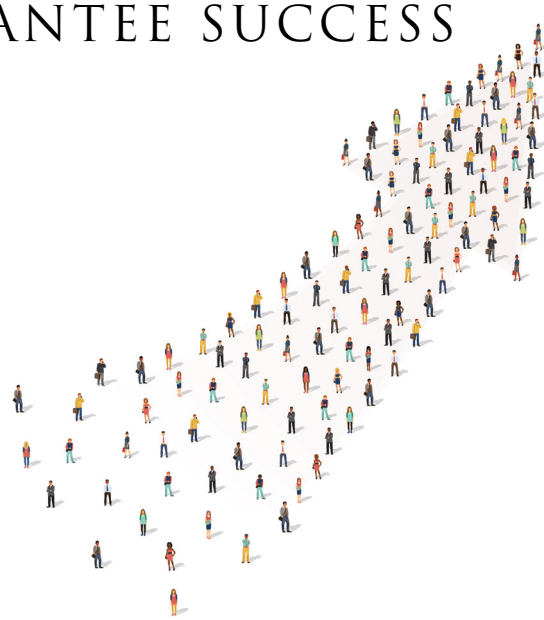
FUNDING PERFORMANCE

HOW GREAT DONORS INVEST IN GRANTEE SUCCESS



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Preface

By Lowell Weiss, Sam Cobbs, Hilary Pennington, Daniel Stid, Jeri Eckhart Queenan, Jeff Bradach, Hilda Polanco, and Deborah Linnell

In an era when our communities are being rocked by a health pandemic, economic upheaval, and political turmoil, the world has never needed more from civil society leaders—and these leaders have never needed more from their funders. Now is the most important moment in our collective lifetimes for funders to dispense with conventional practices that have been shown to undermine grantees and adopt those that have been shown to produce greater impact for grantees, funders, and constituents alike.

Actually, let's rephrase that. Without any of the typical nonprofit politeness, here's what we really mean:

> **Funders, heal thyself! Your intentions are noble, but your practices aren't. The vast majority of you are starving your grantees rather than nourishing them. When your grantees get a chance to speak freely—that is, anonymously—about the way you treat them, they express resentment that you're not listening to them or giving them what they need for success. Enough is enough!**

This passion is why our organizations have joined forces to publish this monograph. Some of us are funders. Some of us have nonprofit backgrounds. Some of us are advisors to funders and nonprofits. Some of us are researchers. All of us have vantage points that have given us a close-up look at the best and worst practices in our sector. We're ready to share both—in the hope of turning this moment of crisis into a moment of truth and then a moment of productive pivot.

The good news is that we and our respective organizations have discovered a prescription for change which is remarkably consistent. As you will see in the six essays that follow, which we wrote independently and without seeing each other's contributions, all roads lead to the following changes:

- If you want to empower grantees rather than hamstring them, provide more of what nonprofit leader Vu Le cleverly calls "MYGOD" support—multiyear, general operating dollars.
- If you've made the decision to give your precious resources to an organization, then give that organization the benefit of your trust and respect as well.
- If your website trumpets your concern about inequality, then don't perpetuate it with funding decisions that always favor fancy pedigrees and PowerPoints over lived experience and relationships.
- If you're moved by the suffering in your community, then show the courage to give more money when the supply of funding from governments is down and the demand for nonprofit services is skyrocketing.

And here's the even-better news: The above commitments aren't just doable; they've been put into action at a small but growing set of foundations. We know this because three of us (Hilary, Daniel, and Sam) have helped drive these changes within our own funding organizations. We also see this in research that four of us (Jeri, Jeff, Hilda, and Deborah) have conducted. And one of us (Lowell) has profiled nine foundations that are truly "walking the talk."

In other words, these funding changes aren't just aspirational. They exist in nature. And because they work, and because the urgency is rising, we're intent on making sure they become our sector's norm.

December 2020

Rising to Our Times: The Five Habits of Highly Effective Funders

By Lowell Weiss

Since we first conceived of shining a spotlight on great funding practices, the world has been knocked off its axis by explosive health, economic, and social crises erupting all around the globe. To borrow from the Queen of England, 2020 truly was an *annus horribilis*.

But before we project 2020's horrors into the future, let's acknowledge that we don't know what's to come. Zen Buddhists have expressed this uncertainty with (paradoxically) great clarity in a koan about a boy who receives a new horse. The boy and his family are delighted and celebrate the gift. A Zen master isn't so sure: "We'll see," the master says. When the boy gets thrown and breaks his leg, the villagers conclude that the gift was actually a curse. Again, the Zen master has a different reaction. "We'll see," the master says. When war breaks out and the boy avoids conscription because of his leg, the villagers return to the idea that the horse brought good fortune. "We'll see," the master says again.

The same is true of 2020; we'll see what it means in the long run of history. Might the multiple crises of 2020 be the sharp, painful prods we need to build back smarter and fairer than ever before? Might this be the best opportunity of our lifetimes for foundations to use their wealth, connections, and leadership to advocate for structural reforms of our laws for the 100 million Americans living in or near poverty?

There's no question that the biggest driver of nonprofit success is the internal motivation of their leaders. But even the most motivated nonprofit leaders need forward-thinking funders to support their efforts. Funders who are willing to think big with their grantees and who have the experience, relationships, and competencies to help them do so. Funders who are willing to make flexible, multiyear investments of money and strategic assistance to help them strengthen their organizational muscle and results. Funders who are brave enough to challenge systems from which they have benefited.

It's no surprise that when you peek behind the curtain at some of the most effective work in the social sector, you often find a brilliant, charismatic doer who has earned the respect, trust, and support of a generous, effective donor. For example, one of the most transformative philanthropic efforts in U.S. history was the creation of more than 5,000 schools for African American children in the rural South. These schools were the product of a remarkable friendship and partnership between Tuskegee Institute Founder **Booker T. Washington** and Sears President **Julius Rosenwald**.

We're encouraged to see that today's funders are placing similarly big bets on great leaders. For example, the Ford Foundation's BUILD initiative is investing $1 billion to help up to 300 social-justice nonprofits become strong institutions. The Ford, Packard, Hewlett, Open Society, and MacArthur Foundations are joining forces to encourage all funders to help nonprofits pay for the true cost of producing strong results and end the "nonprofit starvation cycle." Building on the pioneering work of **Michael Bailin** and **David Hunter** at the Edna McConnell Clark Foundation, **Nancy Roob** and her outstanding team at Blue Meridian Partners have pooled $2 billion to supercharge a diverse portfolio of organizations with massive infusions of capital (often more than $100 million per organization) as well as many forms of strategic guidance and support. The Ford, Doris Duke, MacArthur, Kellogg, and Mellon Foundations have taken the historic step of borrowing billions of dollars so they can dramatically increase their payouts at this time of exceptional need. And almost 800 funders have signed a pledge committing to eight practices—from loosening grant restrictions to listening to "those communities least heard"—that will help nonprofits manage through this crisis and maybe even emerge stronger.

This essay highlights a remarkable group of positive-outlier funders that are supporting grantees in ways that fit the urgency of our times. Almost by definition, these foundations are too "camera shy" to show off these practices through their own selfies. That's why we're stepping in to share them as broadly as possible. If every funder were to study these practices, and adapt the relevant ones to their work, our sector would be more effective by an order of magnitude.

500 Legs to Stand On

The Leap Ambassadors Community is a learning and advocacy community made up of more than 250 nonprofit leaders, funders, and other social-sector thought leaders. It got its inspiration from **Mario Morino's** 2011 book *Leap of Reason: Managing to Outcomes in an Era of Scarcity*, a plea for nonprofits and funders to embrace rigorous management and learning practices so they can create more social good.

In 2015, the community published the first large-scale, collaborative effort to define what it means to be a high-performance nonprofit and what it takes to get there. The Performance Imperative provides a North Star for nonprofits on a journey to high performance. In the words of a nonprofit leader in Overland Park, Kansas, "The Performance Imperative is the best organizational tool for nonprofit excellence I've found, and I keep studying it. My personal notebooks have many pages of my handwritten notes summarizing the seven pillars."

In late 2016, we went deeper, in the form of the Performance Practice. For each of the Performance Imperative's principles, we defined one or more specific practices or behaviors that represent manifestations of that principle in action. We call these specific practices "proof points." Each proof point is a prompt to help users assess their organization's progress, advance organizational learning, and identify improvement steps. "What I like best about the Performance Practice is that it's non-judgmental and opens the door for candid conversations," said **Kevin Jones,** former executive director of the Urban Coalition for HIV/AIDS Prevention Services. "It helped us discuss organizational strengths and weaknesses openly and honestly."

Three years ago, the community expanded its lens. In addition to looking at the nonprofit side of the equation, we began turning to the funder side. Our goal: provide funders with well-informed insights into the indispensable role they can play in advancing their grantees' learning-and-improvement journey.

