

Stirring the Pot: Grantmaker Viewpoints on General Operating Support Grants

January 2007

Executive Summary

Prepared by Blueprint Research & Design (www.blueprintrd.com)

Used with permission

The following summarizes key points made in an online "discussion" that took place on the members-only listserv of Grantmakers for Effective Organizations (www.geofunders.org). It began when one member asked others for their policies on appropriate overhead percentages to include in grant support. It then quickly evolved into a back-and-forth about the pros and cons of general operating / unrestricted support.

The central question raised is the effectiveness and importance of offering unrestricted funds that support grantees' overhead costs. Throughout the discussion, several other topics arose, including the role of foundations in society and the relationship between foundations and the public sector.

ARGUMENTS MADE FOR UNRESTRICTED/OVERHEAD FUNDING:

- Holding grantees to a rigid overhead one-size-fits-all cost percent is not appropriate
 - Difficult to categorize costs: What counts as program vs. operational costs? How is staff classified?
 - Fixed cost percents are arbitrary and will NOT fit every organization. Ratio of fundraising and management expenses will vary based on size, nature of program work, source of funds, financial savvy, etc.
 - Fixed cost percents do NOT help accurately measure efficiency, resource use, planning efficacy, nor predict success
- Successful businesses can have large "overhead" costs. For example, Microsoft:
 - 10% of revenue goes toward General & Administrative Expenses (think overhead)
 - 20% of revenue is spent on Sales & Marketing (think fundraising)
 - Management – not the SEC – responsible for allocating resources and held accountable to investors
- Providing general operating support is both responsive to nonprofit needs and one of a foundation's most effective tools for capacity building
- Focus should be on social outcomes and effectiveness, not on overhead/indirect costs—a fixed percent has nothing to do with the outcomes of the program!
- If confident in the leadership and management of certain grantees to advance a foundation's goals, should also be confident in their abilities to use financial resources well
- Foundations need to support the delivery of social good through funding grantees that will likely succeed and at grant levels that will fully pay for what needs done. Grant size should not be diluted so as to only fund many projects but in small amounts; rather, providing general operating support helps a grantee build its own infrastructure and sustainability.

ARGUMENTS MADE AGAINST UNRESTRICTED/OVERHEAD FUNDING:

- Not all organizations are “ready” to have such financial freedom
- Insufficient resources to fund all program support requests, let alone operating costs
- Organizations may become reliant on resources if no exit strategy defined
- Difficult to evaluate grants for operational support with the same level of accountability
- Unless foundation has very considerable assets, general operating support grants tend to degrade its capacity to achieve outcomes
 - Ignores causative factors, while supporting band-aid fixes
 - Fails to support innovative approaches
- Meeting immediate needs often has the consequence of perpetuating the status quo and works against the systems change we are working toward

BENEFITS OF UNRESTRICTED/OVERHEAD FUNDING:

- Grantees can focus on running strong programs – not fundraising, reporting, and crafting projects to meet foundations’ specific guidelines
- Grantees have freedom to take risks, innovate, learn, and adapt
- Trusting relationship can develop between grantees and grantors enabling them to openly discuss what progress and difficulties – increases transparency and accountability
- Shift in power relationship between grantmakers and grantees
- Shifts focus to the ends instead of means – real goal is social outcomes
- Provides scaffolding and springboarding for testing innovative projects as well as sustainability of their success

CONSEQUENCES OF NOT OFFERING UNRESTRICTED/OVERHEAD FUNDING:

- Burden pushed onto other funders
- Nonprofit inefficiency: lower salaries, unfilled positions, reduced benefits, poor technology, increased turnover and stress

HOLDING GRANTEES ACCOUNTABLE:

- Accountability is important and challenging regardless of whether the funding is general or project-specific
- Operations funding should be linked to explicit value creation strategies and theories of change as well as implementation and performance management plans
- Use pre-determined milestones and clearly defined outcomes as basis for organizational learning and deciding whether to re-invest
- Funders must accept that holding grantees accountable does not mean funders can expect to trace money all the way through the system into something tangible on the other side. Funders must be willing to trust grantees some and relinquish full control.
- Foundations cannot take credit for specific outcomes of grantees. Rather, they should take credit for selecting “good grantees” and providing sufficient funding for the outcomes to be possible.

