

# **The State of Nonprofit Capacity Building in Los Angeles 2004**

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*April 2004*

The challenges of the nonprofit sector keep coming, in Los Angeles and throughout the United States. In 2004, more than ever, Los Angeles nonprofit organizations greatly need assistance in strengthening their structure and operations, so they can continue serving the community well. This report, the second in a series, provides an overview of services and support for nonprofit capacity building in Los Angeles, set in the larger context of the nonprofit sector's health locally and of developments in capacity building nationwide.

## ***What is the State of Nonprofit Organizations in Los Angeles?***

The big picture is well-known to all who work in the nonprofit sector in Los Angeles. Funding cuts by government continue to mount at the city, county and state levels. Recovery in the mainstream economy only slowly is beginning to trickle down to more giving by foundations, corporations and individual donors. And the temporary fixes many nonprofits used to defer the pain of funding cuts over the last two years is now coming home to roost, in what many believe will be the toughest year yet for the nonprofit sector.

Increased accountability and reporting requirements also loom as a fallout from policymaker and public concerns as a result of

the various United Way scandals nationwide, high costs for fundraising in some organizations, and even the recent highly-publicized corporate debacles like Enron. A bill already is under consideration in Sacramento that could result in increased costs for nonprofits to become more "transparent," paralleling recent trends in the corporate sector.

Even the good news is sometimes the bad news too. Hard-working health and social service nonprofits see more clients flocking to them, with demand for services increasing as more people fall outside the safety net in Los Angeles. But meeting those increased demands requires resources, as well as increased effectiveness in using them.

For other types of nonprofits, such as arts organizations, economic difficulties are compounded by changes in service demand - for instance, declining attendance at some types of arts events, and increasing unwillingness of patrons to buy season tickets as opposed to impulse buying for single events. In the arts, the last year included difficulties among some significant public funders, such as the California Arts Council and Public Corporation for the Arts in Long Beach. At least one L.A. funder (ASK Theatre) went out of business altogether.

And for foundations, so often in the past insulated from these economic realities, the last year also has been a tough one, with foundation investment portfolios savaged by the faltering economy in a number of cases. Local foundations have had to make cutbacks in staffing and grantmaking, in some cases of a significant amount - and the competition for the funding that remains is fierce. There also has been a crisis of credibility about how some foundation funds are used, with calls at both the state and national level for increased regulation of foundations.

At the same time, many new foundations are being created in a complex, fast-changing community scene. So foundations, too, need capacity building assistance - particularly the smaller, minimally-staffed foundations.

UCLA's Center for Civil Society second annual survey of nonprofit human service agencies in Los Angeles County was conducted in late 2003 (Anheier et al, 2004). It found that 75% of funding for these organizations comes from public sources. Four out of ten human service nonprofits in the study sample have experienced simultaneous increases in expenditures and decreases in revenues.

As a result, many of them may have negative balances and reduced assets, and are likely to face cash-flow problems in the future. A number of these vulnerable organizations are located in the poorer communities of Los Angeles - which may exacerbate already significant disparities in social and economic well-being in the area.

Six recommendations for how the Los Angeles nonprofit sector can address current challenges were made by the study's authors:

*1 - Establish Coordination Forum* to provide a space for dialogue and planning about

challenges to the nonprofit sector, Los Angeles area foundations need to sponsor a forum bringing together nonprofit and community leaders, including the government and foundation community.

*2 - Build Stronger Advocacy Coalitions* using capacity building approaches both for existing and new advocacy groups in the Los Angeles nonprofit sector - so that they can do a better job of pushing for changes in public and private policy

*3 - Encourage Mergers and Partnerships* so that more nonprofits can work together and share resources; this is also a capacity-building task, since specific skills are needed to partner effectively or to re-structure organizations.

*4 - Create Foundation Initiative* so that foundations can play a more active role in meeting the nonprofit sector's challenges; this also will require capacity building, for foundation staffs and boards.

