Strategic Improvement of Madison's Social Sector:
How Funding in Madison Supports Innovation in the Social Sector

A Report for the City of Madison, Wisconsin

November 2013

Prepared By:

Joiner Sandbrook LLC

Brian Joiner – Senior Consultant
Kristen Joiner – Consultant
Jon Sandbrook – Consultant

INTRODUCTION

Madison has the potential to lead the nation in innovation and collaborative civic engagement within the social sector. The city has a strong culture of community development, an authentic sense of civic duty, a national profile as a progressive-thinking city, and a reputation for attracting more research funds than any other college town.

Historically, Madison has been a predominantly white community, however over the past 40 years the number of African Americans living in the county has increased exponentially. Between 2000 and 2010, the county's total African American population – the most populous community of color in the county - increased by almost 50%, with Hispanics and Asians not far behind. More than half of Dane County's black population lives within the City of Madison and in 2010 African American children accounted for 20% of the students in the Madison Public Schools.[1]

Despite Madison's civic-minded reputation, the city is facing some of the most divisive and challenging equity issues in the country, as recently highlighted in *A Baseline Report on the State of Racial Disparities in Dane County,* a report prepared by the Wisconsin Council on Children and Families. For example:

- 74.9% of black children in Madison are living in poverty, a rate that has increased 40% since 2006.
- A black child living in Dane County is estimated to be 4.5 times more likely not to meet 3rd grade reading proficiency standards, a statistic that significantly exceeds national averages.
- A black youth is 25 times more likely to be incarcerated in the state's security facility.

All of these statistics far exceed the national averages.[2]

And, it is important to note, shifting demographics and inequity are not the only emerging issues in Madison. At some point in time in the near future, Madison will be faced with the effects of climate change and its associated challenges with food security,[3] among other issues, in addition to any potential volatility in the global economy. Climate change and a volatile economy could likely affect the poorest of the poor first and greatly increase existing inequalities.

At the same time, Madison is home to a dense social infrastructure. In 2011 Dane County had a registered 5,270 non-profit organizations[4] and 251 private foundations,[5] in addition to the local municipalities and area school district; the majority of which are based in the city of Madison.

---

[1] All of the statistics quote above are taken from Race to Equity. A Baseline Report on the State of Racial Disparities
[2] All of the statistics quote above are taken from Race to Equity. A Baseline Report on the State of Racial Disparities in Dane County. Wisconsin Council on Children and Families. 2013
[3] http://www.nytimes.com/2013/11/02/science/earth/science-panel-warns-of-risks-to-food-supply-from-climate-change.html
[4] http://www.taxexemptworld.com/organizations/dane-county-wi-wisconsin.asp
[5] National Center for Charitable Statistics

This social sector is largely delegated the responsibility for addressing social challenges, providing services to needy residents, and solving the root underlying causes through social change initiatives. The work of providing services, developing and conducting campaigns and programs, is generally performed by non-profit and community organizations, while the work of providing money and resource support for the delivery of those services, programs and campaigns is generally performed by municipalities, foundations and private philanthropists through publicly supported contracts for service delivery, foundation grants and individual donations.

Yet, despite Madison's strong social infrastructure, our community's major social problem with racial inequity **continues to get worse, not better**.

In response to this, the Mayor of Madison, along with many other leaders in the city, has raised the question – *"Why?"*

"Why… with our multitude of well-established organizations and foundations, combined with our world-class research university and highly educated, progressive residents… are we one of the last places in the country a black person should choose to raise their family?"

At the same time, Will Green is a young black social entrepreneur who started a youth mentoring program, Mentoring Positives, seven years ago in a troubled, low-income neighborhood in Madison. Will is an extremely rare example of a black man striving to be a social entrepreneur and do good things in his community in Madison. For whatever reasons, Will has been unable to secure funding for his program, including from the City of Madison.

Will is a very visible example of an important infrastructure (black male leaders) that is essential to address the challenges of racial inequity, but an infrastructure that does not yet meaningfully exist in our community.

Reflecting on this challenge, one national funder said about the city, "*The Madison funders do not give points for credibility, trust, connection with the community they are serving. They place more weight on highly resumed, well written applications and competence. In fact, you may find yourself rewarding the absence of diversity.*"

What this national leader is saying is that one way national funders are approaching education and human-needs is by developing criteria in grant-making that prioritizes leaders of color and leaders who are able to gain credibility, trust and connection with the community they are seeking to serve. The leader's comment calls our attention to an innovation in thinking about criteria for grant making in human-needs that seems not to be current in Madison at the moment, despite greatly shifting demographics and emerging inequities in our community.

However, Mentoring Positives is only one symbol of an emerging community issue that warrants reflection. Two other organizations interviewed for this report also represent emerging issues in the community: Fair Share CSA and Sector 67.

Fair Share CSA is a non-profit organization that connects city residents with local farms in order to promote food security and local economic development; and Sector 67 is a non-profit

organization that has built a maker space to incubate entrepreneurship and local economic development.

Fair Share CSA could be a player in developing Madison's resilience to climate change, while Sector 67 could contribute enormously to building local essential skills for resilience and nurturing budding entrepreneurs among diverse populations. Yet neither organization receives funding from the city or any of the other funders included in this study.

Although both of these organizations are working on a shoestring (e.g. the founder of Sector 67 is obligated to work a full-time job to pay for his time at the maker space) they have made the assessment that the city and other funders do generally not prioritize the work of their organizations, and thus they have elected not to invest time in applying for funds.

