced by infrastructure organizations warrant a campaign to encourage a broad array of foundation grantmakers to see infrastructure funding as a consistent, required part of their grantmaking portfolio.
- If the very largest foundations do not support the infrastructure themselves, it will be extraordinarily difficult to broaden foundation grant support for infrastructure organizations. Targeting these missing-in-action foundations is imperative so that when organized philanthropy says that the infrastructure is important, it has influential organizations in the sector committed and participating.
- Whether it is through the assistance of leadership funders or access to databases such as a

comprehensive network mapping of organizations, foundations need help to find funding opportunities within the infrastructure, which many perceive to be too complex to navigate.

## Introduction

What do we think we know about the patterns of foundation grantmaking for national nonprofit and philanthropic infrastructure organizations? This study attempts to answer that question through an exhaustive analysis of funding patterns for and among infrastructure organizations from 2003 to the present.

Because of the limitation of the data sources available to researchers on foundation grantmaking as well as on which organizations constitute the national infrastructure, analytical inferences must be approached cautiously. At the same time, with the benefit of interviews and other research, some patterns can be discerned.

**Project Methodology and Data Collection.** The data for this analysis relied on access to the Foundation Directory Online information supplemented by grants identifiable on GuideStar's Grant Explorer program. Our experience suggests that for large databases of foundation grantmaking, a small number of grants is posted on the Foundation Directory that are not included in the GuideStar list, and similarly, grants on GuideStar are not included in the Foundation Directory list. This analysis, therefore, draws on both databases to identify as many grants as possible to a list of largely national nonprofit and philanthropic infrastructure organizations serving a multiplicity of types of organizations, excluding those that are generally issue- or field-specific.

The analysis starts with grants from 2003 to roughly summer 2008. We recognize that grants from 2007 and 2008 are incomplete; both the Foundation Center and GuideStar post data as they receive it from direct foundation reports and from foundations' 990s. With those limitations, the grant totals reflect reported foundation grantmaking, not necessarily all foundation grantmaking to the nonprofit and philanthropic infrastructure. One can debate which organizations should be included or excluded. The limitation here was both a matter of definitional selection and data sources. For our purposes, the inclusion or exclusion of organizations depends on their predominantly serving the nonprofit sector across topical

areas. As a result, for both philanthropic and nonprofit infrastructure organizations, the organizations included did not limit their services and representation to subsectors such as health, community development, or education, for example.

This poses some definitional issues, as some subsector-specific organizations provide as much, if not more, infrastructure-like assistance than several of the organizations in this list. The capacity-building training programs of national community development intermediary organizations such as Neighborhood Reinvestment (or Neighborhood Works), the Local Initiatives Support Corporation (LISC), and Enterprise Community Partners include management, financial, and operational support that rivals the national management service organizations in this analysis. Nonetheless, because these three intermediaries are geared to supporting organizations within specific topical spheres, they are excluded from the list.

Other organizations in the list contain units—such as the Urban Institute's Center on Nonprofits and Philanthropy and the National Center for Charitable Statistics and the Aspen Institute's Program on Philanthropy and Social Innovation and the Nonprofit Sector Research Fund—that are mainstays of the infrastructure. For this analysis, grants identifiable as supporting these programs of Urban and Aspen are included, while grants funding activities that are clearly not focused on their infrastructure-related functions are excluded.<sup>1</sup> Nonetheless, some functions of these or other organizations might have been justifiably included or excluded as targets for infrastructure grants.

Determining precisely what constitutes the nonprofit or philanthropic infrastructure function of a complex, multi-functional organization is subject to debate. As a result, the foundation grantmaking numbers presented here provide

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<sup>1</sup> We received feedback from Urban Institute regarding which grants to the Urban Institute directly or indirectly support the Center on Nonprofits and Philanthropy. The feedback we received on grants to the Aspen Institute confirmed a figure of \$3.9 million to the Program on Philanthropy and Social Innovation only. Grants to other programs at Aspen such as the Community Strategies Group could have arguably been included within this tabulation as well, for example due to CSG's work with community foundations, we could not verify that grant total. Moreover, while Aspen provided the total \$3.9 million grant figure for 2003-2008, it did not provide that total by foundation. Consequently, while the overall amount of foundation grantmaking to the national infrastructure includes the Aspen \$3.9 million, we could not disaggregate that total by specific foundations. Consequently, for some foundations, their total infrastructure grantmaking is undercounted due to the exclusion of grants to Aspen.

only an approximation of the foundation sector’s support for the philanthropic and nonprofit infrastructure, but not a dispositive picture.

Because of the complexity of the organizational “homes” of some organizations, this analysis does not feature an entire class of infrastructure grantmaking: that is, grantmaking to university-based research and educational centers serving the nonprofit and philanthropic sectors, such as the Hauser Center at Harvard University, the Center for Philanthropy at Indiana University, and others—some 60 in total. But interviewees suggested that our findings regarding foundation funding of nonacademic institutions apply to university-based research programs, that funding was not necessarily on the upswing for many, and that foundations played a significant role in influencing the content of their programs.

### Concentrations of Resources and Influence

Both before and after the 2002–2003 withdrawal of the Atlantic Philanthropies and the David and Lucille Packard Foundation from their previous funding of the nonprofit infrastructure (estimated to have reduced overall grantmaking in the field by a third), foundation support for the

Category	Amount	Percentage of Infrastructure Funding
Top 10 foundation funders	\$284.1 million	53.8%
Top five infrastructure funders	\$216.7 million	41.0%
Second 10 infrastructure funders	\$69.0 million	13.1%
Top 25 infrastructure funders	\$371.4 million	70.3%

national infrastructure has been highly concentrated in the grantmaking decisions of a small number of foundations. Although this analysis uncovered more than 1,300 foundations making grants to 104 infrastructure organizations, the reality is that the top five foundation grantmakers account for two-fifths of philanthropic grant support for this sector, and the top 10 foundations for more than half (see Table 1 above).

Again, this analysis largely excludes university-based centers, so we cannot hypothesize whether this concentration would persist. Nonetheless, this is a remarkable concentration of financial influence. At a minimum, among a small number of foundations, where the top 25 funders account for nearly three-quarters of the entire grant total

Grant Type	Amount	Percentage of total
General support	\$142.1 million	26.4%
General support and other purposes	\$1.52 million	0.3%
Membership	\$12.5 million	2.3%
Program- or project-specific or program development	\$289.2 million	53.7%
Management or capacity building	\$28.9 million	5.4%
Computer, technology, online media	\$12.4 million	2.3%
Capital campaigns	\$3.8 million	0.7%
Buildings, renovations	\$380,000	0.1%
Research/publications	\$14.1 million	2.6%
Conferences	\$9.7 million	1.8%
Scholarships and fellowships	\$6.8 million	1.3%
Awards	\$591,140	0.1%
Loans/program related investments	\$8.9 million	1.7%
Unspecified	\$7.2 million	1.3%

and the remaining 1,283 foundations account for the remaining quarter.

Overall, we counted 55 foundations that had made more than \$1 million in grants toward these national nonprofit infrastructure organizations during this period (see Table 4 on foundation grantmakers and recipients on page 40).

According to the foundations’ self-descriptions of the purposes of their grants, the following classification of grant types is possible.

Not surprisingly, the most flexible foundation monies—general support and membership dues and fees, which recipient organizations can use as they see fit—account for less than one-third of total grant dollars to national infrastructure organizations, even with the possible inclusion of “unspecified” grants as general support. Grant support for management and capacity building and for computer technology contributes to the core functions of some of these organizations, but designated funding for those purposes is not equivalent to general support grants.

To be sure, these classifications by grant types are not necessarily mutually exclusive. Program development, for example, sometimes refers to foundation grants that are awarded to certain infrastructure organizations for delivery as technical services and sometimes pass-through funding to other foundation grantees.

One instance is the grantmaking that many foundations award to the Bridgespan Group to build the strategic

**Table 3: Foundation Grantmakers to Infrastructure Organizations**

Name*	Infrastructure Grants	Top Recipient
Ford Foundation, NY	\$76.2 million	Advocacy Institute
Kellogg Foundation, W. K., MI	\$52.7 million	Women's Funding Network
Gates Foundation, Bill & Melinda, WA	\$32.2 million	Bridgespan Group
Duke Charitable Foundation, Doris, NY	\$25.9 million	Nonprofit Finance Fund (NFF)
Atlantic Philanthropies	\$25.3 million	Bridgespan Group
Packard Foundation, David and Lucile, CA	\$16.9 million	Hispanics in Philanthropy
Mott Foundation, Charles Stewart, MI	\$15.5 million	Council on Foundations
Hewlett Foundation, William and Flora, CA	\$14.6 million	Bridgespan Group
Clark Foundation, Edna McConnell, NY	\$13.2 million	Bridgespan Group
Surdna Foundation, Inc., NY	\$11.6 million	Compumentor
Kresge Foundation, MI	\$10.5 million	IFF (formerly the Illinois Facilities Fund)
Penn Foundation, William, PA	\$9.9 million	NFF
Community Foundation for the National Capital Region, DC	\$8.0 million	Rockefeller Philanthropic Advisors
Johnson Foundation, Robert Wood, NJ	\$7.2 million	Center for Effective Philanthropy
Carnegie Corporation of New York, NY	\$6.9 million	GuideStar
Casey Foundation, Annie E., The, MD	\$6.8 million	Aspen
Knight Foundation, John S. and James L., FL	\$6.5 million	Center for Lobbying in the Public Interest
Rockefeller Foundation, NY	\$5.0 million	Independent Sector
Avi Chai Foundation, NY	\$4.8 million	Jewish Funders Network
Bradley Foundation, Lynde and Harry,, WI	\$4.3 million	Bradley Center
MacArthur Foundation, John D. and Catherine T., IL	\$4.3 million	IFF
Irvine Foundation, James, CA	\$4.3 million	FSG Social Impact Advisors
UPS Foundation, GA	\$3.9 million	Committee Encouraging Corporate Philanthropy
Wallace Foundation, NY	\$3.8 million	Foundation Center
California Endowment, CA	\$3.1 million	CompassPoint
Pew Charitable Trusts, PA	\$3.1 million	NFF
Cummings Foundation, Nathan, NY	\$3.1 million	Rockefeller Philanthropic Advisors
New York Community Trust, NY	\$2.9 million	NFF

capacities of grantees or help them scale up, for example, in the Edna McConnell Clark Foundation (EMCF)'s use of Bridgespan for "institution and field building."<sup>2</sup> In practical terms, EMCF guides or requires its grantees to get high-cost, high-quality strategic and business planning

<sup>2</sup> *The Bridgespan Group*, "Managing in Tough Times: 7 Steps," ([www.bridgespangroup.org/kno\\_case\\_clark.html](http://www.bridgespangroup.org/kno_case_clark.html)).

<sup>3</sup> *Martha Nichols*, "Nonprofit Consulting Goes Upscale: Agencies Love Bridgespan's Business Approach. Does It Improve Youth Work?," *Youth Today*, May 1, 2006.

services from Bridgespan.<sup>3</sup> Other foundations funnel similar strategic and business planning grantmaking through Bridgespan (the \$6 million from the Atlantic Philanthropies in various seven-figure grants for Atlantic's aging and youth-service grantees, for example). The William and Flora Hewlett Foundation and Surdna Foundation, among others, have also provided grant support to and through Bridgespan for strategic and business planning and technical assistance.

Probably equal to Bridgespan's foundation grants for the provision of contractual technical assistance to foun-

**Table 3: Foundation Grantmakers to Infrastructure Organizations (cont.)**

Name*	Infrastructure Grants	Top Recipient
Cisco Systems Foundation, CA	\$2.8 million	Network for Good
Haas, Jr. Fund, Evelyn and Walter, CA	\$2.7 million	CompassPoint
California Wellness Foundation, CA	\$2.7 million	CompassPoint
Cleveland Foundation, OH	\$2.7 million	Foundation Center
Casey Foundation, Marguerite, WA	\$2.6 million	Independent Sector
Open Society Institute, NY	\$2.2 million	NCRP
Silicon Valley Community Foundation, CA	\$2.2 million	Hands On
Rockefeller Brothers Fund Inc., NY	\$2.0 million	Rockefeller Philanthropy Advisors
GE Foundation, CT	\$2.0 million	Committee Encouraging Corporate Philanthropy
Lilly Endowment, IN	\$1.8 million	Foundation Center
Kauffman Foundation, Ewing Marion, MO	\$1.8 million	American Humanics
Bauman Family Foundation, DC	\$1.8 million	OMB Watch
Woodruff Foundation, Robert W., GA	\$1.8 million	Foundation Center
Grand Victoria Foundation, IL	\$1.7 million	IFF
Alcatel-Lucent Foundation, NJ	\$1.6 million	The Philanthropic Initiative
Chicago Community Trust, IL	\$1.6 million	IFF
Gund Foundation, George, OH	\$1.5 million	Nonprofit Voter Engagement Fund
Hearst Foundation, William Randolph, NY	\$1.4 million	Impact Online
Time Warner Foundation, NY	\$1.3 million	Network for Good
Boston Foundation Inc., MA	\$1.3 million	NFF
Clark Foundation, NY	\$1.2 million	Volunteer Consulting Group
Starr Foundation, NY	\$1.1 million	Foundation Center
Meyer Foundation, Eugene and Agnes E., DC	\$1.1 million	NPower
San Francisco Foundation, CA	\$1.1 million	Bridgespan Group
Goldman Sachs Foundation, NY	\$1.1 million	NFF
Fannie Mae, DC	\$1.1 million	Innovation Network
Home Depot Corporate Giving Program, GA	\$1.0 million	Hands On Network

dition grantees is the work of the Nonprofit Finance Fund. Almost all of the Doris Duke Charitable Foundation’s \$25 million grant portfolio for nonprofit infrastructure organizations, for example, goes to the Nonprofit Finance Fund (NFF) for technical assistance for Duke grantees, including participants in the Leading for the Future artistic excellence program (which, in turn, includes pass-through grants tied to technical assistance). On a smaller scale, some \$1.5 million in Ford Foundation grants support NFF’s technical assistance to the 28 New Directions/New Donors program participants (which also received directly

from Ford—not through NFF—\$40 million in challenge grants).

The fact that a significant portion of Bridgespan’s and NFF’s grant support goes to the delivery of technical assistance to foundation grant recipients or, in some cases, regranteeing, does not diminish the financial power of these organizations. By virtue of being the designated entities to carry out the foundations’ program interests or to function like foundations (including the powerful grantmaking fund administered by Hispanics in Philanthropy [HIP]), these well-capitalized infrastructure organizations can exercise

influence over the nonprofit sector in ways that are sometimes more effective than the “leadership” trade organizations that purport to speak for the sector. NFF’s conception of nonprofit finance and Bridgespan’s implementation of nonprofit strategic planning and business planning—with the resources and implicit imprimatur of powerful funders—give such organizations influence. With the concentration of foundation funding for the infrastructure in the hands of a small number of funders, those infrastructure organizations that are designated to speak for foundations and carry out their program agendas become doubly dominant.