A Flashlight, Not a Hammer

In our work to influence funders, we're shining a light on donors who are working creatively to enhance their grantees' ability to learn, adapt, and improve. The core content for this effort is a series we call Funding Performance: Profiles in Philanthropic Courage. We've now published profiles of nine positive-outlier funders with thoughtful practices and uncommon results:

- "A Better-Angels Funder Practices What It Preaches: A Profile of the Einhorn Family Charitable Trust"
- "Invested in Empathetic Challenge: A Profile of Impetus-PEF"
- "We've Walked in Your Shoes: A Profile of the Weingart Foundation"
- "Brain + Heart + Ears: A Profile of The Blagrave Trust"
- "Blunt Talk, Sharp Thinking: A Profile of the Mulago Foundation"
- "Meaning, Purpose, and Joy: A Profile of Philanthropist Duncan Campbell"
- "Network Effect: A Profile of Venture Philanthropy Partners"
- "Growth Mindset: The Evolution of Tricia and Jeff Raikes's Philanthropy"
- "Ecosystems Thinker: A Profile of Rose Letwin and Wilburforce Foundation."

These funders vary widely in terms of their issue interests, geography, and size. And yet we found five common denominators among this positive-outlier group:

1. **They all have inclusive, empathetic leaders.** The Performance Imperative calls "courageous, adaptive executive and board leadership" its preeminent pillar. The same thing is true for foundations. The foundations we profiled have leaders who are as inclusive and empathetic as they are smart. It's probably not a coincidence that many of them came to their foundation roles after years of living, working, and building trust in the communities they aim to serve.
2. **They all exemplify a "growth mindset."** These foundations have developed expertise in the issues they care about, and they also have

the humility to recognize that they have a lot to learn from those working at the ground level, those whom they hope to benefit, and researchers testing hypotheses about what works. They see their opportunity to learn and improve as one of the most energizing parts of their privileged jobs. And they recognize that learning and improving means being bravely introspective about the ways that systemic biases—historic and present-day—distort our own institutions and society at large

3. **They all help grantees strengthen their organizations, not just programs.** They typically provide grantees with flexible, multiyear funds, because these are the precious resources that enable grantees to strengthen the organizational muscles they need to deliver meaningful, measurable results over the long term. They provide this type of funding not only to "likely-suspect organizations led by people with fancy resumes but also to lesser-known organizations led by people with strong community credentials."

4. **They all cultivate strong relationships with grantees.** Whether or not they use the term "partner," they don't see grantees as mere contractors. They treat all of their grantees as valued colleagues whose professional and lived experiences are critically important for fulfilling the foundation's own mission. They allow grantee leaders working at the ground level to drive the agenda in their own communities. "Trusting, supportive, honest relationships are what make it possible for us to be true partners to organizations that are working to become higher-performing organizations," Einhorn Collaborative Executive Director **Jennifer Hoos Rothberg** said. "And high performance is what makes it possible for them—and, by extension, us—to achieve more impact in the world toward our shared vision and goals."

5. **They all go to bat for their grantees with other funders.** Nearly all foundations encourage their grantees to become more "sustainable," but only the best roll up their sleeves to help their grantees—especially those who don't already have entrée to the wealthiest and most privileged members of society—to line up additional resources from other public and private donors. In the

words of Mulago Foundation CEO **Kevin Starr**, "We always felt that funders have a unique platform to reach out to other funders [on behalf of their grantees]. We came to see that we had an obligation to do it."

To help funders who want to learn more about these five habits, we've unpacked each of them below. We want to provide you with enough specificity that you can use this essay to spark good conversations at the board, executive, and staff levels—and with your grantees. We hope you'll take pride in the good habits you've already developed and think deeply about ones you'd like to cultivate.

Habit One: Effective Foundations Have Inclusive, Empathetic Leaders.

You can get an inspiring dose of this type of leader at the Center for Effective Philanthropy's (CEP) every-other-year conference, which attracts a disproportionate share of CEOs and program directors who not only have great résumés but also the "eulogy virtues" of genuine humility and a heartfelt connection to the people and causes they serve. They're talented, empathetic leaders "in a field that has historically been awash in a paradoxical mix of arrogance and insecurity," to quote the late philanthropic advisor and mensch **Peter Karoff**.

One such leader is **Anthony Richardson**, the executive director of the Nord Family Foundation. Richardson's desire to build stable communities is driven not just by great academic and professional credentials; it also comes from his lived experience as a child who never knew his father and whose mother left him to fend for himself at age 10. Although Richardson doesn't include any of these life experiences on his bio, there's no question they're powerful qualifications for understanding the complexities of community breakdown. "I know what it's like to feel isolated, powerless, with no control of your own destiny," he explained.

A donor who exemplifies these traits is **Rose Letwin**. Her Wilburforce Foundation is a star in the CEP constellation, based on its literally off-the-charts results on CEP's Grantee Perception Report. At the CEP conference, Letwin described the first philanthropy conference she attended. "I went to the [name

removed] conference. One funder told me that he insisted on having grantees submit 14 copies of their proposals! The funders seemed so arrogant, like they knew better than their grantees. I was appalled."

In the Funding Performance series we share many other stories of inclusive, and empathetic leaders. For example, in "Meaning, Purpose, and Joy," we explained the ways that philanthropist **Duncan Campbell's** childhood experience of abandonment and neglect allows him to understand at a visceral level the struggles of the young people he aims to serve. In "Network Effect," we shared the story of how Venture Philanthropy Partners became a more inclusive and empathetic organization when its white founders with technology backgrounds put their trust in **Carol Thompson Cole**, a Black woman who has served in top roles in three sectors and has deep ties in the DC community going back three generations. In "We've Walked in Your Shoes," we described the early, alienating experiences of Weingart Foundation leaders **Fred Ali** and **Belen Vargas**—and how those experiences ignited their passion for improving equity in Southern California.

At the CEP conference, *Winners Take All* author **Anand Giridharadas** got a knowing laugh from the audience when he dismissed uber-wealthy philanthropists as "the biggest swinging checkbooks of our time." But some of Giridharadas's rapier witticisms fell flat when he was parrying with philanthropist **Jeff Raikes**. Raikes just doesn't fit a black-and-white caricature of the self-aggrandizing capitalist turned philanthropist. As we shared in "Growth Mindset," Jeff and **Tricia Raikes** have worked very hard to examine their own privilege and then use it for reforming the biased systems that have blocked opportunity for the most-marginalized people in this country. They and the rest of the leadership team of the Raikes Foundation are, to anyone who has spent time with them, the epitome of talented and empathetic leaders.

Based on these examples and many more, it's clear that inclusive, empathetic leadership matters more than pedigree. Whether your inclusivity and empathy come from difficult personal experiences or bearing witness to others' struggles, they are core competencies for all of us who aspire to use philanthropy to serve, heal, elevate, reform, and repair.

Habit Two: Effective Foundations Exemplify a "Growth Mindset."

For those of you who aren't educators or haven't followed the work of Stanford psychologist **Carol Dweck**, a growth mindset is a non-negotiable prerequisite for learning, growth, and improvement. It's based on the scientifically valid belief that intellect and talents are like muscles you can develop through your efforts. "The belief that cherished qualities can be developed creates a passion for learning," writes Dweck in her seminal book *Mindset*.

A "fixed mindset," the deterministic view that one's intellect and potential are pretty much set at birth, has the opposite effect on learning. If you believe your traits are fixed and immutable, you don't spend your time trying to get better. You typically surround yourself with friends and colleagues who shore up your self-esteem instead of ones who push you to grow. You live in fear of challenges that might possibly reveal to yourself or others that you're holding a pair of fives, not a full house.

We've all had meetings with foundation leaders in which it was immediately apparent whether the leader was showing up with a fixed or growth mindset. We'll share a few representative stories that illustrate just how easy it is to tell the difference:

- Leader A, who had just received tough feedback in a Grantee Perception Report, used the first half of a two-hour meeting to pick apart the findings ("This methodology is flawed!") and the second half explaining why the results weren't meaningful ("Why should I care what my grantees think? I'm not trying to win a popularity contest!").
- Leader B, who was commissioning a lookback on her foundation's practices, was quick to insist on including the voices of former staff members who didn't have good experiences and applicants who were rejected for grants after long, drawn-out courtships.
- At her foundation's board meeting, Leader C hosted a discussion of lessons learned from family foundations that have had the most success in addressing community needs. At least a dozen times during the session, she extinguished lively discussions with some version of, "We just don't do it that way."

- After being challenged respectfully by a staff member, Leader D acknowledged that he probably had a blind spot on his racial-equity lens and quickly agreed to bring in a well-respected, speak-truth-to-power consultant to challenge his assumptions.

Our purpose isn't to cast stones. After all, everyone commits fixed-mindset sins. Instead, we're eager to convince you that one of these mindsets leads to learning and improvement—while the other leads to false feelings of validation ("I didn't realize how funny, smart, and good looking I was until I became a funder!") and missed opportunities for growth.