It is noteworthy to point out that these three organizations: Mentoring Positives, Fair Share CSA and Sector 67 represent significant issues of growing importance in our community, yet they – for whatever reason – are getting by on a shoestring budget with very little or no support from the city or any other major funder in the community.

Thinking about these examples and citing Will Green specifically, the Mayor asked a **second question**: "*Why, in a city where black male leaders like Will Green are such a rare commodity, and in a city that desperately needs role models that reflect their communities, has this program failed to get funding? Is there something in our funding process that is inadvertently inhibiting an openness to new leaders or ideas that might fit emerging or shifting needs in the community?*"

Following on this line of thinking, a **third question** was raised. "*Do we have an on-going, reflective, systemic process embedded in our funding structure to ensure that we can keep up with the constantly shifting demographics and needs of our community? How are we ensuring that our priorities and systems notice these shifts and are continuously keeping up as our needs change? Equity, climate change, the economy and food security are global issues bearing down on Madison, how will we know that our system is taking these emerging issues into account and responding as needed?*"

This thinking led to the Mayor's final, essential question for this report:

"What do we, as funders, do to support innovation in the social sector? And, what can we learn from the private sector about systems thinking, quality improvement and fostering innovation that will improve our funding processes and make sure we stay current and reflective in our approach?"

WHY THIS REPORT? WHY NOW?

Madison's social sector has the existing infrastructure and resources to be an innovative national leader in addressing many of the major social challenges being confronted by its citizens on a daily basis.

However, within Madison's social sector there is significant room for improvement – improvement in alignment and focus of sector players, improvement in system efficiency, and improvement in the understanding of outcomes.

As noted above, Madison is confronting three key challenges in the social sector:

1. **Madison has critical and growing social problems** related to poverty and racial inequity, among other issues, which remain poorly understood on a deep and complex level. Madison also faces the uncomfortable risk associated with addressing the true scope and scale of such challenges, because this has the potential to significantly tarnish our external brand as a progressive and socially responsible city.

2. Madison has a well-established set of priorities and goals and processes that have been driving the activities in this sector for a number of years. Yet, major social problems remain under-addressed or invisible. In some cases, **these problems continue to get worse, not better**.

3. Despite the above, Madison's social sector **process may be too rigid to make room for innovation, new ideas, new leaders and creative solutions**. There is currently no framework to systematically encourage innovation and seek new, better solutions to stubborn social problems.

Herein lies the opportunity. By seeking strategic opportunities to improve the way the system operates, particularly around innovation, there is potential to improve our effectiveness in addressing our significant and pressing social challenges.

In this context, the City of Madison has a critical leadership role to play in identifying and drawing attention to these major challenges, and promoting the creation of better collective solutions alongside the many organizations and individuals actively working on these challenges.

THE PROCESS

This report provides a very high-level, initial study of Madison's social sector. To reiterate the Mayor's essential question noted above, the question posed was:

"What do funders do to support innovation in the social sector?

We sought to begin to understand what the social sector may be able to learn from models being successfully deployed in other sectors, including the private sector, in terms of the application of systems thinking, quality improvement and systematic approaches to promoting innovative thinking and an innovation culture.

In compiling this study, our process included the following key components:

1. Conducting a series of one-hour interviews with various stakeholders in Madison's social sector, including:

a. Local non-profit and community organizations.
   b. Local community foundations/funders.
   c. Local government representatives.
2. Conducting interviews with a select few strategic national funding organizations.
3. Research on the current thinking nationally and locally on relevant issues.

Specific topics for discussion during these interviews included, but were not limited to, the following:

- Understanding the national social sector funding environment and priorities, and their potential relevance for Madison.
- Perception of the current state of Madison's social sector capacity and capabilities, and the current processes for development of this capacity and capability.
- The current process for evaluation of the impact of non-profits.
- Current constraints on performance of local non-profits.

We recognize that this study is extremely small, and as such has various limitations. However, drawing from this primary research, as well as our own expertise and experience in the social sector, private sector and quality improvement both at a local and national level, we sought to develop some high-level recommendations for next steps to help guide further work to identify and act on strategic opportunities to improve Madison's social sector.

WHY INNOVATION?

Innovation is critical to improved performance and outcomes.

It is also widely recognized that innovation plays a essential role in creating new value, finding new solutions, attracting talent, and improving performance, whether in the for-profit sector or in the social sector.

As a recent article in the Stanford Social Innovation Review pointed out, innovation not an ideology or the Holy Grail, but a complex process. [6] Innovation often depends on the convergence of a variety of internal and external factors within a particular context. In our experience, innovation is a useful output of a continuous process of data gathering, assessment and improvement, punctuated with "a-ha!" moments.

It may be useful to describe innovation in two broad categories:

1. **Disruptive innovation** – these are innovations that alter a current paradigm or way of thinking significantly, often tipping fundamental assumptions upside down and creating wholly new systems or approaches.
2. **Incremental innovation** – these are innovations that identify and leverage tweaks and adjustments to core, routine, existing activities that offer improvement to current systems.

---

[6] http://www.ssireview.org/articles/entry/innovation_is_not_the_holy_grail

Both incremental and disruptive innovations can occur either within a single organization or across a group, industry or sector. Furthermore, both categories of innovation can equally apply to all kinds of organizations, including large established corporations as well as small start-ups.

When considering the concept of innovation, we often think of "disruptive" innovation, although both types of innovation can have powerful effects on the value created by a system.

Much of the recent literature on the subject of innovation articulates several critical success factors underpinning innovation, including: a risk-taking culture, collaboration, visionary leadership, and openness to outside ideas.

In short, innovation is critical to continuous improvement of the performance and outcomes across Madison's social sector and should be systematically encouraged.

