

general  
**operating**  
support



GRANTMAKERS  
for EFFECTIVE  
ORGANIZATIONS



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Grantmakers for Effective Organizations is a coalition of about 300 grantmaking organizations committed to building strong and effective nonprofit organizations. GEO promotes grantmaking practices that improve nonprofit results.

More information on GEO and a host of resources and links for grantmakers are available at [www.geofunders.org](http://www.geofunders.org).

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# introduction

Presidential hopeful Hillary Rodham Clinton, management guru Jim Collins, and Bridgespan founder Tom Tierney are just a few of the people who agree that grantmakers can strengthen the effectiveness of their grantees by providing more unrestricted funds to cover operating costs. But the gap between knowledge and action is still huge, in part because of the following:

- Many grantmakers object to the perceived loss of control that comes with unrestricted funds.
- Some grantmakers are concerned about a potential loss of accountability and how to measure results and impact.
- Some are uncertain how to proceed.

Maybe you have serious reservations about providing general operating support. Maybe you aren't doing it now but are curious and

want to know more. Maybe you're hoping to step up your sophistication on the topic. No matter where you are, the information in these pages will inform your thinking about general operating support and, hopefully, inspire you to act. The document includes numerous examples of how grantmakers are providing this kind of support — and what they've learned.

## Finding a Strategy That Works for You

Our goal is to help grantmakers understand why general operating support is important, how to make it work and how to ensure accountability. The discussion is not a new one.<sup>1</sup> For decades, many philanthropic and nonprofit leaders have called on grantmakers to boost their support for infrastructure and operating costs. But today the conversation is taking place amid increased attention to what makes nonprofit organizations effective and how to strengthen the sector's results.

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<sup>1</sup>See, for example, Pablo Eisenberg, "The Case for General Operating Support," *Nonprofit Quarterly*, Winter 1999, pp. 51 – 53; Michael Seltzer and Michael Cunningham, "General Support vs. Project Support: A 77-Year-Old Debate Revisited," *Nonprofit World*, July/August 1991, pp. 16 – 21.

These materials were inspired by a discussion in early 2007 on the GEO listserv. We have included quotations from this discussion, as well as anecdotal information from participating grantmakers who shared their experiences and insights.

General operating support is not a panacea for the performance and effectiveness challenges that face many underresourced nonprofits. As a grantmaker, you must identify a specific strategy that works for your organization, given your traditions and mission; funding strategies; the unique needs and characteristics of your grantees; and your organization's resources.

We hope this resource proves useful for your organization as you weigh the case for general operating support and decide how to proceed. Please let us know how we can support you in this important work.



**Kathleen P. Enright**  
*GEO Executive Director*



**Paul Shoemaker**  
*GEO Board Treasurer, Executive Director  
Social Venture Partners Seattle*

"The general view of donors, the media and even many of the organizations that evaluate and rate nonprofits is that overhead is bad and therefore less overhead is always better. While understandable, such thinking is self-defeating — and it represents one of the major obstacles to remedying the leadership deficit."

— THOMAS J. TIERNEY, THE BRIDGESPAN GROUP

# table of contents

## Introduction

### Master the Basics

5

- What is general operating support? 6
- How common is it for grantmakers to provide general operating support? 7

### Make the Case

9

- Why should grantmakers provide general operating support? 10
- What are the consequences of not providing it? 13
- Why don't more grantmakers provide it? 15
- Shouldn't grantmakers be concerned about keeping a lid on overhead costs? 20
- Why isn't it enough to add a percentage for overhead costs to program grants? 21

### Make It Work

27

- How can we decide when providing general operating support is the right course? 28
- What is the right amount of general operating support? 30

- How can we know that a grantee is ready for general operating support? 34
- How can grantmakers hold grantees accountable for spending funds effectively? 35

## Sidebars

- Debunking the Myths 18
- Assessing Your Current Practices 32
- Making the Case to Your Board 33
- Key Factors in Grantmaker Decisions 40

## Resources

43

master  
the  
basics

## What is general operating support?

Core support. Operating support. Infrastructure support. General-purpose support. These phrases are used interchangeably to refer to the same thing: grants in support of a nonprofit organization’s mission rather than specific projects or programs. In this report, we use the phrase **general operating support** to describe these grants.

In 2003, an Independent Sector committee of grantmakers and nonprofit leaders developed the “Statement on Guidelines for the Funding of Nonprofit Organizations.” It defined general operating support as follows:

[G]eneral operating support is funding directed to an organization’s operations as a whole rather than to particular projects...<sup>2</sup>

General operating support is the “working capital” nonprofits need to sustain their day-to-day operations. Defined as the difference between an organization’s assets and liabilities, working capital is a key barometer of the health of a business. A lack of working capital can prevent organizations from making payroll and meeting basic operational needs. Businesses generate working capital

from investors and company profits; in the nonprofit sector it often comes from donors in the form of general operating support. The nonprofit organization can spend it on an array of expenses, including program costs, salaries, administration, office expenses, technology, personnel training, fund raising and marketing.

Despite the unrestricted nature of general operating support, providing it does not mean that grantmakers forfeit the ability to influence how grant dollars are spent or to track the outcomes of their investments.

Paul Brest, president and CEO of the William and Flora Hewlett Foundation, distinguishes two types of general operating support: unrestricted and negotiated. The latter, he says, is “based on an agreed-upon strategic plan with outcome objectives.” In offering negotiated general operating support, Brest says,

“... the funder engages in a due diligence process, which culminates in an agreement about what outcomes the organization plans to achieve, how it plans to achieve them, and how progress will be assessed and reported.”<sup>3</sup>

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<sup>2</sup>For the full statement, go to [www.geofunders.org/generaloperatingsupport](http://www.geofunders.org/generaloperatingsupport).

<sup>3</sup>Paul Brest, “Smart Money: General Operating Grants Can Be Strategic — For Nonprofits and Foundations,” *Stanford Social Innovation Review*, Winter 2003.



General operating support should not be confused with funds included in project grants to cover overhead. These funds usually are restricted to operational costs associated with the project in question. Research shows that grantmakers rarely cover all the associated

direct and indirect costs of funded projects, making general operating support that much more essential. For the purposes of this report, the key feature of general operating support — whether negotiated or not — is that it is unrestricted.

## How common is it for grantmakers to provide general operating support?

The amount of grant funds devoted to general operating support is quite small. A majority of grantmakers report making such grants, but they are meager compared with restricted project support. A few grantmakers provide 100 percent of their grants as general operating support, but many others choose general operating grants and program support on a case-by-case basis.

In 2005, according to the Foundation Center, 20 percent of grants from the largest 1,200 private and community foundations were for general operating support.<sup>4</sup> The share of general operating support has increased over the past 15 years, but the rate of growth has slowed, and the percentage dropped slightly from 2004 to 2005.

In a 2006 survey of 200 California foundations, 79 percent reported making general operating support grants, although many

The **Sobrato Family Foundation** is committed to “exclusively providing general operating support grants to Silicon Valley nonprofits.” The foundation defines general operating support as “resources to build and strengthen the human resources or building capital of effective community-based nonprofits so that they can more fully accomplish their missions. We invest in the people and places of local nonprofits.” Since 1996, Sobrato has supported 355 nonprofits through more than 971 grants totaling more than \$70 million. “Our bottom line is to build robust, healthy local organizations to serve local public needs,” said the foundation’s executive director, Diane Ford. “[I]t makes sense to give them the money and let them put it where they need to put it to fulfill their missions. They know best where that is.”

