

## GENERAL OPERATING SUPPORT: RESEARCH ON GRANTMAKER POLICIES AND PRACTICES

### SUMMARY

Public benefit nonprofits must finance basic operations that are not tied to specific projects. One way they do this is by seeking grants for general operating support from foundations.

This research examines general operating support grants by looking at foundation policies and practices regarding grantmaking for this purpose. Based upon a statewide survey of California foundations, focus groups, and individual interviews, the study shows strong support for foundation involvement in general operating support grants, and a nuanced understanding of the effect of the grants on the nonprofits and the foundations.

Our survey of 500 California foundations generated 203 responses, a 42.7 percent response rate. Over three quarters of the foundations (78.8 percent) made general operating support grants, although many of these were small relative to the foundation's total grantmaking. Of the foundations that made general operating support grants, half made at least one multi-year grant. Of those who made such grants, almost half preferred the flexibility of making them either as stand-alone grants or as a part of a project grant. Larger foundations were more likely to make general operating support grants, but smaller foundations devoted a greater percentage of their grants and grant dollars to this purpose. Regardless of their support for the concept, few respondents thought that foundation grants should be the primary way for nonprofits to finance general operations.

In interviews and focus groups, foundation executives provided a variety of reasons for making general operating support grants. These grants are a way that a foundation can partner with an operating nonprofit to advance a long term agenda, support a select number of organizations that are key to their strategic priorities, and help new organizations gain the capacity to be more self sufficient. Such grants also provide a mechanism to fund advocacy organizations. Particularly when made as a multi-year grant, they can permit nonprofit recipients to take risks. When used these ways, general operating support grants rely on a foundation's trust in the leadership and mission of the nonprofit grantee. They also affect the granting foundation on a subtle level by increasing internal dialogue about the key mission of the foundation and how it can best strategically achieve this mission.

There were a number of areas of ambiguity revealed by our research, several of which reflected essential divisions within the philanthropy profession. We found subtle differences in how foundations understand what is included in a general operating support grant. Legally the money is unrestricted, but most foundations maintain the same reporting requirements as for a restricted grant. Foundations have an interest in how the money is spent – supporting and sometimes improving the capacity of organizations that are core to the foundation's mission. Some foundations expressed concern that general operating support grants supported weak organizations; others saw them as sustaining critical services in areas key to the foundation's interests. Finally, there were differences in how long foundations felt they should provide general operating support. Were such grants a mechanism to ensure that key aspects of the foundation's mission are realized, or were they a temporary support to help an organization survive in times of transition or crisis?

## INTRODUCTION

Nonprofit organizations face limited options for financing ongoing operations and expenses that fall outside of a specific program area. This makes general operating support grants from foundations particularly valuable. Nonprofit managers may perceive that foundations are disinterested in this type of support but our research suggests otherwise. This report looks at what the foundation community in California thinks about general operating support, focusing on questions such as; to what extent do foundations engage in it? Does it require that the foundation change what they ask from grantees? How does it affect their work as a foundation and how do they perceive it affects their grantees?

We present the results of a multi-method study about foundation policies and practices regarding grants for general operating support. The study entailed a survey of 203 California foundations as well as focus groups and interviews with foundation executive directors and board members. The research is spurred by the increased interest in this type of grant amongst both foundations and operating public charities. Our positive findings about the practice should encourage foundations considering the strategy and be useful to nonprofit executives seeking greater understanding of their philanthropic partners.

## BACKGROUND

A review of the existing literature on foundation practices provides background and context for this research. Foundation grants are only one of many ways that nonprofits can finance their operations; other revenue sources include program fees, government contracts, and

individual donations, along with grants and contracts from foundations (Young, 2006). The mix of these funding sources varies by field of activity and the type of work a nonprofit performs. Foundation grants account for approximately 5 percent of the total revenue in the nonprofit sector. There is considerable variance around that overall figure, and specific nonprofits may derive 5 to 100 percent of their revenue from foundation grants.

An important distinction for a nonprofit organization in evaluating the usefulness of a particular revenue source is the level of restriction placed by the grantor or donor. Program fees and gifts from individual donors are typically considered unrestricted and can be used for any purpose. In contrast, grants from foundations and government are typically restricted to a specific program or activity outlined in a contract or grant agreement (Lenkowsky, 2003). As a result, nonprofits that rely solely on restricted foundation support may have difficulty in covering basic operating costs such as rent, utilities or fundraising. An exception to this rule is a type of support known as general operating support grants, defined by the Foundation Center as “grants for the day-to-day operating costs of an existing program or organization or to further the general purpose or work of an organization; also called unrestricted grants” (Foundation Center, 2006).

In fact, there is a perennial debate in professional philanthropy about how many restrictions should be placed on a grant. A 1991 article by Seltzer and Cunningham demonstrates the timeless nature of the debate by opening with a 77 year old quote from the secretary of the Rockefeller Foundation

who advocated against making general operating grants. The “essential dilemma” in the view of Seltzer and Cunningham is “between those who believe that a funder’s role should center on particular projects, and those who maintain that the most effective nonprofit work is done when the money is offered over a longer period with no strings attached” (p. 16). (It is worth noting that they frame this debate around how to maximize effective grantmaking.)