WHAT IS QUALITY IMPROVEMENT?

Quality improvement offers a proven framework that can be used to systematically embed an ongoing process for identifying and driving better outcomes.

The concepts and ideas of the quality improvement movement lie at the core of many of the private sector's ideas about effective management and leadership. Integrated quality improvement initiatives and programs have also been at the heart of the ongoing success of many of the world's most recognizable companies and brands for decades. Think: Toyota, Fuji, Sony etc.

The private sector has learned that quality is key to organizational success. Quality must be built into every level of a company, and become part of everything the organization does – from answering the phone, to assembling products, to serving the end customer. This idea is very much a part of modern management philosophy.

Dr. W. Edwards Deming is widely considered the guru of the quality improvement movement. A statistician who went to Japan to help with the census after World War II, Deming taught statistical process control to leaders of prominent Japanese businesses. His message was simple: by improving quality, companies will decrease expenses as well as increase productivity and market share.

After applying Deming's techniques, Japanese businesses like Toyota, Fuji, and Sony saw great success. Their quality was far superior to that of their global competitors, and their costs were lower. As a result, many of these companies were able to dominate the global market. Subsequently, businesses from all over the world developed a new respect for the effect of quality on production and price, and a new appreciation for the systematic focus needed to get there.

Over the last several decades, study after study of highly successful companies has shown that following the philosophies of quality improvement leads to significant improvements in quality,

efficiency, and customer satisfaction outcomes. This is why Deming's work and the work of those that followed in his footsteps have become a standard reference for quality transformation.

Today, those same principles are now being applied to the public sector, including in health care and education. For example, the Robert Wood Johnson Foundation is currently engaged in a major initiative dedicated to promoting the application of quality improvement in healthcare across the country.

When thinking about the potential application of Quality Improvement to the social sector in Madison, a common definition of quality improvement principles applied in healthcare is useful to consider:

> *"The combined and unceasing efforts of everyone—healthcare professionals, patients and their families, researchers, payers, planners and educators—to make the changes that will lead to better patient outcomes (health), better system performance (care) and better professional development. This definition arises from our conviction that healthcare will not realize its full potential unless change making becomes an intrinsic part of everyone's job, every day, in all parts of the system."*

Application of the lessons of systems thinking and quality improvement to Madison's social sector offers a significant opportunity for systemic and ongoing promotion of learning and improvement. An important benefit of Quality Improvement is what it offers employees: learning, personal development, creativity, and opportunity to collaborate on the fulfillment of the larger mission through systematic improvements.

MADISON'S SOCIAL SECTOR

Often referred to as a "third" or "independent" sector, Madison's social sector makes essential contributions to the quality of life of the city's 250,000+ residents.

Dane County is home to 5,270 non-profit organizations[7] and 251 registered foundations[8]. Non-profit organization can refer to everything from neighborhood associations to hospitals, from arts organizations to youth development groups. They include food pantries and homeless shelters that serve the poor, as well as local churches, the Greater Madison Chamber of Commerce, the local Sierra Club, Wisconsin Manufacturers and Commerce, and the Overture Center for the Arts.

Social sector organizations play many roles in our community, including supporting social activities and needs and providing a social safety net for families.

---

[7] http://www.taxexemptworld.com/organizations/dane-county-wi-wisconsin.asp
[8] National Center for Charitable Statistics

In many cases, the city and/or county contracts with social sector organizations to provide social services that are either mandated by the federal government, or deemed necessary by residents and taxpayers. These services are often called *social services*.

Many social sector organizations also work on changing the underlying conditions that lead to social challenges – including poverty, injustice and community and environmental degradation – through education, advocacy and programming initiatives. This type of work is frequently referred to as *social change*.

Connected to social service and social change, we also have social sector organizations that seek to enhance quality of life through the arts, and those that bring people together in associations and congregations, such as trade and neighborhood groups and church groups.

Supporting Madison's many social sector organizations are a number of different funders and funding organizations, including:

- Over 250 private foundations.
- Public charities that act as foundations, including: the City of Madison, Dane County Government, the Madison Community Foundation, the United Way of Dane County.
- Umbrella organizations that raise money for other non-profits, including Community Shares of Wisconsin.
- Private individuals and donors.

These funders may invest in specialized social causes or organizations on an ad-hoc - one-off basis - or may routinely invest in many different initiatives. These funders also represent a wide range of fund sizes and investment levels.

For example, the Wisconsin Scholars Fund was the largest private foundation funder in the county (by dollar value) in 2011-2012, and supports student scholarships based on need. Other examples range from the Alliant Energy Foundation, the fourth largest giver in the county by value[9] in 2011-2012, to the Savanna Oak Foundation, which invested no money in 2011-2012.

As an example of how grants can be dispersed, Alliant Energy Foundation invests in social sector activities based on three geographical service regions: Minnesota, Wisconsin and Iowa. In September of this year, Alliant gave $135,000 to 71 non-profits in Iowa, an average of $1,900 per organization.[10]

Less well recognized, Madison's social sector also plays an important role in supporting the city's economy.

In addition to the number of jobs provided by the sector, which must be significant given the 5,000+ non-profits operating in Dane County,[11] a 2012 report by the National Conference on

---

[9] This refers to the amount of money given, not the size of the assets of the foundation. In 2011-2013 Alliant Energy Foundation gave $2,631,361.

[10] http://northiowatoday.com/2013/09/04/71-iowa-nonprofits-receive-nearly-135000-from-alliant-energy-foundation/

[11] We have not yet been able to find this number.