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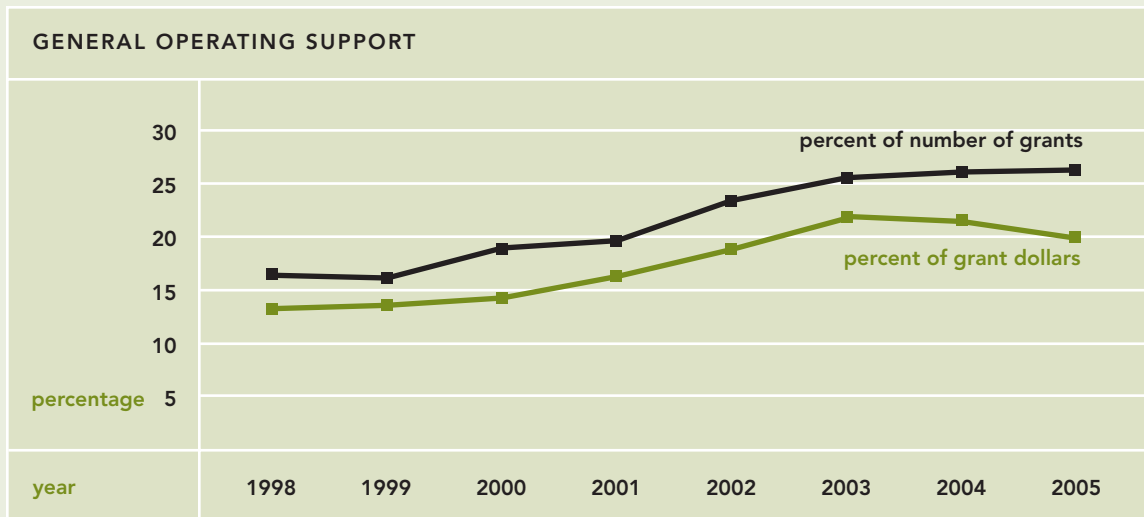
<sup>4</sup>Foundation Center, “Highlights of Foundation Giving Trends,” 2007 Edition.

were small and the foundations that chose to respond may be biased in favor of providing this kind of support.<sup>5</sup> The majority said they limit general operating support grants to less

than 25 percent of overall grantmaking. Larger foundations were more likely to provide this support, but smaller foundations devoted a higher percentage of their grant dollars to it.

## AT A GLANCE: How Common Is It?

- Among the largest 1,200 private and community foundations, 20 percent of grants were for general operating support in 2005, compared with 45 percent for program support.
- Over three-quarters of California foundations report providing grants for general operating support, although these grants make up a relatively small share of their overall grantmaking.



Source: Foundation Center<sup>6</sup>

<sup>5</sup>Institute for Nonprofit Organization Management, “General Operating Support: Research on Grantmaker Policies and Practices,” December 2006.

<sup>6</sup>Foundation Center, Statistical Services. [http://foundationcenter.org/findfunders/statistics/gs\\_support.html](http://foundationcenter.org/findfunders/statistics/gs_support.html).

make  
the **case**

## Why should grantmakers provide general operating support?

GEO's research and conversations with philanthropic and nonprofit leaders across the country have highlighted a number of grantmaking practices that boost nonprofit performance, including general operating support. In a series of national focus groups with grantmakers and nonprofits, such support was identified as one of the most effective changes grantmakers could make to improve nonprofit results.

"Providing general operating support is critical to achieving organizational effectiveness."

PAUL SHOEMAKER, EXECUTIVE DIRECTOR,  
SOCIAL VENTURE PARTNERS SEATTLE

The GEO findings are echoed by other research. For example, "Daring to Lead 2006," a survey of nearly 2,000 nonprofit executives conducted by CompassPoint Nonprofit Services and The Eugene and Agnes E. Meyer Foundation, found that respondents rated more general operating support number one in a list of funder actions that could help them in their work. (Second on the list was "more multiyear support.")<sup>7</sup>

"Providing general operating support is critical to achieving organizational effectiveness," according to Paul Shoemaker, executive director of Social Venture Partners Seattle. General operating support frees up the time nonprofits normally spend on fund raising and reporting, so they can focus on running strong and effective programs.

Proof that general operating support enhances capacity can be seen in the success of conservative grantmakers in building a powerful network of policy, training and advocacy institutions to advance their cause. A key strategy in this effort has been to provide significant amounts of unrestricted general operating support to a relatively small group of grantees.<sup>8</sup>

Nonprofits face an array of competing pressures, including increased demand for services and cutbacks in public-sector support. The "Daring to Lead" study found that relationships with institutional funders can contribute to burnout among nonprofit executives. General operating support allows nonprofits the flexibility to direct their spending where it is needed and to address key infrastructure issues.

<sup>7</sup>CompassPoint Nonprofit Services and The Eugene and Agnes E. Meyer Foundation, "Daring to Lead: A National Study of Nonprofit Executive Leadership," 2006.

<sup>8</sup>See National Center for Responsive Philanthropy, "Axis of Ideology," based on a survey of the grantmaking of 79 conservative foundations. [www.ncrp.org](http://www.ncrp.org).

“If an organization has resources to create a strong infrastructure and flexibility to build their capacity, they can then ensure that the proper services are being offered to their target audience,” said Catherine Brozowski, vice president of programs with the Santa Barbara Foundation.

Flexibility. Predictability. Stability. The same words come up again and again in conversations among grantmakers and nonprofits about the benefits of general operating support. Two questions are at the heart of these discussions: How can grantmakers expect nonprofits to deliver on their missions when many of them are struggling just to stay afloat? How can grantmakers expect nonprofits to perform effectively when they don’t have the funds they need to invest in decent salaries, technology and other infrastructure?

David Hunter, former director of evaluation and knowledge development with the Edna McConnell Clark Foundation and now an independent consultant, said grantmakers have an obvious interest in making sure nonprofits have the operating funds they need: “In an irrational funding environment such as the one nonprofit organizations inhabit, any increase in the predictability of revenue streams and reductions in the arbitrary, idiosyncratic, parochial and high-transaction cost aspects of philanthropic funding are to be welcomed.”

These challenges became clear to the staff at REDF (formerly the Roberts Enterprise

Development Fund) when it became an independent 501(c)3 organization in 2004. Until then, it had been an arm of a private foundation. Now the staff had to raise its own funds

### **The California Wellness Foundation**

launched its Responsive Grantmaking Program in 2001. A major focus of the program is to use general operating support to sustain and/or strengthen nonprofit organizations that are working to improve the health of underserved populations. A 2004 evaluation found that grantees that received general operating support were more likely than those that received project support to report that their funding had a “great” impact on building the sustainability of their organizations. One grantee said, “We are usually given grants to provide direct service to clients, but very few times have we been allowed to address the core issues of the agency. It’s like we have a house but no foundation, and with the money from TCWF we have gotten into building the foundation.”

for grants. Cynthia Gair, director of portfolio and field advancement, said, “[I]t has been mind-boggling how much valuable staff time it takes to slice and dice information to fit different funders’ particular formats and requests.”