Some portion of the grantmaking categorized as “research” appears more as consulting services provided to the foundations themselves—grants that could have just as easily been classified as administrative expenditures for foundations. For example, \$530,000 of the grant support to the Center for Effective Philanthropy was described by foundations as paying for grantee perception reports, the surveys of grantees that the Center has pioneered as a feedback loop for foundation clients. Some grants to Bridgespan (evaluation work for the Packard Foundation, for example) and FSG Social Impact Advisors (work on the James Irvine Foundation’s Community Foundations Initiative, for example)<sup>4</sup> also look like consultant services to a foundation funder.

Another significant category of grants is those designated for pass-through regranting purposes. In this analysis of the nonprofit infrastructure, we have excluded a category of financial intermediaries that typically aggregate grants (or grant, loan, and equity investment resources) for redistribution to nonprofit recipients. A national financial intermediary working across fields, for example, is the Tides Foundation, which makes grants on behalf of wealthy donors. To some extent, philanthropic advisory entities such as the Philanthropic Initiative and Rockefeller Philanthropy Advisors also play this role. Clearly, operating nationally as well as through 1,300 affiliates, the United Way system is a classic example of a national financial intermediary focused on regranting.

In this list, which is primarily focused on technical

<sup>4</sup>*FSG Social Impact Advisors was originally a for-profit firm that evolved into a nonprofit structure.*

<sup>5</sup>*Hispanics in Philanthropy Web page ([www.hiponline.org/home/Funders+Collaborative/](http://www.hiponline.org/home/Funders+Collaborative/)).*

assistance and capacity-building efforts, some of the infrastructure organizations have developed lending or regranting arms. These include grants to the Illinois Facilities Fund from the Grand Victoria Foundation, Citigroup, the Blowitz-Ridgeway Foundation, the Chicago Community Trust, and the John D. and Catherine T. MacArthur Foundation fund, IFF’s loan programs, and others.

Somewhat more distinctive are the grants that support the creation and operation of the Funders’ Collaborative for Strong Latino Communities, a collaborative regranting vehicle of Hispanics in Philanthropy. As of April 2008, the fund had raised \$36 million from 162 funders.<sup>5</sup> For the time period studied here, more than \$12.7 million awarded to Hispanics in Philanthropy was designated for the Funders’ Collaborative for Strong Latino Communities.

These variations demonstrate the diversity of grant types to support the operations of the national nonprofit infrastructure. Nonetheless, for most infrastructure organizations that raise money from foundations, the key constraint is the lack of flexible general operating funds. For example, of \$6.8 million in grants to the California-based CompassPoint, only \$684,000—or roughly 10 percent—was listed as general support. For Grantmakers in Aging, only \$233,000 of \$5.4 million of foundation grants constituted general operating grants or memberships.

Several major studies have outlined the implications of shortfalls in general operating funding. At one time, an effort initiated by leaders in the Hewlett, Edna McConnell Clark, and Surdna foundations galvanized to promote increased general operating support grantmaking among

**Table 4: Top Infrastructure Grant Recipients**

Organizations	Foundation Funding 2003–2008*
Nonprofit Finance Fund	\$50.0 million
Bridgespan Group	\$43.7 million
Foundation Center	\$32.1 million
Council on Foundations	\$26.7 million
Rockefeller Philanthropic Advisors	\$24.1 million
Independent Sector	\$24.0 million
Hispanics in Philanthropy	\$21.7 million
Advocacy Institute	\$16.5 million
Women’s Funding Network	\$14.6 million
IFF	\$12.4 million

\*2008 grant totals collected through mid-summer of 2008.



**Table 5: Membership Grant Income**

Infrastructure organization	Foundation Grants Listed as Membership Grants (2003–2006)	Total Membership Revenue from Organizations' 990s (2003–2006)
Council on Foundations	\$7.9 million in membership grants (plus \$69,160 listed as membership/general operating)	\$32.7 million
Independent Sector	\$1.4 million	\$9.8 million
Foundation Center (headquarters and regional affiliates)	\$1.1 million in membership grants (plus \$47,000 listed as membership/general operating)	No membership revenue reported on Form 990
Community Foundations of America	\$236,500	\$1.1 million
Grantmakers for Effective Organizations	\$184,700 (plus \$80,000 listed as membership/general operating)	\$1.5 million
Philanthropy Roundtable	\$226,500	No membership revenue reported on Form 990
GuideStar	\$134,500	\$921,000
Jewish Funders Network	\$187,790	
Committee Encouraging Corporate Philanthropy	\$115,000	\$1.7 million
Grant Managers Network	\$94,950	
Asian Americans/Pacific Islanders in Philanthropy	\$94,950	\$646,035
Grantmakers in Aging	\$92,700	\$514,208
Hispanics in Philanthropy	\$90,000	\$1.1 million
Communications Network	\$83,860	\$1.1 million
Neighborhood Funders Group	\$72,400 (plus one \$350,000 grant from the Ford Foundation listed as a membership grant)	\$312,508

their peers. For infrastructure organizations, the importance of general operating support grantmaking cannot be overstated. The ability of the infrastructure to respond to unanticipated crises such as the burgeoning U.S. and global economic recession, the demands created by Hurricane Katrina, and the post-September 11 situation depends on access to flexible working capital.

### Grants for the Nonprofit Infrastructure

A similar picture emerges regarding the foundation grant totals received by the national infrastructure groups. The top 10 recipients of foundation grants accounted for more than half the foundation grants counted in this analysis, totaling approximately \$270 million.

As noted above, significant portions of the grant funding received by NFF, Bridgespan, and HIP, among others, might logically be seen as contractual work on behalf of foundations or pass-through grantmaking. In these cases, foundations such as the Atlantic Philanthropies, the Doris Duke Charitable Foundation, the Bill & Melinda Gates Foundation, the Edna McConnell Clark Foundation, and others provide seven-figure grants to

these entities to assist foundations' grant recipients with specific program development and capacity-building activities, and these monies are sometimes attached to pass-through grants to the entities receiving the capacity-building support. These grants tend to be less a matter of support for the infrastructure organizations than instrumental grants that in effect "hire" the infrastructure groups to fulfill specific foundation priorities for their grantees.<sup>6</sup> Nonetheless, that is a significant concentration of foundation capital in a relatively limited number of national infrastructure organizations.

Distinctions among the funding patterns are discernable in the following ways:

**Memberships.** Two of the most significant trade associations in the list—Independent Sector and the Council on

<sup>6</sup> As in the case of the Doris Duke Charitable Foundation's grant support for the Nonprofit Finance Fund, sometimes these grant funders provide little support to infrastructure groups other than their grants to their capacity-building and pass-through clients. Almost all the Doris Duke Charitable Foundation support pays for NFF's capacity-building, technical assistance, and pass-through functions on behalf of Doris Duke grant recipients.

Foundations—rank high in foundation grantmaking and membership dollars, along with others that appear to attract foundations making grants with the explicit purpose of membership (see Table 5). Surprisingly, grants to another foundation association, the Association of Small Foundations, may be substantially membership dollars, but on the Foundation Directory grants list were predominantly described as “unclassified.”

The vagueness of foundation grant descriptions and categorizations is evident in these grant totals. A comparison with these organizations’ membership revenues listed on their form 990s for the years 2003 through 2006 suggests limits in the reliability of grants identified as foundation membership grants. Some of the reported data on foundation “membership grants” appears to make little sense, because groups that have received foundation grants that the foundations consider to be memberships may or may not be reported them as membership revenue by the recipients on their 990s. One senses that membership grants per se mean little; foundations buy influential membership “stakes” in infrastructure groups not by signing up to receive members’ services but by making grants, which can make it difficult for organizations to blithely ignore the implicit *quid pro quo*.

Nonetheless, the significance of foundation memberships in specific trade associations, particularly linked to the presence of foundation executives serving on the boards of these nonprofit infrastructure organizations, suggests as much symbolic as financial significance to foundations’ membership grantmaking. During the past five years, for example, senior staff members of key infrastructure funders have served on several infrastructure boards.

The fact that foundation executives serve on the boards of foundation infrastructure organizations such as affinity groups is not surprising, since these organizations fundamentally serve foundations. Foundation executives’ presence on the boards of non-philanthropic infrastructure organizations is more significant. Among the major foundation executives having served as board members or trustees of Independent Sector during the past five years have been Susan Berresford (Ford Foundation), Barry Gaberman (Ford Foundation), Hodding Carter (Knight Foundation), William White (C.S. Mott Foundation), Dennis Collins (Irvine Foundation), Edward Skloot (Surdna Foundation), and Gary Yates (California Wellness Foundation); on the board of the Foundation Center have

been Barry Gaberman (Ford Foundation), Stacy Stewart (Fannie Mae Foundation), Christine DeVita (Wallace Foundation), Ralph Smith (Annie E. Casey Foundation), Robert Ross (California Endowment, Barron Tenny (Ford Foundation), and Maureen Smyth (C.S. Mott Foundation).

Where foundations put their senior executives on infrastructure organization boards may not result in the levels of control and interorganizational integration attributable to Japanese keiretsus and South Korean chaebols, but there is no question that foundations invest money and people in the organizations they deem important. Foundation “memberships” in financial terms may be less important than foundation memberships on the boards of directors of pivotal national infrastructure organizations.

Given the presence of Ford Foundation senior executives on the boards of groups such as Independent Sector, the Council on Foundations, and the Foundation Center, it is difficult to imagine that these entities would take public positions adverse to Ford’s on key concerns for the foundations, such as federal regulation of foundations, proposed limitations on executive compensation, increases in foundations’ qualifying distributions (payout), and other issues.

**Funding interrelationships.** Interviews conducted with knowledgeable observers of the national infrastructure suggested that there are significant relationships between major funders and infrastructure organizations—close working relationships, in fact, that are sometimes reflected in overlapping board memberships. There are some patterns of strong funding interrelationships (see Table 7).

Given the Ford Foundation’s position as the largest single foundation grantmaker to national nonprofit infrastructure organizations, some of these funding concentrations are unavoidable. Others, such as the Kellogg infusions into the Fieldstone Alliance (for a major capacity-building initiative) and American Humanics are distinctive funding initiatives on the part of grantmakers that are likely meant to build the institution as well as those that the institution is serving. On the other hand, the Bill & Melinda Gates Foundation may view its relationship with Bridgespan as a contract intended to support the organizations receiving consulting services, but the pricing of those contracts amount to support of Bridgespan as an extraordinarily well paid provider organization as well.

Nonetheless, infrastructure organizations with signifi-

**Table 6: Major Funders of Infrastructure Organizations**

<b>Infrastructure Organization (Currently Operating)</b>	<b>Major Funder (Percentage of Organization's Foundation Grants)</b>	<b>Second Major Funder (Percentage of Organization's Foundation Grants)</b>
Nonprofit Finance Fund	Doris Duke Charitable Foundation (49.6%)	
Bridgespan	Bill & Melinda Gates Foundation (30.0%)	Atlantic Philanthropies (27.4%)
Foundation Center	Ford Foundation (13.5%)	Wallace Foundation (9.4%)
Council on Foundations	Ford Foundation (14.0%)	
Rockefeller Philanthropy Advisors	Community Foundation of the National Capital Region (30.6%)	Bill & Melinda Gates Foundation (26.3%)
Independent Sector	Ford Foundation (21.7%)	
Hispanics in Philanthropy	Ford Foundation (32.1%)	
Women's Funding Network	W.K. Kellogg Foundation (71.1%)	
IFF (formerly the Illinois Facilities Fund)	Kresge Foundation (44.1%)	
BoardSource	W.K. Kellogg Foundation (15.5%)	
GuideStar	Ford Foundation (22.4%)	
Fieldstone Alliance	W.K. Kellogg Foundation (97.3%)	
Center for Effective Philanthropy	William and Flora Hewlett Foundation (20.7%)	
Alliance for Justice	Ford Foundation (16.8%)	
Points of Light Foundation	Walt Disney Foundation (24.8%)	
Jewish Funders Network	Avi Chai Foundation (60.0%)	
Asian Americans/Pacific Islanders in Philanthropy	Ford Foundation (73.0%)	
CompassPoint Nonprofit Services	California Wellness (26.0%)	
Forum of Regional Association of Grantmakers	W.K. Kellogg Foundation (34.7%)	
CompuMentor	Bill & Melinda Gates Foundation (46.9%)	
Network for Good	Cisco Systems (35.6%)	W.K. Kellogg Foundation (25.4%)
VolunteerMatch (Impact Online)	Atlantic Philanthropies (54.5%)	
Philanthropy Roundtable	Harry and Lynde Bradley Foundation (18.0%)	
American Humanics	W.K. Kellogg Foundation (84.2%)	
Urban Institute (Center on Nonprofits and Philanthropy)	Ford Foundation (34.1%)	
Grantmakers in Aging	Atlantic Philanthropies (66.9%)	
Hands on Network	W.K. Kellogg Foundation (21.2%)	
National Center for Family Philanthropy	Bill and Melinda Gates Foundation (21.9%)	
Communications Leadership Institute	W.K. Kellogg Foundation (40.3%)	
Committee Encouraging Corporate Philanthropy	General Electric Foundation (31.9%)	UPS Foundation (31.8%)
Capital Research Center	Scaife Foundation (28.3%)	
Neighborhood Funders Group	Ford Foundation (37.6%)	
Innovation Network	Hewlett Foundation (44.1%)	
SPIN Project	Ford Foundation (48.3%)	
Funders for Lesbian and Gay Issues	Ford Foundation (69.4%)	
Rockwood Leadership Program	Ford Foundation (47.2%)	
National Center for Black Philanthropy	Ford Foundation (45.2%)	

cant foundation grant dependencies on Ford or other foundations are certainly aware of the dynamic. The Ford Foundation’s significant funding of some of the major sectoral trade associations, notably the Council on Foundations and Independent Sector, plus the presence of senior Ford executives on both organizations’ governing bodies or advisory panels over the years, gives Ford significant influence, with the possibility that neither organization would be likely to pursue an agenda incompatible with the Ford Foundation’s positions on issues such as government oversight of the sector, increased mandatory foundation “payout” requirements, and such. Given the discretionary decision-making of grantmakers, it is a challenging calculation for a national infrastructure organization to contemplate taking a policy position in opposition to that of its largest and most influential funders.

