AGENDA

PROGRAM & PLANNING COMMITTEE MEETING
Chair: Neal Kaufman

Thursday, September 27, 2012
1:30 pm - 4:30 pm

Meeting Location:
First 5 LA
Multi-Purpose Room, First Floor
750 N. Alameda Street
Los Angeles, CA 90012

Item 1 Call to Order ACTION

Item 2 Presentation on Capacity Building INFORMATION

The State of the Non-Profit Sector in Los Angeles County
and the Landscape of Capacity Building Needs and Resources

Presenters:
Fred J. Ali
President & CEO
Weingart Foundation

Kafi D. Blumenfield
President & CEO
Liberty Hill Foundation

David Greco
Vice President
Nonprofit Finance Fund

Item 3 First 5 LA Capacity Building Efforts DISCUSSION

Item 4 Public Comment for Items Not on the Agenda INFORMATION

Item 5 Adjournment ACTION

A public entity.
Item 1

Call to Order
Item 2

Presentation on Capacity Building
First 5 LA's Community Investments Department Welcomes You To

A discussion on the state of the nonprofit sector in Los Angeles County and the landscape of capacity building needs and resources.

Thursday, September 27, 2012
Program & Planning Meeting Begins at 1:30pm
Location: **First 5 LA**
750 N. Alameda Street
Los Angeles, CA 90012

**Featured Speakers:**
- **Fred J. Ali**
  President & CEO, Weingart Foundation
- **Kafi D. Blumenfield**
  President & CEO, Liberty Hill Foundation
- **David Greco**
  Vice President, Nonprofit Finance Fund

First 5 LA invites you to join in a conversation about the role the philanthropic community can play in coordinating and strengthening capacity building opportunities.

We will be receiving insight into new models and approaches to capacity building and the potential role for foundations and government in supporting these methods.

If your organization currently funds capacity building, are considering adding it to your portfolio or wondering how foundations and public institutions can work together on this important topic please join us at this meeting.

Please RSVP by calling 213.482.6611 or email jmmercaldo@first5la.org.

First 5 LA is located adjacent to Union Station, just opposite the Metropolitan Water District Building. There is no validated parking, although a number of parking lots are available. Attendees are encouraged to use public transportation.
What resources do Los Angeles nonprofits need to grow, thrive, and accomplish their missions? How readily can they currently access needed resources? And how can those who are concerned about the management, leadership, and governance of Los Angeles nonprofits assure that capacity-building resources are sufficient?
This report highlights findings from a comprehensive study of the capacity-building needs and resources of Los Angeles' nonprofits using an objective assessment and the perspective of multiple stakeholders to address these questions.

BACKGROUND

In 2009, the Weingart Foundation engaged TCC Group to undertake a study of the nonprofit and capacity-building sectors in Los Angeles County to assess:

- The organizational strengths and challenges of nonprofit organizations in Los Angeles County;
- The capacity-building needs of these organizations, as well as their access to and experiences with capacity-building services; and
- The availability and types of capacity-building services available in the region.

This report provides findings from four main sources of data:

- TCC Group’s Core Capacity Assessment Tool (CCAT)¹ completed by 260 Los Angeles nonprofit organizations;
- A Supplemental Survey completed by 263 nonprofits that assessed their capacity-building needs, as well as their access to and experiences with capacity-building services in Los Angeles;
- Interviews with 12 foundations, nine capacity-building providers, and 14 nonprofit leaders identified by the Weingart Foundation; and
- Focus groups attended by 25 nonprofit leaders identified by the Weingart Foundation.

Data for the study was collected from organizations representing all regions of Los Angeles County between September 2009 and March 2010, at the height of the economic recession. The nonprofits invited to participate in the study were the 725 organizations that had applied for or received funding from Weingart between 2004 and 2009, which comprises a meaningful sample of all nonprofits in Los Angeles County.

KEY FINDINGS

In carrying out this study, TCC Group elicited information from three different groups that together shape the landscape of capacity building: nonprofit organizations (consumers of capacity-building services); capacity-building providers (the suppliers); and funders (“third-party payers” of capacity-building services). The Executive Summary highlights

¹ TCC Group defines “capacity building” as any activity that strengthens the performance of a nonprofit organization. Capacity-building activities include training, coaching, peer exchanges, consulting, and convenings.

² The Core Capacity Assessment Tool (CCAT) is a 146-question online survey that measures a nonprofit organization’s effectiveness in relation to four core capacities—Leadership, Adaptive, Management, and Technical capacities—as well as Organizational Culture. It is designed to be taken by all senior staff leaders and one to three Board members who are deeply knowledgeable about the organization and its operations. Please see Appendix B for a fuller description of the CCAT.
It is noteworthy that, when asked to prioritize their capacity-building needs, organizational leaders placed two of these skill deficits—program evaluation and board leadership development—at the top of the list, indicating that they are aware of these needs and ready to address them.

key findings from each of these groups as well as cross-cutting findings relevant to all.

The Nonprofit Sector in Los Angeles County
The nonprofit organizations in this study have numerous organizational strengths that stand them in good stead even in these challenging economic times. The study found that many of the 260 nonprofit groups in Los Angeles County that participated in the study are resilient and resourceful, and have considerable expertise in the communities they serve. One-third of the organizations are in the early organizational lifecycle stage that is characterized by the effective use of organizational resources to achieve greater impact in fulfillment of a nonprofit’s mission. The nonprofit groups in the study exhibit a strong capacity to monitor and learn about developments in their operating environments and to ensure that staff members have the knowledge and skills to deliver effective programs in those communities. Their leadership is strong in many dimensions. For example, a large number of organizational leaders demonstrate a sound ability to formulate a clear vision for their organization, engage stakeholders in making mission-driven decisions, and motivate them to rally around that vision and act on those decisions.

Very specific organizational behaviors that are strong predictors of organizational sustainability and lifecycle advancement among the nonprofit organizations in this study were identified using regression analysis on the data collected for this study. These behaviors include:

Organizational Learning
- Gathering and using community needs assessments and program evaluation data to learn about what is working, improve what is not, and develop new approaches to the work;

Motivating and Developing Staff and Board
- Building an organizational culture that sustains morale and effectiveness by encouraging staff members to reflect on their work and reconnect with why they are doing the work;
- Implementing strong human resource management practices, including hiring and retention, ongoing professional development, and establishing clear performance accountability measures for staff;
- Resolving human resource problems and interpersonal conflicts in an inclusive manner;
- Strengthening the board of directors’ capacity to lead the organization, particularly as organizational ambassadors; and

Resource Development
- Securing the resources needed to succeed in fundraising.

Significantly, the majority of organizations in this study were not strong on these crucial organizational capacities. It is noteworthy that, when asked to prioritize their capacity-building needs, organizational leaders placed two of these skill deficits—program evaluation and board leadership development—at the top of the list, indicating that they are aware of these needs and ready to address them. Other important organizational functions in which Los Angeles County nonprofits exhibit vulnerability include the ability to monitor, assess, respond to, and create internal and external
changes; the capability to cultivate “next-generation” organizational leaders and plan for leadership transition; the capacity to maintain financial stability in order to adapt to changing environments; the related capability to conduct outreach and marketing; and the capacity to secure the staff and technical resources needed to carry out the work.

The study found that areas of strength and challenges in organizational capacities vary by sub-sector. For example, Arts and Culture nonprofits on average scored lower than other organizations in the study on their ability to monitor, assess, respond to, and create internal and external changes with respect to both operations and programs. They are also weaker than both their peers within the county as well as organizations in the national CCAT database on almost all the indicators in the CCAT that measure whether an organization has the resources, skills, tools, and facilities to deliver its programs, manage its operations, and engage as a community partner. Health organizations, meanwhile, scored lower on the capacity to manage program staffing—to hire, reassign, or dismiss program staff depending on programmatic needs—than other nonprofits in this study. Human Service organizations are stronger than other nonprofits in the study on organizational culture, while nonprofits in the Education sub-sector are stronger than their peers in the study with respect to their ability to use data and other resources to effectively make decisions.

Overall, this study found that nonprofit organizations in Los Angeles County can strengthen their organizational effectiveness, enhance their sustainability, and advance to the next stage of the organizational lifecycle by building on their existing strengths to address deficits in the following areas:

- Program evaluation and strategic learning;
- Board leadership development;
- Human resource management;
- Financial management; and
- Fundraising.

The study also found that many nonprofits could benefit from becoming better informed consumers of capacity-building services.

Capacity-building activities that are effective at strengthening organizational capacity in these areas include trainings and workshops, organizational assessments, coaching, and consulting. The availability of these resources is discussed in the following section.