If you're a grantmaker, please take a mindfulness moment to think about these questions when you open your next meeting with an applicant or grantee: In this moment, am I in a growth mindset or a fixed one? Do I feel gratitude for an opportunity to learn from someone with lived experience—or am I fixed in my beliefs of what works? Am I truly open to taking in insights on where I can do better—or am I only seeking validation that my view is smart or right?

Habit Three: Effective Foundations Help Grantees Strengthen Their Organizations, Not Just Programs.

In June 2019, the leaders of Ford's BUILD initiative convened a meeting on this very theme. Their premise: "Multiyear, unrestricted funding, coupled with support for organizational strengthening, works. It creates greater impact for grantees and for the sector." The meeting's purpose was to identify ways of spreading the gospel to other funders who care about grantee effectiveness but nonetheless maintain funding practices that perpetuate a "nonprofit starvation cycle."

It's not a coincidence that several of the leaders who attended the meeting were from foundations we've profiled: **Jenn Hoos Rothberg** from the Einhorn Collaborative, **Fred Ali** from the Weingart Foundation, and **Stephanie Gillis** from the Raikes Foundation. These funders have come to realize that short-term project grants have their place, but we're not going to solve society's wicked problems if we fail to help our grantees plan, hire, and build for the long term.

Ford's **Hilary Pennington**, **Kathy Reich**, and **Chris Cardona** acknowledged that when Ford examined its own practices a few years ago, it saw that it was

providing mostly one-year, restricted grants. As a result, Pennington shared, "We were harming grantees, making it impossible for them to do long-term planning." In addition, the foundation had low reimbursement rates for grantees' overhead expenses, which meant that grantees had a hard time investing in their talent base, learning practices, and other core elements necessary for high performance.

This realization sparked real change. In 2015, 36 percent of Ford's grant funding was in the form of flexible support. By 2018, the percentage had soared to 71 percent. "We now give our core grantees five-year grants, with a certain negotiated percentage for organizational strengthening," Pennington explained. Ford is conducting an evaluation of 239 BUILD grantees to help our sector learn from these grants. Are these organizations getting stronger? Is this type of funding making any difference for the grantees' programmatic work? Is this funding having a positive impact on the field in which the organization works?

This research won't prove (or disprove) the hypothesis that investing in organizations helps nonprofits and their funders achieve greater impact. After all, we have no way to know how these grantees would have fared with more-traditional forms of funding.

But let's face it: We already have plenty of reason to institute these kinds of practices, including the fact that foundation CEOs say that strengthening grantees is important to them, and yet research demonstrates they're not doing so. According to a 2018 study published by CEP, nearly all foundation CEOs say that they feel responsible for strengthening grantees and care about grantees' organizational health. Their grantees report the opposite: "The majority of nonprofit CEOs say their …funders feel no or little responsibility for strengthening their organization, [and] most foundation funders do not care about strengthening the overall health of their organization."

When COVID-19 hit, this same Ford team mobilized quickly and issued a call to action for all funders: Give your grantees the kinds of monetary and non-monetary support they've been telling us they need (when we're open enough to ask). "As the COVID-19 pandemic evolves day by day, it is hard to say what implications it will have on our society and our economy," Pennington wrote. "That's why we all must commit to a long-term, collaborative approach to funding that can help our grantee partners weather

this crisis today and forge ahead to address the challenges that await all of us tomorrow." As I mentioned above, almost 800 funders have now made this pledge. Ford is now in the process of monitoring these commitments, identifying which foundations make the biggest strides, and making sure that the benefits accrue not just to the biggest nonprofits but also to those with the deepest roots in the communities they serve.

Habit Four: Effective Foundations Cultivate Strong Relationships with Grantees.

In a 2017 TEDx talk, Edna McConnell Clark Foundation (EMCF) and Blue Meridian Partners CEO **Nancy Roob** described a formative moment in her early career when she was asked to assess an ambitious proposal from a respected community leader. The plan didn't fit her foundation's narrow strategy, so Roob wrote him a letter suggesting ways he could scale back the plan to fit the foundation's criteria for smaller projects. Then the reveal: "I was the naive young person—the Rube, if you will—who tried to convince **Geoff Canada** not to expand the Harlem Children's Zone."

The hedge-fund billionaire **Stanley Druckenmiller**, an individual giver not bound to any foundation protocols, took a very different approach. The same year Roob joined EMCF, Druckenmiller met Canada and agreed to join his board. While EMCF was giving small, one-year grants for specific projects, Druckenmiller was taking the time to understand Canada's vision and getting to know him as a person. "I knew I had to back this guy. I knew I had a winner," Druckenmiller remembered. He was willing to do whatever it took to help Canada realize that vision.

Even if you don't have the money or influence of a Druckenmiller, you have every opportunity to build trust with your grantees. Based on what we've learned from the funders we've profiled, here's what we believe it takes.

You need relevant expertise. In the words of former Raikes Foundation Executive Director **Erin Kahn**, "You have to demonstrate value to grantees, or they just see you as an accountability enforcer…. The biggest value add is knowing their work, fields, and ecosystems well enough to be a strategic partner." CEP research backs this up: The biggest determinant of a strong

funder-grantee relationship is the extent to which funders understand grantee organizations and the context in which they work. You can read much more on this point in our profiles of the Raikes Foundation, Venture Philanthropy Partners, Impetus-PEF, and Mulago Foundation, all of which hire executive-level talent to help grantee partners navigate complex organizational and systems challenges.

You need high emotional intelligence. The best trust-builders exemplify empathy, integrity, humility, and a willingness to make oneself vulnerable. Keystone Accountability CEO **David Bonbright** shared a lovely quotation by the aboriginal activist **Lilly Watson** which frames this point in spiritual terms: "If you have come to help me, you are wasting your time. But if you have come because your liberation is bound up with mine, then let us work together." For case studies that emphasize high-EQ work with grantees, take a look at our profiles of the Einhorn Family Charitable Trust (now called the Einhorn Collaborative), Weingart Foundation, and Blagrave Trust.

You need relevant life experiences. In the profiles of Weingart Foundation, philanthropist Duncan Campbell, and Venture Philanthropy Partners, you'll meet team members whose diverse racial and socioeconomic backgrounds often mirror those of the people the foundation aims to serve. The profiles of Einhorn, Weingart, and Blagrave illustrate another type of relevant life experience: having sat on the grantee side of the equation. Funders who have walked in the shoes of their grantees often have a different level of respect for grantee expertise and a different level of understanding of the ways funder behaviors (positive and negative) affect grantees.

You need to give your staff the right tools and structure. This means encouraging and rewarding relational values. For example, when **Chip Edelsberg** ran the Jim Joseph Foundation, he asked grantees to share, in one-on-one meetings and anonymous surveys, how their point person was doing on trust-building—and then made this feedback an important component of performance reviews. It also means creating a staffing model that provides time for relationship building rather than simply engaging with grantees in "discrete transactions made in a linear fashion," in the words of former Surdna Foundation CEO **Ed Skloot**.

You need to communicate well. Grantees consistently tell CEP that trust depends on good, two-way communication, and of course this makes intuitive sense. Grantees want funders to be clear and transparent about goals, strategies, and processes; good listeners rather than just good talkers; and responsive rather than prone to ghosting.

But even if you have all of the above hard and soft skills, funders still need to put in the painstaking work to earn trust bit by bit—that is, to overcome grantees' inherent skepticism of funders who say, "I'm here to help." In our experience, this process takes a lot of time. It takes meeting grantees on their turf, with an open heart and mind. Sometimes it even requires surviving a major disruption; as with all relationships, when you run into a serious conflict and then find your way through it, that's the kind of real-life test that can give both partners more confidence that the relationship is real and reliable.

If you're truly committed to this path, then you, like Einhorn, will have grantees say glowing things like, "We have an honest, authentic relationship with each other. I trust that they care about my success as much as I do. We have had challenges, but I have not felt judged because of that. I've experienced empathy." You, too, will build the kind of trust that's a gateway to effective philanthropy.

Habit Five: Effective Foundations Go to Bat for Their Grantees With Other Funders.

Even the world's largest funders realize that they can't accomplish very much with their dollars alone. **Melinda Gates**, for example, once noted that the annual budget for California's public K-12 schools is significantly larger than the entire endowment of the Gates Foundation. In other words, even the combined philanthropic resources of **Bill Gates** and **Warren Buffett** couldn't fund one state's school system for a single year, much less have any hope of improving educational outcomes for students around the country or fighting disease around the world.

Fortunately, the Gates Foundation usually doesn't go it alone—and neither do effective foundations with much-more-modest resources. These funders are finding good ways to leverage their own networks for the benefit of grantees.

Sometimes they do so in relatively simple but meaningful forms. For example, a foundation officer might strategize with a grantee about other funders who might be relevant and then make introductions. It could mean a program officer calling another prospective funder and sharing due-diligence materials. It could mean giving a grantee a featured speaking slot at an event, so the grantee can "march in front of the grandstand." All of these are standard operating procedure at the Einhorn Collaborative—and its grantees are deeply grateful. "They have had our back any time we have asked them," one Einhorn grantee told us. "They help us figure out how to open doors with other foundations…. They've done everything they could to elevate our profile. They want to make our organization successful."