A foundation that constitutes a significant portion of a grant recipient’s total foundation grantmaking in theory wields significant influence. That is not to say that Ford or other foundations are engaged in dictating program and content to infrastructure clients, but the potential is there. Similarly, leadership and strategy shifts among smaller funders can be absorbed by infrastructure groups, but changes in foundations with these grant concentrations can significantly disrupt a grant recipient’s financial stability.

While grant recipients can perceive dependencies on specific foundations based on the dominance of grants in their portfolios, a foundation’s perception might be quite different. An examination of their national nonprofit infrastructure portfolios suggests that some foundations concentrate funding on particular targets, particularly among medium-size and smaller foundations, potentially leading to a sense of buy-in to a limited array of infrastructure organizations as opposed to supporting the infrastructure writ large (see Table 8 on grantmakers and top two recipients).

This table depicts the variety of interests that foundation grantmakers have in specific infrastructure organizations. As much as some infrastructure organizations may believe that they have dependency on particular foundations, foundations may believe that they have investments to protect in specific infrastructure groups.

For example, the connections of the Kellogg Foundation to the Fieldstone Alliance, the Knight Foundation to the Center for Lobbying in the Public Interest, the Open Society Institute (OSI) to the National Committee for Responsive Philanthropy (NCRP), and the substantial

stakes of the GE Foundation and the UPS Foundation in the Committee Encouraging Corporate Philanthropy all stand out as distinctive foundation investments in these organizations. Among those funders with grants totals of less than \$2 million, a similar kind of investment commitment would be suggested by the Bauman Foundation’s investment of 58 percent of its infrastructure funding in OMB Watch, the George Gund Foundation’s commitment of 20 percent of its infrastructure portfolio dollars in the Nonprofit Voter Engagement Project, and the Fannie Mae Foundation’s commitment of 20 percent of its infrastructure dollars to the Innovation Network.

But with a foundation’s shifts in leadership, an institution’s investment can change. OSI showed a strong commitment to NCRP during Gara LaMarche’s period of leadership of OSI’s domestic programs; LaMarche has since left, joining NCRP’s board as president and CEO of the Atlantic Philanthropies. The Fannie Mae Foundation’s close working relationship with Innovation Network has probably all but ended with the closing of the foundation in 2007 and the more recent federal government takeover of the foundation’s corporate parent.

Nonetheless, some foundations have financially significant investments in pieces of the nonprofit and philanthropic infrastructure. At a minimum, specific foundations and the foundation community at large bear the onus of recognizing and supporting what they have built. To ignore that investment or to withdraw from it means undermining the flexibility and sustainability of important institutions on which many nonprofits and foundations rely.

For infrastructure organizations that lack the presence of major foundation benefactors, the challenge is to attract some of the 1,300 infrastructure grantmakers to ratchet up their commitments to the infrastructure sector writ large.

### **The Conservative Infrastructure: Infrastructure in Action**

In discussions about the infrastructure, politically or ideologically conservative organizations get short shrift, sometimes acknowledging the Philanthropy Roundtable, but little more. In this analysis, we treated conservative entities quite the same as other organizations that serve the nonprofit and philanthropic sectors.

The reason they are highlighted here separately is because they have been largely invisible in discussions. Going forward, recommendations for bolstering founda-

**Table 7: Major Recipients of Foundation Infrastructure Grants**

<b>Foundation Grantmaker (with Infrastructure Infrastructure Grant Portfolio)</b>	<b>Top Recipient (Percentage of Foundation's Infrastructure Grant Portfolio)</b>	<b>Second Top Recipient (Percentage of Foundation's Grant Totals of More Than \$2 Million)</b>
Ford Foundation	Advocacy Institute (defunct) (21.3%)	Asian Americans/Pacific Islanders in Philanthropy (7.3%)
W.K. Kellogg Foundation	Women's Funding Network (19.1%)	Fieldstone Alliance (17.8%)
Bill & Melinda Gates Foundation	Bridgespan Group (40.7%)	Rockefeller Philanthropy Advisors (19.7%)
Atlantic Philanthropies	Bridgespan Group (40.3%)	
Doris Duke Charitable Foundation	Nonprofit Finance Fund (98.0%)	
Charles Stewart Mott Foundation	Council on Foundations (13.5%)	Independent Sector (9.0%)
David and Lucile Packard Foundation	Hispanics in Philanthropy (20.9%)	GuideStar (17.7%)
William and Flora Hewlett Foundation	Bridgespan Group (21.2%)	Center for Effective Philanthropy (12.8%)
Edna McConnell Clark Foundation	Bridgespan Group (71.4%)	Nonprofit Finance Fund (9.1%)
Surdna Foundation	CompuMentor (13.6%)	Impact Online (Volunteer Match) (10.0%)
Kresge Foundation	Illinois Facilities Fund (52.6%)	Nonprofit Finance Fund (21.0%)
William Penn Foundation	Nonprofit Finance Fund (80.1%)	NPower (11.3%)
Annie E. Casey Foundation	Points of Light Foundation (7.0%)	
Community Foundation of the National Capital Region	Rockefeller Philanthropy Advisors (92.0%)	NPower (4.0%)
Robert Wood Johnson Foundation	Center for Effective Philanthropy (32.1%)	Foundation Center (14.4%)
Carnegie Corporation	GuideStar (11.6%)	Impact Online (VolunteerMatch) 8.0%
John S. and James L. Knight Foundation	Center for Lobbying in the Public Interest (18.5%)	Hispanics in Philanthropy (16.5%)
Rockefeller Foundation	Independent Sector (21.4%)	Foundation Center (18.8%)
Avi Chai Foundation	Jewish Funders Network (96.8%)	
Harry and Lynde Bradley Foundation	Hudson Institute (Bradley Center) (59.8%)	Philanthropy Roundtable (46.9%)
John D. and Catherine T. MacArthur Foundation	Illinois Facilities Fund (34.4%)	Independent Sector (18.6%)
Irvine Foundation	FSG Social Impact Advisors (23.6%)	CompassPoint (14.2%)
UPS Foundation	Committee Encouraging Corporate Philanthropy (25.8%)	Points of Light Foundation (23.8%)
Wallace Foundation	Foundation Center (78.8%)	Council on Foundations (6.4%)
California Endowment	CompassPoint (23.0%)	Coro (18.6%)
Pew Charitable Trusts	Nonprofit Finance Fund (33.7%)	Points of Light Foundation (24.1%)
Nathan Cummings Foundation	Rockefeller Philanthropy Advisors (72.1%)	Rockwood Leadership (11.4%)
New York Community Trust	Nonprofit Finance Fund (33.2%)	Community Foundations of America (8.4%)
Cisco Systems Foundation	Network for Good (78.1%)	Urban Institute (17.6%)
Evelyn and Walter Haas Jr. Fund	CompassPoint (22.0%)	National Center for Family Philanthropy (13.5%)
California Wellness	CompassPoint (64.4%)	Independent Sector (8.2%)
Cleveland Foundation	Foundation Center (34.3%)	Business Volunteers Unlimited (17.9%)
Marguerite Casey Foundation	Independent Sector (12.0%)	Neighborhood Funders Group (7.0%)
Open Society Institute	National Committee for Responsive Philanthropy (17.8%)	Women's Funding Network (17.4%)
Silicon Valley Foundation	Hands On (73.9%)	CompassPoint (14.0%)
Rockefeller Brothers Fund	Rockefeller Philanthropy Advisors (12.3%)	Women's Funding Network (15.6%)
GE Foundation	Committee Encouraging Corporate Philanthropy (50.4%)	Independent Sector (14.4%)

tion support for the infrastructure must recognize that foundation support for the infrastructure crosses political or ideological boundaries. The conservative funders and their networks of infrastructure organizations are testament to the importance of infrastructure in creating more effective nonprofits—and foundations.

In terms of foundation support, the three significant, clearly identifiable conservative infrastructure organizations receive smaller gross amounts than most of the other organizations in the list:

- The Philanthropy Roundtable:<sup>8</sup> \$6.2 million
- The Capital Research Center: \$3.0 million
- Bradley Center for Philanthropy and Civic Renewal:<sup>9</sup> \$2.6 million

Undoubtedly, politically and culturally conservative foundations and nonprofits look to an infrastructure that may be outside the typical purview, and many politically or culturally conservative nonprofits may participate in an infrastructure that is not reflected in the database of this report.

The value of an infrastructure to an ideologically motivated swath of nonprofits and foundations should not be underestimated. As studies by the National Committee for Responsive Philanthropy, Political Research Associates (PublicEye.org), and researchers such as Andrew Rich at the City College of New York have shown, the small number of ideologically conservative foundations can be powerful with comparatively small amounts of funding (compared with “mainstream” or “liberal” foundations).<sup>10</sup> More recently, the NCRP study of conservative foundations supporting organizations promoting school vouchers and tax credits<sup>11</sup> underscored the importance of funding not only “thought leaders” but also organizations that provide analytical, financial, and managerial support to the more than 300 organizations promoting alternatives to public schools.

Like the section of this report addressing “infrastructure in action” in the field of community development, the infrastructure of conservative philanthropy reflects the importance and success of infrastructure-making nonprofits—and foundations—more effective in carrying out their missions.

## The Changing Landscape and Future Directions

For both nonprofit infrastructure organizations and the funding community overall, the dominant funders of the nonprofit infrastructure are changing in leadership or in

focus. Four of the top five foundation grantmakers have undergone CEO changes roughly in the period after the grantmaking tabulated in these tables:

**Ford Foundation.** The grant statistics in this tabulation all come from the era of Susan Berresford’s lengthy tenure as President of the Ford Foundation. The new CEO, Luis Antonio Ubiñas, comes from the McKinsey Company and has articulated a commitment to work collaboratively with his foundation peers on issues that Ford has long emphasized, such as the needs of marginalized people.<sup>12</sup> Having joined Ford in January 2008, his plans for the foundation’s historic role in funding the nonprofit infrastructure are yet to be fully aired.

**W.K. Kellogg Foundation.** Two years ago, the Kellogg Foundation recruited a new CEO, Sterling Speirn, from the Peninsula Community Foundation. In the fall of 2007, the foundation announced a major new commitment of resources to focus on vulnerable children.<sup>13</sup> While the strategic concept suggests a continuing commitment to support elements of the nonprofit and philanthropic infrastructure, grantmaking per this new strategy has only begun to emerge.

**Bill & Melinda Gates Foundation.** The departing CEO, Patty Stonesifer, had gradually become visible in national infrastructure circles such as Independent Sector and the Council on Foundations. Her successor, Microsoft executive Jeff Raikes, has run his own family foundation but has little visibility in philanthropic infrastructure circles. But the significant role of Bill and Melinda Gates themselves in the day-to-day operations of the foundation suggests that the CEO transition might be relatively seamless.

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<sup>8</sup> Foundation grant support for the Alliance for Charitable Reform is included in the Philanthropy Roundtable numbers.

<sup>9</sup> The Bradley Center is part of the Hudson Institute.<sup>10</sup> See, for example, *Axis of Ideology: Conservative Foundations and Public Policy*, March 2004; *Moving a Public Policy Agenda: The Strategic Philanthropy of Conservative Foundations*, July 1997.

<sup>11</sup> *Strategic Grantmaking: Foundations and the School Privatization Movement*, November 2007.

<sup>12</sup> Interview in *Alliance* magazine, September 1, 2008.

<sup>13</sup> Rick Cohen, “A Foundation Changes Course: Kellogg’s Complex Overhaul, New Focus Challenge Its Staff and Raise Questions for Its Grantees,” *Youth Today*, October 1, 2008.

**Atlantic Philanthropies.** In 2007, Gara LaMarche left the Open Society Institute to take the helm at Atlantic. As a foundation dedicated to spending down over time and with a new leader strongly identified with social-justice causes, Atlantic's support of the infrastructure will be interesting to watch. It is notable, however, that LaMarche joined the board of directors of the National Committee for Responsive Philanthropy (NCRP), potentially reflecting his future infrastructure emphasis.

While not as significant in terms of total infrastructure grantmaking, other significant foundations have undergone similar leadership and strategic shifts:

**The Surdna Foundation.** Surdna's Ed Skloot was a thought leader in the sector, and Surdna staff regularly played influential roles in discussions about the future of the infrastructure. Although there is a new CEO, the program staff at Surdna who had supported the infrastructure, particularly the portion focused on effective use of technology and the Internet, appears to remain in place.

**The Kresge Foundation.** Coming from Minnesota's McKnight Foundation, Rip Rapson takes the helm of a national foundation whose pre-Rapson infrastructure support emphasized the foundation's historic commitment to the capital and facilities needs of nonprofits. The new foundation strategy expands the foundation's philanthropic range and appetite, which could be reflected in a shift of its infrastructure emphasis.

**The John S. and James L. Knight Foundation.** Hodding Carter, another significant thought leader in philanthropy, left the Knight Foundation and was succeeded by *Miami Herald* publisher Alberto Ibarguen. Ibarguen's focus seems very concentrated on advancing journalism, which might yield strong benefits for some parts of the national infrastructure focused on communications and outreach.

**The Rockefeller Foundation.** Never as significant a player in funding the national nonprofit infrastructure as one might think, the Rockefeller Foundation's new CEO, Judith Rodin, has emphasized the foundation's support for nonprofits to address changes in the economy and globalization. Support for nonprofits engaged in national and global economic issues could and perhaps should include funding for the infrastructure that supports nonprofits so engaged.

Given the declining economy, future infrastructure funding by some corporate funders in the list might be hard to come by, as declining corporate profits get translated into reduced corporate philanthropic budgets. Like other investment firms, Goldman Sachs is likely to face bottomline considerations for its philanthropic giving (all its infrastructure grantmaking went to the Nonprofit Finance Fund). In 2007, the Fannie Mae Foundation ceased to exist, and in 2008 the corporation itself entered a federal conservatorship which will likely reduce or eliminate much of the corporation's pre-takeover charitable grantmaking.

## **An Agenda for Foundations**

The implications detailed above suggest a philanthropic agenda for nonprofit sector infrastructure support.

**1. Champion foundations.** As opposed to the funding environment after 2003-2004 when the leading infrastructure grantmakers at Atlantic Philanthropies and the Packard Foundation sharply reduced or curtailed their support of most national infrastructure organizations leaving the infrastructure without vocal foundation champions, we need to see new champions become advocates of infrastructure grantmaking. Champions have to be CEOs; while there are activist foundation program officers that promote the infrastructure at foundations such as Rockefeller Brothers Fund, Carnegie, Surdna, Ford, Mott, and others, unless top-level executives become the infrastructure champions, the ability to sway other funders is limited. There is potential for drawing champions not only from the more traditional, older independent foundations, but from the newer entrants in the arena. Possibilities might include, for example, foundations involved in the social-enterprise side of nonprofit activities (the Skoll Foundation, Omidyar Network, the Ewing Marion Kauffman Foundation, etc.), foundations with strong public sector involvement (for example, the health-conversion foundations such as the California Endowment and California Wellness), and foundations seen as "younger" or "newer" with interests in the growth of the infrastructure (such as the Gates Foundation and the Marguerite Casey Foundation).