*5 - Revisit Government Funding Procedures* to explore how universal grant applications and reporting forms could be created by government funders (there are successful models for this from other communities, such as the work of the Rochester Effectiveness Partnership in upstate New York, which also includes foundation and corporate funders)

*6 - Promote Capacity Building* since the study revealed significant need for increasing the effectiveness of nonprofit organizations, especially those located in poor neighborhoods, and those with small staffs and budgets. While there are a number of capacity building resources available in Los Angeles, there is a particular need for better coordination and improved dissemination of what is available.

***What is the State of Nonprofit Capacity-Building Services and Funding in Los Angeles?***

In this volatile, high-stress environment, funders and providers of nonprofit capacity-building services have continued supporting a variety of programs, despite cutbacks in overall resources available, and decisions of some funders to move away from an emphasis on capacity building. Some developments over the last year for nonprofit capacity building in Los Angeles include:

< The *Funders Collaborative for Strong Latino Communities*, administered by Hispanics in Philanthropy, has awarded \$1 million to 13 Latino nonprofits in Southern California, such as the East Los Angeles Classic Theater in Monterey Park, and Los Angeles-based Homies Unidos, to help build their organizational capacity and leadership.

< The *Executive Service Corps of Southern California*, under funding support from Weingart Foundation, has created a “Developing Development Program,” which is offering a year of technical assistance on fundraising to a select group of nonprofits in Los Angeles. The program includes a Development Assessment Tool to help shape the capacity-building activities.

< The region’s largest capacity building provider, the *Southern California Center for Nonprofit Management*, has increased its own capacity by joining the N-Power Network, a national collaboration of nonprofit TA providers. The Center also co-sponsors TechSoup LA, another resource nonprofits can use for technical assistance on technology.

Other initiatives that may help to shape future nonprofit capacity building in the region are on the planning horizon:

< *The California Endowment* is currently revising the funding guidelines for its Communities First responsive grantmaking program. The new guidelines, due out later this year, are likely to focus on both systems change (policy and advocacy work in trying to bring about larger community impact), and organizational change, focused on capacity building for specific nonprofit organization in its broad target audience of health-related nonprofits. The Endowment may also look at strategies for building the capacity of small to mid-sized providers of capacity building services.

< After a successful conference in April 2003, forces for improving nonprofit capacity building focused on the San Fernando Valley have now created a plan for a nonprofit resource center, to be called the *Valley Center for Community Change* and housed at California State University Northridge. In this enterprise, the University is partnered with the Volunteer Center of Los Angeles and the Human Interaction Research Institute. The proposed Center will be aligned with ongoing capacity building efforts of Valley-based institutions such as the Valley Leadership Institute. And it will offer capacity-building services to foundations based in the Valley as well.

< The *First 5 LA Commission* has identified capacity building as a key strategy for achieving Commission goals over the next five years. The Los Angeles County Children’s Planning Council utilizes First 5 LA resources to help organizations better coordinate, enhance and expand their services. The Commission is building capacity through its support of a Family Literacy Support Network, a collaborative of 15 model family literacy programs.

< *Southern California Grantmakers* now has available on its website the Human Interaction

Research Institute's *Resource Directory for Nonprofit Capacity Building in Los Angeles County*. SCG also is upgrading this document into a searchable database which will be updated periodically.

### ***How Does This Relate to National Trends in Nonprofit Capacity Building?***

Nationally, there also have been significant developments over the last year. The leadership of this recently-defined field has grown increasingly concerned with the future of nonprofit capacity building as a field of action. To address these concerns, there were national convenings over the past year of both funders and infrastructure organizations. A special issue of *The Nonprofit Quarterly* will be coming out in mid-2004 to address some of the field's current priorities.

The two major national associations in this field - Alliance for Nonprofit Management and Grantmakers for Effective Organizations (now merged with the Grantmakers Evaluation Network) - are continuing to provide national leadership, with upcoming conferences and new projects designed to benefit the field nationally. There also has been growth in regional initiatives bringing together nonprofit capacity building resources, for instance those in upstate New York and southern Florida.