The Capacity-Building Field in Los Angeles County

Philanthropic, nonprofit, and capacity-building leaders interviewed for this study felt that the capacity-building field in the County is “disjointed” and “fragmented;” there are not sufficient providers to serve such an extensive region; there is little, if any, coordination among providers to share resources, synchronize services, and learn together; and there are significant gaps in services. Interviewees also expressed concern that many capacity-building providers are themselves neither organizationally strong nor financially sustainable, raising questions about their fundamental business models. Some interviewees also questioned whether nonprofits are effective consumers of capacity-building services.
The study identified gaps in the areas of content, format, and geographic access. For example:

- While many of the capacity-building providers in this study provide services in the areas of strategic planning, organizational assessment, and fundraising, there are not many offerings in the areas of communications and outreach, information technology, and facilities management.

- There are fewer resources still for program evaluation, a critical capacity for organizational effectiveness as well as a predictor of organizational sustainability.

- While almost all providers included in the study offer workshops and trainings, fewer provide coaching and peer exchanges.

- There was also an expressed need for more culturally competent consulting services.

- Geography was also identified as an important issue. While there are a number of comprehensive service providers for specific communities, such as the Long Beach Nonprofit Partnership and the Flintridge Foundation in Pasadena, those providers that serve the County as a whole are all located in downtown Los Angeles, leaving regions of the county with little ready access to capacity-building services that depend on in-person group meetings.

In short, there is not close alignment between the organizational functions that nonprofits most need assistance with, the service formats most effective at building organizational capacity in those areas, and the current offerings of capacity-building providers in Los Angeles County.

There were also concerns among nonprofit and philanthropic leaders interviewed regarding the quality and effectiveness of the capacity-building services currently available. For instance, only 15 percent of respondents to the Supplemental Survey “strongly agreed” that the consulting services they had received incorporated well-established best practices in the consulting field. Given this, it is perhaps not surprising that just 1 in 3 nonprofit leaders reported that they “strongly agreed” that they would recommend a consultant they had worked with to a colleague. Additionally, when asked if the workshops and peer exchanges they had participated in were of high quality and reflected best practices, just 10 percent of respondents reported that they did.

Nonprofit organizations report facing barriers in accessing capacity-building services, particularly in managing the financial costs and investment of staff time involved in undertaking capacity-building activities. Perhaps due to these obstacles, many nonprofits in this study are not undertaking capacity-building activities in key capacities in which they are relatively weak. Forty percent of groups in the study, for example, are not undertaking any efforts to build their program evaluation capacity, and one-third are taking no action to strengthen board leadership, both important predictors of sustainability and lifecycle advancement.

Consultants are, by a wide margin, the main source of capacity-building services for nonprofits in the study. Forty-eight percent of groups reported having retained a consultant for strategic planning in the previous two years,
and 46 percent hired a consultant to conduct an organizational assessment. Less than one in ten nonprofits in the study work with a consultant retained through a nonprofit resource center or management support organization. Compared to this substantial use of consultants, just nine percent of organizations indicated that they had participated in a peer exchange for executive leadership development, and an average of three percent had received coaching to address any of the 12 organizational issues asked about in the Supplemental Survey.

Nonprofit organizations in Los Angeles County report that cost is the single most significant obstacle to accessing capacity-building services, and 83 percent of respondents reported paying for consultants from their discretionary budgets. The median amount paid over the previous two years was $5,000, and one-quarter of nonprofit organizations reported paying $25,000 or more. Thirty-five percent of nonprofits in the study received funding for capacity-building, in most cases from a foundation. This percentage may reflect the fact that the participants in the study are grantees of the Weingart Foundation, a significant funder of capacity building in the region.

Study participants concurred that the philanthropic sector could play an important role in strengthening the capacity-building field in Los Angeles County. The next section outlines the key findings in that area.

The Philanthropic Community in Los Angeles County
There are numerous foundations in Los Angeles County supporting nonprofit capacity building in the region. This support takes various forms, including providing general operating support and funding for capacity-building activities to nonprofits, funding intermediaries and capacity-building providers, and offering capacity-building services directly themselves.

Study participants suggested many ways that funders in the region could further support and strengthen the field of capacity building. An important strategy they identified was to increase dialogue about regional capacity building. Significantly, there was a widespread call for foundations to help foster greater communication and coordination about capacity building by encouraging capacity-building providers to meet regularly to share resources and synchronize services, and supporting these collaborative efforts. Study participants also suggested that funders themselves meet regularly to discuss ways to strengthen the capacity-building field.

Some interviewees suggested grantmaking strategies for foundations that build organizational capacity. A number of nonprofit leaders said that funders in the region could make the greatest difference by providing more dedicated funding for capacity building as well as more unrestricted and multi-year funding. They also suggested that foundations could carry out further research on the effectiveness of specific capacity-building practices on nonprofits in the region and continue to deepen understanding of the needs, opportunities, and strategies for maximizing capacity-building resources in Los Angeles.

Furthermore, study participants indicated that there are indirect ways that foundations can help nonprofits build organizational capacity, such as by launching an effort to encourage civic participation in Los Angeles to develop civic leaders and thus increase the pool of potential board members.
As an initial step, leaders in the community may want to join forces to create an ongoing forum among nonprofit organizations, capacity-building providers, and funders to develop a coordinated capacity-building strategy for Los Angeles County.

Capacity-building providers also indicated that they need help in building their own financial sustainability and suggested that foundations could help them deepen the quality and relevance of their program offerings.

Philanthropic leaders themselves differed on the question of how the philanthropic sector in Los Angeles could help strengthen the nonprofit capacity-building field in the region. Some felt that funders should help establish a new capacity-building provider from the ground up, since, in their view, some of the existing resources were “too broken” or had “too much baggage” in the eyes of the community to be turned around and significantly improved. However, others felt that it would be premature to abandon what is already on the ground in Los Angeles and start anew.

One philanthropic leader felt that local foundations should continue to invest heavily in building existing organizations for another 10–15 years and then assess the situation at that point. Other interviewees felt that, given the geographic spread of existing capacity-building resources and the fact that they serve different communities and provide different services, it would be best to support the field as a whole in Los Angeles—to, in the words of one respondent, “fund the ecosystem” of capacity-building providers in the region. This approach, implemented by funders in other cities such as Seattle, entails funders supporting a select set of high-performing capacity-building providers to offer different services throughout the region, following their respective grantmaking priorities and strategies. Ideally, this approach would be coordinated at a general level to ensure that high-impact providers and strategies are supported and services made available to communities across Los Angeles County.

RECOMMENDATIONS

Exhibit 1, on the next page, depicts the nonprofit capacity-building ecosystem in Los Angeles County, including resources, strengths, challenges, and gaps identified in this study. A summary of recommendations that address the “What is Missing?” section of the chart have been distilled from evidence gathered from 1,613 nonprofit leaders, 14 foundations, and nine capacity-building service providers through surveys, interviews, focus groups, and objective assessments. These recommendations follow on page 9 and are elaborated more fully in Section VI of the report.

The findings and recommendations outlined in this study merit open and candid discussion. Nonprofit organizations, capacity-building service providers, and funders need to work together to prioritize needs, jointly develop strategies, and coordinate resources.

As an initial step, leaders in the community may want to join forces to create an ongoing forum among nonprofit organizations, capacity-building providers, and funders to develop a coordinated capacity-building strategy for Los Angeles County. This would provide an opportunity to share resources, synchronize services, and learn together. Such a forum could be convened by an individual foundation or group of funders or through Southern California Grantmakers. Through this forum, participants can work together to bring program offerings into closer alignment with the identified needs of nonprofit organizations, ensure the incorporation of best practices in the field, address geographic gaps in service, and identify needed financial resources.
EXHIBIT 1: The Ecosystem of Nonprofit Capacity Building in Los Angeles

**FUNDERS**

Private foundations, government agencies, and other funders providing:
- General operating support to select nonprofits (e.g., Irvine Foundation).
- Grants to nonprofits specifically for capacity building (e.g., The California Endowment, Ralph Parsons Foundation, and Keck Foundation).
- Grants to intermediaries for them to re-grant to nonprofits for capacity building (e.g., California Wellness Foundation and Weingart Foundation to Liberty Hill Foundation).
- Grants to nonprofit management support organizations (e.g., California Community Foundation’s support of select management support organizations).
- Capacity-building programs, directly (e.g., Annenberg Foundation’s Alchemy programs, and Durfee Foundation Leadership Sabbatical programs).

Overall, capacity-building support is diffuse and not well coordinated. A small number of large funders are responsible for a large portion of the grantmaking and capacity-building support that L.A. nonprofits receive. Some funders concentrate their support on particular communities or sub-sectors in L.A. Much funding of L.A.-based foundations support nonprofits outside L.A. County.