**2. Infrastructure funding campaign.** For many infrastructure organizations, income sources that can generate the support comparable to foundation grantmaking are few.

**Table 8: Top Infrastructure Grant Recipients**

<b>Organization</b>	<b>Foundation Funding 2003–2008*</b>	<b>Organization</b>	<b>Foundation Funding 2003–2008*</b>
Nonprofit Finance Fund	\$50.0 million	Focus Project (OMB Watch)	\$3.7 million
Bridgespan Group	\$43.7 million	Community Foundations of America	\$3.4 million
Foundation Center	\$32.1 million	Grantmakers for Effective Organizations	\$3.4 million
Council on Foundations	\$26.7 million	National Committee for Responsive Philanthropy	\$3.3 million
Rockefeller Philanthropic Advisors	\$24.1 million	Committee Encouraging Corporate Philanthropy	\$3.3 million
Independent Sector	\$24.0 million	FSG Social Impact Advisors	\$3,085,500
Hispanics in Philanthropy	\$21.7 million	Capital Research Center	\$3,078,100
Advocacy Institute	\$16.5 million	Neighborhood Funders Group	\$3,001,812
Women's Funding Network	\$14.6 million	Rensselaerville Institute	\$2,959,362
IFF (formerly Illinois Facilities Fund)	\$12.5 million	The Philanthropic Initiative	\$2,945,461
BoardSource	\$10.8 million	National Council of Nonprofit Associations	\$2,743,500
NPower	\$10.8 million	Center for Lobbying in the Public Interest	\$2,682,845
GuideStar (Philanthropic Research, Inc.)	\$10.4 million	Hudson Institute Bradley Center for Philanthropy and Civic Renewal	\$2,580,200
Fieldstone Alliance	\$9.6 million	Innovation Network	\$2,472,430
Center for Effective Philanthropy	\$9.0 million	Public Allies	\$2,398,253
Alliance for Justice	\$8.2 million	Association of Small Foundations	\$2,364,410
Points of Light Foundation	\$8.1 million	SPIN Project	\$2,069,253
Jewish Funders Network	\$7.7 million	Funders for Lesbian and Gay Issues	\$1,809,100
Asian Americans/Pacific Islanders in Philanthropy	\$7.7 million	Rockwood Leadership Program	\$1,672,440
CompassPoint Nonprofit Services	\$6.8 million	National Center for Black Philanthropy	\$1,658,892
Forum of Regional Associations of Grants Makers	\$6.6 million	Nonprofit Quarterly	\$1,640,000
CompuMentor	\$6.6 million	Volunteer Consulting Group	\$1,547,500
Network for Good	\$6.3 million	Business Volunteers Unlimited	\$1,493,667
VolunteerMatch (Impact Online)	\$6.2 million	Grantmakers Concerned with Immigrants and Refugees	\$1,418,400
Coro	\$6.2 million	BBB Wise Giving Alliance	\$1,368,845
Philanthropy Roundtable	\$6.2 million	Association of Black Foundation Executives	\$1,126,524
American Humanics	\$5.9 million	International Center for Not-for-Profit Law	\$1,106,400
Urban Institute Center on Nonprofits and Philanthropy/CNP	\$5.9 million	Action Without Borders (Idealist)	\$1,096,550
Grantmakers in Aging	\$5.4 million	Social Enterprise Alliance	\$1,081,000
Hands on Network	\$5.2 million	Center for Social Innovation at Stanford Graduate School of Business	\$1,075,000
National Center for Family Philanthropy	\$4.6 million	Alliance for Nonprofit Management	\$1,028,000
Communications Leadership Institute	\$4.2 million	International Society for Third-Sector Research	\$1,025,000
Aspen Institute	\$3.9 million		



Earned income, memberships, and other sources are good to pursue, but they cannot supplant a commitment from foundation grantmakers. Foundation grantmakers might consider advocating an infrastructure tithing of sort, a commitment sought from every foundation that each commits a specific percentage of its grantmaking to building and sustaining the infrastructure.<sup>14</sup> Pooled grantmaking may be a way for smaller foundations to participate in supporting the national infrastructure in a meaningful way, funding pools enhance leverage and influence for their small grants. At the same time, pooling allows the infrastructure sector to potentially participate in the generation of grantmaking rules and standards that might reduce the tendency of a few large foundations to exercise disproportionate influence over the program content and priorities of infrastructure groups.

**3. MIA foundations.** Notwithstanding the outstanding financial commitments of foundations such as Ford, Kellogg, and Gates, among others, many other large foundations have not put much thought or commitment toward supporting the national nonprofit and philanthropic infrastructure. Missing from the list of top funders of the national nonprofit infrastructure are foundations that are otherwise major grantmakers in their own right, including the Annenberg Foundation, the Gordon and Betty Moore Foundation, the Houston Endowment, the Andrew W. Mellon Foundation, the Heinz Endowments, the Harry and Jeanette Weinberg Foundation, the Broad Foundation, and the Susan Thompson Buffett Foundation, among others. All these organizations are potential targets that are best recruited at a peer-to-peer level. They may say that they invest in field-specific infrastructure groups (Moore in environmental groups, Broad in education, etc.), but the foundation sector also has to build and sustain the nonprofit sector across the board.

**4. Growing the field.** This research identified more than 1,300 foundations making some grants to national infrastructure organizations (excluding university-based centers). They and others also engage in grantmaking with regional and local infrastructure groups, particularly state level trade associations such as the state affiliates of the

National Council of Nonprofits, and capacity builders and management service organizations such as New York's Community Resource Exchange, the National Community Development Institute in California, the Alliance for Nonprofit Excellence in Tennessee, and others. Infrastructure organizations report significant challenges in attracting foundation support, particularly in light of potential funder withdrawal from the field. A logical step would be for foundations to consider a structured response to supporting infrastructure organizations at the national, regional, and local levels, based on the sectoral commitment of philanthropy to building and sustaining the nonprofit sector. That requires a set of navigational tools with which funders can pinpoint potential grantees and initiatives consistent with their philanthropic missions and priorities.

When the Packard Foundation abruptly withdrew from its leading role in the nonprofit infrastructure, it was not because of ennui or boredom with the infrastructure. Following the stock market downturn in 2001, the foundation suffered devastating losses in the value of its endowment. In making decisions regarding where to cut, the foundation simply eliminated its program geared to nonprofit capacity building in which the foundation's infrastructure funding lodged.

Today the foundation sector again faces paralyzing losses in foundation endowments. The stock market has lost 40 percent of its value in a 12-month period, foundations report losses of 15 percent to 50 percent of their assets, losses that might only get worse. The corresponding financial pain that all nonprofits now report is reflected in the financial difficulties of the less recession resistant infrastructure organizations, including state associations and national groups that have cut back, laid off staff, or sought merger partners. At this critical juncture, the Packard retrenchment underscores the need for foundation leadership for supporting and bolstering the funding available to the national nonprofit infrastructure. ■

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<sup>14</sup> This report makes a similar recommendation for a pool of funding concerning support for nonprofit and philanthropic research.



# Financial Models for Infrastructure Organizations

by TOM CLOUGH and DAVID BROWN, with the assistance of DAVID RENZ

IN THE NONPROFIT SECTOR, INFRASTRUCTURE ORGANIZATIONS carry out important functions and provide essential services that philanthropic and nonprofit organizations cannot efficiently provide by themselves. However, based on interviews with knowledgeable philanthropic and nonprofit leaders who participated in the *Nonprofit Quarterly*'s special issue on the nonprofit infrastructure, these organizations face numerous problems in funding their programs.

## Challenges to Financing Nonprofit Infrastructure Organizations

- Over the past 20 years, there has been significant growth in infrastructure organizations and funding, led by generous support from major foundations; the bulk of the foundation funding of them, however, comes from a few large foundations, with relatively little support for infrastructure organizations coming from small and medium-size foundations. Further, the bulk of foundation funding support has been given to a relatively small number of national infrastructure organizations. Though the data has yet to prove this theory, we believe that smaller regional, state, and local infrastructure organizations receive less foundation support, although there are clear exceptions. For small and medium-size foundations, the array of infrastructure organizations at the national, regional, state, and local level has become too complex and fragmented to navigate. Some observers are concerned that major foundations' concentration of funding on large national infrastructure organizations limits the penetration and value of infrastructure organizations and their programs for regional, state, and local nonprofits.

- There is currently little government funding of any kind for nonprofit infrastructure organizations. Governments have focused their grants and contracts primarily on nonprofit service providers, not on the infrastructure organizations that support them. This contrasts with the federal Small Business Administration's long history of support for private-sector small businesses. The organization provides capacity development, training and education programs, subsidized loans, and other services for small businesses as a form of economic development and job creation.

- In recent years, overall support from foundations for infrastructure organizations has flattened and possibly even declined. Foundations have encouraged infrastructure organizations to develop sustainable funding from fees for services, publication sales, membership dues, and other forms of earned income to replace foundation support. While creative exploitation of earned-income opportunities can generate excellent sources of renewable funding, some knowledgeable observers worry that increased reliance on earned income may also shift resources from less lucrative but equally or more important components of mission, such as basic research, policy development and advocacy, education, and long-term professional and management development programs—and toward short-term training, conferences, consulting, and other services that can be marketed to clients that are large or wealthy enough to afford them.

- General operating-support grants from foundations to infrastructure organizations have declined significantly, while more foundation support has been provided in the form of project grants that specify outcomes to be achieved and restrictions on how grant funds can be spent. While a focus on results is helpful in aligning objectives and justifying grants, too much emphasis on measurable outcomes can shift priorities away from valuable activities whose impact is inherently difficult to assess, including research, policy development, advocacy, training, and capacity building. The use of restricted project grants also privileges the perceptions, goals, and priorities of foundation staff and boards over those of infrastructure organizations, whose closer contact with nonprofit organizations arguably gives the latter a better understanding of the support needs of the nonprofit sector. Finally, in recent years, foundations have provided fewer multiyear grants. This forces infrastructure organizations to spend more time and money securing grant support, and creates program and financial instability.

- Despite foundations' emphasis on building earned income, infrastructure organizations (like the nonprofit sector as a whole) suffer from the lack of available risk capital to invest in the development of new businesses. Some observers note that foundations are rich in capital but invest their endowments primarily in the equity and debt of for-profit businesses rather than in their nonprofit partners. This reflects the absence of equity ownership that would enable foundations to include investments in nonprofits as part of their equity portfolios. But it may also reflect limitations in the thinking of foundations and nonprofit infrastructure organizations in using program-related and mission-related investments, or even equity investments in for-profit subsidiaries, to develop businesses that can earn a return on venture financing.

- There is little consensus among foundation donors about priorities for the development and support of nonprofit infrastructure organizations. Some observers allege that grant funding does not necessarily follow program need or quality as much as personal relationships among influential leaders of foundations and infrastructure organizations. This kind of political grantmaking typically arises when there is no clear paradigm guiding, justifying, and evaluating charitable support and organizational priorities.

## Key Questions

The general observations outlined above raise a number of

important questions for philanthropic foundations and infrastructure organizations, including the following:

- Many for-profit infrastructure organizations provide valuable services to nonprofits without subsidies from foundations or government agencies, including legal, accounting, banking, investment, insurance, consulting, and executive search firms. What justifies charitable support for nonprofit infrastructure organizations? Can nonprofit organizations better provide certain services than can commercial business firms? If nonprofit organizations dispense certain services, should these programs be subsidized by philanthropic donations or government funds?

- What is the optimal balance between contributed support (primarily from foundations) and earned income in providing financial support for infrastructure organizations? Does this balance depend on the particular mission and kinds of programs provided by different kinds of infrastructure organizations? Are different financial models appropriate for funding different types of infrastructure organizations?

- Why do large foundations provide most of the charitable financial support for nonprofit infrastructure organizations? Why don't more small and medium-size foundations provide such support, especially for infrastructure organizations that serve state and local nonprofits? Should all foundations provide a portion of their grants to infrastructure organizations?

- Should foundation grants be reserved primarily for startup support for new infrastructure organizations or new programs, where the expectation is that over time this support will be phased out in favor of sustainable funding from earned income? Or should foundations make a commitment to long-term financial support for certain kinds of infrastructure programs and services? Should foundations provide general-operating support, restricted project grants, capital investments, or all three forms of funding?

- Do foundations need assistance in directing their financial support to appropriate infrastructure organizations through consortium or pooling approaches, or even formal intermediary organizations? Or should individual foundations direct their own grants and investments to particular infrastructure organizations whose programs fit funders' objectives?