Citizenship found that communities with better civic health have *weathered the great recession far better – and experienced considerably smaller increases in unemployment* – than other communities that faced similar economic circumstances. The report found that counties that were rich in social sector organizations lost considerably fewer jobs than the counties with less significant social sectors.[12]

Furthermore, Joel Rogers, Director of the Center on Wisconsin Strategy (COWS), a local economic think-tank, notes that "an effective economy requires a *social infrastructure* of non-state and non-market institutions, rooted in the economy, that extend state regulatory capacity and connect with the grass-roots need of the economy."

In addition, Madison's social sector helps to develop a diverse employee base for corporations and a brand that is essential for the city to attract potential companies and talent.

The Greater Madison Chamber of Commerce sums it up on their website, with an argument for moving to Madison that has the fingerprints of the city's social sector all over it:

> *"We rank among the best in the nation for almost everything including fantastic bike trails, distinctive locally-owned businesses, cutting-edge technology, safe neighborhoods, great healthcare, green resources, excellent education, amazing music venues and food that will make your mouth water. We've got it all – making Madison an all-around great place to live."*

WHO DID WE INTERVIEW?

Twenty leaders from a variety of local non-profit organizations, funding institutions and corporations and a select group of national foundations were interviewed. Additionally, a group of approximately five community leaders were interviewed.   We are maintaining their confidentiality for the purposes of this report.

The organizations we interviewed represent both social service and social change organizations, and include organizations of varying size and focus. Generally, the local organizations ranged in size from one employee and an annual budget of approximately $25,000, to approximately 50 employees and a 15 million dollar budget. The mission focus of the groups on spanned a multitude of issues and social challenges, including youth, education, human services, food security, civil rights and housing. The City of Madison's Community Development Division and Dane County's Department of Human Services were included in the interviews.

There are many other social sector organizations that would be worth engaging in a broader study of the sector to ensure a truly representative sample.

---

[12] http://www.ncoc.net/Specific-Findings-Social-Cohesion-Also-Predicts-Resilience-Against-Unemployment

WHAT DID THE SECTOR LEADERS TELL US?

The following summarizes some of the key findings from our interviews with social sector leaders.

1. **Lack of financial resources for general operating costs, such as infrastructure, staff, capacity building and new projects is the number one challenge, according to the majority of the non-profit organizations and one funder.**

   The vast majority of the non-profit organizations and one funder cited the lack of financial support for infrastructure, staff, capacity building and new projects – a lack of general operating funds – as the biggest challenge facing the sector.

   Leaders cited a lack of flexibility in being able to use their expertise and best judgment on how the money should be spent, in addition to the specific restrictions placed on the funds – such as restricting the amount of money that can be spent on staff needs or research and development.

2. **Need to strengthen capacity and capabilities of social sector organizations, particularly around measuring impact, number one challenge cited by funders.**

   Funders cited the need for social sector organizations to better measure and track their impact, tell their story and are accountable as the number one challenge. They often saw this as a need for stronger leadership capacity.

3. **High staff and leadership turnover is a significant challenge, according to funders and non-profit organizational leaders.**

   Many leaders mentioned high leadership and staff turnover as a significant challenge to the sector.

   Funders cited low salaries in the sector as a force pushing people out. Non-profit leaders also cited low salaries as an issue, while talking in more detail about the constraints of their world as a force pushing talented staff into other sectors.

   Non-profit leaders spoke about frustration with the lack of flexibility in the field to use their creativity and expertise.

   As one leader put it, *"I would love to be given the resources to think big. To use our expertise to solve a big problem in a big way. But it doesn't work that way – funders put out guidelines for what they want. Then I have to*

A lot of grantors don't support staff even though you need staff to run programs. They prefer to give more opportunity to kids, but people have to realize you need staff to run programs.
    - A non-profit leader

Don't ask us for general operating funds.
    - A funder

Non-profits need to measure and tell their story better. Agencies are starved for the ability to track and measure what they're doing.
    - A funder

You see a lot of turnover in leadership in the non-profit world. It's so intense…there's so much pressure put on folks to keep growing an organization and funds, it burns people out. An average development person stays 18 months.
    - A non-profit leader

sell it to them under their guidelines, they have to sell it to a committee who has no expertise in the issue area compared to our expertise in the issue. The knowledge of the people making decisions about funding is not at the same level as the organizations."

4. **Non-profit leaders and funders strongly agreed that innovation is important.**

5. **The majority of non-profit leaders define innovation as doing something new or doing something in a different way that is not tried and true. It often involves a level of risk.**

6. **Funders cited many definitions of innovation. They characterized innovation as: Having multiple funding streams; Following best practices; Trying something new that is not tried and true and; Developing creative fundraising strategies.**

7. **Both non-profit leaders and funders agreed that good leadership is essential to success.**

8. **Non-profit leaders said that the outcomes they were expected to document for funders were generally not internally meaningful to their own improvement.**

Some funders create metrics for their grantees to report on and some funders ask social sector organizations to articulate their own metrics and then document the results in a grant report.

The usual length of time in which results were expected is the typical length of a grant: 12 months.

Outcomes cited as common examples of acceptable metrics emphasized number of participants served, number of things produced and improvements in school test scores.

Based on their expertise and boots-on-the-ground experience, the organization leaders felt there were deeper, more nuanced indicators to measure, but didn't have the time, money or research support to figure out what these indicators might be.

9. **Only one funder said that they had given a grant to support research and development, leadership development, evaluation, or capacity building.**

Non-profit leaders cite the restrictions on general operating grants as the sector's greatest challenge (see number 1, above).