The literature contains arguments for both perspectives on the dilemma. Seltzer and Cunningham (1991) identify three rationales for operating support: enabling innovation, nurturing new organizations, and supplementing shortfalls in government support. Brest (2003) supports the innovation view, arguing that a strategic funder can often have the most significant and sustainable impact through general operating support grants; as an example, he contrasts a project grant to a nonprofit museum to purchase a Rembrandt with a general operating grant to maintain the overall excellence of the museum’s collection. There is also some evidence that general operating support benefits the grantees. A recent profile of general operating support practices amongst nine arts funders found that “it empowers arts organizations and enhances the level of trust and honesty between grantees and grantmakers” (Gulati & Cervený, 1999, p. 9-10).

There are also arguments for making restricted program grants rather than general operating support (Krehely & House, 2005). Frumkin (2006) focuses on a variety of restricted grantmaking tactics as a way to create leverage and maximize the impact of a contribution. In a time of increased attention on foundation accountability, program grants are thought to have more measurable outcomes (Huang, Buchanan, &

Buteau, 2006). Another concern is that a portfolio full of ongoing general operating support grants would leave grantmakers without funds to invest in new programs. For example, the Marin Community Foundation recently shifted their funding strategy towards more program grants because the board “realized that 93 percent of its funding was already committed at the beginning of every year... (and) left little money to respond to new initiatives” (“Buck’s Changes,” 2006). There are also concerns that general operating support breeds organizations that are “bewildered, intimidated, or under-informed about strategies for securing support from individuals” (Seltzer & Cunningham, 1991) and that it actually inhibits innovation.

Despite the controversy in the literature, there are growing calls for grantmakers to provide more general operating support grants to nonprofit organizations. Prominent nonprofit thinkers such as Cohen (National Committee for Responsive Philanthropy, 2003) and Eisenberg (2000) argue that the paucity of general operating support threatens nonprofit organizations and that general operating support is essential for strong and independent community-based organizations. Foundation leaders such as David (2002) and Brest (2003) urge grantmakers to look at general operating support from a strategic viewpoint. Grantmaking guidelines recently issued by Independent Sector also call on funders to “opt for general operating support over project support when feasible and when the goals of the two organizations are ‘substantially aligned’” (Independent Sector, 2004).

Increased attention to the need for this support may reflect the changing funding environment. Nonprofit organizations’ need for general operating support has increased due to an erosion

of funding from government (Green & Backer, 2004), while traditional private sources of unrestricted funding such as the United Way are moving towards a program-focused funding strategy. Furthermore, many corporate grantmakers have increasingly focused their grantmaking in support of company marketing goals. Brest (2003) relates the issue of operating support to the emphasis on strategic philanthropy that has become popular in recent years, asking if this new grantmaking approach provides a rationalization for not providing general operating support.

National data shows that many major foundations do give at least some general operating support. The most recent numbers available show that almost a fifth (17.4%) of the total grant dollars awarded by major foundations in 2004 were for general operating support, the greatest proportion to nonprofits in the arts and societal benefit fields (Atienza & Bailey, 2006). Yet, very basic questions about general operating support policies and practices remain unanswered. Many of the debates summarized above rely on untested generalizations and stereotypes about grantmaker motivations. This research sets out to confirm or refute some basic facts about general operating support practices and policies in California foundations to inform the ongoing debate.

## **METHODOLOGY**

Our study used three methodologies: a mail survey; three focus groups with foundation staff and trustees; and a series of individual interviews. The surveys were addressed to executive directors of foundations throughout California. The survey sample combined a census of the membership of four regional associations of grantmakers (RAGs) and the state association of community foundations with an additional random sample of foundations. Specifically, we surveyed the membership of Northern California Grantmakers, Southern California Grantmakers, San Diego Grantmakers, Santa Barbara Foundation Roundtable, and the League of California Community Foundations, a combined, unduplicated total of 342 foundations. In order to increase the survey sample size to 500 and balance the sample with foundations not belonging to one of the RAGs, we added a random sample of 158 foundations drawn from the list of all IRS Form 990 PF filers supplied by the National Center for Charitable Statistics.

We conducted two focus groups in the San Francisco Bay Area and one in Los Angeles. Telephone and in-person interviews were held with an additional four individuals. Participants in the focus groups and interviews included senior foundation staff, executive directors, and board members. The interviews provided a mechanism to talk to knowledgeable individuals who could not attend a focus group. Additionally, we led a one and a half hour discussion about the research results with a group of approximately 35 foundation personnel. Though we do not include direct quotes from this presentation here, the discussion honed our report conclusions.