Leveraging one's network can also take more sophisticated forms. Some foundations, like Gates, have invested time and money to help grantees understand what public funding streams might be available and then advocate for resources with various government entities. Others, like Mulago Foundation, have built a funding consortium of like-minded funders. This consortium, called Big Bang Philanthropy, is a lightweight structure (just one part-time staffer), funders don't pool their money, and each funder makes its own decisions. Other models are more formal and robust. Venture Philanthropy Partners makes large, multiyear investments in a small number of DC-area nonprofits by raising capital from wealthy individuals, foundations, and governments; it also engages its funders in a community of investors who are learning from a diverse set of leaders who understand the challenges in the DC region at the ground level.

The Edna McConnell Clark Foundation (EMCF) is the ultimate example of going to bat for its grantees. To ensure success for the high-performance organizations it funds, EMCF is now sunsetting so that it can build Blue Meridian Partners, a funding consortium capable of making truly transformative investments. "These days I'm spending about half my time working as a fundraiser, talking to wealthy donors about joining forces to supercharge the highest-performing nonprofits," Roob explained. "Personally, I have found fundraising hard, frustrating, and sometimes humiliating. But if we're going to solve these huge social challenges, we felt we had to do it."

Today, money trickles to what works. We have to make it flow if we're serious about solving our social problems at scale. And that means funders need to work together whenever possible, rather than going it alone.

Conclusion

In their 2011 book *Give Smart*, philanthropy giants **Tom Tierney** and **Joel Fleishman** wrote that the "most terrible truth of all" is that "philanthropy has no built-in systemic forces to motivate continuous improvement…. Excellence is self-imposed." The five habits we've outlined here are the bull's eye for those funders willing to do the hard work to impose excellence on themselves.

There are plenty of other practices that these positive-outlier foundations have in common—from engaging in rigorous due diligence to ensuring reasonable reporting requirements. But the five core disciplines above are bigger than "best practices." We believe they're fundamental for funders who aspire to truly be effective—to solve, not just salve, systemic problems.

We believe that any donor with even a very small staff is capable of adopting all five habits. As the Funding Performance profiles illustrate, you don't need stratospheric wealth. Far more important than money is mindset. If you approach philanthropy with what Zen practitioners call Shoshin or "the beginner's mind"—a spirit of openness, curiosity, and humility—these habits become quite intuitive. Of course it makes sense to open yourself to powerful learning experiences … to bring on staff with the skills and lived experience to add intellectual value for grantees … to build grantee relationships that encourage truth-telling rather than happy talk … and to help find like-minded donors to help your grantees extend their reach and impact. If this is the kind of excellence you're willing to impose on yourself at a time when the world needs it more than ever, please let us know.

Lowell Weiss is President of Cascade Philanthropy Advisors, Inc.

Are You Helping Grantees Succeed—or Trying to Catch Them Messing Up?

By Sam Cobbs

Shortly after I became the CEO of First Place for Youth, an organization dedicated to helping youth transition from foster care to independence, we implemented our first system for collecting rigorous outcomes data. But one prospective funder wasn't happy with what he saw. "Your data show that drug use goes up when they participate in the program," he said. "I can't fund something like that."

Fortunately, he gave me a chance to respond. I told him I was glad he was looking so carefully at our data, because we worked our butts off to collect and analyze it. But drug use was *not* going up. The reality was that we were finally building the kind of trust with kids where they were willing to admit that they were smoking weed. When we conducted one-on-one interviews with our kids, we learned that we had previously given them incentive to lie to us. They feared that if they told the truth, we wouldn't help them.

The reason I'm sharing this story is because many funders do the same thing: They inadvertently set up incentives for grantees to lie to them. They give grantees signals that they're trying to catch grantees messing up rather than working to understand how they can help them succeed.

Lived Experiences

My career in the social sector began not just because of the way I was raised, but *where* I was raised: the Mississippi Delta. I grew up in a small town. We looked out for one another. The value of giving back was instilled in me at a very early age. I saw the opportunities my family was given, and I watched my father's involvement with our community, donating time and money to those who didn't have as much as we did.

I took those lessons with me when I went to run the recreation program at the Boys & Girls Club in Oakland, CA. From there, I landed a job at Larkin Street

Youth Services, an organization focused on supporting homeless youth. At Larkin, I had the opportunity to design and open San Francisco's first homeless shelter for young adults. I very quickly saw that many of the kids walking into my shelter had recently turned 18 and were previously in foster care. Homelessness shouldn't be the exit plan for kids in the foster care system. If I wanted to solve youth homelessness, I had to address the biggest feeder of the challenge—and that's how I landed at First Place.

I was at First Place for 13 years. Tipping Point Community, a funder focused on providing unrestricted funding and capacity-building support to strengthen programs and policies in the Bay Area, was one of my earliest and most supportive funders. They deeply invested in the success of First Place—and in my growth as a leader. Three years ago, I was approached about joining the Tipping Point team. I wasn't looking for a new job, and I had never considered switching from grant-seeker to grantmaker. But because of my admiration for Tipping Point's approach and leadership, I put my hat in the ring. Long story short, I was lucky enough to be offered the job. As a result, my perspective on how foundations can set their grantees up to achieve meaningful, measurable results is now informed by experiences on both sides of the funding table.

My insights are also informed by the powerful, pivotal moment in which we find ourselves. **Rahm Emanuel** famously said, "Never allow a good crisis to go to waste. It's an opportunity to do the things you once thought were impossible." At that time, he and his boss were designing strategies for dealing with one huge crisis: the 2008 recession. Now our country is dealing with *three* huge crises that are amplifying one another: a surging pandemic that's disproportionately killing those with the least, an economic meltdown that's cost millions of people their jobs, and a massive social uprising in protest of police brutality and racial inequities. Philanthropy can't let this triple crisis go to waste. As Ford's **Hilary Pennington** shared in her essay in this collection, we must "move from performative statements that signal our virtue to hard self-examination."

If foundations are, in fact, willing to do this hard work, here are the top three areas I hope they will explore and then act upon so we can start to do the impossible.

Build Genuine Trust With Grantees

In our sector, there's no word that's more overused and misused than "partnership." So I'm going to share a story to illustrate what I mean when I use that word. It's the tale of two funders—one who earned my trust and one who lost it.

Shortly after I arrived at First Place, I received the kind of audit report that I hope to God no other nonprofit ever gets. It looked like *War and Peace*; it was that thick.

There was good reason for our bad audit: I had just transitioned the organization from a cheap, paint-by-numbers auditor ("Here are the forms I need you to fill out") to a real pro who cost us five times as much and had the skills to help us identify our shortcomings and improve.

After I shared that audit with **Daniel Lurie**, the founder and then-CEO of Tipping Point, he was taken aback. "That audit doesn't look so good," he told me via email. But then he asked, "What can we do to help? Let's have a conversation about it." After that, Daniel and his team decided to double down on their support for First Place, which allowed us to fix every problem the auditors found.

Meanwhile, another funder that I won't out—but wish I could, to provoke introspection and improvement—had the opposite reaction. That foundation, which uses the term "partnership" all the time, pulled out of its previously announced $2 million commitment to us.

Even though Tipping Point helped me fill some of that void, the loss of that $2 million gift was devastating. Because we had received a written commitment for the gift, we had already developed ambitious plans for expansion to Los Angeles and had begun hiring accordingly. We weren't able to take advantage of a large contract with the City of Los Angeles—an opportunity that never came up again. Our staff morale sank, and my own confidence took a big hit.

Now that I'm a funder myself, I think about that episode every time I sit down with a grantee. I try very hard to greet bad news with gratitude and curiosity

rather than scorn or judgment—just as Tipping Point leaders did with me, seeing through the negative to ask about the "why." They were grateful that I was transparent with them about our struggles, and now I'm grateful when others do the same with me.

I can be much more helpful as a funder if I'm operating with honest, real information rather than sugar-coated talk. It's a two-way street. I'm honest with grantees, and they're honest with me.

Bottom line: If you're not willing to create the space for two-way, trust-based relationships with your grantees, that's your prerogative. But please don't use the word "partnership" on your website.

Own Up to Your Implicit Bias

No institution is free of biases, and that includes mine and yours. Institutions are made up of fallible human beings. And those of us who grew up in the U.S. were raised in a society built on layers and layers of injustice and inequity.

I definitely saw a lack of equity in my time as a nonprofit leader. I didn't always understand it, but I'm gaining more understanding now that I'm in the privileged role of funder. I'm seeing how inequity plays out in funders' daily work.

I'll offer a clear-cut example—another tale of two organizations.

