



national committee for  
responsive philanthropy

# Not All Grants Are Created Equal

**Why Nonprofits Need General Operating Support from Foundations**

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## **About NCRP**

The National Committee for Responsive Philanthropy is an independent nonprofit organization founded in 1976 by nonprofit leaders across the nation who recognized that traditional philanthropy was falling short of addressing critical public needs. NCRP's founders encouraged foundations to provide resources and opportunities to help equalize the uneven playing field that decades of economic inequality and pervasive discrimination had created. Today NCRP conducts research on and advocates for philanthropic policies and practices that are responsive to public needs.

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Why Nonprofits Need General Operating Support from Foundations

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## Table of Contents

1. Introduction .....	5
2. Defining General Operating Support and Nonprofit Needs.....	6
3. General Operating Support Facts and Figures .....	7
4. The Think Tank Story .....	17
5. The General Operating Support vs. program Support Debate .....	20
6. General Operating Support Champions .....	23
7. Conclusions .....	25



## Introduction

The debate surrounding general operating support is as old as modern-day philanthropy itself. In 1913 then secretary of the Rockefeller Foundation, Jerome Greene wrote:

“It is unwise for an institution like the Rockefeller Foundation to assume permanently or indefinitely a share of the current expenses of an endowed institution which it does not control. Such a continuing relationship inevitably carries with it a continuing responsibility for the conduct of the institution that is aided. The relationship should therefore not be entered into unless with the deliberate intention of assuming such responsibility.”<sup>1</sup>

In other words, Rockefeller should use its grantmaking to support short-term programs and projects, not to build or sustain the organizations that deliver those programs or projects.

Over the last century, foundations, nonprofits, and other observers have debated the merits of providing project support versus operating support. Throughout this ongoing debate, many foundation officials generally favor fewer grant dollars for general operating support and more for program specific purposes. Nonprofit organizations, on the other hand, often urge foundations to devote greater financial resources to general operating support. At times, the debate finds its way into various publications throughout the nonprofit and philanthropic sectors, including the sectors’ conference circuits.

In the past few years, as nonprofit revenues declined due to cutbacks in government budgets and foundation grantmaking, and as foundations reduced their general operating support grantmaking, several foundation and nonprofit officials and consultants began to discuss the need for general operating support for nonprofit organizations. Paul Brest, CEO of the Hewlett Foundation, for example, has led a group of foundation, nonprofit, and academic leaders in a discussion about the merits of general operating support, and how to get other foundations to devote more grant dollars to it.

In June 2003, the National Committee for Responsive Philanthropy (NCRP) began holding focus groups and convenings with nonprofit organizations to learn about their current financial situations, foundation funding, and need for general operating support. A brief report from the first convening was released that summer, and is available on NCRP’s website at <http://www.ncrp.org/PDF/>

[CoreOfTheMatter.pdf](#). Research on the types of organizations that receive the most general operating support began shortly after that convening. Results of this research are presented in this report, as well as an overview of why nonprofits need general operating support and why foundations are often reluctant to provide it.

These activities are part of an ongoing long-term research and education campaign to learn more about nonprofit general operating support needs and to encourage foundations to provide more of this type of support. Working with foundations that already provide substantial amounts of general operating support is a central part of the campaign. As this project moves forward, this report will be expanded to include new findings.

## **Defining General Operating Support and Nonprofit Needs**

To anyone who has spent time working at a nonprofit—especially organizations that are small to medium in financial and staff size—it is very obvious that nonprofits need funding that covers their basic operating expenses such as rent or mortgage costs, staff salaries, office supplies, and many others that are required to keep an organization running. Nonprofit employees also know how important it is to have some money on hand to respond to crises in the community, state, nation, or world through service provisioning or public policy-related organizing and advocacy.

Unfortunately, many nonprofits, while able to secure funding for projects, are unable to get foundation funding for these types of indirect expenses, which are needed to actually deliver on their projects and programs. Often, as many nonprofit executive directors have told us, organizations inflate their program and project costs when submitting proposals to foundations, and thereby build “extra” revenue to cover these costs. Many foundation program officers have also confided that they know this type of budget inflation is going on, but do not say anything about it, knowing that more senior foundation leaders—including board members—are less likely to sign off on general operating support grants.

The reasons why many senior foundation officials and board members are reticent to provide general operating support grants—especially to newer or controversial organizations—will be discussed later in this report. But first, the next section provides an overview of data on general

operating support, with the goal of getting behind the aggregate statistics about this type of funding, in an effort to better understand the kinds of organizations getting and not getting their fair share of the flexible funds pie.

## **General Operating Support Facts and Figures**

Operating support has never been a focus of foundation giving. In the 1980s, however, operating support grants became an even lower foundation priority, judging from time-series data from that period. For example, program-specific grants went from 35 percent of total foundation giving to 45 percent of total foundation giving from 1984-1988.<sup>2</sup> Since 1990, general operating support grants have constituted around 12 to 14 percent of total foundation giving, (except in 1994, when it jumped to 18 percent, with the largest share going toward public/society benefit and arts and culture organizations).

To develop a better idea of the kinds of organizations that currently receive foundation general operating support grants, data from the Foundation Center's Foundation Directory On-Line were gathered. In particular, data on the total general operating support given by foundations in 2001 to organizations that the Foundation Center classified as arts, advocacy (which this report's authors divided into conservative and progressive/mainstream categories), hospitals, and universities were collected.

These data were used to determine: (1) foundation grantmaking for both program and general operating support in 2001, (2) total foundation funding received by grantees in 2001, and (3) total and average general operating support received by the different types of nonprofit grantees sampled in 2001.

The next step was to analyze the data from two perspectives: (1) the supply-side of core funding or the volume of foundation grantmaking for general operating support and (2) the demand-side or the effect that general operating grants have on institutional budgets.

Finally, a case study on general operating support to advocacy organizations is presented as food for thought to stimulate ongoing conversations about core grantmaking. From a supply-side

perspective, progressive advocacy organizations receive the least amount of general operating support from foundations. Nonetheless, through the demand-side lens, it becomes clear that advocacy organizations—particularly conservative ones—receive the most general operating support as a percentage of their total budgets. With the greatest percentage of revenue in core funding among all types of organizations sampled, advocacy organizations have the most fungibility in their (albeit modest) budgets. This is a unique group of core funding recipients that warrants in-depth analysis.

### ***Supply-side of General Operating Support: Volume of Foundation Grantmaking***

As **Table 1** shows, universities received the most general operating support funding in 2001. On average, universities received \$524,449 in general operating support with the largest amount going to Princeton University, at \$26,092,385. The median amount of general operating support was \$75,300. Analyzing total foundation support for these types of organizations shows that universities<sup>3</sup> received on average \$5,987,697 with a median of \$891,257.