## FINDINGS

### Survey returns are biased towards larger organizations

In response to multiple mailings, we received 203 completed surveys. Nineteen surveys were returned by the post office as being undeliverable and we could find no better address to re-mail them; eight returned surveys were considered inappropriate for the survey because the foundation had not started up yet or had dissolved. Nineteen people refused to participate in the survey. With inapplicable or undeliverable surveys removed from the sample of 500 foundations, we had a 42.7 percent response rate.

We conducted several analyses to determine the characteristics of the nonresponders. The first simply compared average revenues and assets among three groups from our sample: foundations who returned a survey, foundations that directly refused or presumably refused by failing to respond, and foundations with no valid address or who were inapplicable. It should be noted that

some of those who failed to return the survey might actually be inapplicable foundations, but as we could not ascertain this, we made the conservative choice of calling them refusers.

As shown in Table One, there were large differences in both revenues and assets between responders and nonresponders. Average revenues were approximately \$36 million for responders, \$3 million for those who refused, and \$1 million for the inapplicables. These averages are skewed by the assets of several extremely large foundations, particularly for responders, so we also looked at median revenues (half of the foundations within a category have above median revenues, half below). Medians show the same picture. The larger foundations returned the survey, the smaller ones did not, and the inapplicables were the very small foundations. An analysis of variance test showed that these differences were significant.

**TABLE ONE**  
**Survey Response by Foundation Revenues and Assets**

	Returned	Refused	Inapplicable
<b>Total revenue</b>			
Mean	\$36,159,446	\$3,112,768	\$1,371,316
Median	\$755,750	\$264,386	\$78,998
Std Deviation	\$3,737,106,09	\$19,941,328	\$1,868,130
<b>Total assets</b>			
Mean	\$236,598,019	\$69,549,070	\$21,008,477
Median	\$13,111,707	\$2,511,331	\$3,029,793
Std Deviation	\$926,351,887	\$577,441,317	\$38,210,358

**TABLE TWO**  
**Survey Response by Membership Status**

	<b>Member of Regional Association of Grantmakers</b>	<b>Nonmember Foundation</b>	<b>Total</b>
<b>Returned</b>	178	20	198
	52.8%	12.3%	39.6%
<b>Refused</b>	146	129	275
	43.3%	79.1%	55.0%
<b>Inapplicable</b>	13	14	27
	3.9%	8.6%	5.4%
<b>Total</b>	337	163	500
	100.0%	100.0%	100.0%

Next, we considered the question of whether membership in a regional association of grantmakers affected participation in the survey. As shown in Table Two, foundations drawn from the regional associations of grantmakers were much more likely to return their surveys.

Fifty-three percent of them did so compared to 12 percent of those from the random sample. The differences between the sources were significant, indicating that the majority of the replies are from the nonrandom portion of the sample (the association membership).

Since the members of the RAGs represented larger organizations than the random sample, we wanted to know if the bias in survey results reflected membership in a grantmaker association or simply organizational size. Thus, we looked at organizational size and RAG membership conjointly using logistic regression. The results made it clear that size (as measured by assets) was the important predictor of responding, not regional affiliation. Based on these analyses, we conclude that the survey response is biased toward large foundations.

Finally, we analyzed response timing to estimate a profile for nonresponders, based on the assumption that foundations that responded later, after more follow-up mailings, are similar to those that did not respond at all. The only significant finding in this analysis was that foundations that returned surveys later were significantly more likely ( $F=.025$ , ANOVA) to make general operating support a large proportion of their grants (75 to 100%).

**Responding foundations varied by age, size and program areas**

The oldest responding foundation was 40 years old, the youngest was one year old, and the average age of responding foundations was 25 years. As shown in Table Three, foundation assets among our responders varied from zero to eight billion dollars, with a mean of \$232,681,709; total grants varied from \$25,000 to \$367,820,649, with a mean \$13,304,765 and a median of \$1,409,000. Average grants varied from \$857 to \$2,000,000, with a mean of \$63,000 and a median of \$17,261.<sup>1</sup>