In my first year at Tipping Point, every week I'd get a call or email from an influential person (board member, political leader, etc.) encouraging me to check out a particular organization for potential investment. When I had a chance to sit down with the founder of one of these organizations, I got an elegant PowerPoint presentation befitting her background as a marketing executive in a large company. But when I dug into the details, I saw a fundamental discrepancy between what the founder said the organization had accomplished and what it actually delivered. To be blunt, there was no "there" there—certainly not enough to justify all the funding she was receiving from name-brand tech entrepreneurs.

Around the same time, I had a meeting with a woman leading a smaller organization working on similar issues. The meeting was a bit of a mess, but as I listened to her pitch, which had none of the bells and whistles of the first organization, I could tell that her work was based on a solid theory of change and was achieving tremendous outcomes. She was consistently landing contracts from her city government, but in seven years she had earned only $10,000 in philanthropic support.

As you've probably guessed, the first leader was white and the second was a person of color. The first leader was good at using her privilege to attract funders. She benefited from people making assumptions about her success because of her background. She was able to speak their language. She immediately made people feel comfortable because she was "one of them."

The second leader had no such privilege, PowerPoint prowess, or network. I saw this same dynamic play out when I was raising money at First Place. I can't tell you how many times I saw organizations led by white Ivy Leaguers getting large-scale investments from the same foundations that gave us rounding-error grants—even when those organizations had outcomes inferior to ours.

These days, well-intentioned (white) funders often ask me, "How can we find more leaders of color, those who are more proximate to the problems we want to help solve?" But when I offer my insights, they often tell me that "those leaders don't want to collect data." To that I respond, "They do! They just haven't found funders willing to help them build the systems they need." I know because I was once caught in the same Catch-22.

Bottom line: If you're not willing to examine how racial and other biases play out in your work—from how you construct your pipeline to how you build your board—that's your prerogative. But please don't use the words "equity" or "inclusion" on your PowerPoint slides.

If You Expect High Performance, Invest in It

When I was trapped in the data Catch-22 in my early years at First Place, it was Tipping Point leaders who helped me break free. I told them I wanted to build a

data system for tracking outcomes and driving continuous improvement. At the time, they didn't have much more experience with these systems than I did. But they stepped up to help.

And I must admit: I grossly underestimated what it would take to use data well. I learned this the hard way when I hired the legendary leaders **David Hunter** and **Mike Bailin** to help us determine whether we were ready for an external evaluation. We thought David and Mike would be impressed with what we had built. They weren't. In fact, a day and half into our work together, David pulled me aside and said, "This is the most dysfunctional organization I've ever seen." What a gut punch!

I came to realize that being data-driven is not only about having a good technology system; it also has to be about culture. We were forcing our staff to put data into our fancy system, but they weren't buying in. David and Mike helped me see that we needed to develop a plan for how to build a culture that valued data.

Thanks to Tipping Point's initial investment, David and Mike's support, and then the brilliant work of data scientist **Peter York**, First Place subsequently developed human and technology systems focused on *improving*, not just *proving*. We were able to get great insights on who was dropping out of our programs and why, as well as what parts of our programs led to positive outcomes and which didn't. For example, we built sophisticated algorithms that allowed us to see that if we were to do three specific things well with our target population, we would increase our likelihood of success by 20 percent. As a result of all of this work, we began to get recognized by other foundations, and that gave us more dollars to help invest in the disciplines that drive performance.

Bottom line: If you're not willing to help your grantees build the kind of human and technology systems that support learning and improvement, that's your prerogative. But please don't "pester them for more information on results," in the words of ***Mario Morino****.*

Conclusion

Right now, we're all facing three historic challenges: a pandemic, a recession, and stark racial inequity. Funders have the privilege of sitting in a position to create real and sustaining change on all three. If we're going to do that, we have to look in the mirror first. We have to flip the script on who and how we fund. We must acknowledge the very pillars of philanthropy that support the racial inequities we're all working so hard to break down.

What gives me hope is the volume of funders who are now speaking this truth. I believe a sea change is coming—and philanthropy can help advance that change if we can advance ourselves first.

Sam Cobbs is Chief Executive Officer of Tipping Point Community.

If Not Now, When?: From Virtue Signaling to Hard Self-Examination

By Hilary Pennington

Without exaggeration, this is an existential moment—for our societies and for philanthropy itself. COVID-19 has laid bare longstanding, unacceptable inequities. The pandemic's disproportionate effect on people of color, combined with outrage at police violence targeting Black and Brown communities, is provoking important conversation and maybe even some behavior change. As cities are suddenly discovering they can decarcerate people imprisoned for low-level crimes or convert empty hotels to housing for the homeless, and the federal government is finding it possible to suspend student debt payments, so too are foundations discovering that they can provide flexible general-operating support, accelerate grant decisions, and loosen heavy reporting requirements.

Just as society needs to build back better from the pandemic rather than returning to an old normal, so too can philanthropy. Can we shift away from the inequities in whom we fund—to include and better support organizations led by people of color and women? Can we expand our use of the kinds of flexible, multiyear general-operating support that will make our grantees more resilient—better able to survive times of crisis and adapt to what the moment calls for? What might stand in our way?

Here, unique among all segments of civil society, there are few external forces preventing systemic change. We in philanthropy are our own worst enemy, and we are therefore uniquely called to examine and change our own practices.

Doing so requires us to move from performative statements that signal our virtue to hard self-examination. In the interests of advancing that kind of reflection, I offer four lessons from our experience as one foundation on a journey toward deeper, more equitable, and more trust-based relationships with our grantees. We have learned lessons from our own mistakes and from funders ahead of us on this journey.

First, we had to shed the magical thinking that important change can happen quickly—advanced by relatively small, short-term grants.

Our shift in 2015 to focus all our resources on one issue—inequality—required us to question our timing expectations. After 80 years of working on the front lines of social change, we knew that social-justice organizations are playing a very long game. Success isn't measured in years but in decades. Progress isn't linear. As we see today in challenges to voting rights, reproductive rights, civil rights, and more, it's often interrupted by setbacks and defeats and well-funded, well-organized opposition. Funders working to help "bend the arc toward justice" have to take the long view.

When we analyzed our actual practices, we found that Ford wasn't funding for this long game. Most of our grants—even to longstanding grantees—were project support, for less than two years. Keeping our grantee partners tied to rigid timeframes and deliverables was stifling their investments in talent, organizational development, and needed technology. It was keeping them on what BUILD Director **Kathy Reich** calls "a treadmill of short-term thinking, where they become reluctant to innovate, take risks, learn from failure, and scale."

This recognition led us to make some important changes to transform our grantmaking. In late 2015, we implemented Ford*Forward*, a comprehensive initiative to change the way that we do business. Some of the key elements of Ford*Forward* include making more of our grants in the form of general support; paying a minimum of 20 percent overhead on all project grants; and launching our BUILD program, a five-year, $1B effort to strengthen key institutions that focus on ending inequality in all its forms.

BUILD provides five years of general-operating support, plus dedicated funding for institutional strengthening in areas that grantees choose, based on an organizational assessment. To date, we have made more than 300 BUILD grants to partners in 28 different countries. Midterm findings from our evaluation indicate that more than 85 percent of BUILD grantees have been able to strengthen strategies, improve strategic clarity, respond to opportunities, strengthen their financial situation, and more effectively implement programs. Two-thirds have been able to leverage their BUILD grants to secure other funding.

Second, we had to reimagine the program officer/grantee relationship.

BUILD aims to shift the power dynamic that too often plagues donors and grantees, by making the Ford Foundation's relationships with these organizations more collaborative, more strategic, and more trusting. Greater trust leads to greater impact from the relationship—with leaders able to ask for what they really need. More than 90 percent of BUILD grantees report that their relationships with Ford staff are deeper and more meaningful because of the BUILD grant.

At the Ford Foundation, many staff who were skeptical about the BUILD approach to grantmaking are now its biggest champions. One program officer said the nature of the BUILD grant changes the conversation with grantees: "Instead of focusing on the minutiae of deliverables, we talk strategically about long-term goals and how other parts of the organization, such as operations, leadership, human resources policies, and their mix of funding sources, can help them achieve these goals or not."

Program officers are benefiting from more candid and authentic relationships with the leaders and organizations they fund. And they're seeing strong results in achieving their program goals. Overall, including BUILD, more than 70 percent of the grants we make are now general-operating support—up from around 30 percent five years ago.

Third, we had to challenge sacred cows about accountability, impact, trust, and control.

Grantmakers often believe flexible funding means they lose power to hold grantee partners accountable for results. But we've found that unrestricted funding doesn't mean a loss of accountability. The flexible, long-term nature of the BUILD grant has made program officers more attentive to grant monitoring—not less. We've also learned that it's possible to make multiyear commitments even though funding over multiple years requires making difficult choices, as larger grants usually mean fewer grants and grantmakers can't fund as many organizations as they can with single-year commitments.

Multiyear grants can be valuable to nonprofits even if the grants aren't particularly large. And flexible grants are among the most strategic types of support because they give nonprofits room to quickly adapt their work in response to challenges and opportunities.

