



GEO PUBLICATION SUMMARY

General Operating Support

Action Guide

As grantmakers strive to help nonprofits succeed in today's difficult environment, one practice stands out as part of the solution: general operating support. In this publication, based in part on a GEO listserv discussion, GEO explores the nature of general operating support, how to make the case for it within your organization, and how to make it work.

MASTER THE BASICS

WHAT IS GENERAL OPERATING SUPPORT?

The term “general operating support” refers to grants in support of a nonprofit organization’s mission rather than specific projects or programs. General operating support is the “working capital” nonprofits need to sustain their day-to-day operations.

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 these funds on an array of expenses, including program costs, salaries, administration, office expenses, technology, personnel training, fundraising and marketing. For the purposes of this report, the key feature of general operating support is that it is unrestricted funding.

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.

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. 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.

Grantmaker Example

The Sobrato Family Foundation is committed to “exclusively providing general operating support grants to Silicon Valley 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.

MAKE THE CASE

WHY SHOULD GRANTMAKERS PROVIDE GENERAL OPERATING SUPPORT?

In a series of national focus groups convened by GEO, grantmakers and nonprofit representatives identified general operating support as one of the most effective changes grantmakers could make to improve nonprofit results. 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.

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. It also allows nonprofits the flexibility to direct their spending where it is needed and to address key infrastructure needs. Yet 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.

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 fundraising 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 an adequate infrastructure can be immense.

An overreliance on restricted 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, 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.

“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.”

JIM COLLINS, *GOOD TO GREAT AND THE SOCIAL SECTORS*

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.

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. 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.

Another concern is that operating support makes a nonprofit overly reliant on the grantmaker that provides it.

Grantmaker Example

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.

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.”

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.

But nonprofits can be their own worst enemies in this area, chiefly by underestimating overhead costs in grant budgets. Researchers at the Center on Philanthropy at Indiana University and the Center on Nonprofits and Philanthropy at the Urban Institute found that many nonprofits have limited systems in place even for tracking whether an expense is for program, administration or fundraising.

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.

“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

MAKE IT WORK

HOW CAN WE DECIDE WHEN PROVIDING GENERAL OPERATING SUPPORT IS THE RIGHT COURSE?

Some grantmakers fund all of 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,” developed by an Independent Sector committee of grantmakers and nonprofit leaders, calls on grantmakers to opt for general operating support over project support when the goals of the two organizations are “substantially aligned.”

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.

Grantmaker Example

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.”

WHAT IS THE RIGHT AMOUNT OF GENERAL OPERATING SUPPORT?

According to the Center for Effective Philanthropy, “Most grants are simply too small and short term for it to matter much to grantees whether they are for program or operating support.” 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.”

Grantmaker Example

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.”

HOW CAN WE KNOW THAT A GRANTEE IS READY FOR GENERAL OPERATING SUPPORT?

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.

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?

Providing general 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. 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.

The preferred accountability strategy among many grantmakers providing general operating support is to establish benchmarks that grantees must meet to receive continued support. Assessing the organization's progress therefore 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 non-financial 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. Also, 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 grantee's broader efforts to improve service delivery, enhance fund raising and so on.

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.
-

CONCLUSION

An increase in general operating support will not solve all the problems confronting the nonprofit 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 in the hands of nonprofit and community leaders to do their work — with accountability, of course, but with a minimum of restrictions and red tape.