Specific to this and the sector's overall concern about leadership, capacity and evaluation, we asked if funders particularly supported research and

Innovation is totally important. If you don't innovate you're going to fall behind and your organization will fail.
                    - A non-profit leader

Good leadership means everything.
                    - A funder

Everything you do now you have to measure. When you go to deep in that it makes start up and innovation tough. You can get paralysis by numbers. They can hold you back. You can dissect, any way you want to show great impact, but if you're not going deep on quality and improvement, than you're not getting anywhere.
                    - A non-profit leader

Grants and foundations have never really supported the work of our organization. We need some kind of sweet spot between institutional funding and creative funding.
                    - A non-profit leader

development, the development of evaluation and staff and leadership development.

Some funders allowed for money to be spent on these items as part of overhead expenses or administrative expenses or, less frequently, some money was allowed to go to evaluation when tied to a particular program.

Overhead expenses are commonly expected to cover numerous administrative expenses and is commonly capped at somewhere between 12% and 20% of the overall budget.

10. **Non-profit leaders and funders do not agree on what the social change agenda and priorities should be, and non-profit leaders are often completely left out of the process of setting those broad priorities.**

Non-profit leaders expressed frustration at having to fit with the priorities set by funders when they were seen to be contradictory to the experience of the organizations in working directly with the communities or individuals receiving services.

In addition, non-profit leaders highlighted that they were rarely included in any conversations about community priorities for social services, or appropriate categories for funding emphasis.

We don't get the [type of] money we need. Businesses spend 35% on professional development, HR, so they can continue to grow professionally. Non-profits spend 1%, that's according to the Non-profit Finance Fund. Foundations don't allow this/don't encourage it/ don't ask the question 'How do we make sure the non profit sector is optimally poised to make an impact?'
- A non-profit leader

The worst thing I think we do in funding is… pre-determine the areas in which people have to work. We set an agenda. What that does is it has created, as an unintended consequence, siloes of programs to meet this program and then this program. Guess who decides the siloes? The people sitting around the committee tables. Organizations setting those agenda are taking that role away from the non-profits.
- A Community Leader

MAJOR THEMES & ANALYSIS

There Is Unspoken Conflict About Restrictions On Funding

Many of the interviews clearly highlighted that there is a difference of opinion between the non-profit organizational leaders and almost all of the funders on the need for more flexible funding streams for non-profit organizations.

The non-profit leaders believe that this lack of flexibility undermines their ability to try new ideas and build the capacity of their staff, while funders are mixed in their opinions about the issue. This difference of views warrants further exploration.

The national conversation on this topic reflects, to a certain extent, the conflict in Madison although the difference is that the disagreement in Madison has, so far, been taking place underground.[13] For example, the Senior Program Officer at a national foundation had a helpful perspective in talking about the use of general operating funds as a tool or strategy for success. She cited the use of diverse funding tools (general operating, multiyear, capacity building, etc) as a strength adding to their staff's capacity, specifically:

> *"…our **leadership gives the staff considerable freedom to experiment**—to test, explore, run into brick walls and even, on occasion, fail (our boss calls them "glorious failures") in the effort to move the needle on an issue—particularly in the public policy arena where we have the chance for gains immensely larger than we would ever be able to achieve through a single direct service grant or even a series of them.*
>
> *I don't want to give the impression we are going off half-cocked chasing pipe dreams, but rather that we have been supported in exploring a wide range of strategies and techniques, e.g., coalition building, advocacy, litigation, demonstration projects, developing intermediaries, communications and media, capital grants, general operating support, multi-year grants, to name just a few, to make progress on a cause."*

Dan Pallotta, the author of *Uncharitable*, makes the additional point that it will be difficult for non-profit organizations to build new revenue generating models if they don't have the flexibility to be able to experiment and pilot new ideas.

On the flip side, funders feel tremendous pressure to be accountable with public funds and are struggling with the question of how to trust that their funds will be put to the best use possible.

And trust is a prerequisite to the success of flexible funding.

It is an apt comparison to pull lessons from how investors build trust in the private sector. As the F.B. Heron Foundation writes,

---

[13] For further information on this dialogue, see the Center for Responsive Philanthropy's publication "A Call to Action," 2007.

> "*Our board members from the for-profit sector viewed core support as akin to working capital for a business or as a way to 'buy into' the organization's business plan.*"[14]

Similarly, private sector so-called 'Angel' investors or early-stage investors in a start-up are routinely risking large amounts of money on an idea and a leader, often where there is an unproven idea or technology, but big potential payoff. The investment invariably rests on trust and confidence in the idea and the leader.

With that said however, there are also many ways that investor actively works to mitigate or manage the many risks of such an investment. These efforts may include helping the entrepreneur to build the team to ensure adequate expertise and specialized knowledge in the area of investment or completing independent due diligence to ensure that the focus and strategy have the potential that is being claimed. An investor in a start-up usually knows the field as well as the leader/entrepreneur because it is critical to their success that they understand the calculated risk they are taking.

In addition, investors often work **alone or in small groups, rather than _committees_**. As the recent Nobel Prize winner, Robert J. Shiller put it, *"…committees of experts, even at smart venture capital firms, will often not recognize real innovation. I think that America's business success through the decades has occurred because we have so many people with specialized knowledge who are willing to put their money, time and resources on the **line for ideas that can't be proved to a committee**.*"[15]

Nationally, the needle is moving on the issue of flexible grant dollars and social investment. A recent report conducted by the National Center for Responsive Philanthropy (NCRP), found that in 2011 American grantmakers gave $5.9 billion in general operating support — a substantial increase over average core support from $3.4 billion in 2008 to 2010. Put another way, the share of grant dollars going to core support increased by 50 percent — from an average of 16% percent from 2008 to 2010, to 24% in 2011.