**WHAT IS MISSING?**

- A robust set of nonprofit capacity builders that provide a diverse range of high-quality, in-depth, place-based, culturally-competent, and comprehensive services and coordinate their activities well.
- A strong, one-stop shop that provides initial needs assessment and acts as a clearinghouse and referral-maker for capacity-building services.
- A county-wide association of nonprofits and a strong state association of nonprofits.
- Nonprofits that are well-informed consumers of capacity-building services.
- Funders’ widespread provision of explicit, focused, and coordinated support for capacity building, including sufficient funding and general operating support, to support a thriving set of high-quality capacity builders and to strengthen the organizational effectiveness of key L.A. nonprofits.
- A regular central forum for funders, capacity builders, and nonprofits to discuss nonprofit capacity building.

**CAPACITY BUILDERS**

A wide array of capacity-building service providers including:
- Region-wide training and consulting providers (e.g., Center for Nonprofit Management).
- Comprehensive service providers focused on specific communities (e.g., Pasadena-based Flintridge Foundation and Long Beach Nonprofit Partnership).
- Specialized providers offering in-depth services related to a particular organizational area (e.g., Nonprofit Finance Fund and CompassPoint’s Fundraising Academy for Communities of Color).
- Organizations that provide corporate volunteers for consulting services (e.g., Taproot Foundation, Executive Service Corps, and Deloitte Center for Leadership and Community).
- Academic institutions that conduct research on the L.A. nonprofit sector and provide training and evaluation services (e.g., USC and UCLA).
- A very large number of independent consultants and private firms, many of which offer specialized services, sometimes of variable quality.

Overall, the quantity and quality of available services is not adequately meeting the needs of nonprofits in the county and the service providers are fragmented and not well coordinated. In particular, there is a shortage of: high quality coaching and peer exchange services; program evaluation, strategic learning, and human resource services; culturally competent services; and services in particular communities outside of central Los Angeles, San Fernando Valley, and Long Beach.

**NONPROFITS**

A geographically dispersed set of almost 35,000 nonprofits (the largest number of any county in the nation) serving a diverse population with a range of pressing needs, across a variety of sub-sectors (including human services, education, health, arts and culture, and community development) that need and/or want stronger:
- Adaptive capacity, especially program evaluation and strategic learning and planning.
- Leadership, especially related to succession planning and board development.
- Ability to take programs to scale.
- Human resource management capability.
- Fundraising and financial management capacity.

Overall, L.A. nonprofits are struggling with financial sustainability and adaptive leadership and need access to high-quality, comprehensive, affordable, and culturally sensitive organizational assessment and capacity-building services. The number of nonprofits has increased over the last 15 years even as revenues have leveled off, leaving more, smaller organizations competing for a thinner share of the pie, with fewer resources to invest in capacity-building. L.A. nonprofits also need to become better informed consumers of capacity-building services.
More detailed recommendations for nonprofit organizations, capacity-building service providers, and funders follow below.

**Nonprofit Organizations**

Based on the findings of the CCAT study, nonprofit organizations in Los Angeles County can do much on their own to strengthen their capacity. They should strive to build on their numerous existing strengths—their self-awareness, deep knowledge of community needs, empowering organizational cultures, and visionary leaders—to develop their organizational effectiveness, enhance their sustainability, and advance to the next organizational lifecycle stage. In particular, they should:

- Build their capacity in program evaluation, become more effective learning organizations, and understand what works for program delivery;

- Help organizational leaders become more effective, particularly in the areas of program and organizational learning, organizational assessment, program scaling, succession planning, and resource acquisition;

- Strengthen their ability to manage staff, assess staffing needs, make staffing decisions, and effectively resolve human resource problems, especially so that they can take their programs to scale; and

- Develop their skills and expertise in the areas of evaluation, fundraising, outreach, marketing, financial management, and technology.

Since there are so many nonprofit organizations in the County and they are so diffuse, some of them could benefit from forming strategic alliances for the explicit purpose of strengthening their infrastructure to better take programs to scale. Specifically, those nonprofits that work in the same community or sub-sector could consider developing joint infrastructure projects in human resource management, fundraising, administrative support, volunteer engagement and management, and technology.

Moreover, the large number of organizations in this study that are not engaging in any activities to plan for a leadership transition should consider working with a consultant, participating in a peer exchange, or working with a coach to do so.

In general, nonprofits should endeavor to become more knowledgeable consumers of capacity-building services—when nonprofit leaders know what to ask for, they can hold providers accountable for delivering it. Nonprofit and philanthropic leaders should also consider ways to support the development of a strong regional association of nonprofit organizations.

**Capacity-Building Service Providers**

As discussed above, capacity-building providers in Los Angeles County should bring their program offerings into closer alignment with those organizational functions with which nonprofits most need assistance, including program evaluation, strategic learning, human resource management, strategic alliances, communications and outreach, and information technology. They should also increase the number of coaching and peer exchange opportunities, highly effective capacity-building activities that appear to be in short supply in the region.
Leaders in the fields of philanthropy and capacity building interviewed for this study agreed that capacity-building providers also need to build their own capacity.

Beyond quantity, they ought to closely examine the quality of their offerings and ensure that they follow well-established best practices in the field of nonprofit capacity building. For example, workshops could be more targeted and tailored to ensure that nonprofits’ particular training needs are met.

One concrete way that providers could collaborate and focus their efforts is to provide services through a focused capacity-building initiative. Such an initiative could work in an in-depth manner with participating organizations by concentrating either on an organizational area of need, such as financial or human resource management, or sub-sector, such as education or the arts. The initiative could bring together a team of capacity-building providers with expertise in the chosen focus area.

In order to address geographic gaps in service, capacity-building providers should explore ways that they can extend place-based services to under-served areas of Los Angeles County. Some possibilities include offering a greater number of webinars and establishing joint satellite offices out of which multiple providers could offer services that require in-person meetings, such as trainings and peer exchanges.

Leaders in the fields of philanthropy and capacity building interviewed for this study agreed that capacity-building providers also need to build their own capacity. They should consider undertaking organizational assessments, evaluating their programs and operations, developing their own boards of directors, and assessing and refining their business models.

Interviewees added that capacity-building providers in the region would benefit from more networking, coordinating, and collaborating with each other. As mentioned above, providers should at minimum set up quarterly meetings to share resources, synchronize services, and learn together. With more resources, a formal network could provide a greater number and depth of activities. In particular, independent consultants and nonprofit providers of capacity building would benefit from understanding each others’ work better and collaborating more. In addition, increased collaboration among capacity-building providers would help them provide nonprofit organizations with better services to help them implement and act on what they have learned in the workshops, peer exchanges, and other services in which they have participated.

Funders

Foundations and other capacity-building funders in Los Angeles County should consider ways in which they can encourage and help their grant recipients to build capacity in the organizational areas where this study found deficits, especially in program evaluation and strategic learning, board development, human resource management, strategic alliances, succession planning, and fundraising. Funders should also consider increasing funding that builds nonprofits’ capacity, including general operating support, multi-year funding, and support for non-program staff positions.

Funders in the county could focus their limited resources by providing general operating support to “anchor” nonprofit organizations in the community, with in-depth organizational assessment and the development of a clear capacity-building plan as a prerequisite to ensure “readiness” to use the dollars. Furthermore, funders could pool some capacity-building
resources to support initiatives to “go deep” and address very specific needs.

Capacity-building providers in the region also need assistance from foundations, particularly with regard to increasing the quantity and quality of services they provide, extending services to under-served regions of the county, and building their own organizational capacity. As mentioned above, funders may choose to invest strategically in existing nonprofit capacity-building providers, possibly matched with a higher level of involvement with regard to directing the resources and setting their expectations. Funders could provide support for convenings, trainings, and workshops to further develop capacity builders’ skills, knowledge, and expertise. Funders may also want to explore the feasibility of forming a new management support organization that can complement existing providers, help fill in gaps, and provide “one-stop shopping” for a range of high-quality capacity-building services to nonprofits. Alternatively, funders may want to consider establishing a central forum and clearinghouse that would connect those seeking capacity-building services with relevant providers. Such an entity (which could be autonomous or operated under an existing provider) could provide “intake” services to nonprofits seeking capacity building, conduct assessments of needs and current organizational capacities, and make referrals to appropriate capacity-building providers.

Overall, as previously noted, funders should work together more to encourage grantmakers and capacity-building providers in Los Angeles County to undertake greater coordination in order to enhance the delivery of capacity-building services in the region. The USC Center on Philanthropy and Public Policy and Southern California Grantmakers are well positioned to convene philanthropic, capacity-building, and nonprofit leaders to tackle this topic. Funders will also want to address the difficult question of how to allocate limited capacity-building resources. Since capacity building is a means to an end, funders need to ask, “Capacity building for what?” and, based on their response, they may decide to concentrate their limited resources on the nonprofits that are best aligned with their grantmaking priorities. Another question for funders will concern the balance between funding nonprofit organizations directly for capacity building and supporting the capacity-building providers themselves.