“[U]nrestricted funding (especially multiyear) gives grantees the...freedom to take risks, to innovate, to learn and adapt to what’s happening around them.”

JOHN ESTERLE, EXECUTIVE DIRECTOR,  
WHITMAN INSTITUTE

On the positive side, Gair said, REDF’s direct experience with grant seeking has spurred her organization to do more to “improve the dysfunctional system we are part of,” in part by making a commitment to provide higher levels of general operating support. REDF is currently working on an article series that highlights the challenges facing nonprofits and explores “the ways private sector financing practices can be adapted to improve the nonprofit capital market.”<sup>9</sup>

Among the grantmakers that have embraced a different approach is The California Wellness Foundation, which initiated its Responsive Grantmaking Program in 2001. California Wellness describes the shift in focus on its Web site: “Since our founding in 1992, we have been known for our project-driven initiatives. But in recent years we have come to realize that the valuable work accomplished by

nonprofit organizations is rooted in the ability to meet basic organizational needs.”

Another benefit of general operating support is that it frees nonprofits to take risks. Instead of having to stick with inflexible, dated program plans, they can use operating grants to respond to new challenges and opportunities. John Esterle, executive director of the Whitman Institute in San Francisco, said, “[U]nrestricted funding (especially multiyear) gives grantees the...freedom to take risks, to innovate, to learn and adapt to what’s happening around them.”

Esterle noted that general operating support also can reduce the power differential between grantmakers and grantees. Through its Change Agent Project, GEO has identified the power differential as a root cause of many nonprofit effectiveness problems. Grantmakers should be able to “trust nonprofits to devise their own solutions to the problems they see in their communities every day.”<sup>10</sup> Reducing the power differential builds trust, which can bring added transparency and accountability to the relationship between grantmaker and grantee. The Institute for Nonprofit Organization Management surveyed 500 California foundations and found that general operating support grants “can potentially change the relationship between the foundation and the nonprofit,

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<sup>9</sup>For more on the series, go to [www.redf.org/publications-newsletter-0606.htm#2](http://www.redf.org/publications-newsletter-0606.htm#2).

<sup>10</sup>Grantmakers for Effective Organizations, “Listen, Learn, Lead: Grantmaker Practices That Support Nonprofit Results,” 2006.

permitting greater honesty in discussion of what does and does not work.”<sup>11</sup>

Another benefit of the shift from supporting programs to supporting organizations is

that instead of designing and implementing programs that meet the guidelines of specific grantmakers, nonprofits can use general operating support to do the work they were established to do.

## AT A GLANCE: Why Do It?

- Gives nonprofit organizations the flexibility to direct their spending where it is needed.
- Enables nonprofits to build a strong and sustainable infrastructure to run effective programs.
- Eases fund-raising pressures on nonprofit executives, reducing burnout and allowing them to focus on the mission.
- Fosters innovation and risk-taking, providing nonprofits with resources to take advantage of new opportunities as they arise.
- Reduces the power imbalance between grantmaker and grantee, bringing new transparency and trust to the relationship.

## What are the consequences of not providing it?

The cost of not providing general operating support is more of the status quo: nonprofits without the infrastructure they need to perform effectively; widespread burnout among nonprofit leaders; and a lack of openness and trust between grantmakers and grantees.

The lack of organizational infrastructure is a barrier to effectiveness. “Infrastructure” refers to staff salaries, technology, office expenses, facilities — everything an organization needs to succeed. For smaller nonprofits in particular, the challenge of building and maintaining

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<sup>11</sup>Institute for Nonprofit Organization Management, “General Operating Support: Research on Grantmaker Policies and Practices,” December 2006, p. 19.

an adequate infrastructure can be immense. The Nonprofit Overhead Cost Project at Indiana University found that the small size of many nonprofits, combined with restricted funding, is a “double whammy that appears to almost guarantee inadequate organizational infrastructure.”<sup>12</sup>

Inadequate infrastructure leads to inadequate organizational performance. As Sharon King, president of the F.B. Heron Foundation, put it, “In the long run, you can’t have strong programs in weak organizations.”

Sylvia Sykes, program officer with the Chicago Community Trust, said the majority of funding requests her organization receives are for general operating support. “Unfortunately, disinvestment on the federal, state and local level has left many not-for-profits in a state of crisis. In addition, the demographic changes in our communities have created a strain on these organizations to meet the growing demand for services.”

Also lamenting the impact of grantmakers’ preference for restricted project funding was

San Francisco’s **Whitman Institute** describes its commitment to providing general operating support as follows: “One of the biggest challenges nonprofit organizations face is achieving financial stability. Too often, grantees must invent programs they think foundations will fund instead of seeking funds for what they really need. We believe that our grantees are the best judges of how to spend grant dollars. Therefore, our policy is to support organizations and to give grants for general operating expenses exclusively.”

Among the Whitman Institute’s grantees is On the Verge, a program designed to develop the skills and vision of young people to lead social change efforts in their communities. “Each iteration of [the program] has incorporated learning and become more sophisticated,” said John Esterle, executive director of the institute. He added that this learning would not have happened without the flexibility provided through multiyear general operating support from the Whitman Institute, the Surdna Foundation and other funders.

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<sup>12</sup>Nonprofit Overhead Cost Project, “Getting What We Pay For: Low Overhead Limits Nonprofit Effectiveness,” August 2004.



Pamela David, executive director of the Walter and Elise Haas Fund in San Francisco: “[A]n underlying assumption in many funder-grantee relationships is that the funder can’t trust its nonprofit partners to not misuse unrestricted funds. Yet, the result of a steady diet of restricted project-based funding is nonprofits hobbled in their ability to strengthen their infrastructures, have flexibility to respond to new or changing conditions, plan for the long term, invest in staff and technology — all those things that any business...needs to do to be successful over the long haul.”

Nonprofit organizations that find themselves in a financial bind may divert from their missions to make funders happy. An overreliance on program support can create a situation in which organizations design programs not to achieve the best results they can for the populations or the communities they serve,

“In the long run, you can’t have strong programs in weak organizations.”

SHARON KING, PRESIDENT,  
THE F.B. HERON FOUNDATION

but to coincide with what they perceive as the desires and whims of their funders. They may be more attentive to what will get funded than to what will work.

In “Good to Great and the Social Sectors,” Jim Collins summed up the need for general operating support this way:

“Restricted giving misses a fundamental point: To make the greatest impact on society requires first and foremost a great organization, not a single great program.”<sup>13</sup>

## Why don’t more grantmakers provide it?

The Center for Effective Philanthropy has found that foundation CEOs see general operating support as more likely than other types of support to have a positive impact on grantee organizations. However, nearly half prefer to provide program support, often because they believe it is easier to connect

their grants to specific outcomes.<sup>14</sup> From the CEP study:

“Program support is preferred, as it typically provides more clarity on expectations in terms of performance and impact,” wrote one CEO.

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<sup>13</sup>Jim Collins, “Good to Great and the Social Sectors: Why Business Thinking is Not the Answer,” 2005, p. 25.

<sup>14</sup>Center for Effective Philanthropy, “In Search of Impact: Practices and Perceptions in Foundations’ Provision of Program and Operating Grants to Nonprofits,” 2006.

“Unrestricted support is more comfortable to the grantee,” another CEO wrote, “but less demanding.... It is unusual to find a grantee that naturally collects [mission impact] data in a meaningful way.”