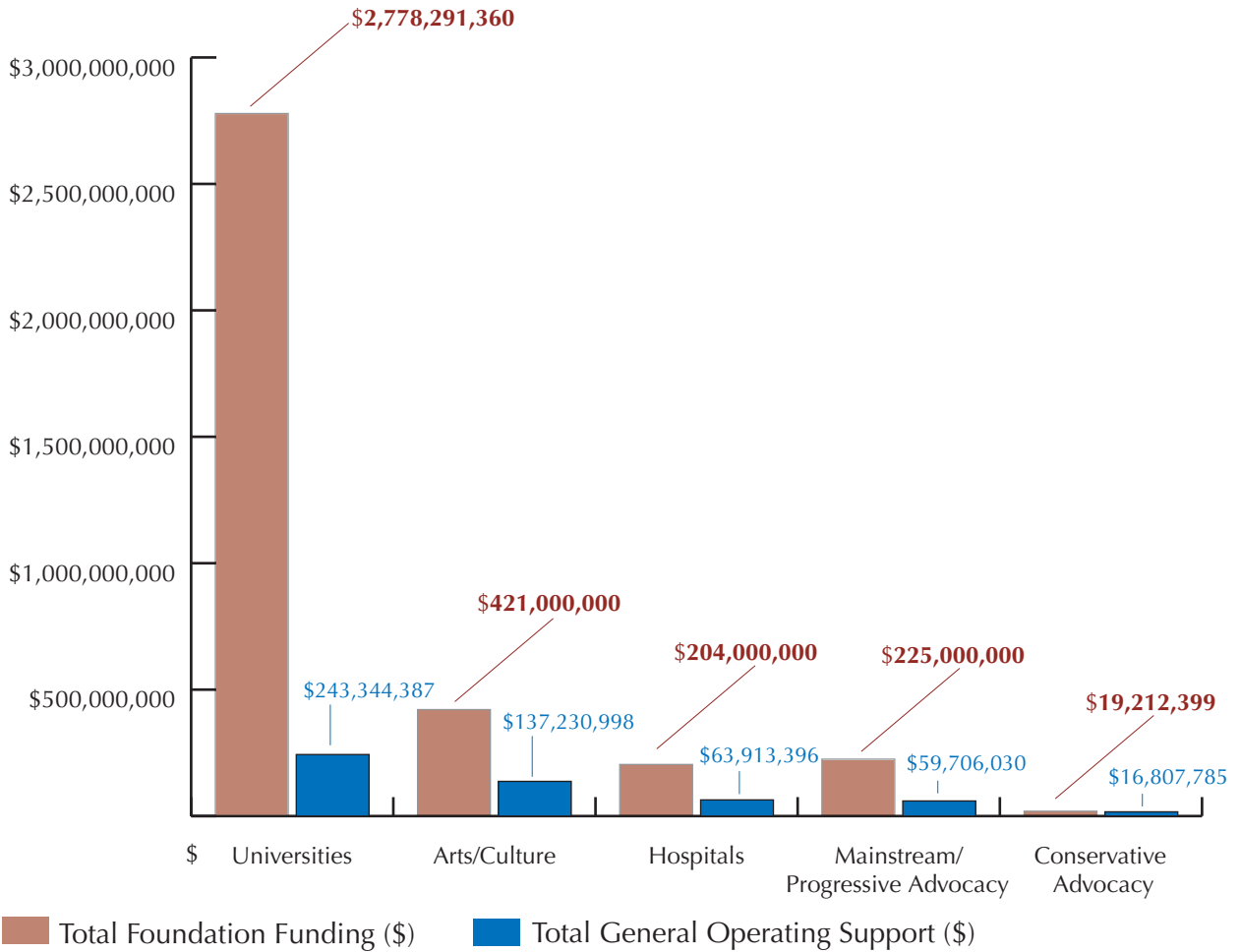
The second largest recipients of foundation general operating support dollars are groups that the Foundation Center classifies as arts/culture organizations. In 2001 these groups received on average \$1,124,362 in total funding with an average of \$270,672 for general operating support. The median total funding was \$192,000 and median average general operating support funding was \$46,258. The largest general operating grant for the arts was from the Freedom Forum to the Freedom Forum Newseum for \$26,369,573.

Hospitals received an average of \$216,655 in general operating support with a median of \$35,000. Of the hospitals that did receive a general support grant, they received an average of \$691,084 and a median of \$135,000 in total funding.

Within the area of advocacy the grantees were divided into two categories: conservative grantees and mainstream/progressive grantees. In terms of averages and medians, conservative grantees received more than their center-left counterparts in general operating support with an average of \$525,243 and a median of \$75,000. In total funding they received an average of \$600,388 and a median of \$142,500. The largest general operating support grant was given by the Freedom Forum to the Freedom Forum First Amendment Center for \$11,679,662.



**Table 1: Foundation Support for Universities, Hospitals, and Arts/Culture, Conservative Advocacy**



Source: NCRP data analysis of Foundation Center data, 2004

Compared to conservative advocacy organizations, mainstream to progressive advocacy organizations received more general operating support grant dollars, but these funds were dispersed to a greater number of organizations, thereby weakening their impact. The total funding received for mainstream/progressive advocacy groups was \$60 million, compared to \$17 million on the right. On average, though, these mainstream and progressive advocacy organizations received only \$152,311 in operating support with a median grant of \$45,000. The most general support went to the Center for Reproductive Rights with \$4,670,000 in general support grants in 2001.

### *Demand-side of General Operating Support: Effect of Core Grantmaking on Institutional Budgets*

Grant dollars from foundations serves as an indicator of the value placed on certain types of nonprofit organizations. Not only do foundations give universities and arts and cultural organizations—usually large, established museums and symphonies—more money, but foundations give these organizations more general operating support. The amount and quality of support to universities and arts and culture organizations from the foundation community implies a certain level of confidence in these institutions and trust in their ability to manage their operations.