The following report outlines the findings of this in-depth study of the field of nonprofit capacity building in Los Angeles County from the perspectives of nonprofit organizations, capacity-building providers, and funders. This report is provided with the hope that it may lead to fruitful discussion and concrete steps to strengthen nonprofit organizations in the region in their ability to serve our communities.
Nonprofit Finance Fund’s fourth annual survey of nonprofits nationwide reveals that rising service demand is overwhelming a sector still coping with a brittle economy and a barrage of funding cuts.

While there are hints that some organizations may have navigated through the worst of the recession, the ever-increasing need for services suggests that our communities have not. The 4,607 respondents tell a story of a sector still stretched thin, with organizations feeling distant from their funders and boards, and staff facing more work with less money and fewer benefits to take home. This is a wake-up call to funders, government, board members, advocates and all of us who care about the critical work nonprofits do to build a just and vibrant society. The recession may be over, but the nonprofit financial crisis is not.

**Demand for Services 2008-2011**

<table>
<thead>
<tr>
<th>Year</th>
<th>Significantly Increased</th>
<th>Slightly Increased</th>
<th>Stayed the Same</th>
<th>Decreased</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>41%</td>
<td>36%</td>
<td>20%</td>
<td>5%</td>
</tr>
<tr>
<td>2009</td>
<td>42%</td>
<td>35%</td>
<td>16%</td>
<td>4%</td>
</tr>
<tr>
<td>2010</td>
<td>44%</td>
<td>36%</td>
<td>12%</td>
<td>7%</td>
</tr>
<tr>
<td>2011</td>
<td>41%</td>
<td>36%</td>
<td>12%</td>
<td>7%</td>
</tr>
<tr>
<td>2012</td>
<td>40%</td>
<td>35%</td>
<td>16%</td>
<td>4%</td>
</tr>
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**A remarkable 85%** of respondents reported an overall rise in demand, with 4 consecutive years of growth in those experiencing "significant increases." For many individual nonprofits, this reflects compound increases, a sign of deepening community need.

For those who self-identified as providing critical "lifeline" services (42%), responses were starker: 90% of these organizations noted an overall increase in demand, with 57% noting a "significant increase." That same percentage of organizations, 57%, was unable to meet demand and forced to turn away some of the most vulnerable members of our society.

**Were Nonprofits Able to Meet Demand for Services?**

<table>
<thead>
<tr>
<th>Year</th>
<th>No.</th>
<th>Yes</th>
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<tbody>
<tr>
<td>2009</td>
<td>44%</td>
<td>56%</td>
</tr>
<tr>
<td>2010</td>
<td>49%</td>
<td>51%</td>
</tr>
<tr>
<td>2011</td>
<td>48%</td>
<td>52%</td>
</tr>
<tr>
<td>2012</td>
<td>50%</td>
<td>50%</td>
</tr>
</tbody>
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nonprofitfinancefund.org/survey

NFF's 2012 Survey is generously supported by The Bank of America Charitable Foundation
**Government Support Is Not Reliable**

1,927 respondents received funding or contracts from the federal government. Among these organizations, 50% experienced payment delays. Of the 2,395 organizations receiving state or local contracts, the situation was even worse, with 60% experiencing delays.

Over 60% of those experiencing any government delays used reserves to make it through. For some, bridging the gap caused by payment delays also meant service cutbacks, staff cuts, lost interest income, and loans that could have been avoided.

### Federal

<table>
<thead>
<tr>
<th>Receive Federal Funding or Contracts?</th>
<th>Does It Pay for the Full Cost of Services?</th>
</tr>
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<tbody>
<tr>
<td>Yes 45%</td>
<td>No 55%</td>
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<table>
<thead>
<tr>
<th>When Do You Receive Federal Payment?</th>
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<tbody>
<tr>
<td>Ahead of schedule 2%</td>
</tr>
<tr>
<td>On schedule 46%</td>
</tr>
<tr>
<td>1-30 days late 21%</td>
</tr>
<tr>
<td>31-90 days late 22%</td>
</tr>
<tr>
<td>&gt; 90 days late 7%</td>
</tr>
</tbody>
</table>

### State/Local

<table>
<thead>
<tr>
<th>Receive State/Local Contracts?</th>
<th>Does It Pay for the Full Cost of Services?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes 57%</td>
<td>No 43%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>When Do You Receive State/Local Payment?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ahead of schedule 11%</td>
</tr>
<tr>
<td>On schedule 39%</td>
</tr>
<tr>
<td>1-30 days late 23%</td>
</tr>
<tr>
<td>31-90 days late 27%</td>
</tr>
<tr>
<td>&gt; 90 days late 10%</td>
</tr>
</tbody>
</table>

**Why We Need Government Funding**

Across the country, state budget deficits and a trend in dis-investment in social services on the state level continue to shred the safety net. After the recession began, the federal government stepped in to help, through programs such as Temporary Assistance for Needy Families (TANF) and the American Recovery and Reinvestment Act.

Many of these temporary programs are set to expire soon or have already expired. Without them, we face an even more dire future: an ever-widening income gap, and rising poverty, hunger, and homelessness.

- From 2007 to 2010, the number of Americans living below the poverty line increased from 44.4 million to 47.3 million. 
- Without government assistance, the poverty rate would have been almost twice as high in 2010; that's 40 million more people.
- 1 in 6 children in the US was homeless in 2010.
- The Supplemental Nutrition Assistance Program (SNAP) lifted 2 million children out of poverty in 2010.

**Are Boards Rising to the Challenge?**

We asked a series of new questions this year exploring the role boards play in the financial and organizational health of nonprofits. How do boards help nonprofits deliver on mission? And what could they do better?

While more than half of respondents believed their boards knew enough about the organization's finances, over 60% felt that they could not depend enough on their boards for financial support, whether through direct contributions or help with fundraising.
Organizations Show Signs of Coping

How Many Months of Cash Do Nonprofits Have on Hand?

<table>
<thead>
<tr>
<th>Period</th>
<th>Deficit</th>
<th>Surplus</th>
<th>Break-Even</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>32%</td>
<td>40%</td>
<td>28%</td>
</tr>
<tr>
<td>2009</td>
<td>36%</td>
<td>35%</td>
<td>29%</td>
</tr>
<tr>
<td>2010</td>
<td>34%</td>
<td>44%</td>
<td>22%</td>
</tr>
<tr>
<td>2011</td>
<td>31%</td>
<td>44%</td>
<td>25%</td>
</tr>
</tbody>
</table>

There are small signs of greater financial stability this year, surprising in light of the seemingly ubiquitous funding cuts. Overall, respondents had slightly more months of cash on hand to cover expenses. As in 2010, 44% of organizations had surpluses at the close of the fiscal year and, in a slight increase over last year, 25% of organizations broke even.

Could these be signs that nonprofits are recovering, or are they merging with stronger organizations in their communities? Or have nonprofits gone out of business, leaving their clients to find services elsewhere? In part, this might explain continuing upward surges in demand for the organizations still standing.

Delays and Demand

"The greatest challenge continues to be meeting... demand for services with shrinking resources and the on-going uncertainty that exists for the sector... The exceedingly late payments by government have added additional strain on an already spread too thin budget cash flow. Year after year of cuts with year after year of growing demand have created not only a 'new normal' but also quite a bit of fatigue and strain on morale."

Public/Societal Benefit NPO, NY

Living Within Our Means

"Our greatest challenge is creating programs that add to the cash-flow of the organization. It is difficult to compete for grants that allow little support (up to 10%) for operations with a reduced staff. All staff members have accepted extra duties with reduced pay in 2012 to allow us to live within our means..."

Human Services NPO, GA

Reserves Still Hard to Discuss

Nonprofits continue to feel they cannot start conversations about many financial issues with their funders. Like last year, organizations felt that funders were most willing to talk about program expansion (54%), while very few believed their funders were open to discussions on facility reserves (12%) or operating reserves (21%). Given that a significant percentage of organizations used reserves to fill the gap in government payment delays, it's more critical than ever that we help organizations build their own financial safety net.

My Nonprofit Can Have an Open Dialogue with Funders About...

Facility Reserves 12%  Cash Flow 20%  Operating Reserves 21%

Program Expansion 54%  No Open Dialogue 22%  Facility Needs 31%

Working Capital Needs 23%
Nonprofits React to Change

Management strategies nonprofits used this year were generally in line with last year. There were a few variations that could suggest signs of financial improvement:

- 50% of respondents hired staff for new positions this year, compared to 44% last year.
- The number of respondents that reduced or eliminated programs decreased, from 26% last year to 20% this year.
- Fewer organizations tapped into reserve funds: 27%, down from 34% last year.

Respondents who partnered with another organization to improve or increase services declined from 47% to 38%. With service demand continuing to rise, are there ways that we can better support collaboration in the sector?