**TABLE THREE**  
**Profile of Responding Foundations**

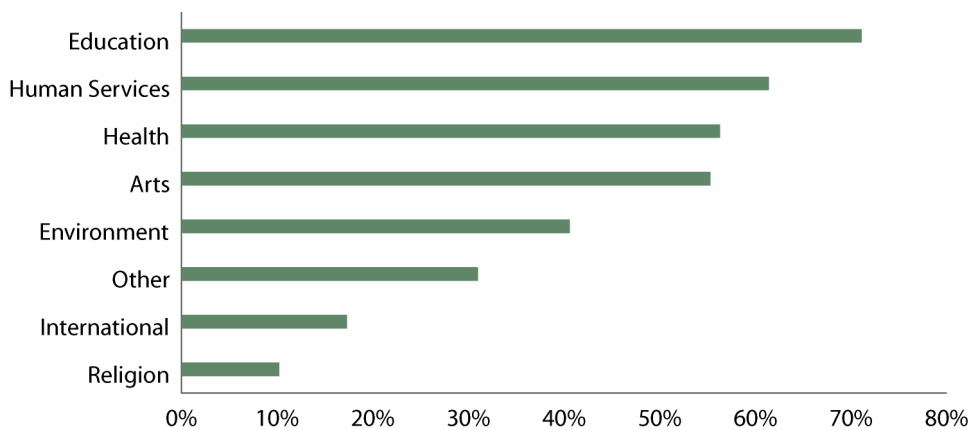
	Minimum	Maximum	Mean	Median	Standard Deviation
<b>Foundation Assets</b>	\$0	\$8,000,000,000	\$235,681,709	\$18,000,000	\$926,833,648
<b>Number of Grants</b>	1	12,000	277	60	1,026
<b>Total Grant Dollar Amount</b>	\$25,000	\$367,820,649	\$13,304,765	\$1,409,000	\$44,950,451
<b>Typical Grant Size (Total Grant \$ / Number of Grants)</b>	\$857.14	\$2,000,000	\$63,006.43	\$17,261.90	\$203,324.37

**Responding foundations fund in a variety of areas**

Figure One shows that 70 percent provide grants in education, 60 percent in social services, and 55 percent in health. Fewer foundations made grants in environment (41%), international (17%) and

religion (10%). Thirty percent made grants in some other category. On average, responding foundations indicated three different grantmaking programs.

**FIGURE ONE**  
**Foundation Program Areas**

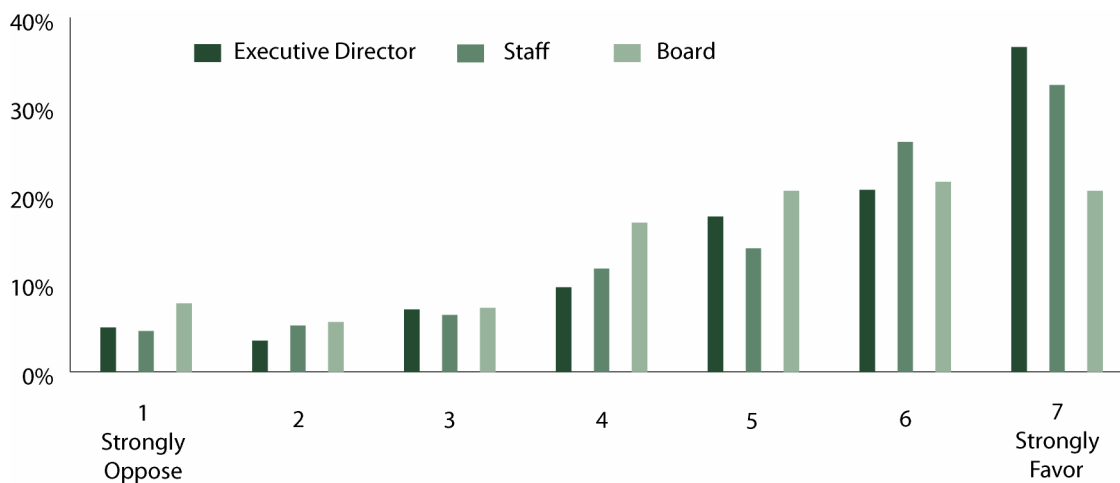


**Opinions differ between foundation staff and trustees**

Executive directors overwhelmingly favored the concept of general operating support. As shown in Figure Two, on a scale of 1-7, with 7 denoting “strongly favor,” over half of the executive directors (57.3%) selected either a 6 or a 7, while less than one out of 10 (8.5%) selected 1 or 2. Executive directors perceived that the staff shared their opinion (57.4% in favor, 8.8% opposed) but felt the board of trustees to be less supportive (41.2% in favor, 14.3% opposed). This suggests that there are varied perspectives on this issue within any particular foundation, a discrepancy which might affect future policy or practices.

It is probably not surprising to grant seekers that foundation executives expect nonprofit organizations to have multiple revenue sources and not be dependent upon the foundation’s grants. The survey also asked foundation executives how they thought nonprofits *should* fund general operating expenses. While respondents in general were in favor of making this type of grant, they were less likely to select foundation grants as one of the two most important sources of general operating support than they were to select fundraising (chosen by 59.2%) or earned revenue (49.7%). In contrast, only 23.6 percent ranked general operating support grants as one of the two most important sources.

**FIGURE TWO**  
Should Your Foundation Engage in General Operating Support Grantmaking?



**There were different uses of the term “general operating support”**

Our interviews and focus groups showed that there is some ambiguity to the term “general operating support.” For example, the term “core

grants” was used interchangeably by some as they talked about general operating support. A few people also mentioned “capacity building grants,” although we consider those restricted grants and hence not general operating support. At least one

person took issue with the idea of the grant being a “blank check,” pointing out that by definition a foundation grant is provided with expectations about how it will be used, i.e. for the nonprofit’s mission and goals. One foundation executive was not pleased to hear that their grant funds had been invested (particularly when the investment failed). Another explained that in his foundation general operating support grants had specific objectives but not line item budgets. Several foundations funded some capacity building activities within general operating support. The very definition of general operating support grants might be problematic for small nonprofits with a single program, since there was no clear delineation between the program and the organization.