For example, when the National Women's Law Center received a BUILD grant in 2016, it was on the cusp of the first leadership transition in its 45-year history, appointing its first woman-of-color CEO, **Fatima Goss Graves**.

Rather than holding back funding, or attaching numerous conditions to it, our program officers chose to invest in the organization's new leadership with a five-year, flexible commitment that included funds for the center to complete its leadership transition; bolster its communications, fundraising, and information-technology efforts; and increase staff diversity. With BUILD funds in hand and stronger infrastructure in place, the center was ready when an unanticipated opportunity arose: running the TIME'S UP Legal Defense Fund, which has raised more than $25 million to help women win workplace sexual-harassment claims.

Finally, the commitment and diversity of our leadership were essential to our ability to make and sustain these changes.

Since 2013, when **Darren Walker** became president of Ford, our board of directors has evolved to include highly distinguished leaders of color and women, including leaders from the nonprofit sector. Fully half the board is now female, and more than half are leaders of color. Our senior executive leadership team has also shifted; women and leaders of color now make up more than half of the executive team. This changes the perspectives around the table when we make critical decisions about what matters, for whom, and how to enact our strategies in ways that embody our most deeply held values. It has led us systematically to support organizations led by people of color and women and deepen our engagement for their success.

For all of us in philanthropy, the public health and economic crises posed by the coronavirus present an urgent opportunity to provide better, longer, and more flexible funds to help grantees responding on the front lines of this pandemic. **Vu Le** and **Antony Bugg-Levine** call this type of support "MYGOD funding"

(multiyear, general-operating dollars)—capturing the sentiments of the grantees who receive it. When coupled with money and engaged support for institutional strengthening, the nonprofit organizations we fund can become stronger, more resilient, and more effective.

Yet, even as we can hope that more funders adopt and sustain these practices, there's an important caveat to keep in mind: In this, as in all things important, there's no "silver bullet." MYGOD funding and investments in institutional strengthening are not like a vaccine—one dose and you're done; grantee partners will be strong forever. Rather, we should think of them as necessary recurrent practices—more like preventative healthcare—and similarly much more effective for advancing the health of our sector in truly fighting the long game of bending the arc toward justice.

Hilary Pennington serves as Executive Vice President for Programs for the Ford Foundation.

What You Can Do: Advice From Kathy Reich, BUILD Director

In light of COVID, make commitments for as long and as flexibly as you can and combine unrestricted support with flexible capacity-building dollars. This gives grantees permission to focus on critical planning, evaluation, and infrastructure at a time when the temptation is to sink every last dollar into programs.

Listen to what your grantee partners are telling you and support them to develop their own best answers—which may include investments in technology and managing trauma/self-care. For example, in late March 2020, we hosted a video call for BUILD grantees to brainstorm how to shift their strategies and their operations in light of COVID. We organized it with five days' notice, made it optional, and cautioned that it was primarily geared toward U.S. grantees. To our surprise, more than 150 people joined the call, including grantee partners in China, India, and Indonesia for whom it was the middle of the night! Grantees were incredibly grateful for the chance to exchange ideas with each other. And we were able to learn from them about what further support would be helpful. As a result of this call, we're organizing follow-up webinars on financial planning, fundraising, and human-resources management in the time of COVID—and tailoring content for U.S. and Global South grantees.

For grantmakers willing to take the leap, many funding colleagues can show you the way. The Trust-Based Philanthropy Project, Grantmakers for Effective Organizations, the Full Cost Project, and many others offer tools and resources for funders on how to make larger, longer, more-flexible grants.

We Depend on Well-Led and Well-Managed Grantees

By Daniel Stid

The Hewlett Foundation's U.S. Democracy Program is addressing three big challenges. We seek to strengthen Congress, improve campaigns and elections, and combat digital disinformation. While these are distinct objectives, they all depend on our having well-led and well-managed grantee organizations that can take full advantage of our funding. Leadership is typically not a problem for our grantees, but management often can be. We're striving to help them close this gap.

I should begin by fleshing out our definitions of leadership and management. Following Harvard Business School's **John Kotter**, we believe leadership and management are very different things, and that effective organizations need to have both. Leadership provides a compelling vision and the ability to change, innovate, and grow in fruitful ways. Management, in contrast, provides stability for the ongoing work of problem-solving and building up essential systems, processes, and disciplines (e.g., careful budgeting and performance measurement).

Several factors have led to leadership generally being stronger than management among our grantees. For starters, we primarily fund advocates, think tankers, litigators, and media outlets. In these areas, the ability to convey a vision and adapt in response to new developments are the coins of the realm.

Because there are real returns to these attributes in our field, visionary leaders—often the founders of their organizations—can make a lot happen and carry on despite having underdeveloped management muscles. However, the longer this imbalance persists, the more likely it is that problems arising from not having necessary systems and processes in place (e.g., blown budgets, missed deadlines, or high staff turnover) will crimp the organization's potential.

Grantees are further hampered in developing their management chops because some penny-wise-pound-foolish funders balk at paying for it. They insist they won't pay for "overhead," or cap it at arbitrarily low and flat rates, because they

want their funding to go straight to grantees' programs. They fail to recognize that the management capacity of grantees is what will enable them to sustain and improve their impact over time.

We use several grant practices in the U.S. Democracy Program to counteract the field's chronic underinvestment in grantees' management capacity. First and foremost, like other teams at the foundation, we provide the bulk of our funding in the form of multiyear, unrestricted general support grants that leave our grantees free to allocate costs to and invest in management capacity as they see fit.

When we do make project grants, we encourage our grantees to account for and request their full or true costs, a practice the Hewlett Foundation now encourages across all programs. Our peers at the Ford, MacArthur, Open Society, and Packard Foundations are striving to do the same.

In addition, through Hewlett's Organizational Effectiveness program, we make supplemental grants to meet prosaic but mission-critical management needs that are otherwise hard for grantees to undertake, such as those for strategic plans; website overhauls; executive searches; performance-measurement systems; program evaluations; succession plans; and diversity, equity, and inclusion training.

These grant practices are helpful but still at times insufficient to help grantees gird their management capacity. Often, they need a senior manager with the experience, responsibility, and authority to complement their visionary leadership. These chief operating officer (COO) roles, or senior positions with similar job descriptions, can serve as much-needed counterweights in grantee organizations. We've encouraged and supported several grantees to hire COOs, then underwritten coaching to help the leader and the newly hired COO craft a productive working relationship and align their roles.

A first-time COO can encounter and generate a lot of turbulence. A few such attempts by grantees to establish the role have quickly flamed out. It is a fraught task to begin balancing the leadership vision and change that have enabled an organization to prosper since its founding with the management continuity and discipline required for success in the longer haul, especially as the organization

scales up. Striking this balance is challenging even for organizations that had the good sense to hire a COO from the outset.

With this in mind, we have begun underwriting a community of practice among COOs from 11 of our grantees. The premise is that, given their unique responsibilities and challenges, these senior managers have a lot to learn from and offer to each other. Once a month, experienced advisors at Community Wealth Partners convene the COOs virtually and engage the group in confidential conversations on topics its members have identified as pressing in their work, from navigating the CEO/COO relationship to managing staff and formalizing systems and processes.

During the initial disruption caused by the COVID-19 crisis, the COOs scrapped their planned agendas and dug in together on how to help their organizations transition to collaborating and working remotely. Looking ahead, the COOs will be sharing and learning from each other on the challenges of whether, when, and how to have their teams reconvene in the office. The goal of all these conversations is to share not only lessons learned and experience with specific tools but also the perspectives and support of colleagues who are tackling the same difficult tasks in different organizations.

We will continue to evaluate and gauge whether these efforts are making a difference. The acid test is always whether grantee leaders and managers find them helpful. Our work to help grantees become well-led and well-managed will continue to evolve. Given what's at stake, neither we nor our grantees can afford to be complacent about it.

Daniel Stid is the Program Director of U.S. Democracy at the William & Flora Hewlett Foundation.

Accelerating the Movement Toward Funding Practices That Strengthen Nonprofits

By Jeri Eckhart Queenan and Jeff Bradach

Our hope is that foundations will one day look back on the COVID-19 pandemic as a turning point in the long-running conundrum of how to end the nonprofit "starvation cycle."

Momentum for change gathered steam late in 2019. That's when presidents from five of the nation's largest foundations announced a plan to stop underfunding grantees' indirect costs, a widespread practice that inspired the "starvation cycle" moniker. Ford Foundation President **Darren Walker** described the joint effort as a breakthrough and hoped that it would spark a broader movement.

At the time, five major foundations acting in concert to end chronic nonprofit underfunding garnered widespread attention. The prospect of several hundred pledging to go even further to change deeply ingrained grantmaking practices was unimaginable. But that was before COVID-19.