41% of respondents engaged closely with their board this year, down from 51% last year. This may be another sign that nonprofits feel their boards are not sufficiently supporting them through financial hardship. Or it may suggest that fewer organizations rely on boards to achieve their goals.

"[Our greatest challenge is] finding quality staff to work with our clients, given we have reduced our staff benefits... Doing more with less, we have cut our clerical support staff, have no development department and outsource some of our grant writing, but the administrative staff have been wearing many different hats since 2009."

Human Services NPO, CA

Human Services NPOs See Staff Changes

Human Services organizations, representing the largest portion of respondents, may be experiencing more staffing changes than other sectors. Staff volatility was greater and accompanied by slightly higher benefit and salary freezes or reductions. Interestingly, despite these staff fluctuations, their finances were comparable to non-Human Services organizations.

<table>
<thead>
<tr>
<th>Actions Taken 2011</th>
<th>Human Services</th>
<th>Non-Human Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced staff</td>
<td>23%</td>
<td>20%</td>
</tr>
<tr>
<td>Made replacement hires</td>
<td>52%</td>
<td>42%</td>
</tr>
<tr>
<td>Froze/reduced salaries</td>
<td>24%</td>
<td>19%</td>
</tr>
<tr>
<td>Reduced staff benefits</td>
<td>15%</td>
<td>9%</td>
</tr>
<tr>
<td>Relied more on volunteers</td>
<td>42%</td>
<td>35%</td>
</tr>
</tbody>
</table>
An Optimistic Sector

In addition to gathering quantitative data about financial health and service demand, we also ask questions that capture the perceptions and outlooks of nonprofit respondents. Every year, qualitative data suggests that people have an innate optimism and dedication to mission that moves these organizations forward despite the financial hurdles in their way.

But in some cases, their optimism may be writing checks for their balance sheets can't cash. 47%, or 1,664 organizations, reported that the most recent year they felt financially stable was 2011. While this subset of respondents did in fact have higher percentages of surplus (63% vs. 44% for overall respondents), 12% of them actually reported a 2011 deficit. Among this 12% with deficits, 34% had a 2011 deficit that was greater than 5% of their annual expense.

In part, this discrepancy between actual financial condition and perception of financial health may be due to the spirit of resilience so common in the sector. It may also be that our perception of health is relative to what it has been in the past, suggesting that some nonprofits feel lucky to even be in business.

"We have ambitious revenue targets as we seek to increase our operating revenue and plug our... deficit. This requires increasing donations and ticket sales as the economy continues to stagnate. Additionally, our endowment has not yet recovered from the stock market crash of 2008. Because we base our 5% draw on a 3-year rolling average, the "down" years are still impacting the available balance we can draw on...."

Arts, Culture, Humanities NPO, MO

"[Our biggest challenge is] making up for reduction in federal funding. We have been informed that we are not eligible to apply for a couple of grants that we have previously been funded with for the provision of prevention services. In response, we plan to seek alternative funding through private sources as well as consider other government opportunities...."

Human Services, TX

Challenged but Resilient

Filling the Funding Gap

Endnotes

1. While there were 4,507 total respondents overall, the number of respondents varied for each question. Percentages for each data point are based on these varying totals. See survey nonprofitfinancefund.org for respondents per question.
5. Ibid.
New! Filter the Data Yourself Online

Visit nonprofitfinancefund.org/survey to learn more about the 2012 State of the Sector Survey and to see results from previous years. We've also created an interactive database of 2012 data that you can explore yourself. You can filter results by geographic areas, sub-sectors, or expenses. We hope you'll share your thoughts with the community by posting your results on Facebook or Twitter. Questions? Email us at research@nffusa.org.

Thank You

Our fourth annual survey was our largest yet. We are grateful to all of the participants, who spent an average of fourteen minutes each on the survey and took the time to share some of their innovations and stories this year. This, on its own, is an enormous voluntary contribution to improving our understanding of the trends affecting the sector.

We couldn't have marshalled this enormous undertaking without the considerable help of our friends, colleagues, and partners, and also want to thank the many who helped spread the word about the survey.

"Families pay fees that cover approximately 25% of our costs, and we must find other sources of income to cover the balance... The economy has affected both the ability of the families to pay their portion and the ability of our donors to support us at the same or higher level than in the past. We merged with another (smaller) organization in 2010/11, and we are working to retain or re-engage their donors..." - Education NPO, IL

Making Ends Meet

About Us

As a nonprofit 501(c)(3), NFF pushes for improvement in how money is given and used in the sector. Since 1980, we've worked to connect money to mission effectively so that nonprofits can keep doing what they do so well. We provide financing, consulting, and advocacy services to nonprofits and funders nationwide. Our services help great organizations stay in balance, so that they're able to successfully adapt to changing financial circumstances and grow and innovate when they're ready.

In addition to providing millions of dollars in loans and lines of credit, we organize financial training workshops, perform business analyses, and offer customized consulting services. For funders, we provide support with structuring of philanthropic capital and program-related investments, manage capital for guided investment in programs, and provide advice and research to help maximize the impact of grants.

nonprofitfinancefund.org
nonprofitfinancefund.org/survey
survey.nonprofitfinancefund.org
twitter.com/nff_news
facebook.com/nonprofitfinancefund

"The need for health care services for the uninsured is growing faster than we can help people. There are so many people in our area looking for health care that we will never be able to meet the entire need. Through the use of volunteers we have been able to increase the numbers of patients we treat and decrease our cost per patient." - Health NPO, VA

Stretching Resources

Nonprofit Finance Fund is a nonprofit 501(c)(3) Community Development Financial Institution (CDFI)
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Detroit@nffusa.org
STRESSED AND STRETCHED:
THE RECESSION, POVERTY, AND HUMAN SERVICES
NONPROFITS IN LOS ANGELES

THE ANNUAL STATE OF THE SECTOR REPORT

2002-2012

UCLA Center for Civil Society

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Bill Parent

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Jocelyn Guihama
EXECUTIVE SUMMARY

In 2002, the UCLA Center for Civil Society conducted a survey of over 600 human services nonprofits in Los Angeles County (Mosley, Katz, Hasenfeld & Anheier, 2003). California was just beginning to feel the consequences of the collapse of the world technology market. The county unemployment rate would rise from 5.7 to 6.8 percent (California Employment Development Department, 2011). The California state budget suddenly had an estimated $12 billion shortfall. Still, however, the human services nonprofit sector in Los Angeles was stable. Seventy percent of local human services nonprofits reported that their revenue had increased over the previous years, only 20 percent reported staff or program cuts, and 60 percent reported no staff turnover.

Forward to 2011. The 2002 decline had been long eclipsed by the Great Recession that started in 2007. Unemployment in the county reached 12 percent. The poverty rate (families of four with incomes under $22,000) rose from 14.6 percent to 17.6 percent. Income inequality increased dramatically. The average inflation-adjusted income of the top 1 percent of California's taxpayers increased by 50.2 percent between 1987 and 2009, from $778,000 to $1.2 million. In contrast, the average income of taxpayers in each of the bottom four fifths of the distribution lost purchasing power (California Budget Project, 2011). Over the decade, the annual State of the Nonprofit Sector Reports and surveys conducted by the Center for Civil Society showed both resiliency and vulnerability across the sector, but it was not clear how human services nonprofits in particular — where the neediest and most vulnerable populations turned for services — were faring in the recession. With generous support from The James Irvine Foundation, the Center for Civil Society sought to resurvey the sector in order to gauge the human services effects of the downturns.

The first quite disturbing thing we learned was that about 20 percent of the nonprofits we had surveyed just ten years before could not be found. After further research, we found that 15 percent had completely disbanded. Another 10 to 20 percent of the surviving nonprofits we surveyed were so understaffed and stressed that they had trouble finding the time and data to complete the survey. In sharp contrast to 2002, 60 percent of the human services nonprofits reported that their revenue had decreased or stayed the same in the previous three years; 41 percent had cut programs; and 81 percent reported staff turnover.

The Los Angeles human services nonprofit sector is stressed and stretched, and given government human services current and future cuts, the situation is likely to get worse before it gets better. Exactly where, how, and to what effect, however, is still difficult to discern. Overall, we found roughly half of the human services nonprofits in the county appear to be stable, and half are struggling.

Indeed an optimist might look at the data and see a stable, functioning nonprofit market at work. Countywide, nonprofit expenditures have been flat over the last decade. Revenues, particularly in basic needs programs where government funding follows the increase in clients, have also risen for many nonprofits as much as 20 to 30 percent. Most human services nonprofits report they are able to meet client demand and optimism about the future persists. The high closure rate could be interpreted as a market correction, where less efficient and less effective nonprofits have given way to larger, diversely funded, multi-service nonprofits.