Locally, the fact that this theme emerged in the interviews demonstrates that Madison's social sector needs a meaningful dialogue on the question of **flexibility of funding** that is informed by the national conversation and national best practices. It is simply a matter of how and when this can be done in a constructive way.

There Is Unspoken Conflict About What Constitutes Meaningful Evaluation

Our interviews also highlighted that non-profit leaders and the majority of the funders don't agree on what indicators and data are most appropriate to collect and analyze in order to meaningfully understand their impact, nor how those indicators should be interpreted.

One non-profit leader explained bluntly explained the difference as, "*There is what you do in order to communicate out to funders, playing a game connected to money, as opposed to real*

---

[14] The F.B. Heron Foundation, *Core Support*

[15] http://www.nytimes.com/2013/08/18/business/why-innovation-is-still-capitalisms-star.html?

program evaluation, which is 'What do we want to do, how do we know we're getting there?'
True evaluation."

One community leader explained it as the difference between reporting/compliance and true improvement in the quality of the program. She says,

> *"When you're doing consistent quality checks on what you're doing… you have those moments when you see 'oh, I'm doing this, and doing that, I see a new or different way to do things.' When you say 'we just want to see that what you're doing is going well, to make sure you are gathering the numbers you said you would give us…' that's breathing over the shoulder, that's a report. You're asking me for one more report, [even when] we know it's very hard to correlate, you can't expect x or y in one year. I mean, 'how many people did we serve, how many people in seats, x amount of people crossed the achievement gap'…"*

Funders are constantly under pressure to use their public funds wisely for demonstrable social impact. In a sector where the problems are very complex, funders are also challenged to seek meaningful metrics and measures to understand the relative performance of those organizations they fund.

Many funders use the word "accountability" to describe the process of measurement and evaluation necessary in this debate. Funders are clearly looking for valid scientific metrics and a valid scientific approach. The non-profit leaders agree that a sound scientific approach is needed.

The difference is simply that non-profit leaders, with their boots-on-the-ground experience, see a disconnect between what are generally accepted as appropriate measurements – for example, numbers of people served, number of youth accessing a program, increase in standardized test scores – and what they sense about genuine change and impact. In most cases, non-profit leaders felt that the measures that are required of them are often tenuous indicators, at best, of real impact.

The issue raised includes one regarding the sophistication of evaluation processes and performance metrics. One community leader posed the question,

> *"Do we need a more sophisticated understanding of success, more nuanced indicators? Do we really want to be measuring how many people were served or do we want to know how many* <u>*fewer*</u> *people needed to be served than the past or how far we went toward* <u>*eliminating*</u> *hunger?"* He went on to give an example from health care, *"The finance team would come to the board meeting and say, 'we had a great month! All our beds were full!' And I would say, but hold on, if we're in the business of trying to help the community be healthy, isn't a full hospital a bad thing? Shouldn't we be tracking other measurements of our success?'"*

A second issue raised by this is the lack of collaboration, resources and research invested in determining the evaluation measures and evaluation process.

Ideally, indicators of non-profit success come from a collaborative convergence of brainpower on the part of the funders, the non-profit leaders and staff and academic researchers studying the issue. This process should pull on the knowledge of best practices and research in other locations and models and the knowledge being gained by the actual day-to-day implementation of the program. Also critical to this process is feedback and perspectives of the clients and/or communities being addressed.

This type of comprehensive collaboration and research to determine effective evaluation processes takes time and resources, which, as identified by many of those interviewed, are lacking in the current funding practices.

There is a parallel to this conversation about "accountability and how to measure it," going on in the field of education, nationally, as teachers and districts debate standardized testing. The non-profit sector may benefit from learning from the history of some of these challenges in the education sector. As Linda Darling Hammond writes in *Right to Learn* – "*The decade after 1910 called for a separation of responsibilities..." and led to a system of "planning departments to design the work, managers and superintendents to coordinate it, and clerks to maintain records of inputs, outputs and procedures…The adoption of scientific management also meant excluding community members and teachers from decision making…which eventually destroyed decentralized decision-making.*[16]

A community leader commented on how the current methods of agenda planning and evaluation in Madison end up excluding important local leaders and, as a result, essential community information. She says,

> "*What happens is that [in order to know] the needs of the clients…and get information from community liaisons…You need [to have] these translators between the community and the funders. Those are grassroots community leaders. That is the role of good leaders. Some funders do a better job at respecting and knowing the roles of those community liaisons, leaders, and some funders do not.*"

There Are Obstacles To Innovation In The System

Returning to our definition of innovation as deriving either from a disruptive interruption or an incremental process of improvement, it appears that there are several obstacles to innovation at work in Madison's social sector. These obstacles include:

> ➢ **Lack of access to flexible resources to support innovation and innovative thinking**
> The restrictions on funding and lack of support for general operating funds create a lack of flexibility that inhibits innovation. As one leader from the private sector explained, "*To truly foster innovation you can't predefine what the solution is going to be… if you truly want them to be innovative then you need to give organizations and people the flexibility to do it.*" In addition, the lack of support for leadership development, capacity building and evaluation development contribute to an overall lack of capacity to take the time and space to reflect and build a culture of continuous improvement and innovation.

