The Shifting Ground between Nonprofits and Philanthropy: An Interview with Ralph Smith

by the editors

RECENTLY, THE *Nonprofit Quarterly* interviewed Ralph Smith on the relationship between foundations and nonprofits. Smith is the executive vice president of the Annie E. Casey Foundation and the chairman of the board of the Council on Foundations.

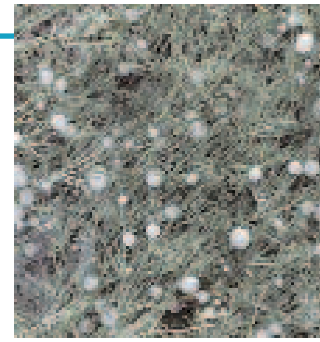
The **Nonprofit Quarterly:** *Over the past 10 years, what has changed in the relationship between foundation philanthropy and nonprofits?*

Ralph Smith: Foundation philanthropy is increasingly sector agnostic. Many of us believe that foundation philanthropy is at its best when its resources are directed toward pursuing, finding, testing, demonstrating, and promoting solutions for the most pervasive and urgent social problems. In other words, foundation philanthropy is in the solutions business and can succeed only if and to the extent it is willing to pursue solutions wherever it finds them, regardless of whether they are in the public, private, or social sector. As a consequence, the assumed exclusive relationship between foundations and nonprofits has become much less so. Foundations are going to support and invest with a much wider range of partners than in the past.

At the same time, it is important to acknowledge that foundation philanthropy has yet to take up its special responsibility to create a capital market for the people and organizations doing the important work in the social sector. As things stand now, organizations that are effective and have a real track record are often as financially frail and vulnerable as organizations that are doing far less and far less effectively. The absence of a capital market makes it difficult to reward good performance. And this continuing failure to reward performance undergirds a compact of mutually low expectations. Organizations should know that performance matters and that superior performance matters in terms of the ability to raise capital. At present, the social-capital market is at best chaotic and, in certain respects, nonexistent.

NPQ: *Under the new framework that you have described, what would happen to the run-of-the mill but nonetheless challenging tasks in which so many nonprofits are involved: that is, the tasks of maintaining and reweaving the social fabric?*

RS: Nonprofits have an important, though not exclusive, role to play in maintaining the social fabric. But underperformance is consequential regardless of role or aspiration. Whether defined as maintaining the social fabric, protecting the



safety net, nurturing the democratic impulse or just, on a very mundane level, providing services and support, underperformance matters, and it matters a lot.

NPQ: *Is this trend size neutral, or does it have a natural inclination toward a larger scale and greater maturity?*

RS: Size, maturity, and track record can matter. Permit a somewhat circular response to the question: In the private sector, you know something works if people buy it. If people don't buy it, the market research was just plain wrong. Without the discipline of the marketplace, foundations are trying to find all sorts of ways to answer the question "Did it work?" On the one hand, there are the multiple attempts to measure return on investment by developing a calculus to count and track social returns. Quite frankly, I find these efforts a far more attractive proposition than investing in more expensive evaluations, most of which conclude that it is too difficult to say anything conclusive. One of my colleagues from Mississippi says that sometimes "the juice isn't worth the squeeze." And I must admit, that's the way I feel about those evaluations that are not explicitly about learning and improving practice. To the extent that foundations insist on evaluation as meaningful and that dollars follow the evaluation, we do run the risk of privileging the larger, more established organizations and programs over smaller, less-established, and, in some cases, more innovative people and programs.

NPQ: *So, over the next 10 to 20 years, do you think that philanthropy has a particular responsibility to nonprofits?*

RS: Yes. Three areas sit at the top of my list. The number-one long-term responsibility would be to develop a disciplined social-capital market. That probably will require the emergence of funds: some would specialize in providing the risk capital for innovations; others would provide the growth capital needed for scale; still others would provide resources in the form of money and talent to build organizational capacity.