One member of a focus group made an interesting distinction between supporting ongoing activities through core support and supporting new activities or well-defined specific projects through project grants.

We make two kinds of grants: core operating support grants and project grants. ...core operating support which we leave to the discretion of the grantee to determine how they want to apply the funds. The way we target it is toward objectives and these objectives can be activities that they are already undertaking. Project support is generally for a new activity or targeted toward a very particular aspect of a large agency’s funding.

The quote illustrates the potential differences in understanding since the core grant, which is unrestricted, supports activities which others might see as better funded under a restricted grant.

**The majority of responding foundations provided general operating support**

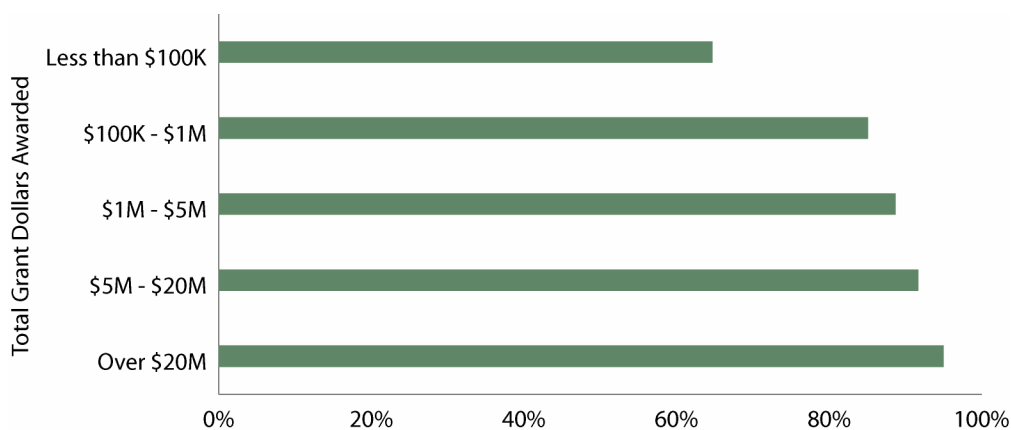
This consideration of varying understandings of the term “general operating support” is preface to the inconsistencies we found in our survey results. Most of the foundations in our survey reported making general operating support grants. However, we measured this in different ways and found some inconsistency in the answers, perhaps reflecting the ambiguity of the term “general operating support.” Thus, 78.8 percent stated that they awarded general operating support grants, but 84.5 percent indicated that they had made at least one general operating support grant in 2004. This might reflect a difference between having a formal policy regarding general operating support and actual practice. In any case, we should conclude that the overwhelming majority of responding foundations made general operating support grants, with some inconsistencies in how these grants were defined.

Semantics aside, there were only a few significant predictors of whether a foundation provided general operating support. Foundations that funded in the arts were more likely to make such grants: 83.3 percent did so, compared to the 71.1 percent that did not fund in the arts (gamma sig.= .03). Similarly, those that funded human services were considerably more likely to fund general operating support; 85.2 percent made general operating support grants compared to the 65.8 percent of those that did not fund human services.

Older foundations were more likely to have made general operating support grants in the previous year. Of those founded before 1980, 92.8 percent made a general operating support grant, compared to 79.6 percent of those founded in the past decade ( $\gamma$ ,  $\text{sig}=.029$ ). Whether measured by assets or total grant dollars, larger foundations

were more likely to make such grants. Figure Three shows that 95 percent of foundations with over 20 million dollars in grants made general operating support grants, while only 64.7 percent of those with less than \$100,000 in grants did so ( $\gamma$ ,  $\text{sig}=.017$ ).

**FIGURE THREE**  
**Provides General Operating Support by Foundation Size (Grant Dollars)**



Other research on foundation grantmaking practices has also found high proportions of foundations making general operating support grants. The Foundation Center reports that 68 percent of the respondents to their 2005 “Foundation Giving Forecast Survey” said that they provided general operating support. Larger grantmakers in this study were more likely to offer this funding (Renz & Lawrence, 2005). In a study investigating foundation attitudes about effectiveness, Ostrower (2004) found that approximately 70 percent of the foundations surveyed reported making general operating support grants, with larger foundations and those located in the western United States being more likely to do so.