- Is there a legitimate case for government funding of nonprofit infrastructure organizations? If so, what kinds of infrastructure services should be funded by governments? Should

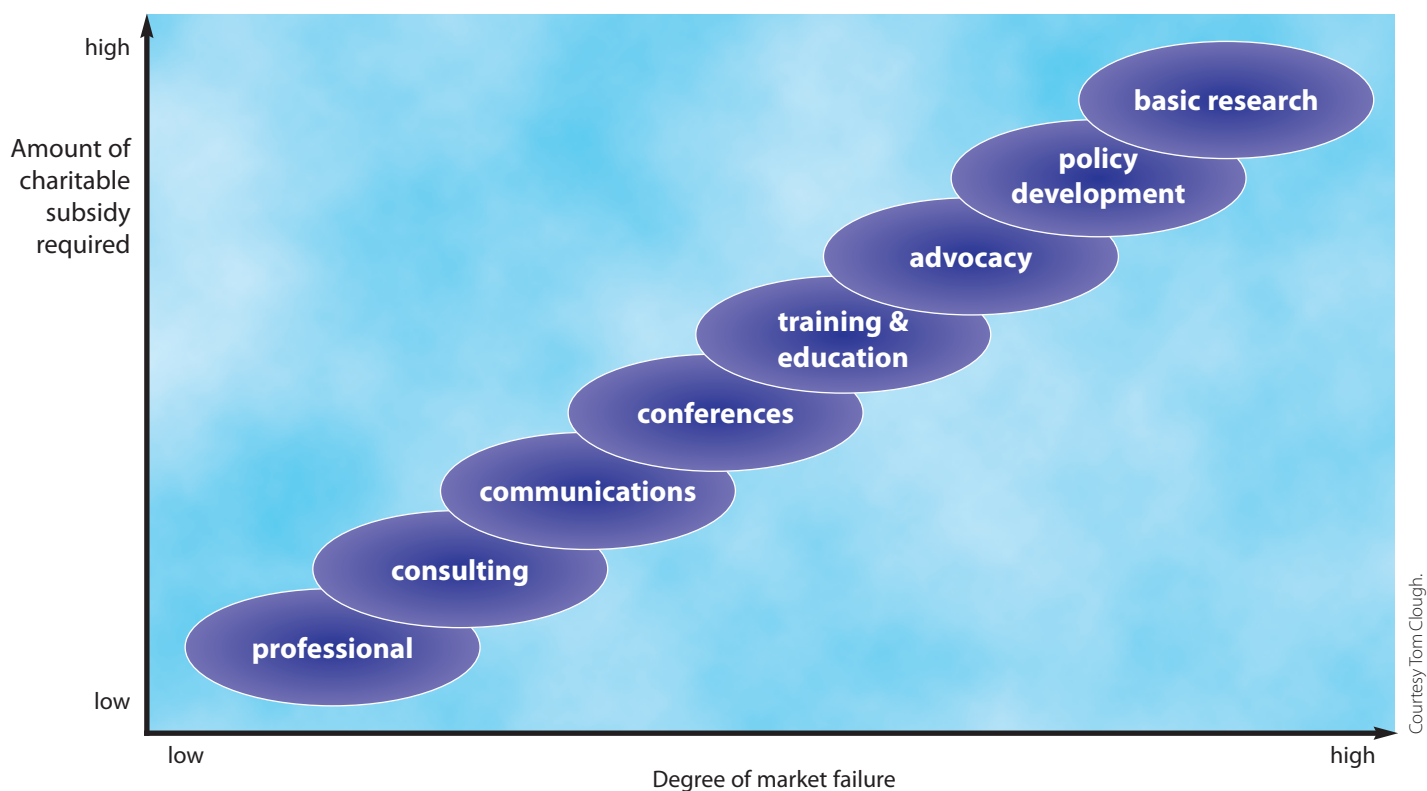


Chart 1: Hypothesized relation between degree of market failure and amount of charitable subsidy required for various infrastructure services, with size of organization/market held constant.

funding for the nonprofit infrastructure be provided by state and local governments as well as by the federal government?

### Theoretical Framework

To address these questions, we need to outline a general theoretical framework that explains why charitable nonprofit organizations arise in the first place and then explain how the framework helps us understand the funding requirements of nonprofit infrastructure organizations and to answer the questions listed above.

This approach begins with the economic theory of market failure that presumes that inefficient allocation of resources or even the absence of potentially beneficial market transactions stems from incorrect pricing. Economic theory explains that markets serve as efficient allocators of resources only under conditions required for perfect competition. These include such characteristics as the participation of many buyers and sellers in the market, the absence of economies of scale or networks that might create natural monopolies, equal access of producers to key technologies and resources, the absence of external benefits available to those who do not pay for goods or serv-

ices, the possession of equal information about the quality of goods and services by both buyers and sellers, relatively low transaction costs, and so forth. Conversely, several characteristics cause market failure and, hence, the possibility that a more efficient allocation of resources could be achieved through government regulation, taxation, subsidy, or, alternatively, through charitable support in the form of tax breaks and/or voluntary donations. Some of the significant forms of market failure are listed below:

**Economic inequality.** Although the relatively weak form of efficiency (Pareto optimality) embodied in classical welfare economics does not treat unequal incomes as a market failure, many noneconomists consider highly unequal allocations of resources as inequitable and a symptom of economic dysfunction, in that it signals underuse of human resources. This is particularly true if we assume that most human beings are born with similar genetic endowments of talent but receive unequal education or discriminatory treatment that limits their earning power. A large portion of charitable gifts and grants consists of voluntary donations that are intended to help those

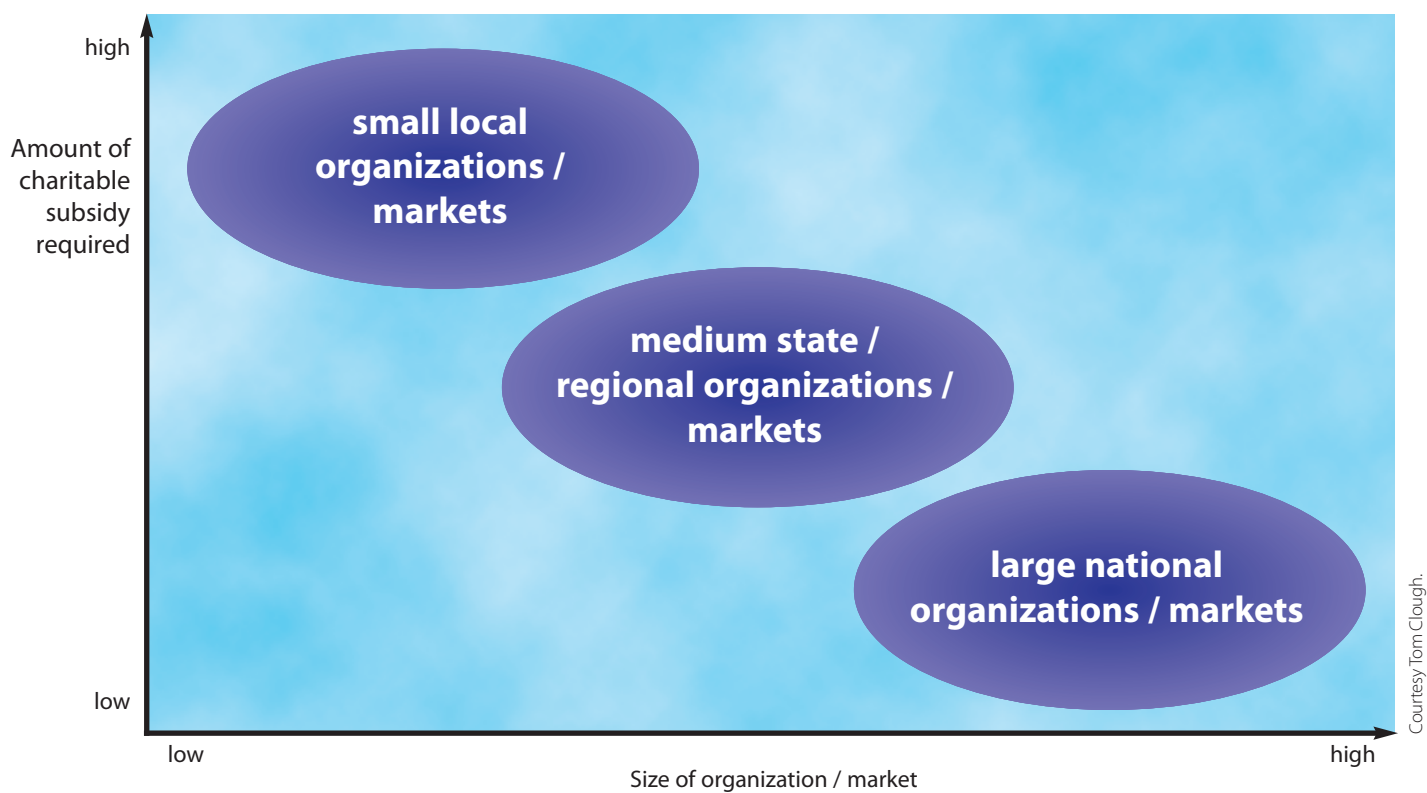


Chart 2: Hypothesized relation between organization/market size and amount of charitable support required for any given infrastructure service.

who suffer from such inequalities. Governments, of course, also act under certain circumstances to address such inequalities through progressive taxation, compensatory education, and the subsidized provision of goods and services to the poor. Indeed, in the United States, government encourages charitable gifts through tax exemptions for individuals, foundations, and nonprofit organizations. Thus charitable support channeled through nonprofit organizations lies at the heart of social programs whose purpose is to alleviate economic inequality and its effects on human welfare. For the same reason, we would expect to see greater foundation support for infrastructure organizations that support social-service and welfare organizations than those serving well-funded nonprofit institutions in, say, higher education, health care, and the arts.

<sup>1</sup> Of course, copyright laws work to limit the free dissemination of certain forms of new knowledge, and patents limit the production of products based on new knowledge, but the knowledge itself cannot be protected either by copyright or patent.

<sup>2</sup> See Mancur Olsen, *The Logic of Collective Action*.

**Public goods.** A public good is a product or service whose benefits can be enjoyed by “free riders” without their having to pay the costs involved. Economists have long understood that public goods are undersupplied by private markets and that there is a strong case for subsidizing those goods through government taxes or tax-advantaged charitable support.

Research, for example, often has the character of a public good, because once knowledge has been produced, the relatively inexpensive dissemination of research findings enables organizations and individuals to benefit from new knowledge even if they have not helped to pay for it.<sup>1</sup> For this reason, basic research often receives subsidies in the form of government funding, tax-deductible charitable support, or both, as we see in the financial structures of nonprofit and public research universities. It is interesting to note that while markets typically produce less basic research than would be optimal for the economy as a whole because of its public-goods character, many corporations with protected markets or large market shares invest in basic research because they enjoy a greater share of its benefits, even if smaller businesses have access to it as well.

The classic case is Bell Laboratories, whose parent company, AT&T, enjoyed a virtual monopoly in the telephone business. Because of its large market share, AT&T derived most of the benefits from its investment in research at Bell Labs, though the findings were published and available to all. In general, organizations that represent a relatively large portion of an industry or economic sector will provide greater funding for public goods or collective action (e.g., advocacy for favorable government policies) than smaller players because they enjoy relatively larger benefits.<sup>2</sup> If some of the programs and services of nonprofit infrastructure organizations have the character of public goods, this might help to explain why large foundations provide more funding for such infrastructure organizations than smaller ones.

**Small size.** While economists traditionally emphasize that economies of scale can lead to the emergence of monopolies (a form of market failure), it is also the case that very small organizations often lack the scale to make efficient use of certain services. For example, only nonprofit organizations with a relatively substantial stream of contributed income can afford to pay for the full cost of sending their staff to training programs that might increase their capabilities and effectiveness. If smaller organizations are to receive such services, they must be subsidized, either in part or in whole. For example, the Minnesota Council of Nonprofits has developed a program funded by foundations to establish offices and programs in rural areas that could not be fully financed through fees for service or membership dues.

**Indirect, uncertain, or long-term benefits.** Markets tend to work well when the qualities and benefits of products and services are easy to measure and when buyers and sellers have equal access to information about qualities and benefits. Indeed, services such as education tend to be funded mostly by governments and charitable donations through public or nonprofit organizations because their quality is difficult to measure; their value is uncertain or realized so far in the future as to be difficult to judge; and buyers (students) know less about what they should learn than sellers (faculty). The same problems apply to some of the typical functions of infrastructure organizations, such as training and capacity building. There is good reason to believe that these educational services provide long-term benefits to nonprofits and make them more efficient and effective, but

it is difficult to measure these effects empirically over a short time horizon. Today this is a particular problem, as foundations have responded to criticisms about their own performance, accountability, and legitimacy by requiring grant recipients to provide quantitative measures of success.

**High transaction costs.** Markets work well when the costs of establishing property rights, negotiating contracts and other forms of economic transactions, and enforcing agreements are relatively low. If transaction costs are too high, economic goods are undersupplied or transactions that would otherwise create economic value do not take place. In business organizations, high-transaction costs are associated with uncertainty over outcomes or the quality of goods and services and the complexity of multiparty transactions, among other problems. Scale also matters; transaction costs that would be unaffordable for small-value transactions can be easily recovered from the value generated by large-scale transactions. In nonprofit organizations, transaction costs include fundraising expenses on the part of grant-seeking institutions, and the expenses of analyzing grant requests by grantmaking foundations. While fundraising and grantmaking expenses vary with the size of a grant, these costs are a smaller proportion of large grants than small ones. This suggests that we should expect less support by small foundations for all sizes of infrastructure organizations, and less funding by all sizes of foundations for small infrastructure organizations.

**Financial risk.** For-profit businesses are owned by stockholders who supply risk capital in return for a share of investment return, either through dividends or capital gains. Nonprofits are owned by the community, they do not issue stock, and they do not pay dividends. They have relatively limited methods for paying investors a premium return on risky capital investments, so most of their capital must come from charitable donations, loans, or program-related investments (and nonrecourse loans, usually from foundations). The lack of good mechanisms for paying suppliers of risk capital an adequate premium on their investments means that nonprofits are typically undercapitalized and inefficient in their use of financial resources. We should therefore expect to find infrastructure organizations that supply risk capital to nonprofits to be funded primarily with charitable or government support.

## Implications for Funding Nonprofit Infrastructure Organizations

The theoretical framework outlined above can be used to generate hypotheses about how funding for nonprofit infrastructure organizations actually works (the predictive version) and should work (the normative version). At least in principle, the predictive version of these hypotheses is testable against empirical evidence. If valid, the normative version of these hypotheses can guide the funding policies of foundations and the fundraising strategies of nonprofit infrastructure organizations.

Nonprofit infrastructure organizations generally do not duplicate the functions that for-profit legal, accounting, banking, investment, insurance, consulting, and executive search firms provide for nonprofits and should not do so because the services of these for-profit firms do not suffer from the market failures listed above and, therefore, do not require charitable or government support. The exception would be in providing such services for small nonprofits, including those serving small towns and rural areas and those staffed mainly by volunteers, whose limited funding does not enable them to pay market rates for such services. We might, therefore, expect to find some state and local infrastructure organizations supported by charitable donations or government funds that provide subsidies and/or cooperative buying services that enable small nonprofits to purchase services on more favorable terms than they could on their own. Foundations at the regional, state, and local levels should offer charitable support for infrastructure organizations that provide such services for small nonprofits.

Nonprofit infrastructure organizations typically provide and should provide only those programs and services that cannot be efficiently delivered by for-profit firms because they entail market failure and would thus be undersupplied without the nonprofit sector. An exception might be if a nonprofit infrastructure organization could develop a business whose profits could be used to subsidize other services. For example, the Maine Association of Nonprofits earns more than one-third of its funding from commission-like sponsorship payments from a statewide insurance broker whose services for nonprofits in Maine are selected, evaluated, and promoted by the Maine Association on behalf of its members. But developing a profitable business is not easy, even for business corporations with purely financial missions, so it is relatively rare to

find a nonprofit that is able to subsidize its mission-related programs with for-profit enterprises. In addition, financial models that rely heavily on earned income risk running afoul of tax regulations that prohibit nonprofits from operating commercial businesses that are unrelated to their community-service missions without payment of taxes.