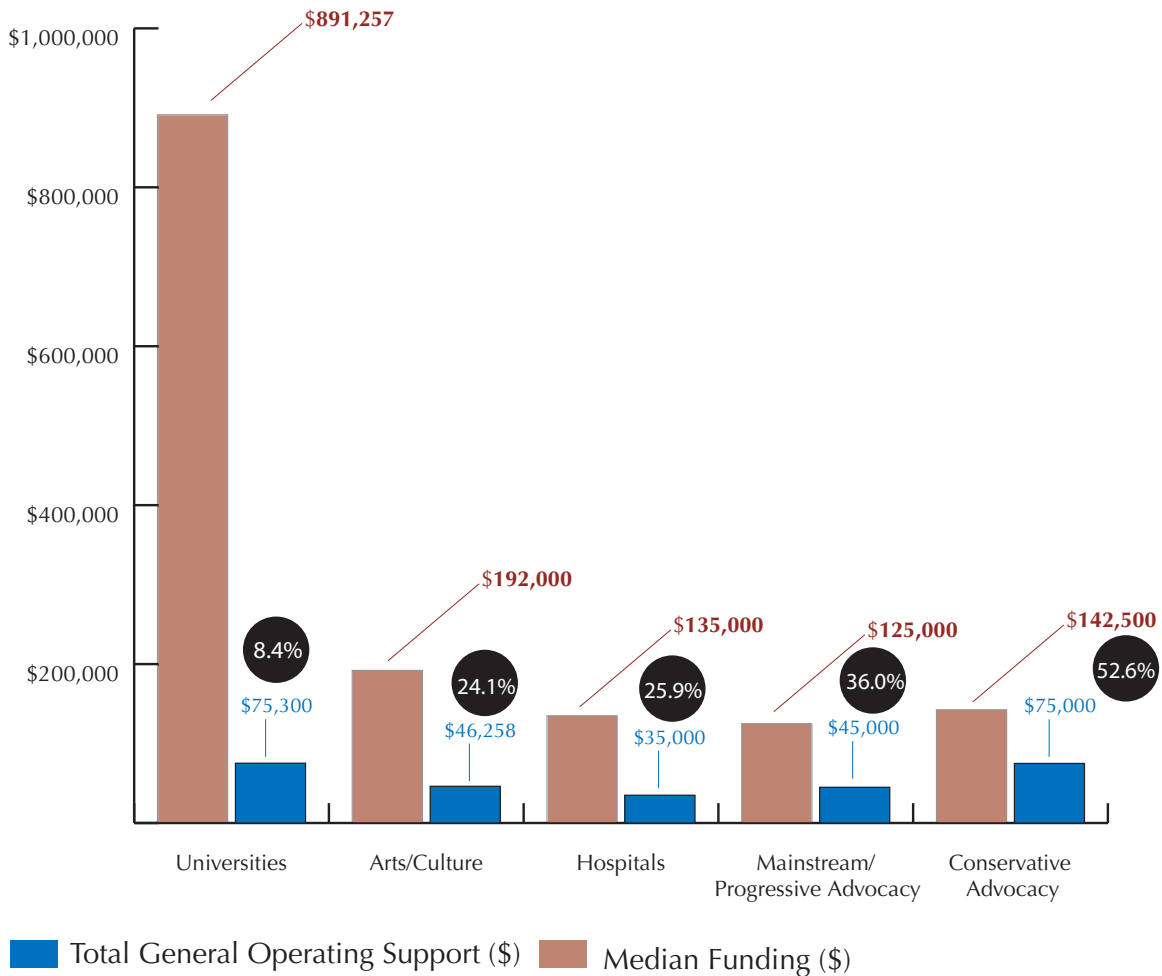
But what do general operating grants mean to nonprofit recipients? What effect does the current foundation level of general operating grantmaking have on their finances? How fungible are their budgets and how free are they to respond to unforeseen organizational needs or impromptu legislative activities?

To answer these questions, we reviewed median operating support as a percentage of median funding for organizations in each of the sampled groups of nonprofits. These figures, presented in **Table 2**, show the percentage of the median organizational budget that is comprised of operating support dollars.

From the demand-side perspective, operating support grantmaking has the greatest impact on advocacy organizations and the least impact on universities. Approximately 53 percent of the budget in the median conservative advocacy group is comprised of general operating support dollars; 36 percent of the median mainstream advocacy group's budget takes the shape of operating support. Meanwhile, approximately one quarter of the budgets of hospitals and arts and culture organizations are comprised of general operating support. Less than a tenth of university budgets is dedicating to core funding.

These demand-side statistics offer a different perspective than the supply-side data presented earlier. Where foundations place more monetary value on core funding for universities, these grants have the least impact on university budgets. Conversely, progressive/mainstream advocacy organizations received fewer foundation dollars than other types of organizations sampled; but, the money that these institutions did receive had a great impact on their budgets.

**Table 2: Percentage of Organizational Budgets in Universities, Hospitals, and Arts/Culture and Conservative Advocacy and Mainstream/Progressive Advocacy Organizations Dedicated to General Operating Support in 2001**



■ Total General Operating Support (\$) 
 ■ Median Funding (\$)

\$ Median General Operating Support as Percentage of Median Funding

Source: NCRP data analysis of Foundation Center data, 2004

**Table 3** ranks the five types of organizations sampled in two ways: (1) the supply-side of core support grantmaking or foundation value placed on general operating support and (2) the demand-side of general operating support or the impact that core grantmaking has on organization budgets based on the percentage of the organizations' budget stemming from core funding.

**Table 3: Ranking Supply- and Demand-Side General Operating Grantmaking in Universities, Hospitals, and Arts/Culture and Conservative Advocacy and Mainstream/Progressive Advocacy Organizations in 2001**

Supply-side of General Operating Grantmaking: Median Foundation Funding		Demand-side of General Operating Grantmaking: Percentage of Median Budget Dedicated to General Operating Support	
Universities	\$75,300	Conservative Advocacy	52.6%
Conservative Advocacy	\$75,000	Mainstream/Progressive Advocacy	36.0%
Arts/Culture	\$46,258	Hospitals	25.9%
Mainstream/Progressive Advocacy	\$45,000	Arts/Culture	24.1%
Hospitals	\$35,000	Universities	8.4%