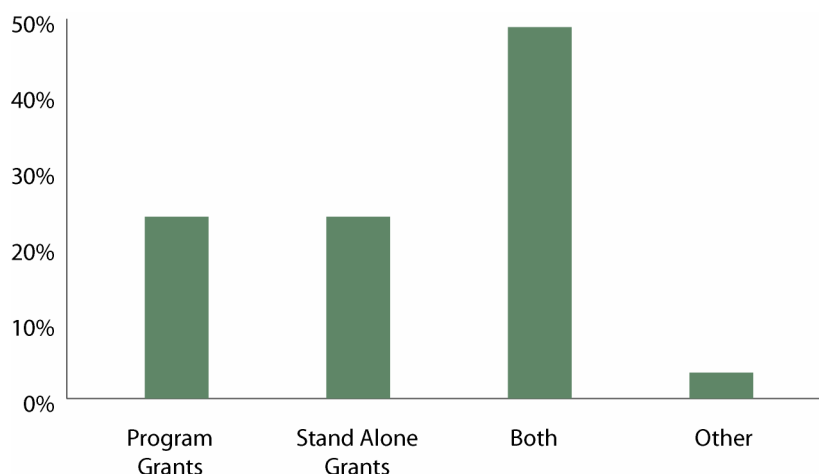
**Foundations detailed a range of general operating support practices**

Foundations differed in how they made general operating support grants, how often they made them, and the amount of total grant dollars allocated to general operating support. General operating support can be made as a separate grant or as a component of a project grant. In the latter case, a percentage of the grant above the actual project costs is permitted to be used for general support of the organization and is not tied to fulfillment of particular grant requirements. Some foundations only provide general operating support in this manner.

Figure Four shows that almost half (48.9%) preferred to make both stand-alone grants for general operating support and grants where general operating support was bundled into project grants. Equal percentages (23.9%) preferred either a stand-alone or a bundled grant. The older foundations, those founded before

1996, were more likely to prefer both options (53.2 percent said both compared to 38.8 percent of those founded in the past decade) while the younger foundations were slightly more likely to prefer including general operating support as a part of a program grant (34.7 percent compared to 20.2 percent).

**FIGURE FOUR**  
**How Does Your Foundation Prefer to Structure General Operating Support?**

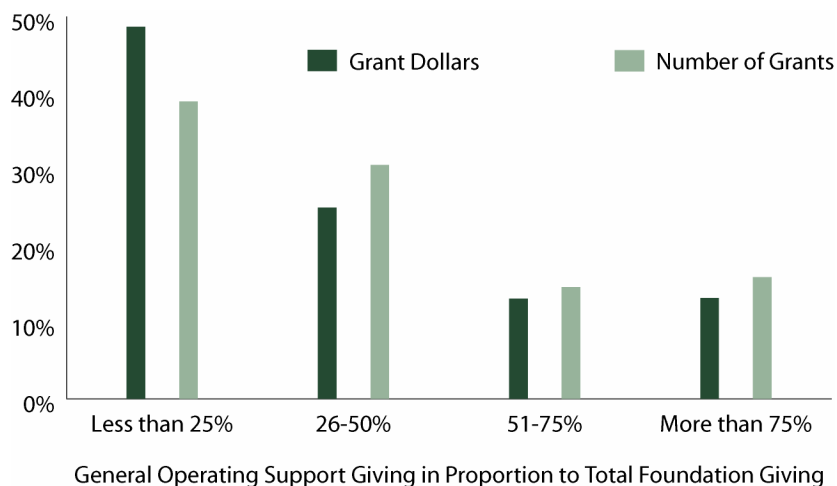


Though many foundations provide general operating support, few make it a significant portion of their grantmaking. This finding showed up in several ways. It was first reflected in their answers to the frequency with which they made these grants. When asked how often they made such grants, 11.5 percent of those who responded said never, 12 percent said they seldom made general operating support grants, 31 percent said sometimes, and 37 percent said frequently. Only 17 foundations, or 8.5 percent of those who answered the question, said always. Foundations that granted in education were significantly less likely to say that they always gave general operating support grants; 4.9 percent said they did

this compared to 17.5 percent of foundations that did not make educational grants. (gamma sig.=.03).

The finding was also apparent in the amount of resources they devoted to general operating support grants. Figure Five shows that the majority of our respondents providing general operating support grants limit this type of giving to less than 25 percent of their overall grantmaking. (The survey asked for a range rather than an exact amount in order to obtain more reliable results.) This figure also suggests that general operating support grants are numerous but relatively small.