Other reasons cited by those who prefer to provide program support include board pressure, fit with foundation mission, lack of familiarity with grantees, and concerns about grantee dependence.

The Institute for Nonprofit Organization Management survey of California grantmakers indicates that opposition to general operating support is stronger among trustees than among executive directors and staff. The executive directors in the survey overwhelmingly favored general operating support but said their boards would be less supportive of the concept.<sup>15</sup>

Many of the same concerns and stumbling blocks were evident in the GEO listserv discussion on the topic. For example, Brozowski said members of her foundation’s board and staff have concerns about general operating support, including the fear that they would be “flooded with proposals.” Another concern she often hears is that “we wouldn’t want

our grant to be spent on *that*,” with “that” referring to computers, rent, copiers, janitorial services and the like.

In addition, grantmakers are accustomed to a funding landscape in which general operating support is not the norm, and nonprofits have learned to talk in terms of projects rather than organizational needs. Many nonprofits don’t even raise the issue of general operating support. Brozowski’s strategy has been to convince her board that “if the work is ultimately getting done, then it is okay to provide nonprofits [with] flexibility in how they use their grant.”

Adding to the challenge for community foundations is that their funding priorities tend to be quite broad. Thus, it can be difficult for board and staff members to identify a limited number of grantees as candidates for general operating support or to provide sufficient funds to make a real difference in strengthening the organizations’ infrastructure and performance.

Another concern is that operating support makes a nonprofit overly reliant on the grantmaker that provides it. The concern is that the organization will not be able to sustain its operations if that grantmaker withdraws funding. “[Trustees] do not want grantees

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<sup>15</sup>Institute for Nonprofit Organization Management, “General Operating Support: Research on Grantmaker Policies and Practices,” December 2006, p. 8.

### **Blue Shield of California Foundation**

launched its Community Clinic and Consortia Core Support Initiative in 2003. According to Crystal Hayling, the foundation's president and CEO, the goal was to strengthen the safety net that serves uninsured people by providing general operating support for community clinics. Since 2003, the foundation has provided more than \$12 million to nearly 200 community clinics, parent corporations and their consortia and networks. An evaluation of the effort in 2006 found that this support has helped stabilize clinics across the state. Half of the clinics had leveraged the foundation's funds to raise additional public or private dollars, and general

operating support contributed to higher staff morale by facilitating new hires. Nearly half of the clinics said that the foundation was their only funder for general operating support. Small and/or rural clinics and those that serve primarily uninsured patients are most likely to lack other general operating support. An additional finding was that core support had a greater impact on smaller clinics, which tend to serve a larger percentage of uninsured patients, than on larger clinics. This finding prompted the foundation to change its grantmaking formula. Now it gives larger grants to smaller clinics that serve a higher percentage of uninsured patients than those larger clinics that serve more people.

becoming dependent on general operating funds,” one foundation CEO told CEP.<sup>16</sup>

Paul Shoemaker sees this as a false issue: “By definition, grantees *are* reliant upon our resources, and unless they create a self-generated revenue stream, their dependence on you will just be transferred to another funder.” Shoemaker believes that providing reliable funding should not be seen as fostering dependence; rather, it reflects the fact that

nonprofits require working capital to carry out their missions.

In “Core Support,” the Heron Foundation noted that concerns about fostering dependence have led some to suggest that general operating support, if offered at all, should be time-limited in some way, with the goal of helping the nonprofit achieve self-sufficiency. Heron's response is that “very few grantees have achieved this exalted state.”

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<sup>16</sup>Center for Effective Philanthropy, p. 10.

## DEBUNKING THE MYTHS

MYTH	REALITY
<p>“We shouldn’t be supporting our grantees’ operating costs.”</p>	<p>Like other organizations, nonprofits need working capital to succeed. If they underinvest in salaries and other infrastructure costs, they will be less effective.</p>
<p>“This will only encourage grantees to increase spending on salaries, etc.”</p>	<p>Recent scandals involving nonprofit spending have painted a misleading picture. Though in isolated cases nonprofit executives have received exorbitant compensation packages, the overwhelming majority of nonprofits invest too little in salaries and operating costs. Tom Tierney makes the case that nonprofits need to raise executive salaries to meet the looming leadership gap.</p>
<p>“We’re adequately supporting nonprofit infrastructure through the overhead associated with our project grants.”</p>	<p>Grantmakers rarely cover all associated direct and indirect costs of funded projects. In some cases, this is because nonprofits lack the capacity to account for such costs accurately. More often, it is because the percentages grantmakers allow are arbitrary and too low.</p>
<p>“Supporting projects ensures a better fit with our mission.”</p>	<p>The alignment between the grantmaker’s goals and strategies and the grantee’s work is a key consideration. But even if a grantee’s work aligns with only one aspect of the grantmaker’s mission, general operating support is still a viable option. If the grantee is doing important work that supports one of the foundation’s goals, it may be a candidate for general operating support.</p>

MYTH	REALITY
<p>“By providing general operating support, we are going to reduce our influence and our impact as problem solvers. We can’t help shape programs anymore.”</p>	<p>If a grantee contributes to a grantmaker’s mission and goals, increased general operating support can lead to greater impact for both parties. General operating support also can strengthen the relationship, leading to more influence for the grantmaker and a more productive partnership. Instead of supporting part of a program, the grantmaker is contributing to the organization as a whole.</p>
<p>“General operating support grants are not as accountable as restricted project grants.”</p>	<p>Because project grants are designated for a specific purpose and a specific set of activities, it is easier to track those funds. However, if you are interested in understanding the organization’s progress or outcomes, there is very little difference in accountability between project and general operating support. In both cases, the grantmaker needs to work with the grantee to design evaluation questions that clarify the impact of the grantee’s work.</p>
<p>“General operating support causes grantee dependency and ultimately hurts sustainability.”</p>	<p>General operating support can help nonprofits build the fund-raising, planning and other systems they need to diversify their funding sources and sustain their organizations over time. That said, the vast majority of nonprofits will always be dependent on grantmakers and other donors to support their work. A grantmaker’s chief concern should be to ensure that grantees have the support they need to make a difference for the communities they serve.</p>

A final concern about relying on general operating support is the perception that it removes grantmakers, especially large foundations, from their role as change agents in society.

“I see the primary role of larger foundations as innovation,” said David Steven Rappoport, senior program officer with the Maine Health Access Foundation. In his view, general operating support might simply perpetuate the status quo by allowing nonprofits to keep doing what they are doing without asking “bigger questions” about the systems in which they work.

Rappoport’s comments in the listserv discussion prompted a number of spirited responses from grantmakers who disagreed

with him. Innovation is fine, they said, but grantmakers have other responsibilities as well, including the responsibility to help nonprofit organizations succeed. “Innovation isn’t synonymous with effectiveness,” wrote Wilburforce Foundation’s Paul Beaudet. “Investing in innovation may be necessary to achieve a foundation’s goals and outcomes. But funders... may sometimes miss seeing the obvious: that the hard and unglamorous work already being done by many groups is effective and worth investing in.” David Hunter agreed that the goal of foundations should not be to support innovation per se but to create social good: “Looking to what is tried and proven effective, and scaling it up, isn’t a bad way to go about social investing.”