- Funders should also do evaluations of their own practices, e.g. bi-annual feedback meetings with grantees as well as more in-depth outside evaluations.
- Using cluster evaluation annually to get deeper into the impact of our grants

GUIDELINES FOR OFFERING CORE OPERATING SUPPORT:

- Missions of foundation and grantee should completely align. Otherwise, funds should only go to programs that are relevant to foundation's goals.
- Choose grantees based on alignment of missions, leadership, governance and transparency, commitment to local community, etc.
- Foundation should be very engaged in assessing progress throughout grant period and have consultations based on findings
- Foundations should research the readiness of the agency to do well with unrestricted support – look at strategic plans
- Must have built-in accountability mechanisms
- Operating grants are best for advocacy, public policy, capacity building, and knowledge building organizations that are critical to supporting other nonprofits
- Look at organization holistically as well as through an in-depth focus on key elements critical to achieving foundation's mission
- Take into account the various factors affecting an organization's need for overhead

WAYS IN WHICH FOUNDATIONS CAN PROVIDE CORE OPERATING SUPPORT:

- Offer short-term grants that can be infinitely renewed. Agree each year on detailed improvement plan and specific program and managerial goals. This can lead to developing partnerships with grantees to achieve innovation goals while avoiding the draining of nonprofit resources.
- Provide flexibility to invest funds in the ways the nonprofit optimally sees fit, and hold them 100% accountable for the outcomes
- Allow the grantee to choose whether to itemize or have a fixed amount
- Challenge grantees to identify and justify their priority needs for operating support
- Balance can be made by funding large grants aimed at systemic change while also making small grants that touch the grassroots level and may lead to more funding down the road. This enables discovery of innovative programs.
 - Provide a consultant but no grant for first year while developing a 3-year development plan
 - Present plan to program officer for review and provide general operating support for year one objectives
 - Convene with other groups in the program for peer learning, idea exchange, networking, throughout four year period
- Use strategic plan to get specifics about agency's goals, activities, and measurable outcomes throughout the grant period. Use it to judge the organization's readiness to succeed with unrestricted support.
- Make long-term operating grants to organizations that are "core" to foundation's mission and programs. Identify yearly and long-term benchmarks to hold them accountable. For grantees that are not "core" use a mix of grant types.

- Give general operating support to organizations proven to be high performing. Give capacity building grants to organizations working on becoming “high performing.” Offer assistance to help the nonprofit determine the indirect costs that need supported.
- Use complimentary strategies in addition to core operating support. Conduct comprehensive organizational assessment of organizations receiving core support every three years. Offer range of capacity building grants, consultations, and services to address needs identified through organizational assessment.
- Aim for simplified reporting, investing in nonprofit leadership, nurturing grantee feedback, and providing multi-year unrestricted funding. Use highly-engaging fellowship model:
 - 3 year, non-renewable grant
 - Take board seat for several years
 - Convene our fellows annually
 - Provide programs for staff to learn about best practices
 - Quarterly calls between fellow and foundation.
- Select 2-3 areas that are most important for the foundation. Limit funding scope and find and develop strategic partnerships with nonprofits whose missions align. Strive to “really” fund these organizations, at least as a majority “shareholder.” Work with grantees—as board members or at periodic investors’ meetings—to build capacity and help them succeed. If they are truly partners and the funder is helping grantees reduce operating costs and improve program efficacy, then there is no longer a need to calculate an appropriate overhead percent!

THE PURPOSE OF FOUNDATIONS:

- Increasing nonprofit performance
- Larger foundations: funding innovation and advocating for systemic change – not band-aids
- Finding and supporting effective ways for accomplishing foundation goals, even if this means providing “unglamorous” work rather than funding innovative programs
- Creating social good, looking at what is tried and proven effective and scaling up
- Being change agents: using grants as major tool to create change
- Creating organizations that have the infrastructure to sustain themselves and providing the unrestricted support they need
- Kramer & Porter analysis of four ways foundations create value:
 - Grantee selection
 - Signaling other funders
 - Improving grantee performance
 - Advancing the state of knowledge and practice in the field

FOUNDATIONS AND THE PUBLIC SECTOR:

- Government should be the primary provider of bedrock human services. Indirect cost associated with the major grants made to organizations – band-aid approach
- Disinvestment at federal, state and local levels as well as demographic changes has put strain on nonprofits, causing more requests for operating support

- Widget counting by the federal government has contributed to mistrust between funders and grantees in private philanthropy
- Even if all foundations shifted to general operating support grants, still not enough money as a sector to fill in the potholes left by Washington!
- Funders need to step more boldly into the realms of advocacy and voter education in order to respond to the federal governments' abdication of social and environmental issues
- Foundations are “quasi-public” institutions and program officers are “fund managers” of public resources. “Fund managers” should find the best investment vehicles and stay with them as long as they continue to provide good returns.