A pessimist would focus on the closure rates and the high stress of decreased revenue and increased demand
affecting the struggling 50 percent. These tend to be located in the most low-income neighborhoods with a disproportionate burden falling on African Americans in particular. Private giving is down significantly. Services for the most vulnerable, namely shelters for the homeless and programs for at-risk youth, where neither fee for service nor entitlements are available, operate in a highly precarious state.

A program officer or academic might focus on the fact that after a decade of increasing demand and decreasing revenue, there has been very little structural change across the sector. Most Los Angeles human services nonprofits report the same combinations and proportions of funding streams for their organizations, whether revenue has increased or decreased. Board roles and expectations are similar. There have been just a few examples of innovative collaborations, partnerships, mergers, or social enterprise initiatives. While more organizations report increased participation in advocacy activities, there are few examples of effective messaging campaigns—more common among political, arts, and environmental nonprofits—to influence public opinion and public policy.

For us, the most important story in the survey is about poverty. On average, 69 percent of the clients served by the LA human services nonprofits are below the poverty line. Human services nonprofits are most important for the poor and most effective if they are financially stable, culturally familiar, and close to home. Major indicators such as revenue growth, government support, dependence on government reimbursements (often slow, late, and less), capacity to turn to fee-for-service, and ability to attract private donations all point to more difficult times for organizations servicing high-poverty neighborhoods. Sixty percent of these organizations report that the recession has appreciably affected their ability to meet the needs of their clients or to develop needed services. Human services nonprofits, which were already fewer per capita in low-income neighborhoods before the recession, have closed and disbanded at higher rates during the recession than they have in higher-income neighborhoods.

Hand in hand with poverty is stress. Higher demand and lower revenues have taken their toll on many nonprofits. Since the recession began, the sector has seen a dramatic increase in hiring and salary freezes, furloughs, layoffs, and increased reliance on volunteers. In small organizations, the loss of just one person, who often does multiple duties, can be crippling. Turnover at the executive director or the director of development often means months, sometimes years, of working just to regain ground.

We do not believe that either of these issues—greater burdens on the poor and higher stress on the institutions that serve them—are solvable in the near term. A stagnant economy, government deficits and a lack of political will continue to be brutal for much of the human services sector. Even stable organizations are likely to see decreases in government funding at all levels and be affected by lower levels of private and philanthropic giving. Still, county and city officials and heads of local foundations must ensure that the resources they do control and allocate to human services are directed toward high-poverty neighborhoods. Times of stress are also occasions for opportunity. Based on these and other findings in the report, we recommend the following:

- Increase data gathering and sharing, collaboration and strategic planning across the nonprofit, philanthropic, government and academic sectors. In an area as sprawling, layered in government, and limited in public revenues as Los Angeles, it is vital to build and maintain forums for evidence-based policy in human services and across the nonprofit sector. The Mayor’s Office of Strategic Planning established under Mayor Antonio Villaraigosa has been an excellent step in this direction. It should be continued and replicated at the County level and across other cities and jurisdictions.
- **Focus on poverty first.** This report provides further evidence that the Great Recession, like all economic downturns, has been devastating for low and no income populations, in particular African American communities appear to be faring worst. Special attention should be paid to shelters, food dispensaries, homeless and other basic services and well as programs targeting at-risk youth.

- **Inspire, encourage, promote, and cultivate new private and personal giving.** Historically, Los Angeles has trailed major American cities in per capita giving to charities. A recent report from the California Community Foundation on “The Future of Philanthropy in Los Angeles” estimates that by 2020, families will transfer almost $114 billion between generations (Macke, Binzer & Markley, 2011). Nonprofits need to devote close attention to individual donors and planned giving strategies.

- **Strengthen advocacy.** Participation in advocacy activities, like collaboration, has increased over the past decade. Nonprofit staff and volunteers are making more calls, visits, and contacts with policy makers and elected officials. What is needed now is more attention to effective messaging, framing, organizing, mobilizing nonprofits who serve similar clients. Nonprofits need to be better informed on the law, the feasibility of 501(c)4, and h designations, and to be more aggressive in employing them for advocacy.

- **Consider and re-consider opportunities for collaboration, partnership, and mergers.** Nonprofits are closing. A significant portion of the sector is under deep financial and staff stress. Philanthropy and academia need to act as conveners, educators and matchmakers, not for the survival of nonprofit organizations, but to strengthen the safety net for the poor, disabled, and elderly.

- **Participate in capacity-building activities.** Local philanthropies have established a wide range of capacity building, management support, fiscal sponsorships, and consultant networks. Smaller and medium nonprofits, executive directors and board members should take full advantage of available resources.
Collective Impact
By John Kania & Mark Kramer

Stanford Social Innovation Review
Winter 2011

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Collective Impact

LARGE-SCALE SOCIAL CHANGE REQUIRES BROAD CROSS-SECTOR COORDINATION, YET THE SOCIAL SECTOR REMAINS FOCUSED ON THE ISOLATED INTERVENTION OF INDIVIDUAL ORGANIZATIONS.

By John Kania & Mark Kramer
Illustration by Martin Jarrie

The scale and complexity of the U.S. public education system has thwarted attempted reforms for decades. Major funders, such as the Annenberg Foundation, Ford Foundation, and Pew Charitable Trusts have abandoned many of their efforts in frustration after acknowledging their lack of progress. Once the global leader—after World War II the United States had the highest high school graduation rate in the world—the country now ranks 18th among the top 24 industrialized nations, with more than 1 million secondary school students dropping out every year. The heroic efforts of countless teachers, administrators, and nonprofits, together with billions of dollars in charitable contributions, may have led to important improvements in individual schools and classrooms, yet system-wide progress has seemed virtually unattainable.

Against these daunting odds, a remarkable exception seems to be emerging in Cincinnati. Strive, a nonprofit subsidiary of KnowledgeWorks, has brought together local leaders to tackle the student achievement crisis and improve education throughout greater Cincinnati and northern Kentucky. In the four years since the group was launched, Strive partners have improved student success in dozens of key areas across three large public school districts. Despite the recession and budget cuts, 34 of the 53 success indicators that Strive tracks have shown positive trends, including high school graduation rates, fourth-grade reading and math scores, and the number of preschool children prepared for kindergarten.

Why has Strive made progress when so many other efforts have failed? It is because a core group of community leaders decided to abandon their individual agendas in favor of a collective approach to improving student achievement. More than 300 leaders of local organizations agreed to participate, including the heads of influential private and corporate foundations, city government officials, school district representatives, the presidents of eight universities and community colleges, and the executive directors of hundreds of education-related nonprofit and advocacy groups.

These leaders realized that fixing one point on the educational continuum—such as better after-school programs—wouldn’t make much difference unless all parts of the continuum improved at the same time. No single organization, however innovative or powerful, could accomplish this alone. Instead, their ambitious mission became to coordinate improvements at every stage of a young person’s life, from “cradle to career.”

Strive didn’t try to create a new educational program or attempt to convince donors to spend more money. Instead, through a carefully structured process, Strive focused the entire educational community on a single set of goals, measured in the same way. Participating organizations are grouped into 15 different Student Success Networks (SSNs) by type of activity, such as early childhood education or tutoring. Each SSN has been meeting with coaches and facilitators for two hours every two weeks for the past three years, developing shared performance indicators, discussing their progress, and most important, learning from each other and aligning their efforts to support each other.

Strive, both the organization and the process it helps facilitate, is an example of collective impact, the commitment of a group of important actors from different sectors to a common agenda for solving a specific social problem. Collaboration is nothing new. The social sector is filled with examples of partnerships, networks, and other types of joint efforts. But collective impact initiatives are distinctly different. Unlike most
collaborations, collective impact initiatives involve a centralized infrastructure, a dedicated staff, and a structured process that leads to a common agenda, shared measurement, continuous communication, and mutually reinforcing activities among all participants. (See “Types of Collaborations” on page 39.)

Although rare, other successful examples of collective impact are addressing social issues that, like education, require many different players to change their behavior in order to solve a complex problem. In 1993, Marjorie Mayfield Jackson helped found the Elizabeth River Project with a mission of cleaning up the Elizabeth River in southeastern Virginia, which for decades had been a dumping ground for industrial waste. They engaged more than 100 stakeholders, including the city governments of Chesapeake, Norfolk, Portsmouth, and Virginia Beach, Va., the Virginia Department of Environmental Quality, the U.S. Environmental Protection Agency (EPA), the U.S. Navy, and dozens of local businesses, schools, community groups, environmental organizations, and universities, in developing an 18-point plan to restore the watershed. Fifteen years later, more than 1,000 acres of watershed land have been conserved or restored, pollution has been reduced by more than 25 million pounds, concentrations of the most severe carcinogen have been cut sixfold, and water quality has significantly improved. Much remains to be done before the river is fully restored, but already 27 species of fish and oysters are thriving in the restored wetlands, and bald eagles have returned to nest on the shores.