## Shouldn’t grantmakers be concerned about keeping a lid on overhead costs?

In recent years, donors have focused on overhead as an indicator of organizational effectiveness. The lower the overhead, the thinking goes, the more effective the organization. Donor reluctance to fund overhead was cited in a December 2006 *Wall Street Journal* article:

“Many givers have chosen to support charities that spend only a tiny fraction

of their budget on overhead expenses, such as staff pay and facilities, while others have imposed restrictions on how their gifts could be spent.”<sup>17</sup>

The concern about overhead has led many grantmakers not to fund any indirect costs in their program grants or to add a fixed percentage to cover the costs of operating the project.

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<sup>17</sup>Rachel Emma Silverman and Sally Beatty, “Save the Children (But Pay the Bills, Too),” *Wall Street Journal*, December 26, 2006.

For the past 90 years, **UJA-Federation of New York**, through the Jewish Communal Network Commission, has provided general operating support grants in the New York City region. In 2006, general operating support grantmaking totaled more than \$35 million, with funds going to 102 nonprofit agencies. Susan Friedman, managing director of the commission, said, “It is our belief that

through our ongoing commitment to the provision of general operating support — flexible, dependable, infrastructure-building dollars — UJA-Federation has created a network of agencies...[through which our] mission and strategic priorities are achieved.” The commission is currently funding an outside study of the impact of general operating support on the human service agencies it supports.

It is crucial to pay attention to how charities spend their money, but using overhead as a proxy measure for performance paints an incomplete picture and can be misleading. The measure of a nonprofit’s success should be social outcomes. A better alternative to

funding overhead and indirect costs is to provide general operating support and keep tabs on the outcomes. As Shoemaker said, grantmakers should focus on “the ends, not one of the means.”

## Why isn’t it enough to add a percentage for overhead costs to program grants?

The biggest problem with adding a fixed percentage (say, 10 or 15 percent) to program grants for overhead or operating costs is that it is usually not enough. The Nonprofit Overhead Cost Project found that large grants

for program services “tended not to include their fair share of the organization’s administrative costs.”<sup>18</sup> These researchers concluded, “Contrary to the perception that spending less in these areas is a virtue, our cases

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<sup>18</sup>Nonprofit Overhead Cost Project, “Getting What We Pay For: Low Overhead Limits Nonprofit Effectiveness,” August 2004, p. 4.

suggest that nonprofits that spend too little on infrastructure have more limited effectiveness than those that spend more reasonably.”

A complicating factor is that no standard exists for calculating overhead. Foundation CEOs surveyed by CEP reported providing for overhead costs of 10 to 30 percent of a grant amount; some said they refuse to fund any overhead.<sup>19</sup>

The “Statement on Guidelines for the Funding of Nonprofit Organizations” cites two kinds of overhead expenses:

- Administrative expenses (also known as management and general expenses) are costs associated with sustaining operations.
- Fund-raising expenses are costs incurred to raise money.

According to the Statement, “Overhead costs, including the costs of fundraising, are as real to an organization as the costs of activities directly associated with a project, and must come from somewhere. Thus, project support that does not pay its full proportion of overhead takes a ‘free ride’ on other funders’

support, and ultimately decreases the overall effectiveness of an organization.”<sup>20</sup>

In *Nonprofit Quarterly*, Clara Miller, president and CEO of the Nonprofit Finance Fund, highlighted many of the absurdities in the world of nonprofit money. One of these is grantmaker restrictions on overhead spending:

“The inability of nonprofits to invest in more efficient management systems, higher-skilled managers, training, and program development over time means that as promising programs grow, they are going to be hollowed out, resulting in burned-out staff, undermaintained buildings, out-of-date services, and many other symptoms of inadequately funded overhead.”<sup>21</sup>

But nonprofits can be their own worst enemies in this area, chiefly by underestimating overhead costs in grant budgets. Many nonprofits lack the ability to track costs by activity. Researchers at the Center on Philanthropy at Indiana University and the Center on Nonprofits and Philanthropy at the Urban Institute found that many nonprofits

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<sup>19</sup>Center for Effective Philanthropy, “In Search of Impact: Practices and Perceptions in Foundations’ Provision of Program and Operating Grants to Nonprofits,” 2006.

<sup>20</sup>See fn. 2.

<sup>21</sup>Clara Miller, “The Looking-Glass World of Nonprofit Money: Managing in For-Profits’ Shadow Universe,” *Nonprofit Quarterly*, Vol. 12, No. 1 (Spring 2005).



Rick Moyers, director of the Nonprofit Sector Fund of **The Eugene and Agnes E. Meyer Foundation** in Washington, D.C., estimates that between a third and half of the foundation's \$7 million in annual grants is in the form of general operating support. "We are sympathetic to how tough it is for these organizations

to raise the funds they need for basic operations," Moyers said. The foundation also offers an array of capacity-building resources to grantees, including grants for consultants to help them with management and leadership issues, short-term loans and support for leadership training and professional development.

have limited systems in place even for tracking whether an expense is for program, administration or fund raising.<sup>22</sup>

Another problem is the tendency among nonprofits, under pressure from donors and charity watchdogs, to brag that a very high percentage of their donations goes to program costs. In the Indiana University-Urban Institute study, 37 percent of nonprofits with private contributions of \$50,000 or more in 2000 reported no fund-raising or special event costs, although more than 18 percent of these organizations raised \$5 million or more. The study's authors say it is "implausible that so many nonprofits would have zero fundraising

costs, since organizations almost always must spend money to raise money."<sup>23</sup> Claims such as these reinforce the perception that nonprofits can spend all their money on programs while dedicating miniscule amounts to salaries, fund raising and other overhead expenses.

In a 2003 *Nonprofit Quarterly* article, Elizabeth K. Keating looked at the mismatch between overhead percentages and actual expenses.<sup>24</sup> "Some groups have a tendency to focus on obtaining the latest grant rather than ensuring complete funding for the program," she wrote. "Managers tend to include the most appealing costs in the immediate grant proposal and often underestimate them."

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<sup>22</sup>"Study Sheds Light on How Charities Raise and Spend Donors' Contributions," Press Release, Center on Philanthropy, Indiana University, December 1, 2004.

<sup>23</sup>Ibid.

<sup>24</sup>Elizabeth K. Keating, "Is There Enough Overhead in This Grant?" *Nonprofit Quarterly*, Spring 2003.

“If we have identified grantees doing work that advances our own goals and strategies, and we have sufficient confidence in their leadership and management, then why would we not have confidence in their wisdom and abilities to use our financial resources well?”

PAMELA DAVID, EXECUTIVE DIRECTOR,  
WALTER AND ELISE HAAS FUND

Shoemaker agreed that trying to figure out the optimum overhead percentage is a dead end. He cited the example of Microsoft, which typically spends more on administrative, sales and marketing expenses than on the products themselves. “An investor would never tell Microsoft what it could spend on this or that category,” Shoemaker said.

To support sustainable and effective organizations, grantmakers should at least fund the full direct and indirect costs of a project. If a percentage is your only option, consider setting it high enough to accommodate typical indirect costs. Very few nonprofits can function with overhead costs of less than 20 percent. A better approach is to ask the grantees how they allocate their overhead and

indirect costs; for grantees that do not have appropriate tracking systems, you may be able to help with financial capacity-building.