**FIGURE FIVE**  
**General Operating Support Grants are Relatively Small**

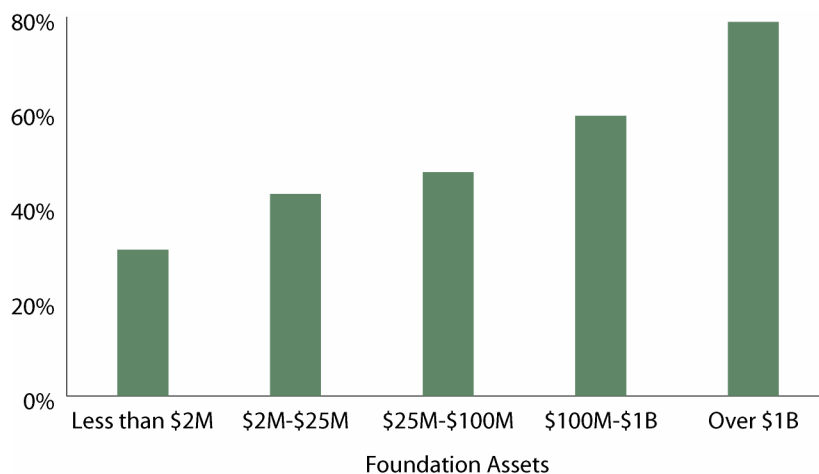


Overall, we found that larger foundations were more likely to make general operating support grants than smaller ones, but the smaller foundations that did make such grants included general operating support in **more** of their grants. Thus, of the foundations that made more than \$20 million in grants, only 12.5 percent included general operating support in more than half their grants. Of those who made less than \$100,000 in grants, 46.5 percent included general operating support in over half their grants. Also, foundations granting in health related areas were significantly less likely to devote a larger percentage of their grant dollars to general operating support; 59.5 percent of organizations that made health related grants put 1 to 25 percent of their grant dollars towards general operating support, compared to 35.3 percent of those who did not grant in this area (gamma sig.=.003).

Foundations differed in their interest in making multi-year grants. Fully half made at least one multi-year grant. Furthermore, the larger the foundation, the more likely it was to make a multi-year grant. As shown in Figure Six, 78.9 percent of the foundations that made over \$20 million in grants in 2004 made multi-year general operating support grants, compared to 30.8 percent of the foundations that made less than \$100,000 in grants (gamma sig.=.003).

The only other predictor of multi-year grants that emerged was whether or not the foundation made grants in the international field. Of those that did, 71 percent made a multi-year grant compared to 46.2 percent of those that did not make international grants (chi-sq. sig.=.01).

**FIGURE SIX**  
**Multi-year Grantmaking by Foundation Size (Assets)**



As for differences between Northern and Southern California, Northern California foundations in the sample included significantly more organizations founded before 1980 and included more large foundations as measured by assets or grant dollars awarded. However, despite this, it is remarkable how similar the responses were between the two regions of the state. We found only one real difference between the two regions. Northern California foundations were half again more likely to devote 76 to 100 percent of their grant dollars to general operating support grants than Southern California foundations (15.5% compared to 10.3%). The all-over differences between percent of giving devoted to these grants were not significant, however.

#### **Most foundations lack formal policies regarding general operating support**

Only 22 foundations (24.1%) had written policies concerning stand-alone general operating support. The same number had written policies for general operating support embedded in program grants. Policies regarding general operating support were usually set by the board and staff together (53.9%). Only 20.9 percent of the boards set these policies by themselves, and only 4.1 percent of the staff set them without board involvement. Overwhelming, foundations did not differentiate in what was required in terms of reporting between general operating support and other grants – 89.2 percent said they had the same reporting requirements for all their grants. The absence of formal policies may explain why more foundations said they actually made a general operating support grant in 2004 than said, generically, that they made such grants. The responding foundation staff may have been thinking of their formal policy in one question and their actual practice in another.

### **Executives offered several reasons for making general operating support grants**

Our focus groups and interviews provided the opportunity to probe foundation executives about their reasons for providing general operating support. The foundations represented in these discussions varied from those that gave no money to support general operations to those who have policies devoting as much as half of their foundation funding for general operating support, and their reasons for providing general operating support varied. Several of the reasons resonated with the themes identified by Seltzer and Cunningham (1991) such as nurturing new organizations and covering gaps in government contracts. These grants were considered *sustaining*, helpful at a key moment in the lifespan of a grantee – when the organization is new, undergoing a leadership change or expanding capacity – and when a potentially strong organization simply needed extra short term support in order to continue:

I often get comments from the program directors for core operating support grants saying that the organization went through a major transition or change and the core operating support was very instrumental in helping them weather the storm, bridge the gap, make the transition. That would be an interesting empirical study to do -- to find out if this hunch that comes through when I read these reports that core operating support is good at helping agencies go through those transitional stages and mature [is true], rather than finding that the grant bombs as a result of those changes.

This was not the unanimous view - others saw general operating support grants as *temporary fixes* for systemic problems in the organization. They definitely disapproved of these grants:

A lot of times requests for operating funds are requests for rescue.... If you rescue somebody, then almost immediately they need to be rescued again and there is no momentum to that funding.

This discrepancy is a clear call for additional research about the role of a general operating support grant in the long-term operating health of the receiving nonprofit grantee.

Some foundations used general operating support grants as a way of funding organizations that did social justice work without having to worry about whether they were funding advocacy activities.

Organizations that are working to change public policy are working in the political process, and we all know there are parameters in which foundations have to operate in terms of where they direct their grant dollars. A way for foundations to support organizations that affect public policy is through general support grants. It's not the only way but it oftentimes is a safe and completely appropriate way for foundations that are interested in supporting that kind of work.

We should point out that federal prohibition of lobbying by private foundations requires that grantmakers follow very specific rules (Fei, Fishburn, & Rhomberg, 2004).