Source: NCRP data analysis of Foundation Center data, 2004

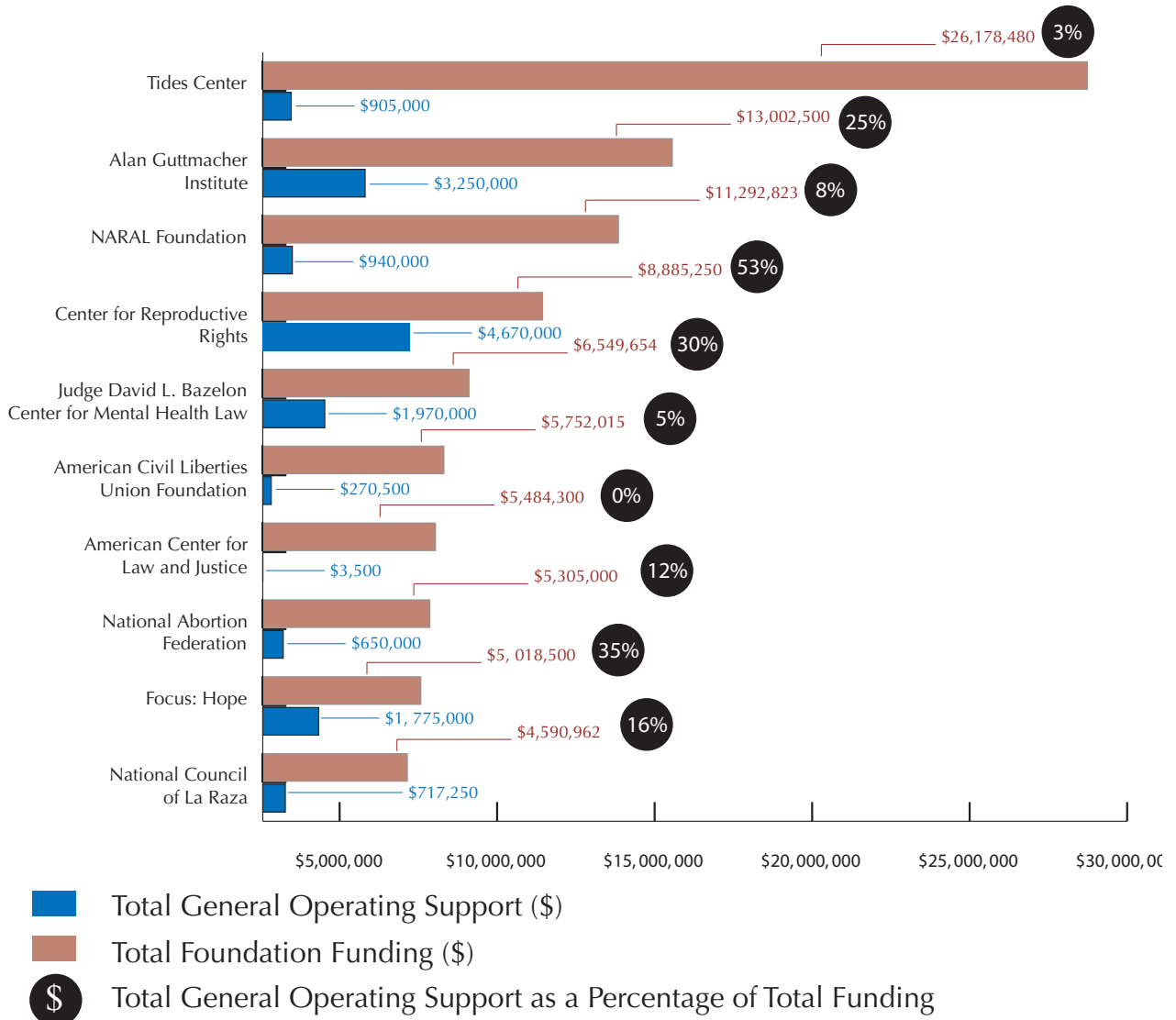
From these data it is clear that a healthy portion of the median advocacy organization’s budget goes toward general operating support. But what happens at the margins? How are the budgets of the most influential advocacy players comprised? Are there differences on the right and left? Can we say any more about conservative and mainstream/progressive grantmaking strategies?

The case study that follows answers these questions through an examination of core grantmaking in the ten largest conservative and mainstream/progressive advocacy organizations.

***Advocacy Budgets at Work: General Operating Grantmaking in Mainstream/Progressive and Conservative Advocacy Organizations***

The budget breakdown of mainstream/ progressive advocacy organizations differs greatly from that of conservative advocacy organizations. Among the ten largest mainstream/progressive advocacy recipients of total foundation funding in 2001, general operating support makes up, on average, 16 percent of the total foundation revenues of these organizations. See **Table 4**.

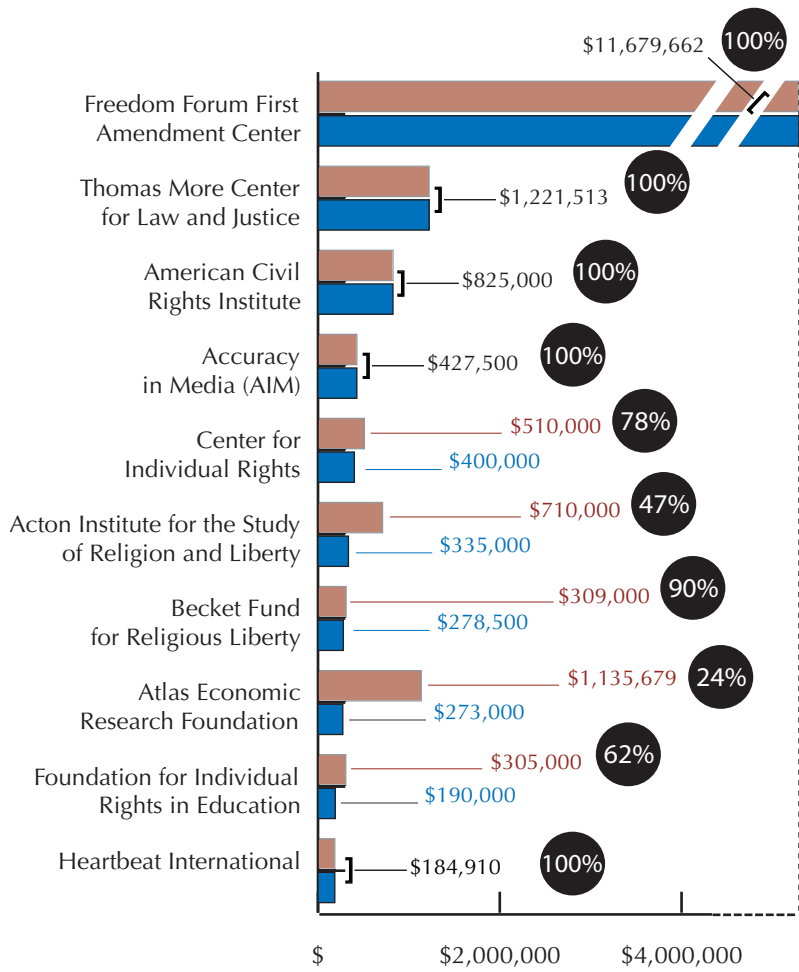
**Table 4: Top 10 Mainstream/Progressive Advocacy Organizations (by Total Funding), 2001**



Source: NCRP data analysis of Foundation Center data, 2004

In contrast, as **Table 5** shows, general operating support for the ten conservative advocacy organizations that received the most foundation funding in 2001 averaged 90 percent of their total funding.