---

[16] Linda Darling-Hammond, *Right to Learn. Pg. 41*

➢ *A* **practice or culture of reporting and compliance eliminates space for boots-on-the-ground "aha" moments that are essential to continuous improvement and innovation**
As one community leader said, *"when you're doing consistent quality checks on what you're doing… you have those moments when you see 'oh, I'm doing this, and doing that, I see something a new or different way to do things.'*

➢ **The sector is not getting enough direct feedback from the end user – it is difficult to come up with disruptive ideas if you don't understand what your customers need**
Creating a collaborative method of evaluation and indicators that would allow the capacity and time it takes to gather meaningful feedback from those end-users – or clients - takes time and resources. These resources are simply not being allocated for this purpose.

➢ **Aversion to risk on the part of non-profit leaders and funders**
Both funders and non-profit leaders feel a lack of trust and an aversion to risk for a number of reasons.

Funders feel pressure and responsibility to be accountable and create measureable impact with their resources and, as a result, tend to rely on the "tried and true." As one funder put it, "*the definition of innovation is best practice today,"* in other words, what is tried and true. This extends to new ideas in existing organizations, new leaders and new organizations, as a funder explained, *"if it's simply an idea that has no research behind it than it won't get any traction. Can't imagine there's an idea that hasn't been tested somehow.*" If it were true that there is no worthwhile idea that hasn't been tested somewhere, then there are thousands of products, medical cures and scientific breakthroughs that wouldn't exist.

On the part of non-profit leaders, they feel a responsibility not only to avoid failure, but to show certain tangible results within a short, pre-set period (usually 12-months or less). As one non-profit leader said, *"you just don't know what detail will get picked up by some odd person and used against you. I don't think, I wouldn't want to say that there's an incredibly punitive environment, but there's a fear amongst non-profit folks that because money is scarce that if they're looking for a reason to fund someone less, lets not give them an excuse."*

One non-profit leader described the tension between the desire for the tried and true and the desire for space to innovate and have impact this way, *"I just want someone to ask us for a big idea. Want them to ask, can we get 2,000 people employed over 2 years and then give us the resources to do that. We can solve that problem – analyze what is required for job training, soft skills, etc. But, it doesn't work that way – they put out guidelines for what they want. Then I have to sell it to them under their guidelines and they have to sell it to a committee who has less expertise in the issue area than our expertise in the issue."*

Dan Pallotta, in his book, *Uncharitable,* compares the non-profit world to the private sector: *"For profit companies take huge risks and tolerate spectacular failure in pursuit*

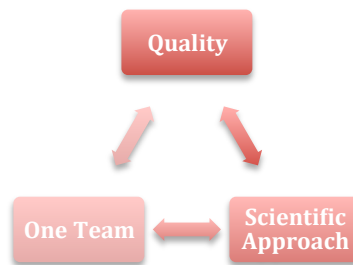*of new customers and gigantic profits, but non-profits are expected to try proven methods with data."*

There Are Potential Lessons From Quality Improvement & The Private Sector

Drawing from Quality Improvement principles and the private sector, there are several useful models that can be adapted to help us to improve the social sector.

When we reflect on three of the key tenets of the Quality Improvement movement, we see many parallels in the challenges facing Madison's social sector today.

In many ways, the challenges facing Madison's social sector today are similar to many of the challenges that large companies like Toyota faced in the 70s and 80s. That is, a lack of alignment and trust among staff, leadership and stakeholders; staff, leadership and stakeholders who were looking for a meaningful, scientific set of indicators to measure quality and success; and a recognized need for an obsession with serving the customers – or as one of the private sector leaders described it, "obsessing with how to fix the problem or achieve our mission."

These three key tenets can be described as an interlocking, interdependent triangle, illustrated below.

```
                    ┌──────────┐
                    │ Quality  │
                    └──────────┘
                   ↗            ↘
         ┌──────────┐      ┌────────────┐
         │ One Team │ ←──→ │ Scientific │
         └──────────┘      │  Approach  │
                           └────────────┘
```

1. **Quality** – Defined here as the articulation of the vision/mission of the organization and what success would look like for clients or customers. It involves developing an obsession for delighting clients and customers. This understanding is no longer the domain of special groups within an organization; rather, it is shared with and further developed by every employee.
2. **Scientific Approach** – Learning to manage the organization as a system and agreeing on what defines success, developing process thinking and basing decisions on data and understanding variables.
3. **One Team** – Believing in people; treating everyone in the organization with dignity, trust and respect; working toward win-win instead of win-lose for all stakeholders (clients, customers, donors, suppliers, the communities in which we live).

The non-profit sector in Madison needs to see itself as all one team: funders, non-profit leaders and stakeholders/clients. As one team, they can define the problem(s) they are trying to solve and collaboratively develop a process for identifying and using scientific and meaningful indicators for measurement. The process of Quality Improvement provides a framework and process for this to happen.

The point about collaboratively working as one team to develop a scientific approach and figure out what data is meaningful to measure holds particular importance in Quality Improvement and is relevant to the conflict articulated by funders and non-profit leaders about measurement. As is taught in Quality Improvement, *"we all want better figures: higher sales, lower costs, faster cycle times, lower absenteeism, lower inventory. There are three ways to get better figures:*

1. *Improve the system. Make fundamental changes that improve quality, prevent errors and reduce waste.*
2. *Distort the system. Get the demanded results at the expense of other results.*
3. *Distort the figures. Use creative accounting.*

Which of these options would you most want people to use? The first, of course: Improve the system. But most managers confess that they see a lot of distortion going on – distortion of systems, distortion of figures. Because [when] the focus is on judging and rewarding people on outcomes, they are seldom provided with the knowledge or skills needed to achieve the first option; they are often poorly coached or trained how to improve a system; and they are usually only reviewed based on results, not improvements. So, to meet the demanded results, they resort to distorted systems and distorted figures."[17]

Exactly in line with this principle, many of the non-profit leaders said that they felt many of their peer organizations were developing numbers that seemed distorted or were committing to measuring outcomes that were meaningless just to have outcomes to claim.