A second responsibility is to deal with the compensation challenge, especially as it relates to the retirement insecurity facing so many nonprofit leaders who, after spending their careers in the sector, have very little to supplement Social Security. It is totally unsurprising that this retirement insecurity impinges on developing a rational approach to succession and transition. As important, the prospect of retirement insecurity and the compensation issues that lead up to it stand as major obstacles to creating a real pipeline for future leaders.

The third responsibility is to strengthen the infrastructure of the nonprofit sector by supporting the development of strong local, state, and national organizations. These organizations and networks should have the capacity, durability, credibility, and legitimacy to represent nonprofits in the public square and to level the playing field with foundation philanthropy.

NPQ: *Here is a provocative question. Based on our conversations with nonprofits, some organizations worry that foundations see themselves as self-appointed intelligentsia, far more capable of directing nonprofit work than those on the ground. How would you respond to that?*

RS: The worry is justified. Foundations that practice strategic philanthropy do play a different role. Their challenge is to find ways to listen carefully, learn constantly and make a place in their processes for diverse and even divergent perspectives, especially from those on the ground and close to the problem.

On the other hand, some of the worry is less about the work than it is about the attitude. The self-deprecating joke is that going to a foundation makes everyone smarter and funnier as well as considerably more charming and better-looking. Humility does not come easily to foundation staff with decisions to make and dollars to disperse. So it is easy to see how, unless a foundation has built-in checks and balances, foundation staff can get to this point where the criticism is deserved.

NPQ: *OK, so in that context, where's the corrective mechanism for foundations if they have much less of an accountability market than do nonprofits?*

RS: Because foundations are in the solutions business, they increasingly will find themselves having to negotiate, collaborate, and coordinate with private- and public-sector folks. Now, people in the public sector are really all too willing to let foundation staff know that they manage annual budgets that are larger than most endowments. They are not overwhelmed by charm and are pretty underwhelmed by the size of grants or budgets. People in the private sector wonder why, if you were really smart, you're not in the private sector along with them. So the good news is that as foundation philanthropy becomes more sector agnostic, there will be more reality checks and humility-inducing moments along the way. That is a quite healthy by-product of the solutions business.

NPQ: *Would these reality checks substitute for an accountability market?*

RS: Not really. These reality checks are an improvement on the bilateral exchange within the social sector. A robust accountability system would ensure that the folks who are most clearly affected have a voice. And because it is unlikely that a single grantee of a foundation, or even a group of grantees of a single foundation, will have a sufficiently strong voice, we need those state and national associations to which I referred earlier. Strong, independent organizations would speak truth to power and could speak to philanthropy on behalf of both grantee and nongrantee organizations.

NPQ: *Does the robustness of the philanthropic infrastructure—which encourages more constant dialogue among philanthropists and separate from grantees—has driven an intellectual wedge between foundations and nonprofits?*

RS: From what I can see, that's not the case. I really think the issues there are more fundamental. We have neither fully articulated nor achieved consensus on the role of philanthropy—particularly foundation philanthropy—vis-à-vis the rest of the sector. The notion of a capital market for the social sector is not broadly understood and widely embraced. In fact, it is barely even discussed. The result of that silence is a grantor-grantee relationship rather than an *intrasector* partnership in which all participants bring their resources, some financial some not, to bear on the problem to be solved. Defining the issue that narrowly allows the idea that, with a little more money spent on core support or multiyear funding and a little less arrogance, all could be well. But that is simply not true.

Foundation philanthropy will become more sector agnostic. Being sector agnostic, however, should not provide an excuse to abdicate the responsibility to invest or provide the capital market for the social sector. As foundations move, migrate, and are pushed and pulled toward using their endowment for mission-related purposes, they will invest in for-profit as well as nonprofit enterprises. That's one of the changes I see happening in philanthropy, and too many nonprofits seem unaware of the implications. If the choice has to be made between the for-profit organization that brings a set of skills and one that does not, the choice increasingly is going to be made in favor of the higher skill set. And that means that the compact of low expectations—inadequate compensation, inadequate capitalization, and subpar performance—will become even more of a drag on nonprofits as they compete for the resources they need.

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