A corollary of the foregoing hypothesis is that even at maturity, most nonprofit infrastructure organizations should expect to fund at least a portion of their programs from charitable donations rather than rely exclusively on earned income from service fees and membership dues. By the same token, foundations should provide continuing charitable support to infrastructure organizations and should not expect even mature infrastructure organizations to shift their financial models entirely to a reliance on earned income. Foundations that invest in nonprofit infrastructure organizations and then withdraw in the expectation that these organizations can fund their programs with earned income jeopardize infrastructure organizations with financial instability and failure. These organizations may also suffer if they are forced to shift their programs away from their original charitable missions toward activities that have commercial market value. The notion that the proper role of foundations is to provide startup or development grants for new infrastructure organizations or new programs and then move on to support other new programs after a few years should be rejected as a template for foundation support in this area. Still, foundations should provide capital investments to initiate or develop particular services or programs within infrastructure organizations that have the potential to generate significant earned income at maturity.

Within the program portfolios of nonprofit infrastructure organizations, some programs—such as basic research, policy development, and advocacy—are affected to a greater degree with characteristics that create market failures than others, such as training, conferences, data services, and publications. The former are likely to require greater subsidies than the latter, which can rely more on earned income. The financial models of nonprofit infrastructure organizations, defined as the balance of charitable support and earned income in the organizations' funding structure, will largely depend on the mix of programs they provide. There is no single optimal financial model for nonprofit infrastructure organizations, although



we might find certain archetypical financial models among similar organizations, such as state associations of nonprofits.

The concentration of funding by major foundations on national infrastructure organizations can be partly explained by the major foundations' greater share of the collective benefits of a more efficient and effective nonprofit sector and partly by their lower transaction costs relative to funding levels. But this concentrated funding structure does not provide a sufficient amount or optimal allocation of foundation support. Greater benefits for the entire nonprofit sector could be achieved if all foundations provided funding for infrastructure organizations not only at the national level but also at regional, state, and local levels.

Efforts to achieve greater funding for infrastructure organizations by foundations of all sizes are likely to encounter problems similar to those in obtaining foundation funding for a fair share of nonprofit overhead expenses as part of restricted program grants. Indeed, many of the services provided by infrastructure organizations aim to improve the general, development, and administrative activities of nonprofits. In both cases, the basic problem is that funders cannot measure the marginal benefits of financial support for overhead costs as easily as the benefits of direct program support because of the market failure issues outlined above. Perhaps one of the few ways to overcome this problem is to develop standards that require funders to provide a fair share of support for reasonable overhead expenses (including services provided by infrastructure organizations) as part of all grants and contracts. In recent years, research studies and forums conducted by infrastructure organizations such as the Urban Institute's Center on Nonprofits and Philanthropy, Grantmakers for Effective Organizations, and others have begun to lay the groundwork for such standards.

Even if such standards existed they would not overcome the high transaction costs of determining which infrastructure activities to support and how to allocate funding among infrastructure organizations of different sizes. Foundations should consider establishing an intermediary organization that could economize on fundraising and grantmaking costs by pooling operating and capital funding from foundations of different sizes and distributing funds among small, medium-size, and large infrastructure organizations and among different types of

infrastructure services, with an emphasis on services and organizations that could not be supported through earned income.

### **Testing These Hypotheses: Exploratory Research**

While a complete research program to test these hypotheses is beyond the scope of this report, in the fall of 2008, we conducted exploratory research through a telephone survey of 11 nonprofit infrastructure organizations. The organizations were chosen to represent a cross-section of the different types of infrastructure organizations, primarily to see whether and how financial models varied according to the varieties of programs and services offered by these organizations. While the sample includes one relatively small state association, most of the surveyed organizations are national infrastructure organizations. This limitation should be addressed by further research that includes more state and local associations of nonprofits, management support organizations, and other small infrastructure organizations. The organizations surveyed in this study included the following:

- Alliance for Nonprofit Management
- BoardSource
- CompassPoint
- Council on Foundations
- Foundation Center
- GuideStar
- Independent Sector
- Maine Association of Nonprofits
- Minnesota Council of Nonprofits
- Nonprofit Finance Fund
- Urban Institute, Center for Nonprofits and Philanthropy, National Center for Charitable

### **Methodology**

**Program services.** The purpose of the telephone survey was to explore the relationships between the types of services provided by these organizations and their sources of funding. We used the following typology of programs:

- Basic research
- Policy development and advocacy
- Training and education (for small groups)
- Conferences and events (for large groups)
- Communications: publications, Web sites, networks, and member services
- Data services

- Consulting and planning
- Financial and professional services: accounting, legal, financial, investment, and so on
- Other (identify)

This typology is based on the kind of program activity rather than on its content or function or goal and is arranged according to the degree to which each program activity is believed to have characteristics associated with market failure. Basic research, policy development, and advocacy, for example, are activities that we consider to have a greater element of public good than training and education; it is easier to exclude free riders from the benefits of training classes than from research and policy advocacy. Training and education programs provide private value to individuals and infrastructure organizations and public value to the nonprofit sector as a whole, so the theory predicts that they should be funded by a combination of charitable support and tuition. Training programs typically serve fewer people than larger conferences and various communication and data services, so the absence of economies of scale often makes the former more difficult to fund with fees and dues than the latter. At the other end of the spectrum, it should be possible to fund the kind of consulting and planning services offered by larger management support organizations, as well as financial and professional services provided primarily by for-profit business firms, with service fees or other forms of earned income, provided that clients are large or wealthy enough to afford them. Admittedly, we have no simple quantitative measure to indicate the degree of market failure of these various services.

Nevertheless, we wanted to see whether there was any consistent relationship between the types of services we have listed here, arranged roughly by the degree of market failure involved and their sources of funding.

**Funding sources.** The typology we used for funding sources is as follows:

- Endowment income
- Foundations
- Government agencies
- Individual gifts
- Earned income

Here the spectrum runs from sources of funding that

represent charitable support (endowment income, foundation grants, and individual gifts) to earned income (primarily fees for service and membership dues). While we allowed for endowment, government and individual support, few of the surveyed organizations relied much on these sources. The financial models for most organizations relied on a combination of foundation grants and earned income. Since most nonprofits join as members of infrastructure organizations with the expectation of receiving certain benefits and discounts on services, membership dues were treated as earned income.

**Primary questions.** The telephone survey asked respondents to estimate (1) the percentage of their revenue and support that came from various sources and (2) the percentage of organizational budget that was spent on various program services. Based on the theoretical framework outlined above, we wanted to explore whether infrastructure organizations that spent more of their budget on program services such as research, policy development, and advocacy receive more of their support from charitable sources such as endowments and foundation grants and whether those that spent more of their budgets on conferences, communications, data services, and financial and professional services derive more of their funding from earned income.

We then asked respondents to indicate the most important source of funding support for each program service. We expected to find that program services that entailed various forms of market failure would rely on foundation grants as their most important source of funding, whereas program services such as communications, data services, consulting, planning, and financial and professional services would rely primarily on earned income.

Supplemental questions address other issues in how infrastructure organizations are funded, such as the mix in foundation support between general operating support and project grants; the mix in earned income between fees for service and membership dues; and how infrastructure organizations would prefer to use increased foundation funding if it were available.

## Findings

Among the organizations we surveyed for this study, we found that most had financial models that corresponded roughly with the predictions of the market failure theoretical framework outlined above. But there were several

cases where close examination of the financial model revealed certain anomalies that require further analysis. Here are brief summaries of illustrative cases.

**BoardSource.** BoardSource’s mission is to increase the effectiveness of nonprofit organizations by strengthening their governance. BoardSource was initially funded by a consortium of foundations but in recent years it has relied primarily on earned income from its consulting and publications for financial support. At present, BoardSource receives more than 70 percent of its income from consulting fees, publication sales, and membership dues, and less than 30 percent from foundation grants. Of its earned income, more than 80 percent comes from consulting fees and publications, while less than 20 percent comes from membership dues. Of its foundation support, about 70 percent comes in the form of general-operating support grants, while about 30 percent comes in the form of project grants. BoardSource spends less than 10 percent of its budget on research and policy development. Most of its expenses are devoted to publications and other forms of communication (37 percent) and consulting on governance issues (22 percent). BoardSource also spends about 7 percent on conferences.

Fundraising, administrative, and general expenses account for about 25 percent of its budget. For its research activities, foundation grants are the primary source of funding, followed by allocations from earned income. For conferences, communications, and consulting, earned income are the primary sources of funding. But BoardSource reports that all its program services derive funding from foundation support and earned income. The financial model currently used by BoardSource, with its primary reliance on earned income and its primary emphasis on publications, consulting and conferences, corresponds quite closely to the predictions of the market failure theory outlined earlier. However, our interview with BoardSource for this portion of the study suggests that the decline in foundation support and BoardSource’s consequent reliance on earned income has made it difficult for this organization to support a strong program of research and policy development on issues nonprofit governance. If additional funding were available, BoardSource lists research as its most important priority for increased spending.

**GuideStar.** GuideStar gathers information about nonprofits, primarily from tax data supplied on Form 990, and dis-

tributes it to donors, nonprofit government agencies, and a variety of for-profit business firms. GuideStar received initial funding from a consortium of foundations and, as foundation support declined, it was required to shift to earned income as its primary source of financial support.

At present, GuideStar derives about 75 percent of its income from fees, memberships and other forms of earned income and about 25 percent from foundation grants. GuideStar has no endowment. Almost all its foundation support comes in the form of unrestricted general-operating support, and 90 percent of its earned income comes from fees for services.

As our theory suggests for an organization that relies primarily on earned income, GuideStar spends most of its budget on services that generate private value for its clients: approximately 40 percent to 50 percent on its Web site and on other forms of data communications, 30% on data services, and 5 percent on conferences (used primarily for marketing its products and services).

One of its largest expenses is the digitization of nonprofit tax data that is provided both free of charge to individuals and on a fee basis to for-profit and nonprofit organizations that use value-added data services. GuideStar spends relatively little on basic research, policy development, and advocacy. Interestingly, the most lucrative portion of GuideStar’s business is providing value-added data to for-profit financial and professional service firms that sell services to nonprofits. Some observers worry that the need to fund GuideStar’s programs with earned income from sales to for-profit firms will divert the organization from placing the highest priority on serving donors and nonprofit organizations, its original mission. A number suggest that the government should be making a larger investment in the nonprofit databases than it does. GuideStar’s board and management believe that this is the only sustainable source of funding for its programs and that the more valuable the services it provides for commercial businesses, the greater the profits it can use to subsidize services for donors and nonprofits.

**The Urban Institute’s Center for Nonprofits and Philanthropy.** The Urban Institute’s Center for Nonprofits and Philanthropy (CNP) and its National Center for Charitable Statistics (NCCS) is one of the leading research organizations in the nonprofit sector, and its financial model provides an interesting contrast to that of GuideStar, especially

since it relies largely on the same IRS tax data that GuideStar uses.

Originally funded by a leading foundation, NCCS now relies primarily on endowment income for its financial support. Its \$12 million endowment was created by gifts from several foundations that originally supported its creation. These foundations recognized that the kind of basic research and policy development for the nonprofit sector provided by NCCS could not be supported by an earned income model and that only a substantial endowment would provide the kind of sustainable financial support it needed. It also seeks and receives foundation grants for special research projects as well as operating support. About 25 percent of NCCS's funding comes from earned income in the form of fees for data services for larger nonprofits. NCCS's use of endowment and foundation funding for its primary work of research and policy development, along with supplemental earned income for communications and data services, fits the predictions of our theoretical framework, especially when contrasted with GuideStar's primary reliance on earned income to fund its communications and data services.

**Minnesota Council of Nonprofits.** The Minnesota Council of Nonprofits (MCN) is widely regarded as one of the most successful state associations of nonprofit organizations. Its annual operating budget (in 2008, it was \$2.4 million) provides a range of services, with spending of about 10 percent of its budget on research; 35 percent on policy development and advocacy; 35 percent on training, workshops, and conferences; and about 20 percent on communications and member services (all figures include a portion of fundraising, general, and administrative costs). Even though the organization was founded more than 20 years ago, about 45 percent of its funding still comes from foundations, with about 90 percent of this support in the form of project grants. Fifty-five percent of its revenue comes from membership dues, fees for program services, and other forms of earned income. The pattern of funding corresponds closely with the predictions of the market failure theory: for research, policy development, and advocacy programs, foundation support is the most important source of funding; for training, conferences, communications, and member services, earned income is the primary source of financial support.

At the margin, increased or decreased foundation

support would have the greatest impact on basic research, policy development, and advocacy. MCN reports that its balanced financial model helps to stabilize its finances; relatively high levels of earned income allow the organization to cope with the more variable stream of foundation project grants and the fact that such grants seldom provide adequate allowance for institutional overhead. MCN also reports that its success in generating both charitable support and earned income is largely because of two factors: (1) the presence in Minnesota of a number of large, well-managed foundations that understand the value of MCN's services and (2) the role of these foundations in supporting a strong nonprofit sector in Minnesota, which helps generate demand for MCN's fee-based programs and membership services from nonprofit organizations. MCN offers a good example of how both foundation support and earned income can serve as key components in a sustainable financial model for infrastructure organizations.

**Maine Association of Nonprofits.** Founded in 1994 with a startup grant from the National Council of Nonprofit Associations (NCNA), the Maine Association of Nonprofits is a small state association. In 2002 the organization suffered a financial crisis and almost failed. With new leadership, the association rebuilt its budget to the current level of about \$700,000. The organization spends about 10 percent of its budget on policy development and advocacy; about 40 percent on training workshops, and conferences; and about 30 percent on data services, communications, and member services. Unlike Minnesota, the state of Maine is relatively small, with few major foundations or corporations, so charitable support is difficult to obtain for all nonprofits in the state. The Maine Association of Nonprofits gets only about 12 percent of its funding from foundations, about 7 percent from state government agencies, and more than 80 percent from earned income.

While the financial model of the Maine association corresponds roughly with the predictions of the market failure theory—in that most services generate private value for nonprofits and are funded by earned income—two aspects of the financial model should be noted. First, because of the state's relatively small size, weak economy, and rural character, even services such as training, capacity building, and conferences that the theory predicts should be funded largely through earned income require some form of subsidy. Second, in this case, the subsidy comes largely

from corporate sponsorship arrangements with a statewide insurance brokerage firm selected by the association to provide low-cost, high-quality insurance and employee benefit plans. In this business, the Maine Association of Nonprofits acts as an intermediary; it negotiates on behalf of its members to get group purchasing discounts for insurance and employee-benefit plans, and it acts as a sales agent for the brokerage firm in obtaining business from nonprofit organizations. Since this business does not require significant expenses on the association's part, most sponsorship revenue is used to subsidize advocacy, training, communications, and member services programs, offsetting the lack of foundation support and program fees that would be required to subsidize these programs in such a small state.