We also see some other useful lessons and models in the private sector. For example, companies at different life cycle stages need different resources and expertise in order to be successful. For example, a start-up needs different things from an established company seeking to expand, which is different again from the needs of a publicly traded company. Furthermore, those that support organizations at those various stages clearly understand what those organizations need at that stage, and also what value those supporters bring to bear on the organization by getting involved.

We see potential value in understanding the different needs of non-profits that are just starting out, as compared to those with well-established existing infrastructures, and how funding structures can best support and enhance the efforts of those organizations.

CONCLUSION & RECOMMENDATIONS

The current ecosystem of funders and non-profits that make up Madison's social sector is perfectly designed to get the results it gets.

It is not "broken." But, there is plenty of room for improvement.

---

[17] Brian Joiner, *Fourth Generation Management*

Our failure to innovate, evolve, and to keep up, has resulted in us having some of the worst equity issues in the country.[18] 75% of black children in Madison are in poverty, up 40% since 2006, black adults have higher unemployment rates and black youth are arrested and incarcerated at a higher rate than the national average.

We've had a formal social sector that has been focused on addressing these social issues for decades and yet we are falling short. We must do better.

We must continue to seek new, more effective ways to address these massive social challenges in our community. We can do this by getting more people actively engaged, continuously fine-tuning our processes, and focusing acutely on doing better for those people that need help, when, where and how they need it most.

One of the community leaders interviewed articulated the major underlying issue facing the social sector in Madison as a lack of trust on the part of both the non-profit leaders and the funders.

She put it this way:

> *"How do you create that sense of trust? You have to make quality and innovation part of the culture of what you want. It takes a lot of conversations around quality and innovation being something that is really, really, sought after. [And then] the proof is in the pudding. You have to act."*

We see the opportunity to draw from national models, Quality Improvement principles and the private sector to identify useful models that can be adapted to help us to improve our social sector.

If we want to improve the system we need to take a systemic approach. One that provides the incentives and motivations necessary to meaningfully engage and align all the players in the sector. One that provides a meaningful scientific approach that leverages our collective knowledge of the issues. One that puts addressing our community's social issues, challenges and needs front and center.

RECOMMENDATIONS

As is clear, Madison's social sector operates as an ecosystem, with all of the non-profit organizations and funders playing their own essential part. While it is important to understand all of the players in the full context of the system, the city has stepped forward as a leader to ask what it can do to improve its own processes. Our recommendations for next steps focus on city government and the role it can play in moving its internal work and the whole sector forward.

---

[18] Race to Equity.

Next Steps

Develop and implement a plan that is tied to the city's upcoming funding cycle to achieve transformational and sustainable change in the outcomes, experience and value of the Community Development Division's funding process, using Quality Improvement principles and innovation and change practices. **This plan should be developed with a team from the City of Madison's Community Development Division, Mayor's office, relevant city committees and related elected officials.**   This initiative should have a dual internal/external focus of improving the city's own processes while aligning and coordinating with the city's funding colleagues and non-profit organizations.

> **The plan, the planning process and resulting work should incorporate the following key components:**
>
> a. **An assessment of the current internal process for:**
>   i. The development of goals and priorities for the Community Development Division Funding process, with specific examination of the role elected officials and committees play in the allocation of funds;
>   ii. The development of application guidelines and solicitation of proposals;
>   iii. The evaluation and decision-making process for the city staff, elected officials and committees.
>
> b. **A map of the non-profit and funding landscape in Madison, which includes:**
>   i. The non-profits and the funders – with categorization of established leaders vs. new leaders;
>   ii. The community needs being funded and the community needs not being funded – Including the shifting demographics of race and poverty;
>   iii. What organizations and leaders are being funded in response to the community needs – this should include a demographic breakdown of the racial and class profile of the leaders vs the racial profile of those in need.
>
> c. **A study trip, led by the Mayor, for a delegation of city employees, city committee members and other stakeholders in the community development and services process, including other funding, non-profit and community leaders.** The destination of this trip should be researched and based on the goals developed from the questions raised and initial lessons learned from this initial report and the steps outlined above. The trip should be integrated into the overall quality improvement and change process and have the following elements:
>
>   i. Meet with 1-3 leading national funders to discuss major priority social issues in Madison. **Discuss their feedback on what it would take to have national funders invest in Madison's social sector.**
>   ii. Learn about the funding process, philosophy, management and evaluation practices of these national funders.

iii. Invite key leaders from these national funders to Madison to speak or participate in a conference on social innovation (see recommendation (d) below).

d. **A Social Innovation Conference led by the Mayor and the city team working on the overall quality improvement and change initiative.** The conference should be clearly integrated into the quality improvement and change work, and ideally, organized in partnership with the Madison business community. Included should be the following elements:

i. A planning committee that plans the conference, comprised of city staff, in addition to funding, non-profit and community leaders, led by the Mayor. As part of the conference planning, this committee should have a series of facilitated conversations about how the social sector could work better. For example, how does the sector fund capacity building, emerging projects and innovation, while continuing to fund essential social services? How can funders and non-profits do a better job of leveraging funds to scale up their capacity?

ii. High-level speakers on innovation, philanthropy, quality improvement and evaluation.

e. **Documentation of the outputs and results of the above processes so they can be shared with the wider social sector.**

f. **A plan and recommendations for city's the next round of funding.** This plan would synthesize lessons learned in the work described above to make recommendations that increase the joint effectiveness of the city's community development initiatives and those of the non-profits with whom they work.