Limits on overhead often force nonprofits to play a shell game, trying to finesse program versus operating costs or to disguise operating costs as program expenses. A fund-raiser who took part in the Foundation Center listserv discussion on overhead recalled seeking grant funds for heating fuel for a factory that provided jobs for people with disabilities. Faced with limits on overhead costs, she pitched her request in the guise of a project: “Operation Warm Working Conditions.” She also “recharacterized” advertising and marketing dollars needed to attract mentors for at-risk children under the heading “Project Reduce the Wait.”<sup>25</sup>

These shell games can have a damaging impact on the grantmaker-grantee relationship and on the sector as a whole. The Indiana University-Urban Institute study cited “a structure of incentives that encourages poor reporting” as one of the main flaws in how charities raise and spend contributions.<sup>26</sup> The perception that lower operating costs translate into better performance compels nonprofits to “underreport costs or lump them into program expenses, which people are more

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<sup>25</sup>See fn. 13.

<sup>26</sup>See fn. 20.

willing to fund,” said the Urban Institute’s Thomas Pollak. “That puts nonprofits that report accurately at a competitive disadvantage and means donors may be basing decisions on inaccurate information.”<sup>27</sup>

According to Pamela David, “[G]rantees... have been so beaten down by categorical and limited project funding that many now have difficulty providing a clear answer to

the question, ‘How much does your program cost?’” She said the question shouldn’t be what percentage of indirect costs to allow but how best to support grantees: “If we have identified grantees doing work that advances our own goals and strategies, and we have sufficient confidence in their leadership and management, then why would we not have confidence in their wisdom and abilities to use our financial resources well?”

## AT A GLANCE: Overhead Percentage Problems and How to Solve Them

- Project grants rarely cover all direct and indirect costs of funded projects.
- Nonprofits that do not receive sufficient funds for overhead cannot invest in critical infrastructure and are less effective as a result.
- Instead of relying on fixed percentages for overhead, grantmakers should ask nonprofits how they allocate overhead — and then support the full direct and indirect costs of funded projects.
- Grantmakers should provide financial capacity-building services to grantees that need help calculating the costs of funded projects.

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<sup>27</sup>Ibid.



make  
it work

## How can we decide when providing general operating support is the right course?

Some grantmakers fund all their grants with general operating support. But providing 100 percent general operating support 100 percent of the time is not a viable approach for most grantmakers.

The “Statement on Guidelines for the Funding of Nonprofit Organizations” calls on grantmakers to opt for general operating support over project support when the

goals of the two organizations are “substantially aligned.”<sup>28</sup>

“Funders can often achieve their strategic goals through core support for organizations whose goals are substantially aligned with their own. Where appropriate and feasible, funders should prefer multiyear, reliable core support to project support.”

When Nancy Burd joined the **Philadelphia Foundation** as vice president for grantmaking services in April 2006, its board asked her to assess the foundation’s grantmaking strategy and gave her virtual carte blanche to overhaul it. The board’s willingness to make such a change hinged in part on the foundation’s own 2005 *Grantee Perception Report*. Foundation president Andrew Swinney said the report revealed that “the way we were doing grantmaking just wasn’t responding to

the needs of our grantees or the sector.” The foundation now uses nearly all its discretionary dollars to fund areas that other grantmakers often fail to support: the costs to run an organization and to strengthen its ability to deliver results. Organizations that receive general operating support from the foundation may use it for any mission-related expense, including capital and endowment campaigns. This announcement was met with a standing ovation from local nonprofits.

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<sup>28</sup>See fn. 2.

“Granting that there are many situations where funder and organizational interests only coalesce around particular projects, funders should nonetheless have a presumption in favor of negotiated operating support.”

PAUL BREST, PRESIDENT, THE WILLIAM AND FLORA HEWLETT FOUNDATION

Participants in the GEO listserv discussion agreed that alignment with grantees’ strategies and goals is a vital consideration. For example, if a grantmaker’s goal is to reduce poverty in a community, it may provide general operating support to an affordable housing organization, even though the organization’s work relates to only a piece of the grantmaker’s broader antipoverty goals. Similarly, grantmakers that want to enhance the capacity and voice of a cadre of nonprofits can provide general operating support to selected “infrastructure” organizations;

that is, nonprofits whose strategies include advocacy, public policy, capacity-building or knowledge-building activities.

Paul Brest makes the point that grantmakers searching for nonprofits that share their goals should not allow perfect alignment to be the enemy of good alignment: “Granting that there are many situations where funder and organizational interests only coalesce around particular projects, funders should nonetheless have a presumption in favor of negotiated general operating support.”<sup>29</sup>

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<sup>29</sup>Paul Brest, “Smart Money: General Operating Grants Can Be Strategic — For Nonprofits and Foundations,” *Stanford Social Innovation Review*, Winter 2003.

## What is the right amount of general operating support?

According to CEP, “Most grants are simply too small and short term for it to matter much to grantees whether they are for program or

St. Louis’s **Deaconess Foundation** provides significant, multiyear general operating support grants to eight child-focused agencies in the city as part of the Deaconess Impact Partnership Initiative. Agencies are using the funds to strengthen core internal operations, including governance and leadership, financial and strategic planning, fund raising, evaluation, professional development, marketing and information technology systems. The foundation also provides the grantees’ executive directors, boards and staff with training and counseling in areas such as board development, human resources and media communications. The goal of the initiative is to help the agencies become stronger, serve more people and increase their potential for long-term stability.

operating support.”<sup>30</sup> However, as grants get larger and are offered over a longer period of time, CEP’s research shows that grants for general operating support have a more positive impact on the organization than grants for program support. The report concludes, “[I]t is not operating support alone that generates higher ratings of impact on the grantee organization, but rather operating support of sufficient size and duration.”<sup>31</sup>

Many grantmakers have embraced this approach. To ensure that they can provide enough unrestricted funding to make a difference, they limit the number of grantees they support. The Edna McConnell Clark Foundation, for example, has narrowed its grantmaking focus and now pursues its mission “by helping a select group of high-performing nonprofit organizations increase their capacity to serve more young people from low-income backgrounds...with quality programs during out-of-school time.” A sample grant from Clark: \$7.5 million over five years to the Harlem Children’s Zone to support the implementation of the organization’s business plan.

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<sup>30</sup>Center for Effective Philanthropy, p. 15.

<sup>31</sup>Ibid.



Clark is not alone in making the connection between organizational capacity and a more focused approach. Carolyn Watson, program officer with the Rockwell Fund in Houston, advises grantmakers to shift from a focus on program grants to “funding organizations that have proven social impact. The strategy should be to invest in organizations that are successful and to trust them to do the social engineering.”<sup>32</sup>

“The strategy should be to invest in organizations that are successful and to trust them to do the social engineering.”

CAROLYN WATSON, PROGRAM OFFICER,  
ROCKWELL FUND

Since 1997, **REDF** (formerly the Roberts Enterprise Development Fund) has provided both financial and strategic support for a portfolio of San Francisco Bay Area nonprofits that operate social enterprises, creating jobs and training opportunities for those with barriers to employment. In these multiyear, highly engaged partnerships, REDF provides general operating support grants, organizational development support, access to additional funds for capital expenses, strategic business assistance, social outcome measurement and technological tools and training. Cynthia Gair, REDF’s director for portfolio

and field advancement, said that a 2004 evaluation of 10 years of work showed the impact of larger grants on nonprofit results: “The significant size and consistency of REDF’s primarily unrestricted financial support, over numerous years, enabled grantees to develop and be prepared to weather the tough times that small businesses often face.” Grantees noted that the varied types of financial support REDF offered (including operating grants, capital grants and funding for special projects such as executive searches or assessments and consulting by industry experts) helped them become stronger.