The Maine Association of Nonprofits case supports the proposition that financial models for infrastructure organizations must account for factors such as market size and organizational economies of scale in addition to the type of program services provided. It also makes clear the possibility that if a nonprofit infrastructure organization can develop a successful commercial business, profits from the business can be used to subsidize services that cannot be fully funded from foundation grants, program fees, or membership dues. Other than group purchasing programs, however, the infrastructure organizations we studied did not provide examples of such businesses.

**Council on Foundations.** As stated on its Web site, "The Council on Foundations is a Washington, D.C.-area-based nonprofit membership association of more than 2,100 grantmaking foundations and corporations. As the voice of philanthropy, the Council works to create an environment in which the movement can grow and thrive, and to provide Council members with the products and services they need to do their best work." The Council generates more than 80 percent of its \$22 million in annual funding from earned income, primarily membership dues. It also raises 16 percent of its support through foundation grants, of which 70 percent are project grants and 30 percent are for general-operating support. The Council provides a wide range of programs, including policy development and advocacy (16 percent of its budget), training and conferences (25 percent to 30 percent), communications and membership services (14 percent) and legal services (8 percent).

While the general pattern of funding sources and program expenses appears consistent with the theoretical framework outlined here, the Council deviates from the predictions of the theory. It uses earned income (membership dues and services fees) to provide primary support for most of its activities, including policy development and advocacy, training, conferences, and legal services. Only communications relies more on contributed support than earned income. At the margin, the Council reports that it would use increased foundation funding not only for policy development and advocacy but also for training, communications, research, and knowledge management.

The most likely reason that the organization is able to fund activities like policy development and advocacy with earned income (primarily membership dues) is that it has so many member foundations that have the financial resources to support its work. In 2008 the total assets under management by Council members amounted to more than \$300 billion. Clearly, such members can afford to pay not only for program services but for public goods like policy development. Senior leaders report that many of the Council's largest members regard their dues as a subsidy that supports work benefiting all foundations. The availability of adequate funding for all its programs was reflected in interview comments by a senior financial manager, who described COF's funding as good, stable and growing over the long term. However, COF is only cautiously optimistic that it can maintain its budget and services in the current economic environment. Like the case of the Maine Association of Nonprofits, the Council example suggests that scale, market share, and member wealth are important factors in determining an infrastructure organization's financial model.

**Independent Sector.** Independent Sector is a national coalition of 600 charities, foundations, and corporate giving programs committed to advancing the work of the charitable sector in America and around the world. According to its Web site, "Since its founding in 1980, [Independent Sector] has sponsored ground-breaking research, fought for public policies that support a dynamic independent sector, and created unparalleled resources so that staff, boards and volunteers can improve their organizations and better serve their communities." The organization spends about 40 percent of its \$10 million budget on policy development and advocacy; 40 percent on training, education,

events, and conferences; and 20 percent on communications (publications and networks) and member services. About 30 percent of its funding comes from foundations, with 60 percent of this support in the form of project grants and 40 percent in the form of general-operating support. About 70 percent of its funding comes from earned income, of which two-thirds is generated by program fees and one-third by membership dues.

Under Independent Sector's financial model, policy work, training programs, and communications are supported by a combination of foundation grants and program fees, while conferences and other events are supported largely by program fees. The one anomaly is that policy work is supported by both foundation grants and earned income. Like the Council on Foundations, this reflects the ability of large national infrastructure organizations to earn substantial revenues from membership and program fees, enabling surpluses from these activities to subsidize research and policy programs and even develop operating reserves. Over the years, Independent Sector has built a substantial reserve fund. This level of strategic flexibility and access to traditional capital markets is unusual among all but a handful of infrastructure organizations.

**The Nonprofit Finance Fund.** The Nonprofit Finance Fund (NFF) provides financing and consulting services for small and medium-size nonprofits and their funders. It spends about 10 percent of its \$12 million budget on research and policy work; 10 percent on training; 5 percent on conferences; 10 percent on communications; and 50 percent on consulting and planning services, with about one third of this activity related to the provision of loans to nonprofit organizations. About 15 percent of its budget supports fundraising, general, and administrative activities. In addition, NFF closes more than \$20 million per year in new loans to a variety of nonprofits for facilities, working capital, and program development. Its total assets amount to more than \$90 million, of which about half represents its loan portfolio.

About 60 percent of NFF's operating budget comes from foundations, of which about half represents grants that enable clients to hire NFF to provide consulting and planning services (NFF terms these grants "quasi-earned income"). About 10 percent of NFF's funding comes from government agencies, primarily community development agencies, and about 30 percent represents direct earned

income from its consulting and planning services. On the capital side, about 35 percent of NFF's loan funds comes from foundations and government sources; although these sources contribute less than half of NFF's total loan fund, they provide the risk capital that allows NFF to obtain the rest of its loan fund from banks at relatively low interest rates. NFF also partners with foundations in making grants to a variety of nonprofit organizations.

Although its heavy reliance on foundation funding for consulting and planning services seems inconsistent with the predictions of this report's market failure theory, the bulk of these services is related in some way with helping nonprofits meet their capital needs. As noted in the theoretical framework section, the lack of access of nonprofit institutions to both equity and debt represents a form of market failure for the nonprofit sector and offers a rationale for foundations, assisted by organizations like NFF, to help provide needed capital for nonprofits. In recent years, leading foundations have made increased use of program-related and mission-related capital investments as part of their philanthropy, with some using NFF as a partner. NFF's financial model, then, is consistent with the theoretical framework outlined for this study because of its focus on capital financing of nonprofits.

## Summary and Implications

It is important to note that this is an exploratory study, not a conclusive one. Our primary objective is to outline a theoretical framework for understanding how the financial models of nonprofit infrastructure organizations might depend on the type of program services provided. While the analyses of financial models here conform well with the predictions of the market failure theory, further research is required to confirm this result with an acceptable degree of confidence. Such research might extend the current study in several ways. First, it should include a larger sample of nonprofit infrastructure organizations. Second, it should ensure that cases included are representative of the universe of such organizations, such as smaller regional, state, and local examples. Third, it should develop better ways of classifying activities according to the characteristics that produce market failures. For example, on what basis could we determine the relative degrees of failure in the markets for research, training, conferences, communications, and consulting? Finally, researchers should consider including for-profit infrastruc-

ture organizations (businesses that serve nonprofits), since they might be subject to some of the same challenges in funding their services as their nonprofit counterparts.

Despite its exploratory character, however, this study's empirical support for the theoretical framework outlined above suggests some implications for both funders and nonprofit infrastructure organizations to consider.

- As a general rule, foundations should provide continuing support for nonprofit infrastructure organizations and should not expect most infrastructure organizations to fund their programs entirely or even predominantly through earned income, even at maturity. Foundations should reject a financial model that limits charitable support to startup expenses or new program development in favor of one that provides ongoing support for activities that cannot be funded adequately with earned income. These include research, policy development, advocacy, longer-term educational programs, and most services provided by smaller infrastructure organizations that serve local, regional, or state nonprofits or those with limited financial resources. If foundations are not willing to provide continuing support to infrastructure organizations, they should be prepared for infrastructure organizations to reduce commitment to these services.

- Foundations should focus financial support for large national infrastructure organizations on programs that cannot be cross-subsidized adequately from earned income. Because of their strong market positions and large memberships with disposable income, some national infrastructure organizations are capable of supporting research, policy development, advocacy, and education programs at least in part from membership dues, service fees, publications sales, and the like. It is the groups that serve mid-size and smaller nonprofits and the smaller state, regional and local infrastructure organizations that need the most support for these activities from foundations of all sizes.

- Charitable support for infrastructure organizations should come from small and medium-size foundations as well as large ones, and more funding should be provided to regional, state, and local infrastructure organizations. Leading foundations should develop standards that call for foundations of all sizes to provide a percentage of their restricted program grants as financial support for activities of infrastructure organizations. Similar standards should be developed for other forms of overhead expenses in the nonprofit sector.

- Foundations should consider establishing an intermediary organization to economize on fundraising and grant-making expenses by pooling financial support from foundations of all sizes and allocating them to different types of activities and different sizes of infrastructure organizations, including smaller ones. Funding pools could be established for both operating and capital support.

- To make the best use of limited resources, foundations, infrastructure organizations, and nonprofits should combine efforts to advocate and obtain more government funding for infrastructure organizations, possibly using the analogy of government support for small business. If government provided more support for activities such as research, data services, training, education, and low-cost loans, foundation support could be concentrated on policy development, advocacy, conferences, communications, and the development of new initiatives. In the final analysis, the best financial model for infrastructure organizations is a hybrid structure that uses a combination of foundation philanthropy, government funding, and earned income to support these organizations' essential work. ■





## Four Futures

by PAUL C. LIGHT

**D**URING THESE TROUBLED TIMES, what lies in store for the nonprofit sector, and what do we need to do about it? Along with every family in America, the nonprofit sector is wondering about its future. Will we miraculously survive as we largely do today? Will we starve our organizations to the core or emerge from the current economic calamity mostly intact? Will we fight the prevailing downturn on behalf of our individual institutions and leave others to defend themselves, or instead will we join forces to shore up the sector as a whole? In the aftermath of this financial crisis, will we have real options and choices?

The answers are not yet clear, but it appears that an intensifying struggle for ownership of the sector and how it is structured, governed, and deployed is under way. When boiled down to its fundamentals, the question is whether nonprofits are “owned” by their institutional funders (governmental and philanthropic) or whether a broader community of stakeholders should make the choice about the future nonprofits pursue. The search for an answer may yet produce a struggle for the identity and soul of the sector. Traditionally the sector belongs to this country’s citizens who have exercised their right to associate through civil society, but there is, of course, pressure from those who have the resources on which the sector depends.

In the midst of this struggle, larger “brand name” nonprofits may seek greater market share through muscular fundraising machinery and carve up territory that will in some cases undermine the self-direction and survival of smaller, community-based entities. Words like scale, efficiency, and metrics may come to dominate conversation in the sector, overshadowing concepts like civic engagement and democracy-ideas renowned for their messiness in practice.

And indeed, the recession may convert an implicit agenda into a much more explicit goal: to reduce the number of nonprofits—or more precisely, the amount of philanthropic demand—where such winnowing perhaps works to the advantage of brand-name nonprofits. In this institutional melée, citizens may be left out of the equation, even though they have a legitimate claim to involvement because they subsidize the sector’s tax status.

Let’s now consider four different futures that will shape this debate.

**The rescue fantasy.** The first future scenario is based on the “kindness of strangers” and is likely to leave the nonprofit sector in the same position as poor, homeless Blanche DuBois. The idea is that Americans are a generous people and will continue giving, perhaps rising to the challenge and giving more from their strained budgets. In some ways, the American psyche expects an increase in generosity, but the sector is no longer dependent on just individual contributions. It has grown accustomed to a huge share of revenue from government and marginal dollars from philanthropy. But when you consider the amount of dollars from government and philanthropy that might have to be replaced, it is reasonable to assume that individual givers cannot fill the gaps, however much we hope they will.

And even if it did occur, this rescue would likely help some nonprofits, but not others. The public

is used to supporting certain kinds of groups but not others. There are whole fields of work that receive little in public donations because they have traditionally been subsidized so heavily by government. They are often virtually unseen by the public and many also work with the most vulnerable, and sometimes marginalized, populations: the chronically mentally ill, the developmentally disabled, and substance abusers, for example. Some of these programs are quite intensive and, in some cases, residential and therefore quite expensive. Many such programs are funded by the state and will be subject to the trickle-down effect of reduced federal budgets, combined with reduced tax income at the state level. The public is unlikely to pick up the tab in small private donations.

So what about a nonprofit bailout? Some well-connected and well-known nonprofits will no doubt be congressionally pardoned even if already economically stressed individuals do not give at higher levels. Last October, in the first of what could signal several visible bailouts, the Red Cross received a \$100 million no-strings-attached grant from Congress to cover a shortfall in fundraising following hurricanes Gustav and Ivan. Other large national nonprofits could line up for funding as well, but many smaller nonprofits would be left behind. Rescues tend to favor single organizations or relatively small slices of an industry.

And as for community service as the answer to our current situation, it is not clear that a service nation could do enough to produce a rescue. A community service-oriented solution may well be this administration's version of the Bush faith-based proposal: a good but inadequate response. Although an expansion of AmeriCorps and the creation of a new Serve America fellowship may draw as many as 300,000 to 500,000 new recruits to the sector, the numbers of such "voluntary stipended" recruits are just too small to fix a frayed social safety net.

**A withering winterland.** This second future is more probable. This scenario has every nonprofit in the sector suffering. Most nonprofits, even the nationally known brand names, now feel the pinch of the downturn. Fall galas have fallen well short of past highs, even as once-steady gifts shrink. Several major corporate foundations have stopped giving entirely, particularly in the beleaguered financial sector, and many have trimmed back to near zero. Government also expects deep deficits and will adjust nonprofit

contracts accordingly.

Depending on the length of the economic downturn, many nonprofits will starve themselves into a weakened organizational state through hiring freezes, pay freezes, layoffs, and deferred organizational maintenance. Although they may not be immune to these cuts, large nonprofits have more fat to trim, but trim they will, perhaps to the point of becoming predatory on their weaker brethren. How ironic that organizations created in part to help the needy may well contribute hundreds of thousands to the ranks of the nation's unemployed. With roughly 20 million Americans now looking for work, federal job centers are already overwhelmed by demand. How many of those cast aside will be from the ranks of the nonprofit sector?

**An arbitrary winnowing.** This is the most likely scenario and would result in rebalancing the sector toward larger, richer, and fewer organizations. In this scenario, some nonprofits will fold, while others will prosper as contributions flow to the most visible and largest organizations as well as to those most connected to and influential with their donors. Marketing budgets and levels of community engagement may be the best predictors of survival. Well-known organizations will survive through more aggressive fundraising appeals, while some small nonprofits will survive through sheer will or because their communities are used to supporting them. Others will merge, be acquired, or simply melt away.

Midsized organizations with little immediate capacity to replace lost funds will falter and cut to the bone. This winnowing would effectively eliminate the middle class, leaving the sector with fewer but bigger nonprofits and a lot of smaller nonprofits that already live hand to mouth. Overall employment will decline somewhat, though not in most universities and hospitals, but the total number of nonprofits could drop by 10 percent. As with the withering scenario, a winnowing scenario would seriously undermine the sector's ability to meet increasing demand.

**Transformation.** This fourth scenario is hopeful but different, and it is likely only if nonprofits make it so. As has been noted in several of this issue's articles, nonprofits could use the faltering economy and its impact on the sector as an opportunity to reinvent themselves. But this approach requires examining all possible options quickly and creatively. In state budgets, should certain services be

saved over others? Are there ways to redesign organizations to achieve greater synergy between community players? Are there ways to involve communities in rethinking and reenergizing our work? A transformation-oriented approach requires deliberate and collective action by the sector's stakeholders: communities, philanthropists, governments, intermediaries, constituents, nonprofit associations, and boards.