Or consider Shape up Somerville, a citywide effort to reduce and prevent childhood obesity in elementary school children in Somerville, Mass. Led by Christina Economos, an associate professor at Tufts University’s Gerald J. and Dorothy R. Friedman School of Nutrition Science and Policy, and funded by the Centers for Disease Control and Prevention, the Robert Wood Johnson Foundation, Blue Cross Blue Shield of Massachusetts, and United Way of Massachusetts Bay and Merrimack Valley, the program engaged government officials, educators, businesses, nonprofits, and citizens in collectively defining wellness and weight gain prevention practices. Schools agreed to offer healthier foods, teach nutrition, and promote physical activity. Local restaurants received a certification if they served low-fat, high nutritional food. The city organized a farmers’ market and provided healthy lifestyle incentives such as reduced-price gym memberships for city employees. Even sidewalks were modified and crosswalks repainted to encourage more children to walk to school. The result was a statistically significant decrease in body mass index among the community’s young children between 2002 and 2005.

Even companies are beginning to explore collective impact to tackle social problems. Mars, a manufacturer of chocolate brands such as M&M’s, Snickers, and Dove, is working with NGOs, local governments, and even direct competitors to improve the lives of more than 500,000 impoverished cocoa farmers in Cote d’Ivoire, where Mars sources a large portion of its cocoa. Research suggests that better farming practices and improved plant stocks could triple the yield per hectare, dramatically increasing farmer incomes and improving the sustainability of Mars’s supply chain. To accomplish this, Mars must enlist the coordinated efforts of multiple organizations: the Cote d’Ivoire government needs to provide more agricultural extension workers, the World Bank needs to finance new roads, and bilateral donors need to support NGOs in improving health care, nutrition, and education in cocoa growing communities. And Mars must find ways to work with its direct competitors on pre-competitive issues to reach farmers outside its supply chain.

These varied examples all have a common theme: that large-scale social change comes from better cross-sector coordination rather than from the isolated intervention of individual organizations. Evidence of the effectiveness of this approach is still limited, but these examples suggest that substantially greater progress could be made in alleviating many of our most serious and complex social problems if nonprofits, governments, businesses, and the public were brought together around a common agenda to create collective impact. It doesn’t happen often, nor because it is impossible, but because it is so rarely attempted. Funders and nonprofits alike overlook the potential for collective impact because they are used to focusing on independent action as the primary vehicle for social change.

**Isolated Impact**

Most funders, faced with the task of choosing a few grantees from many applicants, try to ascertain which organizations make the greatest contribution toward solving a social problem. Grantees, in turn, compete to be chosen by emphasizing how their individual activities produce the greatest effect. Each organization is judged on its own potential to achieve impact, independent of the numerous other organizations that may also influence the issue. And when a grantee is asked to evaluate the impact of its work, every attempt is made to isolate that grantee’s individual influence from all other variables.

In short, the nonprofit sector most frequently operates using an approach that we call *isolated impact*. It is an approach oriented toward finding and funding a solution embodied within a single organization, combined with the hope that the most effective organizations will grow or replicate to extend their impact more widely. Funders search for more effective interventions as if there were a cure for failing schools that only needs to be discovered, in the way that medical cures are discovered in laboratories. As a result of this process, nearly $4 million nonprofits try to invent independent solutions to major social problems, often working at odds with each other and exponentially increasing the perceived resources required to make meaningful progress. Recent trends have only reinforced this perspective. The growing interest in venture philanthropy and social entrepreneurship, for example, has greatly benefited the social sector by identifying and accelerating the growth of many high-performing nonprofits, yet it has also accentuated an emphasis on scaling up a few select organizations as the key to social progress.

Despite the dominance of this approach, there is scant evidence that isolated initiatives are the best way to solve many social problems in today’s complex and interdependent world. No single organization is responsible for any major social problem, nor can any single

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**John Kania** is a managing director at FSG, where he oversees the firm’s consulting practice. Before joining FSG, he was a consultant at Mercer Management Consulting and Corporate Decisions Inc. This is Kania’s third article for the *Stanford Social Innovation Review*.

**Mark Kramer** is the co-founder and managing director of FSG. He is also the co-founder and the initial board chair of the Center for Effective Philanthropy, and a senior fellow at Harvard University’s John F. Kennedy School of Government. This is Kramer’s fifth article for the *Stanford Social Innovation Review*.
TYPES OF COLLABORATIONS

Organizations have attempted to solve social problems by collaboration for decades without producing many results. The vast majority of these efforts lack the elements of success that enable collective impact initiatives to achieve a sustained alignment of efforts.

**Funder Collaboratives** are groups of funders interested in supporting the same issue who pool their resources. Generally, participants do not adopt an overarching evidence-based plan of action or a shared measurement system, nor do they engage in differentiated activities beyond check writing or engage stakeholders from other sectors.

**Public-Private Partnerships** are partnerships formed between government and private sector organizations to deliver specific services or benefits. They are often targeted narrowly, such as developing a particular drug to fight a single disease, and usually don’t engage the full set of stakeholders that affect the issue, such as the potential drug’s distribution system.

**Multi-Stakeholder Initiatives** are voluntary activities by stakeholders from different sectors around a common theme. Typically, these initiatives lack any shared measurement of impact and the supporting infrastructure to forge any true alignment of efforts or accountability for results.

**Social Sector Networks** are groups of individuals or organizations fluidly connected through purposeful relationships, whether formal or informal. Collaboration is generally ad hoc, and most often the emphasis is placed on information sharing and targeted short-term actions, rather than a sustained and structured initiative.

**Collective Impact Initiatives** are long-term commitments by a group of important actors from different sectors to a common agenda for solving a specific social problem. Their actions are supported by a shared measurement system, mutually reinforcing activities, and ongoing communication, and are staffed by an independent backbone organization.

Shifting from isolated impact to collective impact is not merely a matter of encouraging more collaboration or public-private partnerships. It requires a systemic approach to social impact that focuses on the relationships between organizations and the progress toward shared objectives. And it requires the creation of a new set of nonprofit management organizations that have the skills and resources to assemble and coordinate the specific elements necessary for collective action to succeed.

THE FIVE CONDITIONS OF COLLECTIVE SUCCESS

Our research shows that successful collective impact initiatives typically have five conditions that together produce true alignment and lead to powerful results: a common agenda, shared measurement systems, mutually reinforcing activities, continuous communication, and backbone support organizations.

**Common Agenda** | Collective Impact requires all participants to have a shared vision for change, one that includes a common understanding of the problem and a joint approach to solving it through agreed upon actions. Take a close look at any group of funders and nonprofits that believe they are working on the same social issue, and you quickly find that it is often not the same issue at all. Each organization often has a slightly different definition of the problem and the ultimate goal. These differences are easily ignored when organizations work independently on isolated initiatives, yet these differences splinter the efforts and undermine the impact of the field as a whole. Collective impact requires that these differences be discussed and resolved.

Every participant need not agree with every other participant on all dimensions of the problem. In fact, disagreements continue to divide participants in all of our examples of collective impact. All participants must agree, however, on the primary goals for the collective impact initiative as a whole. The Elizabeth River Project, for example, had to find common ground among the different objectives of corporations, governments, community groups, and local citizens in order to establish workable cross-sector initiatives.

Funders can play an important role in getting organizations to act in concert. In the case of Strive, rather than fueling hundreds of strategies and nonprofits, many funders have aligned to support Strive’s central goals. The Greater Cincinnati Foundation realigned its education goals to be more compatible with Strive, adopting Strive’s annual report card as the foundation’s own measures for progress in education. Every time an organization applied to Duke Energy for a grant, Duke asked, “Are you part of the [Strive] network?” And when a new funder, the Carol Ann and Ralph V. Haile Jr. U.S. Bank Foundation, expressed interest in education, they were encouraged by virtually every major education leader in Cincinnati to join Strive if they wanted to have an impact in local education.
**Shared Measurement Systems** | Developing a shared measurement system is essential to collective impact. Agreement on a common agenda is illusory without agreement on the ways success will be measured and reported. Collecting data and measuring results consistently on a short list of indicators at the community level and across all participating organizations not only ensures that all efforts remain aligned, it also enables the participants to hold each other accountable and learn from each other's successes and failures.

It may seem impossible to evaluate hundreds of different organizations on the same set of measures. Yet recent advances in Web-based technologies have enabled common systems for reporting performance and measuring outcomes. These systems increase efficiency and reduce cost. They can also improve the quality and credibility of the data collected, increase effectiveness by enabling grantees to learn from each other's performance, and document the progress of the field as a whole.