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<sup>32</sup>GEO, “Listen, Learn, Lead,” p. 11.

## ASSESSING YOUR CURRENT PRACTICES

Use the answers to these questions to make the case for general operating support as a pathway to better results for your organization and its grantees.

- What percentage of your current grant-making is restricted project support? What percentage is general operating support?
- On what basis do you decide when to provide general operating vs. project support?
- What do you know about the capacity of your grantees to account for project-related overhead costs?
- When you offer project support, what level of associated direct and indirect costs do you cover?
- Have overhead allocations been a problem or a source of tension with grantees in the past? How?
- Have you asked grantees for feedback on your overhead policies?
- What is the average size/duration of your project grants? What is the average size/duration of your general operating support grants?
- How many grantees have received several successive one-year grants? What is standing in the way of making multiyear grant decisions?
- How do your accountability mechanisms differ depending on the type and size of grant support?
- How do you assess the capacity of a potential grantee before making a grant decision? Would you want to change this process if you started providing higher levels of general operating support?
- What information do you have about the impact of your grantmaking on grantee results? Are you getting the results you want?

## MAKING THE CASE TO YOUR BOARD

Resistance from foundation boards is often cited as the major barrier to providing increased general operating support. Here are a few pointers to help you make a compelling case to your board:

- **Do your homework.** Bone up on the issue with the help of this document and the studies cited in it.
- **Make the case.** Use the arguments and information in these pages to develop a briefing paper for your board that makes a convincing case. Get the conversation started by circulating this guide to your board and staff.
- **Get input from your grantees.** Don't take someone else's word for it; go to your grantees to find out more about the frustrations they face with restricted project funding. Use grantee comments to strengthen your presentation.
- **Find external advocates.** If you know other grantmakers that are committed to providing high levels of general operating support, seek their help. Have them talk to your board about why they provide general operating support, what results they've seen and how they ensure accountability.
- **Find internal advocates.** In many cases, one or more board members may have nonprofit fund-raising experience or experience as a nonprofit executive. Identify these members and enlist their help.
- **Be prepared to debunk the myths.** See page 18 for some of the arguments you may hear against general operating support, along with suggestions for how you can respond. Board members need to feel comfortable that choosing operating support grants will not compromise accountability or the ability to assess impact.
- **Develop a strategy.** In what situations might your organization consider providing general operating support? Would it change how you handle due diligence? How would you measure results? Develop preliminary answers to these and other questions so the board understands the impact on your grantmaking.

## How can we know that a grantee is ready for general operating support?

The “unrestrictedness” of general operating support makes many grantmakers nervous. Grantmakers want to know that the organizations they are investing in will make good, smart decisions about where to spend their funds, and that they have systems in place for ensuring accountability, transparency and efficient use of resources. Of course, grantmakers want to know the same things about the organizations they support with restricted funds, but the bar can be a little higher for general operating support grants.

Susan Friedman, managing director of the Jewish Communal Network Commission, UJA-Federation of New York, said, “[O]ne of the serious challenges in ‘selling’ the idea and value of operating support rests with a lack of

security funders feel in their ability to create viable metrics to determine whether their objectives are met...” Most of UJA-Federation’s grantees are long-term recipients of general operating support. Friedman said they are assessed holistically and through “an in-depth focus on selected organizational elements that we believe are key to achieving our mission,” such as mission alignment, high-caliber leadership, effective governance, accountability and transparency; and well-designed and -executed systems of organizational management.

Other providers of general operating support conduct similar assessments. John Weiler, senior program officer with the Heron Foundation, described its process in the “Core Support” report:

Since its inception, the **F.B. Heron Foundation** has primarily made general operating support grants. “Core support is the glue that many nonprofits rely on to hold their programs together, to enable the whole to be greater than the sum of its parts,” wrote John Weiler, senior program officer, in an essay in the Heron

Foundation publication “Core Support.” Weiler said the foundation has been able to measure the impact of general operating support grants. The key to success, he said, has been “finding organizations whose own missions and program strategies align well with Heron’s mission and strategies.”

“We look for organizations that use data to improve and demonstrate their own impact. We believe that these kinds of ‘learning organizations’ have a higher probability of success. At Heron, we typically fund organizations that have

a proven track record of performance. This by no means guarantees that an organization’s future efforts will be successful, but it does give us reason to be optimistic.”<sup>33</sup>

## AT A GLANCE: Making It Work

- Alignment of specific goals and strategies between grantmaker and grantee is important, but don’t let perfect alignment be the enemy of good alignment.
- Focus on larger, longer-term grants that can have a real impact in terms of strengthening organizational infrastructure and effectiveness.
- Strengthen due diligence to make sure grantees are ready for general operating support.
- Consider offering additional capacity-building support to make sure the nonprofit can deliver on its mission.

## How can grantmakers hold grantees accountable for spending funds effectively?

One of the main obstacles to increased levels of general operating support is the perception that it is difficult to hold grantees accountable for how the funds are spent. In the CEP study, grantmakers who preferred program support over general operating support frequently cited ease of assessing outcomes.<sup>34</sup>

But operating support does not mean forking over tens of thousands of dollars and relinquishing expectations for results. In fact, CEOs who preferred general operating support to program grants told CEP that assessment and accountability are not necessarily more difficult than for program grants.

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<sup>33</sup>F.B. Heron Foundation, “Core Support,” p. 9.

<sup>34</sup>Center for Effective Philanthropy, p. 8.

General operating support can become a platform for helping a grantee think about the outcomes of its work. By supporting the operating costs of the whole organization, the grantmaker shifts the focus from individual projects to the overall impact of the organization.

In fact, one CEO said grantees' ability to assess the impact of their work was enhanced by general operating support, because they could use the funds to improve their systems for tracking results.

Many grantmakers have figured out how to build accountability into their agreements. Paul Brest describes how accountability works in the context of negotiated general operating support: "In effect, the grantor... assumes the grantee organization's mission as its own, and evaluates progress and the success of the grant essentially as the organization evaluates itself."<sup>35</sup>

The preferred strategy among some of the grantmakers who participated in the GEO listserv discussion is to establish benchmarks that grantees must meet to receive continued support. General operating support often

The **New Hampshire Charitable Foundation** revised its grantmaking guidelines in 2005 to include general operating grants and multiyear grants, as well as slightly larger grants. According to Jennifer Hopkins, director of programs, the feedback from grantees has been great. "It frees them from crafting a project to fit our guidelines... [a]nd it helps with the problem of being grant-rich but cash-poor because every grant is restricted to a specific project or,

even worse, every grant does not cover real overhead costs." The foundation's embrace of general operating support does not mean it has forfeited the ability to track outcomes and results, Hopkins said. "We do get specifics about the agencies' overall goals, activities and measurable outcomes planned for the grant period, usually through their own strategic plans. This gives us good information to judge the readiness of the agency to do well with unrestricted support."