**Table 5: Top 10 Conservative Advocacy Organizations (By Total Funding), 2001**



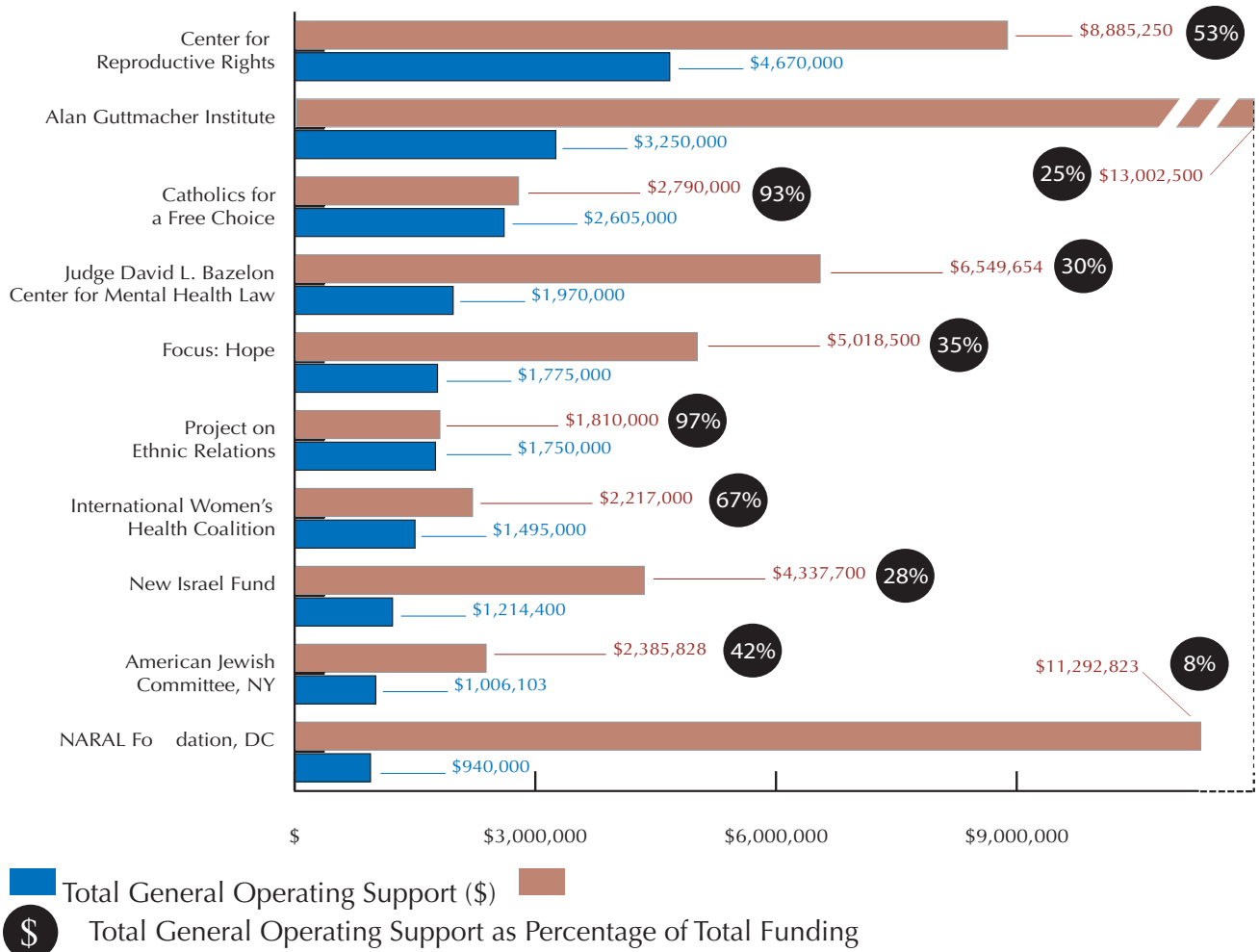
■ Total General Operating Support (\$) ■ Total Foundation Funding (\$)

Ⓢ Total General Operating Support as Percentage of Total Funding

Source: NCRP data analysis of Foundation Center data, 2004

Looking at the top 10 conservative and mainstream/progressive recipients of general operating support, conservative advocacy organizations *still* receive more, with an average of 91 percent of their foundation support coming in the form of general operating grant dollars, compared to only 35 percent for groups in the middle and on the left. See **Tables 6 and 7** for more details.

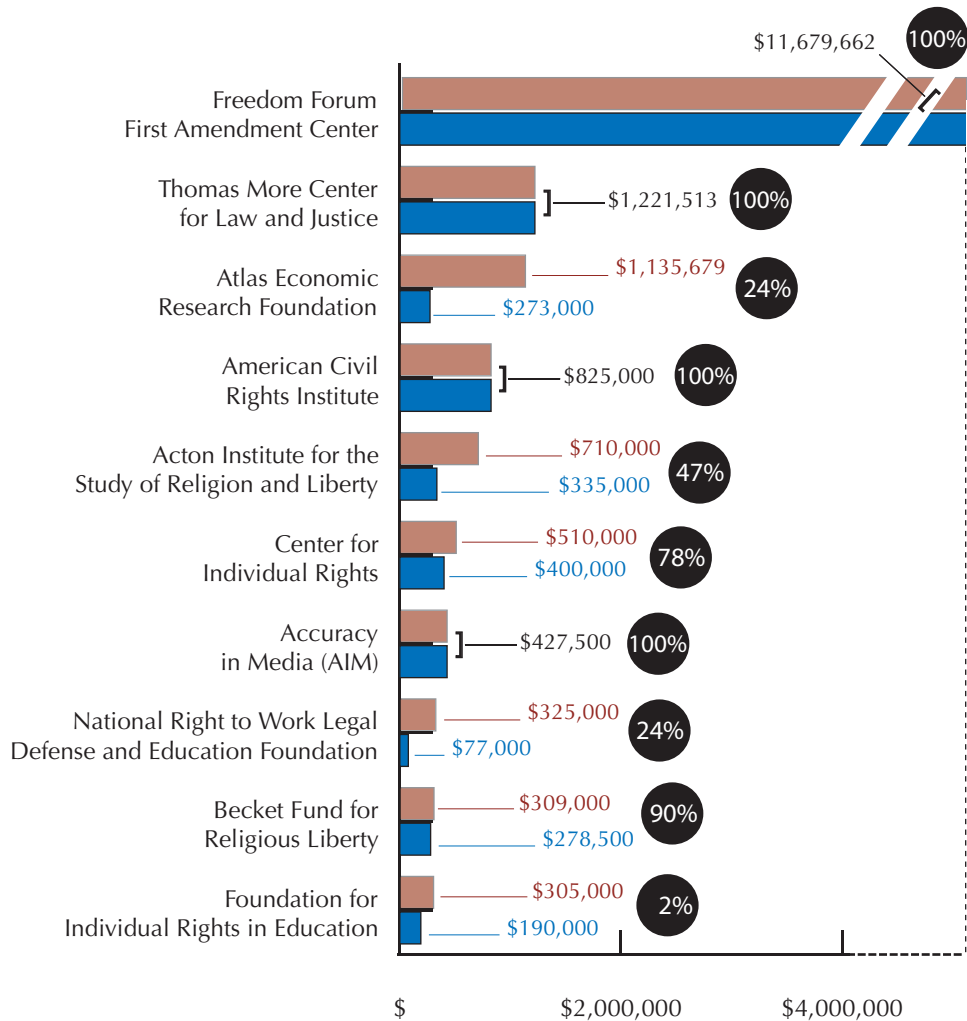
**Table 6: Top 10 Mainstream/Progressive Advocacy Organizations (By Total General Operating Support), 2001**



Source: NCRP data analysis of Foundation Center data, 2004

Clearly, mainstream/progressive organizations receive *more* money than their right-wing counterparts. But they do not seem to receive *better* money. The conservative organizations consistently receive a greater portion of general operating support foundation dollars, allowing them to be more pragmatic, responsive, and generally effective in their work. The data indicate that groups in the middle and on the left receive foundation money that has strings attached

**Table 7: Top 10 Conservative Foundations (By Total General Operating Support), 2001**



■ Total General Operating Support (\$) 
 ■ Total Foundation Funding (\$)
   
\$ Total General Operating Support as Percentage of Total Funding

Source: NCRP data analysis of Foundation Center data, 2004

to it, preventing them from participating in the policy process in a pragmatic or responsive way. Based on many conservative victories in the local, state, and national policy systems, the flexible approach of right-wing foundations is a better—or at least more strategic—investment of philanthropic dollars.