By late April 2020, in the midst of a pandemic wreaking economic havoc and taxing the ability of nonprofits to serve their constituents, almost 800 foundations signed a far-reaching call-to-action pledge. Among other things, they committed to loosening or eliminating restrictions on current grants and making new grants as unrestricted as possible. In a moment of crisis, the philanthropic community rose to the occasion and agreed to practices that reform-minded critics have urged for years: more trust and fewer onerous restrictions on how nonprofits spend their grants.

It remains to be seen whether, when the pandemic crisis passes, foundations will fall back on old habits. We certainly hope not.

The case for change has been building for years, led by groups such as the Center for Effective Philanthropy, Independent Sector, the Nonprofit Finance Fund, the RAND Corporation, the Urban Institute, and many others—including our organization, The Bridgespan Group. Even before we published "The Nonprofit Starvation Cycle" in 2009, we heard the anguished voices of

grantees stymied by the failure of foundations to cover the actual costs of the work. A number expressed their experiences privately for fear that airing their concerns publicly would reduce the chance of funding. We'll never forget the leader of one of the largest advocacy organizations in the U.S. saying she felt like a "dog with a collar" when it came to negotiating cost reimbursement with multiple program officers at a major foundation. Or the former investment banker who said he could never tell his funders the truth about his indirect-cost rate, which justifiably exceeded 15 percent. Across the nonprofit sector, the unequal power dynamic between funders and grantees stood in the way of frank conversations about funding. As a result, very little changed.

Inspired by voices from the field, and mindful of the complexities of foundation practice, we set out to build the fact base. In four discrete research efforts through 2019, we found evidence of a pervasive pattern of deeply ingrained funding practices that undercut nonprofit financial health and effectiveness. Through sustained and successive efforts, building on work by many others, we have helped to build a compelling case that the way most foundations fund nonprofits correlates with financial instability. In short, here's what we found.

Most grants are restricted.

Three-quarters of U.S. foundation giving, and most NGO and government funding globally, comes in the form of restricted grants that limit what grantees can spend on non-program-related indirect costs. These include capabilities essential for achieving impact, such as executive leadership, information technology, strategic planning, and knowledge management. It's standard practice for most foundations to cap indirect costs at 15 percent or less. For instance, seven of the 15 largest U.S. foundations currently post on their websites an indirect-cost reimbursement policy of 15 percent or less. Many global funders limit indirect-cost reimbursement to between 5 percent and 8 percent.

Indirect-cost reimbursement falls short.

Evidence belies practice. Rigorous analysis shows that actual indirect-cost rates (i.e., the ratio of indirect or shared costs to direct costs) are consistently higher

than 15 percent and vary significantly depending on factors such as business model, scale, and geographic location. This analysis, first published in "Pay-What-It-Takes Philanthropy" in 2016, has been replicated three times, including by independent accounting firms. The actual median indirect-cost rate for one sample of 20 well-known nonprofits and NGOs turned out to be 40 percent. A recent analysis of more than 130,000 nonprofits' IRS 990 financial forms found a similar pattern, with the minimum indirect-cost rate for "financially healthy" organizations being around 30 percent.

These limits on indirect costs leave nonprofits with a significant financial gap to fill. In our recent study, leading foundations covered, on average, only 88 cents on every dollar a sample of their grantees actually spent to carry out project-restricted programs and services. Foundations are, in essence, telling nonprofits to make do on a budget that leaves out essential expenditures, so the more they spend, the farther behind they fall.

Chronic underfunding leaves nonprofits financially weak.

Shortchanging indirect costs undermines the financial health of the organizations funders have chosen to support. This was the shocking conclusion of our rigorous examination of the financial health of the 274 most strategically important and highly co-funded nonprofits of the 15 largest U.S. foundations. Many of these nonprofits are household names. More than half (53 percent) suffered from frequent or chronic budget deficits, and 40 percent had less than three months of reserves in the bank to cushion financial shortfalls. In fact, 30 of the 274 organizations were technically insolvent. COVID-19's widespread effects are further exacerbating these financial challenges. We can't solve society's most pressing problems on the backs of financially stressed nonprofits, despite their Herculean efforts.

The challenges transcend restricted grants.

Even foundations that don't have flat-rate indirect-cost policies can unintentionally shortchange nonprofits by granting too little money to cover actual costs. This came as a surprise to one large foundation that presumed its

grants fully funded its grantees. In a pilot project with a funder collaborative, a third-party accounting firm determined that the foundation actually paid 83 cents on the dollar for the grant under review—a gap similar to the one created by flat-rate funders.

Systems-change efforts also suffer from unrealistic funding restrictions, the subject of a recent Ashoka report. Ashoka calls for fundamentally rethinking and redesigning the way funders support systems-change efforts.

The need for race-conscious solutions is even more acute.

In a 2016 Bridgespan sample of 29 nonprofits, we learned that factors other than impact determine cost recovery. White-led organizations were more likely to achieve full-cost recovery than organizations led by people of color. While the sample wasn't large enough to be statistically significant, the findings were consistent with the patterns of discrimination that have already been well documented. That observation led us to team up with Echoing Green to conduct a rigorous analysis of funding patterns for organizations led by people of color. The research concluded that racial bias—both personal and institutional, conscious and unconscious—creeps into all parts of the philanthropic and grantmaking process. The result is that similarly qualified nonprofit organizations led by people of color receive less money than those led by whites. For example, in a sample of promising early-stage organizations, the revenues of the Black-led organizations were 24 percent smaller and the unrestricted net assets a whopping 76 percent smaller than those of their white-led counterparts. The stark disparity in unrestricted assets is particularly startling, as such funding often represents a proxy for trust.

With definitive evidence of the problem and its contours, we can and must address it.

For the five foundation presidents who agreed to change their funding practices in late 2019, the hard work of implementing solutions to chronic underfunding was just beginning when COVID-19 struck. In short order, the economic shock of nationwide shelter-in-place orders sent the nonprofit sector into survival

mode. The pledge signed by hundreds of foundations threw nonprofits a lifeline fashioned out of more than a decade of research and advocacy. We know what works:

- Provide flexible funding built on trusting grantees to spend their grants wisely.
- Commit to the principle of paying your fair share. That is, pay for the actual direct costs of a project plus a fair share of associated indirect costs and operational costs.
- Provide multiyear funding that enables grantees to plan for operational and financial sustainability.

Changing the status quo and adopting these approaches will require funders and grantees to have honest and constructive conversations about actual funding needs and true costs. By and large those conversations aren't happening today, given the power imbalance between funders and grantees—an imbalance that's even more acute when grantees are led by people of color. This must change. The power imbalance needs to be upended.

COVID-19 may have set that shift in motion. The hundreds of funders who signed the pledge agreed to give up some power—the power that's expressed through grant restrictions. We admit it will take hard work to sustain and extend this shift, but vanguard foundations that have made flexibility and equity a North Star (e.g., Libra, Weingart, and Mulago Foundations) show the way forward.

Let's not waste what is now the world's largest experiment in flexible grantmaking. What does flexibility enable grantees to accomplish that they otherwise could not? Clearly, the pre-pandemic status quo wasn't working—from financially undermining grantees to discriminating against organizations run by people of color. Maybe we've reached a tipping point for fundamental change. The crisis that inspired hundreds of foundations to pledge more trust and fewer grant restrictions may prove to be the catalyst that ushered in a new era of grantmaking.

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What Grantees Need From Funders at This Time of Tumultuous Change

By Hilda Polanco and Deborah Linnell

When COVID-19 was first identified in the United States, many Americans were hopeful that social and work life would get back to some version of normalcy by July or August 2020. Little did we know that an entrenched people, unable to adjust enough to ensure low transmission rates, would be under a long siege. As a result, the impact of COVID-19 on the nonprofit sector will be long term, disruptive, and possibly transformative.

Since mid-March, nonprofit leaders have been working 60-80 hours per week—creating financial contingency plans; reinventing service delivery; maintaining fundraising activities; applying to government loan programs; ensuring the health of staff and clients; and managing staffing layoffs and furloughs. The work has been particularly draining for organizations led by and serving communities of color. The disproportionate impact of COVID-19 on people of color and renewed attention on police brutality against Black people are laying bare the deep racial inequities in the U.S. As such, many leaders of color who are working to keep their organizations open are simultaneously being called upon to lead at the community level.

We believe that foundations must step up to help nonprofit leaders not just manage through these difficult times but also gain the space and capacity to plan for life post pandemic. In this essay, we'll offer ground-level insights into the phases of change nonprofits are likely to experience and then describe what they will need from their funders during each phase.

Phases of Change

Like individuals, organizations experience change in phases: crisis, survival, stabilization, and reimagining.

Individual nonprofits will move through these phases at different times, depending on their field (housing will be different from the arts); location; funding mix (those more dependent on foundations may actually do better

during this crisis than those depending on earned income or government contracts); cash reserves and financial liquidity; social capital (those with personal connections to people and institutions with resources will fare better); real estate obligations; and, critically important, the capacity of board and executive leadership to manage change. Moreover, the phases aren't linear. For example, not every nonprofit starts in a crisis. But the majority of nonprofits will cycle through at least two of these phases during the next 18 months.