Whether small or large, every organization will make its own decisions, and the sector's infrastructure is left with several tasks to help aggregate these decisions into a best possible future. What should these tasks be?

Ensuring a voice for the less powerful. It's imperative to ensure that the less connected and powerful have a say in the future of this sector, which is, after all, meant to facilitate our ability to self-organize. In states with well-organized state associations, these venues can act as a convening point to consider priorities and collaborative strategy and as a conduit for advocacy, public education, and, yes, even lobbying. State associations of nonprofits could lead this effort by providing training, aggregating concerns, and expressing a clear call to action. Associations such as the Minnesota Council of Nonprofits have already proven that advocacy works, if not to prevent cuts entirely, then at least to reduce them.

**Advocacy.** Generally, advocacy must be seen as a necessary capacity for nonprofits—and one that should be funded well during times of political upheaval. There is no way to recover quickly from a government retrenchment that has already happened. The sector needs to weigh in loudly on where the trenches have been dug.

**Dialogue on philanthropy.** Since philanthropy is a private allocation of funds to be held in public trust, in times of such serious upheaval there should be a more public conversation about philanthropy. This doesn't mean that philanthropy needs to coordinate better among itself but that it should be more responsive and responsible to its community partners.

**Flexibility.** Whatever happens, the sector needs to innovate and mobilize more flexibly to keep pace with a new era.

### **Moving Ahead**

Bringing flexibility, innovation, and responsiveness to the

sector, however, requires several changes within it.

**Resisting funding restrictions.** Philanthropy should not predetermine what is needed by restricting funding too tightly. Providing more core support allows nonprofits to seek out new ways of making things happen at an administrative and a programmatic level. Instead of exerting too much control, philanthropists may want—as has been suggested by Margaret Wheatley (see NPQ Winter 2008)—to ensure that each organization has an active learning process in place and that there are methods for sharing learning among organizations.

**Collaboration.** Nonprofits must seek new ways to collaborate with other organizations and with the people in their communities. It is in the friction between unlike bodies that brilliant breakthroughs are made. Philanthropy should support but not direct these efforts.

**Effective research.** Researchers should more closely coordinate their work to help the sector learn more quickly about what works well and under what conditions. This learning should be broadly, rapidly, and effectively shared.

**Rejecting the hype.** Philanthropy should avoid overdependence on predetermined metrics as a method for encouraging effectiveness. Such dependence slows innovation in all but the best-funded organizations. Of course, measurement is not a negative—nonprofits should be rigorous in determining what constitutes success. But fixed measures of efficiency and fundraising effectiveness are not a substitute for a deeper understanding of the social return on investment, which may involve both quantitative and qualitative assessment.

**Enlisting the young.** Nonprofits must focus more on integrating young people into leadership. The nonprofit sector tends to operate in the present tense and on immediate need. As a result, it often misses key trends that alter futures. The alternative gives young people a voice in determining the future of the nonprofit sector.

**Broad based use of technology.** The sector needs to ensure that management and technological aids for nonprofit work are spread evenly across the country and particularly to rural and marginalized populations. The Obama

administration has promised to help do so but needs to support the have-nots in the effort. The nonprofit sector belongs to society as a whole, not just the brand-name nonprofits and philanthropists that receive the greatest media coverage.

**Social entrepreneurship.** Nonprofits must also embrace the spirit of social entrepreneurship and claim it. The Obama administration has included social entrepreneurship as part of its language. But do not believe that this is a new phenomenon whose spirit and processes are owned by a talented and well-educated few. This sector has always focused on social entrepreneurship. Social entrepreneurship is what many nonprofits already do and what more should do. Although there are talented social entrepreneurs within the sector, organizations' social entrepreneurship often goes unrecognized for its focus, creativity, energy, skill, and instinct that easily rivals that in the business sector.

The nonprofit sector can always let the future take its course by failing to choose among these competing scenarios. But in doing so, it would almost surely experience either the withering of organizations that comes from inaction or a random winnowing based on influence and ready cash, not performance. It can reap the benefits of transformation only by deliberate choice. ■

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## Recommendations

**T**HE RECOMMENDATIONS THAT FOLLOW are based on an aggregation of the data collected for this study, including interviews with infrastructure leaders, as well as deeper analysis by members of the research team. It should be noted that while we believe these recommendations should be considered seriously by funders as potential investments, we also recognize that this report suggests other opportunities for initiatives and strategic grantmaking which can and should be explored as part of strategic planning.

### Recommendation 1

Invest in the national networks of state associations and nonprofit capacity builders whose members are widespread, serving nonprofits of all types and sizes on a state and local basis. Particularly now, the former can monitor policy at the state and federal levels for local groups and mobilize locally for state and national policy impact, and the latter can help local nonprofits make decisions about their immediate futures in the face of increased community need and financial constraints.

**The justification.** Building these networks will not only provide a valuable system for developing and disseminating knowledge (see Recommendation 4 below) but also will provide the kind of local-to-national network to ensure that:

- National policies, agenda-setting, and regulations are informed by small and midsize nonprofits across the country.
- Information about policy threats and opportunities, as well as program advancements, at the state level filter quickly to other states and to national organizations.
- Trends in reorganization during this crisis can be tracked and best practices circulated.
- Shared research needs are identified and data about them collected quickly and efficiently for inclusion in a base of standard information.

**The opportunity.** We will use National Council of Nonprofits (NCN) as our example for this recommendation and the worth of a distributed network. NCN has new leadership, specifically, an executive director with deep experience and background in public policy. The NCN board of directors have also expressed commitment to building this network as a combined national policy and support structure. Additionally, the network has already begun to reexamine the relationship between the national and local organizations to find a more powerful way of working. There is also a successful model for this work, specifically, the State Fiscal Policy Equity Project, which has established a national network of state budget analysis projects and was supported by the Charles Stewart Mott, Annie E. Casey, and Ford Foundations.

**The barriers.** There is widespread agreement among those interviewed for this report that NCN has not yet lived up to its potential, but this was attributed largely to the diversity of its base and the rel-

atively limited capital with which it has worked (NCN is 44th on the list of infrastructure organizations ranked by their level of foundation funding over the past five years). A few interviewees for this report note that the structure of NCN's work is a puzzle that funders need to help them solve so that they can assume a more powerful policy development and lobbying stance.

**Scale.** There are currently 41 state associations, although they exist on a wide continuum of capacity. These 41 associations count 22,000 nonprofits as their members which, in turn, serve millions of people. The individual state associations range in budget size from \$70,000 in North Dakota to \$3.7 million in Maryland and in numbers of members from 47 in Wisconsin to 1,800 in Minnesota with an average state membership of 570.

### **Recommendation 2**

Establish a \$50 million capital grant pool to be administered by an intermediary that smaller infrastructure groups could use to invest in more sophisticated growth and sustainability efforts. This pool should help groups accrue greater earned income and other renewable financing possibilities to achieve scale.

**The justification.** In the long run, investing in an effort to maximize earned income will save charitable dollars. As is mentioned in the section on financial models in this report, the infrastructure organizations that serve primarily larger organizations are generally blessed with larger budgets and reserves than those that serve primarily small and mid-size organizations, which generally run on a very tight margin. Additionally, the income subcategory of charitable contributions from large foundations also tends to flow to the large-serving versus the small-serving and mid-serving groups (see page 48, which reviews five years of grant history). One can argue that the infrastructure organizations that serve the small and midsize organizations need more subsidy and capital because the market they serve not only encompasses a greater portion of the sector but also has less disposable income with which to buy services.

**The opportunity.** There are a number of infrastructure organizations that have emerged over the past 12 years that fill a useful national niche. Few of them, however, have reached scale with the environment. By that we mean that

their services are either constrained by the market's knowledge of them, by the capacity of the organization to provide good service cost effectively or by the capacity of the organization to maximize the right income producing activities for the service.

**Scale.** The figure noted above derives from an analysis by Clara Miller of the Nonprofit Finance Fund, who estimates that the cost to fine-tune the business model of an infrastructure organization is one to three times its annual budget. We estimate the number of organizations that may wish to participate at the national level at 20, and the average budget of target organizations at between \$1.5 and \$3 million.

### **Recommendation 3**

Fund an advocacy effort aimed at obtaining federal funding to support select portions of the national infrastructure, particularly in the development, expansion, and accessibility of databases on the nonprofit and philanthropic sectors (comparable to what the government provides to other sectors of the economy).

**The justification.** For every other sector of the economy, federal agencies such as the Department of Commerce, the Department of Labor, (and the Bureau of Labor Statistics), the Internal Revenue Service, and others generate—and pay for—the development of databases that delineate, describe, and track the development of sectors identifiable by their Standard Industrial Classification (SIC). The nonprofit sector, while crossing SIC categorical boundaries, merits a similar level of federal investment, due to its increasing size and importance as part of the U.S. economy. Given recent political changes, there is also the high likelihood that the sector will play an increasingly important and visible role as a facilitator and implementer of national policies (which will be largely based on rigorous data).

A significant majority of respondents for this study expressed their belief that forcing the nonprofit sector to shoulder the enormous cost of raw data collection and tabulation while the federal government pays for that cost in all other sectors is shortsighted federal policy. It also absorbs precious foundation resources that could be better spent devoted to mining these databases for information that will benefit the sector or has implications for it. Similarly, through the Small Business Administration, the

Department of Commerce, the Department of Housing and Urban Development, and the Department of Agriculture, there are incipient technical-assistance resources for nonprofits to help them build capacity for the public-program roles that the public expects of nonprofits. Advocacy for appropriate investments in capacity-building programs for nonprofits should be a corollary investment of the federal government in enhancing the functions and productivity of 501(c)(3) organizations.

**The opportunity.** With the new administration that took office in January 2009, replete with a well-publicized community-service and social innovation-policy agenda, this is an opportunity that should not to be missed. Major infrastructure organizations have, for the moment, avenues of dialogue with the Obama administration that should be capitalized on immediately, while the administration ponders how to best support and build networks of nonprofits that can be focal points for social innovation around the nation.

**The barriers.** Some of the internecine competitiveness within the nonprofit infrastructure may undermine this effort. There is concern that the “owners” of some nonprofit and philanthropic databases may not be as interested in collaborating as much as they might, though this competition and the proprietary nature of research may be attributable to current funding constraints that could be reduced were federal funding made available. On the technical-assistance funding side, federal funding for assistance should reach groups in need rather than be funneled through the largest infrastructure organizations that take the lion’s share and then primarily support larger and connected organizations in their networks.

**Scale.** The compilation and maintenance of raw data costs significant amounts of money. For federal budget makers and congressional decision makers, there is little discernable political upside or payoff in devoting resources to these functions, witness Congress’s continuing reluctance to give the Tax Exempt and Government Entities division of the Internal Revenue Service the adequate funding to carry out its core oversight and monitoring functions.

#### **Recommendation 4**

Launch a campaign to encourage all foundations to tax themselves or tithe a percentage of their grant money to

infrastructure that makes accurate and relevant information, support and representation available to all nonprofits to ensure that excellence and impact is broadly achievable.

**The justification.** Both the nonprofit and the philanthropic infrastructure suffer from the “free-rider syndrome” in that a few foundations are supporting the bulk of the nonprofit sector infrastructure—one from which the grantees of many other foundations benefit significantly. Changing this situation will require a raising of sectoral consciousness about the importance of the infrastructure to the sector’s advancement, particularly in this new era.

**The barriers and the opportunity.** The timing of a request to foundations to make a commitment to infrastructure is both good and bad. During times as difficult as these, there is a clear case to be made for the importance of infrastructure networks, but in many grantmaking institutions, preexisting commitments, combined with heightened need and reduced assets, clearly weigh heavily. The opportunity here lies in the intensity of the moment. Virtually no nonprofit will remain untouched by the current convergence of political and economic upheaval. To achieve the best possible outcomes at the level of community, infrastructure organizations need adequate capital not only to provide the direct aid but to learn actively from the experiences of their peers.

**Scale.** This effort could take the form of a branded annual campaign that is promoted at key conferences and in the publications of the sector. Particular attention should be paid to state associations and management support organizations and other intermediaries that are the direct-advocacy, networking, and delivery system for nonprofits but that is historically underfunded. Leadership organizations can use the *Nonprofit Quarterly*’s mapping of the infrastructure to acquaint funders with the various components of infrastructure. It may be useful to consider maintaining an interactive, searchable, updatable infrastructure network mapping on a few strategic Web sites.

#### **Recommendation 5**

Provide incentives for and support efforts to develop an annual research agenda that has practical use for nonprofits.

**The justification.** Throughout our research, two consistent themes have emerged from research participants’ feed-

back: 1) many nonprofits, but particularly small and mid-size ones, find themselves flummoxed by the lack of research products that serve as a framework and tools to address their pragmatic needs and 2) researchers are hamstrung by their research priorities being dependent on foundations' idiosyncratic priorities rather than on a broader notion of the contribution to an expanding knowledge base in the field. While not all research has to be immediately possible to implement—indeed, some “grounded” research may find unanticipated avenues of implementation and application—the input of practitioners into a new generation of research themes is crucial.

**The opportunity.** The appetite for a new research dynamic is growing, with new leadership at some research organizations, as well as a growing interest in convening researchers and practitioners to discuss common priorities. There is also a growing number of academics who self-identify as “prac-ademics,” who can serve as bridges between the two camps. Funders might provide support for these kinds of dialogues that could be held at multiple venues. During these events, practitioners and researchers can come together with appropriate “research translator facilitation” to identify research themes that are both of practical benefit to various kinds of nonprofits in the field and that will also contribute more broadly to nonprofit sector knowledge building.

**The barriers.** First, for these discussions to work, the function of “translators” (individuals or organizations that can transcend specific issues and interests) must be supported so that effective facilitation of these dialogues is possible. Second, foundations have to adjust to the notion that research cannot simply focus on answering the questions that are specific to funders' program needs; funders have an obligation to contribute to knowledge-building research in the sector overall. Third, because small nonprofits have tended to be marginalized in these kinds of conversations, special effort must be made to involve these groups. Fourth, there is an increasing anti-intellectualism in the sector—one that sees research that is not narrowly instrumental as “superfluous—that has to be overcome.

**Scale.** Since previous venues for these dialogues have faded over time, it may be necessary to support a series of these convenings, not simply at the national level, but in

regions and states. The latter could be helped by the active involvement of distributed networks or other membership groups. Whatever organization, network or entity assumes this role, it will be important to recognize that their efforts must be continual, rather than “one-shot.” ■