## The Think Tank Story

To further analyze general operating support grants for advocacy- and policy-related organizations, grants made to seven think tanks were analyzed. **Table 8** provides findings from this analysis.

**Table 8: Foundation Support of Major Conservative and Mainstream/Progressive Think Tanks, 2001**

	Total Foundation Funding	Total General Operating Support	General Operating Support as a Percentage of Total Funding
American Enterprise Institute	\$6,576,500	\$732,500	11%
Brookings Institution	\$6,748,724	\$275,000	4%
Cato Institute	\$1,344,140	\$275,000	20%
Center on Budget and Policy Priorities	\$5,267,650	\$1,135,400	22%
Economic Policy Institute	\$3,545,988	\$100,000	3%

Source: NCRP data analysis of Foundation Center data, 2004

With the exception of Center on Budget and Policy Priorities, the conservative think tanks—the Heritage Foundation, American Enterprise Institute, and the Cato Institute—had higher levels of general operating support than the mainstream/progressive think tanks. It is also interesting to note that more funding went to mainstream/progressive thinks, but most of the funding was project specific, with the nonpartisan Urban Institute being the most extreme example of this pattern.

Further, the conservative think tanks generally receive more individual support, which is also another important source of flexible and operating funds for organizations. In 2002 the Heritage Foundation reported that it received 59 percent of its total income from individuals. For the

American Enterprise Institute, the figure was 36 percent. In the same year, the Urban Institute reported no individual support; 59 percent of its budget came from the government (mostly federal) and 41 percent from foundations.

Overall, this analysis of Foundation Center data shows that mainstream/progressive advocacy organizations receive low levels of general operating support as a percentage of their total foundation revenues. And although universities did have the lowest levels of general operating support as a percentage of their total funding, they received far more total funding and total general operating support than any other group. **Table 9** summarizes findings from this analysis across the four different types of organizations studied.

**Table 9: Foundation Support of Four Different Types of Organizations, 2001**

	Total Foundation Funding	Total General Operating Support	General Operating Support as a Percent of Total Funding
Top 10 Universities (By General Operating Support)	\$700,527,541	91,270,048	13%
Top 10 Universities (Total Funding)	\$1,172,795,418	\$72,194,051	6%
Top 10 Arts Organizations (By General Operating Support)	\$164,035,637	\$63,609,933	39%
Top 10 Arts Organizations (Total Funding)	\$223,424,009	\$53,529,587	24%
Top 10 Hospitals (By General Operating Support)	\$50,964,393	\$30,189,572	59%
Top 10 Hospitals (Total Funding)	\$86,848,663	\$20,622,775	24%
Top 10 Mainstream/ Progressive Advocacy Organizations (By General Operating Support)	\$58,309,255	\$20,675,503	35%
Top 10 Mainstream/ Progressive Advocacy Organizations (Total Funding)	\$92,059,544	\$15,151,250	16%
Top 10 Conservative Advocacy Organizations (by General Operating Support)	\$17,308,264	\$15,815,085	91%
Top 10 Conservative Advocacy Organizations (Total Funding)	\$17,448,354	\$15,707,175	90%

Source: NCRP data analysis of Foundation Center data, 2004

## The General Operating Support vs. Program Support Debate

The need for general operating funds is so great and many foundations' resistance to providing it so predictable that grantseekers tend to hide these costs in program and project budgets. Or grantees will revamp long-standing projects so that they appear new to funders, hoping that they will be given seed grants which will then, in part, be applied to general operating costs. Many funders realize that these funds will be used for general operating costs, so why is this proposal shell game necessary?

Foundations use the following arguments to explain their reluctance to give general operating support to their grantees:

- **Evaluation:** Many foundations claim that it is easier to measure the use of the money if it is channeled into a specific program. From this perspective, success or failure of one project is easier to evaluate and has the greater potential for recognition than the overall progress of an organization.
- **Dependency:** Some foundations believe that general operating support grants are harder to limit time-wise, and that their grantees will become dependent upon them. Those in favor of project support state that it gives grantmakers the ability to churn their grants lists so that no single organization becomes too reliant upon the foundation for its funding.<sup>5</sup>
- **Competition:** Foundations also claim that their support of new programs and organizations—as opposed to building the capacities of already existing organizations—creates a healthy level of competition among grantseekers. They state that many advances, particularly in health care, have been made because of this competitive nature of the grant application process. They also argue that this competition acts as a form of natural selection where the most industrious applicant organizations will survive and the rest will be weeded out.
- **Innovation:** Other foundations believe that the driving purpose of their existence is to support new ideas and start programs or organizations that otherwise would not

materialize.<sup>6</sup> General operating support often strengthens projects and organizations that already exist, so—by their very nature—these kinds of grants appear to work against innovation.

Kirk Wilson, Executive Director of the Rosenberg Foundation, stated that Rosenberg only gives project-specific support because, “We are trying to focus what few resources we have on very specific issues. What we are looking for is not creating or sustaining or even strengthening institutions, but the contribution of any particular player towards the resolution of a particular social policy issue.”<sup>7</sup>

Many nonprofits and some foundations, however, challenge these reasons for providing only project support. They feel that many of the reasons that foundations offer for not providing operating support are not always valid, and believe that there needs to be an overhaul in the way foundations view grantmaking. Nonprofits (and the foundations that provide general operating support) offer the following arguments in response to the reasons why foundation leaders say that they are reluctant to provide general operating support:

- **Evaluation:** Proponents of general operating support grants claim that foundations should be able to evaluate a grant, regardless of whether it is project specific or for general operating purposes.<sup>8</sup> When foundations evaluate general operating support grants, they cannot, however, use the same evaluation strategy that they use on project-specific grants. General operating grants should be evaluated over the long-term, usually from a qualitative perspective. Other general operating support proponents challenge the very need for any kind of foundation evaluation, stating that evaluations often drain foundation and grantee resources—such as staff time and other financial costs—without an equitable payoff. Right-wing foundations, for example, do not generally make their grantees go through a rigorous evaluation process.<sup>9</sup>
- **Dependency:** Supporters of general operating grants argue that if a grant is specifically and carefully made it can operate under the same time limits as a project grant. Susan Berresford, current CEO of the Ford Foundation has stated that “the issue in

dependency is what proportion of the grantee's budget you support, not whether you provide general or project support."<sup>10</sup> Any grantee can become too dependent upon a foundation, whether they receive general or project-specific support. Foundations have the responsibility and obligation to ensure that this does not occur and that grantees develop diverse revenue streams.

Several foundations that provide general operating support have taken steps to make certain that their grantees do not fall into the dependency trap. Some foundations provide multi-year operating grants and follow them with a break in funding before allowing grantees to reapply for general support. Others regularly perform reviews of grantees, warning them that they may no longer receive funding if they are becoming too dependent and do not diversify their revenue streams.