The Crisis Phase: Many nonprofits (those with three or fewer months of operating reserves) may be forced to create contingency plans more than once. Many organizations first engaged in contingency planning between March and June 2020, but few of these organizations planned for a long-duration event. The federal Paycheck Protection Program and emergency funds from foundations will likely run out soon. As a result, a number of nonprofits will have to redo contingency plans during 2021.

The crisis phase is characterized by cutting programming and staff, re-negotiating leases, and facing the possible fire sale of facilities. Cash-flow planning will be the most important financial tool for this phase. The ability to access capital—including unrestricted cash and, where debt is appropriate, credit lines and bridge loans—will be critical. As the sector wrestles with decades of racial inequity, it will be essential for philanthropy and finance intermediaries to work with organizations centered in and on serving communities of color, which have historically lacked access to capital.

The Survival Phase: Survival is a bridge between crisis and stabilization. During this period, an organization has met the immediate crisis and isn't in imminent danger of closing its doors. There is some breathing room to develop longer-term-scenario plans. Cash flow should be tightly managed. Six-months-and-beyond scenarios should be based on conservative financial projections that are carefully monitored and adjusted as new information becomes available.

Here are the forms of philanthropic support nonprofits need most during the crisis and survival phases:

- Stay in touch with grantees and listen to their programmatic and financial story, ever mindful of respecting leaders' time. The Council

on Foundations' COVID-19 pledge, which loosened restrictions on project funding, calls for funders to learn from the emergency practices identified "so we may consider adjusting our practices more fundamentally in the future, in more stable times, based on all we learn." General-operating grants should be the norm, not the exception, during the pandemic and for a while afterward. This isn't the time to ask nonprofits to describe a one-year project and its outcomes.

- Develop pooled funding among peer philanthropies to allow nonprofits to access bridge financing where debt is appropriate.
- Explore efficiencies for both funders and nonprofits, such as pooling resources for shared financial due diligence. This would make it possible for grantees to have a finance professional assess their health and needs periodically rather than having to respond to a constant stream of unique requests from multiple funders. In turn, funders could have more consistent information to determine the size, type, duration, and other elements of their grants that may be influenced by a grantee's financial health. It may also be worth considering that financial due diligence need not be a one-size-fits-all endeavor. Most grantees probably require a light review, while a smaller number need a deeper dive.
- Create a grant pool for hands-on technical assistance via expert consultants who can help strengthen decision-making capacities. Technical assistance should include areas such as financial analysis and financial choice points; professional board facilitation to help directors make difficult decisions; compliance and values-based human resource management; scenario planning; facilities management; and coaching for leaders.
- Where organizations are contemplating alliances or transitioning programs from one entity to another, consider funding the process to ensure continuity of service to the community.

The Stabilization Phase: To stabilize, some nonprofits will try to create efficiencies through retrenchment—that is, a strategy of internally restructuring to focus even more intensively on core mission and programs. Others will stabilize via alternative management models such as outsourcing or a shared back office; creating management support organizations; or becoming part of

a more stable entity. For the latter, fiscal sponsorship can be a good option. Nonprofits can put their 501(c)(3) on hiatus and come under a fiscal sponsor's umbrella. Fiscal sponsorship can create opportunities for back-office operating efficiencies while expanding benefit options for staff (as a product of being part of a larger organization). It's critical that decisions during this phase integrate the value of equity for staff, constituents, and the community.

Here are the forms of philanthropic support nonprofits need most during the stabilization phase:

- Commission trainings on alternative management models, outlining options and considerations.
- Convene groups that may want to learn more about a particular pathway. Develop shared capacity-building pools among philanthropic partners to fund organizations that need to explore alternative management models.
- Consider funding models for a shared back office, including strengthening the capacity of fiscal sponsors to take on additional programs.
- Continue to explore efficiencies for funders and nonprofits, such as shared financial due diligence.
- Continue to support hands-on technical assistance in areas such as finances, human resources, and facilities management.

The Reimagining Phase: Nonprofits, as is well known, have at least two key customers: their end users (constituents) and the funders who invest in their social purpose. Now is a time for nonprofits to focus on the former. The guiding questions in this phase should be:

- What should be our mission going forward? What matters most now and in the near future, and for whom?
- If we revise our mission for these new times, what changes will we need to make to strategies, organizational structure, and systems?
- What is the business model that will support this new mission, and how will we secure the resources we need?

Some nonprofits will move through this period by getting back to the basics and asking their constituents and communities what they need most. Others

are homing in on core work instinctually. Either way, this moment provides an opportunity to rethink how mission and programs get done. Leaders will be called upon to do this rethinking in more responsive and equitable ways. Key tools here will be capacity to listen, think generatively, adapt, and manage change.

Here are the forms of philanthropic support nonprofits need most during the reimagining phase:

- Commission research that can identify—in real time, if possible—what is happening to communities and nonprofit fields.
- Convene tables for discovery of what might be next (by field or geography).
- Engage consultants who are outstanding at process/meeting design and facilitation, to hold the space for conversations.
- As new forms, structures, and ideas emerge during these conversations, pay for business modeling (e.g., financial viability, market analysis), research, and pilots—rather than expecting individual nonprofits to pay out of pocket.
- Continue to explore shared financial due diligence to help funders understand the opportunities they are being asked to fund. The professionals who conduct financial due diligence could be in a good position to broker productive conversations among funders and nonprofits.
- Continue to pool funding for organizations to create alternative management models and to learn from them.

Big Unknowns

There are too many macro variables buffeting the sector for anyone to truly know how we'll emerge from survival into the sunlight. But nonprofits, with support from foundations, should be tracking at least the following variables:

- *State and Municipal Budgets:* Tax hits will have significant impact on state and municipal funding of the social sector into 2021 and likely beyond.

- *Worldwide Macroeconomics and Financial Markets:* Will Wall Street and Main Street continue to operate in parallel universes, or will Wall Street tumble again—shrinking foundation endowments and payout?
- *Movement for Racial Justice:* The nonprofit sector is undertaking an essential reckoning with its contribution to racial inequality. Funders will be called upon to ensure that their dollars are reaching on-the-ground leaders in communities of color, not just that such communities are end beneficiaries of dollars controlled by mainstream organizations. As such, how funds are invested and directed will have impacts across communities and the sector.
- *Real Estate:* While the future of work may be unknown, it's clear that a large portion of the workforce will continue to work remotely after the pandemic. Commercial real estate, including that owned by nonprofits, will go through a sea change in the next few years. The impacts may be large or medium; they won't be small.

Conclusion

Well into 2022, the nonprofit sector will be managing the change wrought by humanity's shared frailty and hubris. No one can predict what the nonprofit sector will look and act like afterward. However, we do know we must take stock of reality, change behaviors, live with less, and dream of more—or at least a better and more equal distribution of what nonprofits and philanthropy will rebuild together. Given the power dynamic, philanthropy must play the important leadership role of providing dollars, information, convening, and capacity-building support while investing more trust in its nonprofit partners to self-determine their paths forward.

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FROM THE PREFACE

"Funders, heal thyself! Your intentions are noble, but your practices are not. The vast majority of you are starving your grantees rather than nourishing them."

FROM "RISING TO OUR TIMES: THE FIVE HABITS OF HIGHLY EFFECTIVE FUNDERS"

"This essay highlights a remarkable group of positive-outlier funders that are supporting grantees. If every funder were to study these practices, our sector would be more effective by an order of magnitude."

FROM "ARE YOU HELPING GRANTEES SUCCEED— OR TRYING TO CATCH THEM MESSING UP?"

"If you're not willing to examine how racial and other biases play out in your work—from how you construct your pipeline to how you build your board—that's your prerogative. But please don't use the words 'equity' or 'inclusion' on your PowerPoint slides."

FROM "IF NOT NOW, WHEN?: FROM VIRTUE SIGNALING TO HARD SELF-EXAMINATION"

"Here, unique among all segments of civil society, there are few external forces preventing systemic change. We in philanthropy are own worst enemy, and we are therefore uniquely called to examine and change our own practices."

FROM "WE DEPEND ON WELL-LED AND WELL-MANAGED GRANTEES"

"Leadership is typically not a problem for our grantees, but management often can be. Grantees are hampered in developing their management chops because some penny-wise-pound-foolish funders balk at paying for it."

FROM "ACCELERATING THE MOVEMENT TOWARD FUNDING PRACTICES THAT STRENGTHEN NONPROFITS"

"The pre-pandemic status quo wasn't working. But the crisis that inspired hundreds of foundations to pledge more trust and fewer grant restrictions may prove to be the catalyst that ushered in a new era of grantmaking."

FROM "WHAT GRANTEES NEED FROM FUNDERS AT THIS TIME OF TUMULTUOUS CHANGE"

"Well into 2022, the nonprofit sector will be managing the change wrought by humanity's shared frailty and hubris. We must take stock of reality, change behaviors, live with less, and dream of more."