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<sup>35</sup>Paul Brest, "Smart Money: General Operating Grants Can Be Strategic — For Nonprofits and Foundations," *Stanford Social Innovation Review*, Winter 2003.

is distributed in short- or intermediate-term grants that can be infinitely renewed, with grantmakers and grantees agreeing on detailed improvement plans and specific program and managerial goals. At the Edna McConnell Clark Foundation, David Hunter said negotiated agreements include concrete milestones that are clear indicators of progress. These milestones include outcomes for the beneficiaries of the grantee organization, not just “process milestones for the organization.”<sup>36</sup>

Assessing the organization’s progress becomes a learning experience for grantmakers and grantees alike, forcing them to keep tabs on what is or is not working and to adjust strategy and tactics accordingly. The process also enables the grantmaker to determine whether the grantee might need nonfinancial supports, such as focused consulting, to achieve its outcomes. If the grantee continues to fall short, assessment is the basis for deciding not to continue funding.

However, assessment should not place additional burdens on grantees, especially if the grants are too small to have a significant impact on an organization’s overall operations or outcomes. Individual foundations often fund only part of a project, and grants for general operating support usually cover just a portion of an organization’s operating

The **Edna McConnell Clark Foundation** has created a detailed system for evaluating the results of general operating support grants to organizations working to improve outcomes for young people. David Hunter, former director of evaluation and knowledge development at the foundation, said evaluating general operating support grants is no more complicated than evaluating other grants: “Like anything else, it requires clarity from the beginning about what the grantee organization wants to accomplish and what the indicators for success will be....” In fact, the framework for evaluating general operating support grants can provide nonprofit organizations with the basis for ongoing performance monitoring and quality improvement long after the original grant is made.

costs. Evaluation and assessment can’t be expected to deliver clear proof of **attribution**, linking the grantmaker’s investments to the grantee’s results. Rather, they can show **contribution** — how the funds supported the

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<sup>36</sup>F.B. Heron Foundation, “Core Support,” p. 9.

## AT A GLANCE: Keeping It Accountable

- If the size of the grant permits, general operating support enables grantmakers to make a contribution and feel pride in an organization's total accomplishments rather than individual projects.
- Consider negotiated general operating support, which establishes benchmarks for grantees.
- Make grants infinitely renewable on the basis of regularly submitted improvement plans and concrete service and managerial goals.
- Use assessments to determine whether grantees need capacity-building support to achieve goals.
- Make sure your expectations for accountability are proportional to the size of the grant — smaller grants generally can't be expected to deliver big results.

grantee's broader efforts to improve service delivery, enhance fund raising and so on. The "Statement on Guidelines" recommends that a grantmaker "take into account the size of its grant vis-à-vis those of other funders

when considering what demands to place on a grantee, and ...consider collaborating with others on common due diligence, evaluation, and reporting processes, with one funder taking the lead."<sup>37</sup>

The Robin Hood Foundation works with grantees to assess the impact of general operating support grants. According to Lisa Smith, the foundation awards one-year grants that are infinitely renewable, which has resulted in "de facto long-term funding for many of our grant recipients." Each year, the foundation negotiates a detailed improvement plan and a set of specific programmatic and managerial goals that become part of the contract. Smith said, "Grant recipients know that their good-faith effort (in partnership with our management assistance resources) and reasonable success in meeting the agreed-to goals is a major part of Robin Hood's decision to renew funding."

General operating support can become a platform for helping a grantee think about the outcomes of its work. By supporting the operating costs of the whole organization, the grantmaker shifts the focus from individual projects to the overall impact of the organization. Is it delivering on its mission? Is it running effective and efficient programs? How can it deliver better results for the people and the communities it serves?

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<sup>37</sup>See fn. 2.



## conclusion

The nonprofit sector faces many challenges. The need for human and social services is on the rise, and government funding is in decline in areas from the arts to community and economic development. Scandals at a few big nonprofits have hurt the sector's image and raised concerns about financing and spending. Nonprofits are having difficulty finding new, younger leaders; running effective, efficient programs; and measuring the results of their work in ways that contribute to learning and better outcomes.

As grantmakers determine how best to help nonprofits succeed in this difficult environment, one practice stands out as part of the solution: general operating support.

Nonprofits can use this unrestricted funding as they see fit to address urgent and emerging issues, beef up salaries and benefits, invest in technology and other infrastructure, strengthen communications and fund-raising efforts and meet other operational needs.

An increase in general operating support will not solve all the problems confronting the sector. But a growing number of grantmakers and nonprofit leaders believe philanthropy should break away from its traditional reliance on restricted, project-based funding. It is time to put more power into the hands of nonprofit and community leaders to do their work — with accountability, of course, but with a minimum of restrictions and red tape.

## KEY FACTORS IN GRANTMAKER DECISIONS

While some grantmakers have chosen to provide 100 percent of their grants as general operating support, most will make that decision on a case-by-case basis. Here are some key factors to consider as your organization weighs whether a particular grantee is a good candidate for general operating support. For additional guidance, see “The Due Diligence Tool” published by GEO ([www.geofunders.org](http://www.geofunders.org)).

GOAL/STRATEGY ALIGNMENT	GRANTEE TRACK RECORD
<p><b>Consider general operating support when...</b> the grantee’s work is aligned with your organization’s goals or strategies in a specific program area or field of work.</p>	<p><b>Consider general operating support when...</b> the organization has a track record of success and impact on its constituency or target population.</p>
<p><b>Questions to consider:</b></p> <ol style="list-style-type: none"> <li>1) Is the grantee unique in its focus on one or more priority areas for your organization?</li> <li>2) Is the grantee engaged in advocacy work and other “field-building” activities that dovetail with your organization’s broader mission and goals (e.g., convening, networking or leadership support)?</li> </ol>	<p><b>Questions to consider:</b></p> <ol style="list-style-type: none"> <li>1) What is your organization’s tolerance for risk? Are you willing to provide the working capital needed by a new or emerging nonprofit whose goals and strategies align with yours?</li> <li>2) How can you work with the grantee to link general operating support to the achievement of specific milestones or benchmarks (e.g., growth in number of clients served)?</li> </ol>

LEADERSHIP AND READINESS	GRANTMAKER-GRANTEE RELATIONSHIP
<p><b>Consider general operating support when...</b> you have confidence in the organization's staff and board leaders and its systems for ensuring smart planning and accountability.</p>	<p><b>Consider general operating support when...</b> your organization and the grantee have a solid, trusting relationship based on strong staff and/or board rapport and previous support.</p>
<p><b>Questions to consider:</b></p> <ol style="list-style-type: none"> <li>1) What is the board's role in strategic planning? In fund raising? In financial oversight?</li> <li>2) How do the board and the executive director work together? How are decisions made?</li> <li>3) Does the organization have solid financial systems in place to track income and expenses, as well as the results and outcomes of its work?</li> <li>4) What types of capacity-building support would help the organization develop the needed capabilities in leadership and financial management?</li> </ol>	<p><b>Questions to consider:</b></p> <ol style="list-style-type: none"> <li>1) Does your organization's due diligence process provide sufficient information to allow you to get to know potential new grantees and gain confidence in their people and systems?</li> <li>2) Would you be willing to provide start-up grants and capacity-building support for newer nonprofits, with the promise of increased general operating support down the line as you develop a stronger relationship?</li> </ol>



## resources

All resources are available on GEO's Web site at [www.geofunders.org/generaloperatingsupport](http://www.geofunders.org/generaloperatingsupport).

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