- **Competition:** Nonprofits say that the competitiveness of grants and the necessity to come up with something new and interesting actually results in a game of "grant shelling," where projects are misrepresented to foundations in order to acquire funding for general operating support. This game playing weakens an already fragile relationship between foundations and grantees. Nonprofits argue that they should be allowed to determine their own program agendas and not have to create new projects to keep funders interested. With general support the power to decide the direction an organization and its programs will take lies in the hands of the board and staff and not with foundation executives. John Ruthrauff, the former Director of the Philadelphia Foundation, stated that the drive for foundations toward project funding reflects "the need of foundation staff to find excitement, not a careful analysis of what's going to develop the best resources for providing for people."<sup>11</sup>
- **Innovation:** While innovation remains critical to the nonprofit field, the drive for it can harm nonprofits. Mark Kramer of the Foundation Strategy Group, a for-profit foundation consultancy, states that "a foundation that provides no operating support is like a pharmaceutical company that conducts research, but never actually produces any drugs. The research is important, but no one gets cured."<sup>12</sup> In addition, it is important

that foundations remember that they need to do more than just take initiative and fund new ideas and projects. It is crucial that they do not substitute their judgment for that of grantees and communities and people in need. Those constituencies are in the best position to express what is needed on the ground level, and sometimes what is needed is the strengthening of existing organizations, not new institutions.

## General Operating Support Champions

Although general operating support is not provided on a widespread basis, several foundations realize the importance of these types of funds, and devote significant portions of their grantmaking budgets to it. The following foundations are some of the better known leaders in the movement to give more grant dollars in the form of general operating support.

- **The California Wellness Foundation:** TCWF has always been a proponent of providing grantees with general operating funds. Recently, however, the foundation decided that it needed to be doing even more to help its grantees with this type of support. As a result, in July 2001 the foundation's board made a commitment to increase its support for general operating grants, viewing it as a way to strengthen the nonprofit sector. This strategy, TCWF believes, will allow grantees to focus on the long-term goals of their organizations and develop their strengths rather than constantly having to develop "new" projects for funding. TCWF views their commitment to operating support as investing in the ideas and visions of nonprofit leaders. TCWF's program areas include promoting diversity in health professions, environmental health, healthy aging, mental health, teenage pregnancy prevention, violence prevention, women's health, and work and health issues. The foundation generally limits its grantmaking to nonprofits within California and some public agencies.
- **The Scherman Foundation:** The Scherman Foundation emphasizes long-term general support based on the belief that nonprofit leaders who are closest to the issues can best decide how to most effectively use foundation dollars.<sup>13</sup> To date the foundation

has made over 6,200 grants totaling almost \$97 million during its sixty-two years of existence. The foundation's main areas of interest are the environment, peace and security, reproductive rights and services, human rights and liberties, the arts, and social welfare. Grantmaking programs focus on organizations within New York.

- **The San Francisco Foundation:** The San Francisco Foundation's 2001 annual report stated that the foundation had "begun a systematic approach to funding operating support as a grantmaking strategy." Nationally, the foundation is the second-largest community foundation in terms of giving and ranks fifth in terms of assets. Its grantmaking programs focus on the following areas: arts and culture, community health, social justice, education, environment, neighborhood and community development, and philanthropy and nonprofits. Its giving is primarily limited to the Bay Area community in California.
- **Mertz-Gilmore Foundation:** The Mertz-Gilmore foundation dedicates the majority of its grant making dollars to general operating support. Robert Crane, former president of the foundation, has stated that the foundation allows grantees to choose how to best use the funds given since they are the ones that have to juggle their costs and truly know what the organizational needs are.<sup>14</sup> The foundation believes that general operating support is what helps keep institutions effective. Grantees have praised the foundation for its willingness to give to controversial issues and trusting them to know how to best use the foundation's grants.<sup>15</sup> Unfortunately, the foundation has been forced to scale back many of its program areas due to financial circumstances, but it continues to support arts and human service organizations working New York City, and is also exploring a new grants program devoted to human rights work in the U.S.<sup>16</sup>
- **McKay Foundation:** The McKay Foundation provides long-term general operating support grants, rather than project-specific grants. It believes that these grants will allow grantees to have the ability to work efficiently and autonomously, determining on their own how to best use foundation dollars.<sup>17</sup> The foundation does not have any single issue that it funds but rather looks to organizations that are working on broad

approaches to social change. It typically gives grants ranging from \$25,000-\$40,000 and primarily funds organizations within California.<sup>18</sup>

- **F.B. Heron Foundation:** The Heron Foundation prefers to give general operating support grants. Groups have consistently told the foundation that operating support is highly valuable in helping an organization to conduct its business, set and modify objectives and strategies, and plan and innovate. Typically, when funding an organization new to the foundation, a one-year grant is given. If after the first year the foundation has had a positive experience with the grantee, renewal funding is approved, typically in the form of a two-year grant.<sup>19</sup> The foundation supports organizations nationally that help low-income people to create wealth and take control of their lives.

These foundations are some of the few that understand the need for increased general operating support. Their model of giving, which aims to help strengthen their grantees—is one that should be followed by more foundations. The need for general operating support is critical, especially at a time when nonprofit budgets are shrinking, the government is shirking its duty to provide a social safety net for its citizens, and the overall need for nonprofit social services and political representation is increasing. General operating support allows organizations to respond in a timely fashion to these needs, allowing them to remain effective, responsive, relevant, and innovative, without having to wait for a new grant cycle to come around. More foundations need to realize the need for general operating support, place their trust in their grantees, and believe that organizations will know how to use funds in the best way possible.

## Conclusions

### *Towards Industry Standards for Core Operating Support*

The data presented in this analysis show that in the median conservative advocacy organization, core funding comprises approximately half of the total institutional budget. On the left, general operating support accounts for slightly more than a third of total funding. Compared to other organizations sampled, advocacy groups receive more core operating support compared to other sources of funding. These statistics beg the question:



*How much more money in general operating grants do advocacy organizations need?*

Among the different types of nonprofit work, advocacy is the most unpredictable. Advocacy organizations must position themselves to respond to impromptu legislative changes which often produce unexpected needs in their organizations. Nonetheless, statistics presented in this report show that the median advocacy group has the smallest budget. Subsequently, all of the difficult, ad hoc legislative and grassroots work has to be completed on minimal resources. Our recommendation would be that advocacy groups receive more funding from foundations in addition to more general operating resources so that they may effectively carry out their missions.

Our analysis of the top ten conservative and mainstream/progressive advocacy organizations reveals that many right-wing advocacy groups maintain budgets where general operating support as a percentage of total funding is equal to or greater than 80%. Conversely many of the leading advocacy groups on the left see less than a third of their budgets dedicated to general operating support. So what are the industry benchmarks for core funding? For potential answers to this question we should look toward lessons learned from funders of conservative advocacy organizations.