These and other trends in the field have been explored through national research studies completed during this past year (Connolly & York, 2003; Linnell, 2003; Backer, Bleeg & Groves, in press). Several new analytic books on capacity building also have been published, such as Blumenthal (2003), Kinsey, Raker & Wagner (2003) and Grantmakers for Effective Organizations (2004).

In its national work on community-focused philanthropy, the Annie E. Casey Foundation has been exploring the role of individual donors and smaller foundations in contributing to community change, and their attitudes towards nonprofit capacity building as an aspect of those changes. The Human Interaction Research Institute's Philanthropic Capacity Building Resources database now contains descriptions of 320 foundation programs for grantmaking and direct service, with more on the way. And foundations like the John S. & James L. Knight Foundation are exploring how to expand their capacity building efforts nationally.

Despite all this good activity, there is evidence on the horizon that nonprofit capacity building is in a declining rather than growing mode nationwide. Conference sessions on "rightsizing" foundation investment in capacity building are starting to appear, and as California Association of Nonprofits Executive Director Florence Green puts it, "the loss of support for national infrastructure organizations is a definite warning signal about the future health of the field."

### ***What Are Some Next Steps for Our Region?***

Four directions for future efforts of the nonprofit sector, and capacity building funders and providers within it, emerge from this brief report:

1 - We need to continue region-wide efforts to coordinate capacity building resources more strategically. Too many nonprofits still do not know what is available, or feel that what is available is not appropriate or accessible to them. Better synergy, increased access and greater ability to evaluate the quality and impact of capacity building services can all emerge from relatively simple efforts to

convene and share information. The early successes of regional initiatives like those in Upstate New York and South Florida provide good evidence that such approaches pay off.

2 - We need to place more emphasis on capacity building interventions that provide support to nonprofits explicitly targeted to cutback management, innovative development strategies, and handling the psychological side effects of difficult times both for staff and community. Peer networking approaches are particularly useful for this purpose, as seen for instance in the peer-to-peer experiences provided for emerging nonprofits by Community Partners in its incubator program for emerging Los Angeles nonprofits.

The UCLA Center for Civil Society's new research on human service nonprofits in Los Angeles offers strategies that could be incorporated into training and technical assistance programs for many types of nonprofits. Other research now being conducted, such as a study of safety net nonprofits in California underway by the California Association of Nonprofits and the Human Interaction Research Institute, will also yield strategies that can be shared more widely.

3 - We need to look anew at the potential for nonprofit organizations to collaborate in order to stretch resources and provide a more unified front for community change. But these efforts must be balanced by the reality that collaboration isn't free, and resources for it have to come from already stretched-thin budgets. And at a time when nonprofits already are so challenged, adding one more collaboration to a busy nonprofit executive's already full plate can result in a potentially harmful case of "collaboration fatigue"!

It is particularly important to look at examples of success locally, such as the collaboration

work of PROTOTYPES, which serves multiply vulnerable women and children in 29 service sites throughout southern California. The PROTOTYPES Systems Change Local Experts Group is a collaboration that for six years has brought together L.A. County leaders to look at systems change needed to improve services for women and children. It uses science-based approaches to effective collaboration, such as providing "networking time" with key leaders at each meeting, to keep its participants coming.

4 - Finally, we need to incorporate the latest state-of-the-art in nonprofit financial capacity building, such as the work of the Nonprofit Finance Fund, to help nonprofits cope with financial planning in these complex times. Debt restructuring, changing business models in a changing environment (including changes that despite their success can lead a nonprofit to ruin, such as a successful capital campaign to buy a building!) and other available wisdom about how to handle financial affairs more adroitly can help many nonprofits survive so that they can continue to fulfill their stated missions.

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*We acknowledge valuable input to this report by Florence Green, California Association of Nonprofits; Peter Manzo, Center for Nonprofit Management; Jose Marquez, The California Endowment; and Paul Vandeventer, Community Partners.*

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*This is the second annual report on nonprofit capacity-building activities and services in the greater Los Angeles area. It is intended to be a "snapshot," not a comprehensive analysis. We want this piece to serve as a stimulus for further discussion and debate. **The report was produced in cooperation with the UCLA Center for Civil Society.***