All of the preschool programs in Strive, for example, have agreed to measure their results on the same criteria and use only evidence-based decision making. Each type of activity requires a different set of measures, but all organizations engaged in the same type of activity report on the same measures. Looking at results across multiple organizations enables the participants to spot patterns, find solutions, and implement them rapidly. The preschool programs discovered that children regress during the summer break before kindergarten. By launching an innovative "summer bridge" session, a technique more often used in middle school, and implementing it simultaneously in all preschool programs, they increased the average kindergarten readiness scores throughout the region by an average of 10 percent in a single year.

| Mutually Reinforcing Activities | Collective impact initiatives depend on a diverse group of stakeholders working together, not by requiring that all participants do the same thing, but by encouraging each participant to undertake the specific set of activities at which it excels in a way that supports and is coordinated with the actions of others.

The power of collective action comes not from the sheer number of participants or the uniformity of their efforts, but from the coordination of their differentiated activities through a mutually reinforcing plan of action. Each stakeholder's efforts must fit into an overarching plan if their combined efforts are to succeed. The multiple causes of social problems, and the components of their solutions, are interdependent. They cannot be addressed by uncoordinated actions among isolated organizations.

All participants in the Elizabeth River Project, for example, agreed on the 18-point watershed restoration plan, but each is playing a different role based on its particular capabilities. One group of organizations works on creating grassroots support and engagement among citizens; a second provides peer review and recruitment for industrial participants who voluntarily reduce pollution; and a third coordinates and reviews scientific research.

The 15 SSNs in Strive each undertake different types of activities at different stages of the educational continuum. Strive does not prescribe what practices each of the 300 participating organizations should pursue. Each organization and network is free to chart its own course consistent with the common agenda, and informed by the shared measurement of results.

**Continuous Communication** | Developing trust among nonprofits, corporations, and government agencies is a monumental challenge. Participants need several years of regular meetings to build up enough experience with each other to recognize and appreciate the common motivation behind their different efforts. They need time to see that their own interests will be treated fairly, and that decisions will be made on the basis of objective evidence and the best possible solution to the problem, not to favor the priorities of one organization over another.

Even the process of creating a common vocabulary takes time, and it is an essential prerequisite to developing shared measurement systems. All the collective impact initiatives we have studied held monthly or even bimonthly in-person meetings among the organizations' CEO-level leaders. Skipping meetings or sending lower-level delegates was not acceptable. Most of the meetings were supported by external facilitators and followed a structured agenda.

The Strive networks, for example, have been meeting regularly for more than three years. Communication happens between meetings too: Strive uses Web-based tools, such as Google Groups, to keep communication flowing among and within the networks. At first, many of the leaders showed up because they hoped that their participation would bring their organizations additional funding, but they soon learned that was not the meetings' purpose. What they discovered instead were the rewards of learning and solving problems together with others who shared their same deep knowledge and passion about the issue.

| Backbone Support Organizations | Creating and managing collective impact requires a separate organization and staff with a very specific set of skills to serve as the backbone for the entire initiative. Coordination takes time, and none of the participating organizations has any to spare. The expectation that collaboration can occur without a supporting infrastructure is one of the most frequent reasons why it fails.

The backbone organization requires a dedicated staff separate from the participating organizations who can plan, manage, and support the initiative through ongoing facilitation, technology and communications support, data collection and reporting, and handling the myriad logistical and administrative details needed for the initiative to function smoothly. Strive has simplified the initial staffing requirements for a backbone organization to three roles: project manager, data manager, and facilitator.

Collective impact also requires a highly structured process that leads to effective decision making. In the case of Strive, staff worked with General Electric (GE) to adapt for the social sector the Six Sigma process that GE uses for its own continuous quality improvement. The Strive Six Sigma process includes training, tools, and resources that each SSN uses to define its common agenda, shared measures, and plan of action, supported by Strive facilitators to guide the process.

In the best of circumstances, these backbone organizations embody the principles of adaptive leadership: the ability to focus people's attention and create a sense of urgency; the skill to apply pressure to stakeholders without overwhelming them; the competence to frame issues in a way that presents opportunities as well as difficulties, and the strength to mediate conflict among stakeholders.
Funding Collective Impact

Creating a successful collective impact initiative requires a significant financial investment: the time participating organizations must dedicate to the work, the development and monitoring of shared measurement systems, and the staff of the backbone organization needed to lead and support the initiative’s ongoing work.

As successful as Strive has been, it has struggled to raise money, confronting funders’ reluctance to pay for infrastructure and preference for short-term solutions. Collective impact requires instead that funders support a long-term process of social change without identifying any particular solution in advance. They must be willing to let grantees steer the work and have the patience to stay with an initiative for years, recognizing that social change can come from the gradual improvement of an entire system over time, not just from a single breakthrough by an individual organization.

This requires a fundamental change in how funders see their role from funding organizations to leading a long-term process of social change. It is no longer enough to fund an innovative solution created by a single nonprofit or to build that organization’s capacity. Instead, funders must help create and sustain the collective processes, measurement reporting systems, and community leadership that enable cross-sector coalitions to arise and thrive.

This is a shift that we foreshadowed in both “Leading Boldly” and our more recent article, “Catalytic Philanthropy,” in the fall 2009 issue of the Stanford Social Innovation Review. In the former, we suggested that the most powerful role for funders to play in addressing adaptive problems is to focus attention on the issue and help to create a process that mobilizes the organizations involved to find a solution themselves. In “Catalytic Philanthropy,” we wrote: “Mobilizing and coordinating stakeholders is far messier and slower work than funding a compelling grant request from a single organization. Systemic change, however, ultimately depends on a sustained campaign to increase the capacity and coordination of an entire field.” We recommended that funders who want to create large-scale change follow four practices: take responsibility for assembling the elements of a solution; create a movement for change; include solutions from outside the nonprofit sector; and use actionable knowledge to influence behavior and improve performance.

These same four principles are embodied in collective impact initiatives. The organizers of Strive abandoned the conventional approach of funding specific programs at education nonprofits and took responsibility for advancing education reform themselves. They built a movement, engaging hundreds of organizations in a drive toward shared goals. They used tools outside the nonprofit sector, adapting GE’s Six Sigma planning process for the social sector. And through the community report card and the biweekly meetings of the SSNs they created actionable knowledge that motivated the community and improved performance among the participants.

Funding collective impact initiatives costs money, but it can be a highly leveraged investment. A backbone organization with a modest annual budget can support a collective impact initiative of several hundred organizations, magnifying the impact of millions or even billions of dollars in existing funding. Strive, for example, has a $1.5 million annual budget but is coordinating the efforts and increasing the effectiveness of organizations with combined budgets of $7 billion. The social sector, however, has not yet changed its funding practices to enable the shift to collective impact. Until funders are willing to embrace this new approach and invest sufficient resources in the necessary facilitation, coordination, and measurement that enable organizations to work in concert, the requisite infrastructure will not evolve.

Future Shock

What might social change look like if funders, nonprofits, government officials, civic leaders, and business executives embraced collective impact? Recent events at Strive provide an exciting indication of what might be possible.

Strive has begun to codify what it has learned so that other communities can achieve collective impact more rapidly. The organization is working with nine other communities to establish similar cradle to career initiatives. Importantly, although Strive is broadening its impact to a national level, the organization is not scaling up its own operations by opening branches in other cities. Instead, Strive is promoting a flexible process for change, offering each community a set of tools for collective impact, drawn from Strive’s experience but adaptable to the community’s own needs and resources. As a result, the new communities take true ownership of their own collective impact initiatives, but they don’t need to start the process from scratch. Activities such as developing a collective educational reform mission and vision or creating specific community-level educational indicators are expedited through the use of Strive materials and assistance from Strive staff. Processes that took Strive several years to develop are being adopted and modified by other communities in significantly less time.

These nine communities plus Cincinnati have formed a community of practice in which representatives from each effort connect regularly to share what they are learning. Because of the number and diversity of the communities, Strive and its partners can quickly determine what processes are universal and which require adaptation to a local context. As learning accumulates, Strive staff will incorporate new findings into an Internet-based knowledge portal that will be available to any community wishing to create a collective impact initiative based on Strive’s model.

This exciting evolution of the Strive collective impact initiative is far removed from the isolated impact approach that now dominates the social sector and that inhibits any major effort at comprehensive, large-scale change. If successful, it presages the spread of a new approach that will enable us to solve today’s most serious social problems with the resources we already have at our disposal. It would be a shock to the system. But it’s a form of shock therapy that’s badly needed.

Notes

1 Interview with Kirby Merchant, CEO of the Greater Cincinnati Foundation, April 17, 2010.
4 Indianapolis, Houston, Richmond, Va., and Hayward, Calif., are the first four communities to implement Strive’s process for educational reform. Portland, Ore., Fresno, Calif., Mesa, Ariz., Albuquerque, and Memphis are just beginning their efforts.
Item 3

First 5 LA
Capacity Building Efforts
Item 4

*Public Comment for Items Not on the Agenda*
Item 5

Adjournment