Recent research documenting the successes of right-wing philanthropy revealed how important general operating support from foundations is to nonprofit organizations—especially those working toward systemic policy and societal change.<sup>20</sup> During interviews with board and senior staff members of several of these foundations, the importance of providing general operating support was mentioned as a key factor of conservative foundations' collective success in advancing a pro-market, anti-regulatory, and sometimes religious fundamentalist policy agenda. Interviewees mentioned the importance of committing this type of support to organizations for multiple years—in come cases, multiple decades. The need for patience was also discussed, with foundation leaders stating that they realized it can take five years or more before an organization begins making noticeable progress on its policy change agenda.

### ***Potential Consequences of General Operating Support***

Whether for policy advocacy or direct services, foundation-provided general operating support is an important source of revenue for nonprofit organizations. In conversations with a wide range of nonprofit organizations about their frustrations with foundations, their largely unmet general operating support needs are often cited. Some foundation leaders—associated with the foundations discussed above and others—understand these needs and are responding to them. But the minority of foundations cannot solve a problem that confronts the majority of nonprofit organizations. This debate and discussion needs to move forward with thoughtful research and honest communication. The health, well-being, and needs of the nonprofit sector and the millions of people that it serves and represents must be taken seriously.

However, core grantmaking may not come without consequences. Let us revisit the quote from then secretary of the Rockefeller Foundation, Jerome Greene:

It is unwise for an institution like the Rockefeller Foundation to assume permanently or indefinitely a share of the current expenses of an endowed institution which it does not control. Such a continuing relationship inevitably carries with it a continuing responsibility for the conduct of the institution that is aided. The relationship should therefore not be entered into unless with the deliberate intention of assuming such responsibility (1913).

In other words, through the lens of this foundation executive, general operating support grants come with a degree of responsibility for the conduct of the nonprofit grantee. Greene's commentary from 1913 may represent the contemporary worldview of core operating funders: *If a foundation provides general operating grants, that foundation will also retain some control of the day to day governance of their grantees.*

Findings from NCRP's extensive research on conservative advocacy strategies presented in *Axis of Ideology* reveals two important findings regarding core support and funder control: (1) by far, conservative advocacy organizations receive a higher percentage of core operating resources than their mainstream/progressive counterparts and (2) these organizations also seem to have funders that are more involved in the overall governance of the organizations

they support. These funders sit on the board of directors of conservative advocacy groups and direct the policy activities of many of these organizations.

These findings hint at a potentially unexpected outcome of core operating grantmaking. General operating support funding may come with the consequence of foundation control—be it subtle—over an organization’s programs? Are funders that give general operating support indirectly controlling programs via increased involvement in the daily operations of the organization even though they are not directly shaping programs with programmatic grants?

### ***Towards a Broader Understanding of Needs—Insights from Nonprofits and Foundations***

The immediate next step for NCRP research on core operating support is to answer all of these outstanding questions through focus group discussions with nonprofit and foundation leaders. NCRP has identified nonprofits in twelve locations—six urban and six rural—across the country to participate in an open forum to discuss the following topics: (1) general fundraising strategies, (2) methods that organizations use to market themselves as viable recipients of core grants, (3) combating foundation resistance to providing general operating support, and (4) specific challenges to receiving core support.

Participants, nonprofit executive and development directors from Denver, Atlanta, Houston, Seattle, Minneapolis, Detroit and rural parts of West Virginia, Northern California, New Mexico, Maine, Montana and the Delta, will assist us in collecting reliable qualitative data that examine core operating support needs. Later in our research, we will conduct interviews with foundation leaders to document core grantmaking strategies. The outcome of conversations with funders is to eventually design a replicable foundation approach to core grantmaking. Armed information from grantmakers and grantseekers, NCRP will educate foundations and organize nonprofits on strategies to securing vital, core support.

## Endnotes

- <sup>1</sup> Seltzer, Michael & Cunningham, Michael. "General Support Vs. Project Support: A 77 Year Old Debate Revisited." *Nonprofit World*. Vol. 9, No. 4. July/August 1991.
- <sup>2</sup> Bothwell, Robert O. "Good news, bad news in foundation giving trends." *Responsive Philanthropy*, Spring 1990.
- <sup>3</sup> "Universities" only includes those that received general operating support in 2001 and not all universities as a whole. This classification applies to the other types of organizations studied, as well as when total funding is referred to for all organization types.
- <sup>4</sup> Progressive, mainstream, and conservative classifications throughout this report were based on a variety of factors, including information provided in *Public Interest Profiles* (Washington, DC: Foundation for Public Affairs), as well as media mentions and Internet research.
- <sup>5</sup> Leonard, Jennifer. "Best Supporting Role." *Foundation News & Commentary*. September/October 1989.
- <sup>6</sup> Eckstein, Richard M. (ed.) *Directory of Operating Grants*. 7th ed. Loxahatchee, FL: Research Grant Guides. 2003.
- <sup>7</sup> Leonard, Jennifer. "Best Supporting Role." *Foundation News & Commentary*. September/October 1989.
- <sup>8</sup> Eisenberg, Pablo. "Foundations Should Offer Grants With No Strings if They Want Charities to do a Better Job." *Chronicle Of Philanthropy*. Vol 13, 15 Jan 1991. p45.
- <sup>9</sup> Based on interviews with foundation CEOs and board members. See *Axis of Ideology*, by Jeff Krehely, Meaghan House, and Emily Kernan. NCRP: Washington, DC, 2004.
- <sup>10</sup> Leonard, Jennifer. "Best Supporting Role." *Foundation News & Commentary*. September/October 1989.
- <sup>11</sup> Ibid.
- <sup>12</sup> [www.effectivephilanthropy.org/publications/articles/99\\_10\\_00\\_seed\\_grant\\_htm](http://www.effectivephilanthropy.org/publications/articles/99_10_00_seed_grant_htm)
- <sup>13</sup> The Scherman Foundation Annual Report 2002.
- <sup>14</sup> "To Pay or Not to Pay the Light Bill." *Foundation News and Commentary*. March/April 1997.
- <sup>15</sup> Stehle, Vince. "Honored for Doing What Others Won't." *Chronicle of Philanthropy*. Vol 7, July 1995.
- <sup>16</sup> [www.mertzgilmore.org](http://www.mertzgilmore.org). Accessed 11/7/03.
- <sup>17</sup> [www.mckayfund.org](http://www.mckayfund.org). Accessed 11/13/03.
- <sup>18</sup> Ibid.
- <sup>19</sup> F.B. Heron Foundation: Program Guidelines.
- <sup>20</sup> Jeff Krehely, Meaghan House, and Emily Kernan. *Axis of Ideology*. NCRP: Washington, DC. 2004.

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### ***Community-Based Public Foundations: Small Beacons for Big Ideas*** January 2004

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### ***Advocacy for Social Change in Metropolitan Washington*** September 2003

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# **Not All Grants Are Created Equal**

## **Why Nonprofits Need General Operating Support from Foundations**

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