Finally, another common understanding of the strategic value of general operating support funds was as a mechanism to continually invest in organizations that are central to the core interests of the foundation.

If there is a nonprofit organization that is carrying out work that is central to our mission, then we are very likely to give them operational support, because we want them to keep their doors open.

Thus, foundations award general operating support for a variety of reasons, and at different stages in the organization's development. These differing reasons lead to different outcomes. For some foundations, the purpose of the general operating support grant is to support a nonprofit in its infancy, permitting it the time to gain financial stability. The risk, of course, is that of investing in any new enterprise: the nonprofit may not realize the potential the foundation foresaw, or may not be able to transition to permanent funding. For other foundations, general operating support is a way to help previously stable organizations overcome transitory financial instability or to engage in new and potentially risky enterprises. Again, the risk is that stability may not be achieved or the enterprise may fail. Finally, for other foundations, general operating support is a way to ensure that key organizations continue to exist and stay on mission. Foundations offering this kind of core support often see the organization's mission as tied to the foundation's goals and vulnerable to mission drift if funding sources change.

**General operating support grants change the nature of grantmaking in subtle ways**

**Issues of commitment and trust**

General operating support changes the relationship between the funder and the grantee – in the absence of line item budgets and specific projects, trustees and program officers must trust the nonprofit to spend grant funds in ways that are central to the mission of both organizations.

We use a term, *cornerstone organizations*, that are central to providing services in geographic regions or for particular populations that are important to our mission and our strategies. We are more apt to provide core operating support to *cornerstone organizations* in order to help them be the best they can because we feel that we rely on them for such important services.

An additional reason for the increased trust between the foundation and the nonprofit came from the fact that the entire process of grant seeking became more “honest” since nonprofits did not have to hide their need for basic operational support in their project specific budgets.

So many nonprofits have been trained by the bad behavior of funders, public and private, to hide their infrastructure costs in their programmatic budgets. There is this knee jerk “we don't pay overhead,” which is ridiculous.

There's such a game of packaging on the part of nonprofits that we are the complicit partners in that game. I think by offering core operating support grant we're just trying to walk outside of that game, to say, “look, we really want to give you money for what you need”... It has taken the silliness out of what we require.

Of those who made general operating support grants, precisely half had made at least one multi-year grant in the past five years, again reflecting the foundation's confidence in this partnership. This style of operating in turn changes the relationship between the funder and the nonprofit.

We've also found that if you combine general operating with a longer term commitment, it allows nonprofits to plan better because they have some core resources and it allows them to talk to us more honestly about what isn't working, which in a year- by-year framework is very difficult to get to. We've created a culture where folks don't talk about failure because they are always going to have to position themselves for the next grant. But if you are making a 5 or 10 year commitment, it changes their position.

This comment echoes a finding from Gulati & Cerveney (1999) quoted in our introduction. General operating support grantmaking also eased the work of the boards of trustees by avoiding "trustee burnout," fatigue caused by having to reevaluate grants on an annual basis.

These quotes illustrate the level of commitment and trust required. They show that foundation executives who are providing general operating support do so based on a thorough understanding of the grantee's mission and work. As in any commitment or partnership, there is a degree of trust that exists in these relationships between a funder and grantee collaborating on a common goal over the long term. However, we should not overstate this trust – recall that the vast majority of our respondents indicated that their general operating support grants had the same reporting requirements as restricted program grants.

#### **Effect on the foundation**

While there was largely consensus that general operating support grants helped the nonprofit, there was less agreement about how it affected the foundation. When the question was asked, the initial response was typically to state that it did not affect how the foundation made its grants – the reporting requirements were similar. However, as foundation personnel and trustees thought about it, they did recognize some subtle differences. Most involved a change in the nature of the conversations between staff and members of the board concerning what were the true priorities of the foundation and the ultimate goals it was trying to realize.

In part, reflecting the above discussion of trust, general operating support grantmaking meant that the foundation engaged in more of a partnership model than a supporter of specific programs. The foundation had to identify the key individuals and organizations that they wished to nurture, or to ensure that they continued to do work that was important to the foundations' key priorities.

Part of the whole shift from strategic grantmaking to core operating support was where is the real locus of action that we want to support? It was a shift away from the foundation ego to... recognizing that our job was to talent scout.

What I noticed in this decision making round was that it (general operating support) didn't change the relationship between the trustees and the staff but it really changed the nature of the discussion about what would make a good grant... The discussion revolved around was this a core organization, did they still have the key leadership position on this issue they were working on, etc. and then, was what they

were asking for something that looked like it would make a significant difference to them over time? That's a different discussion than, does this project have merit, how does it fit within the field, is it likely to accomplish a specific goal? It is an interesting discussion.

Furthermore, the foundation had to think strategically about its long-term goals. How could it support nonprofits that helped bring about more systemic change? This was more than a conversation about specific grants.

The foundation today is very different than it was when it was founded. It is a process of continuing conversation with the board really focusing on what the foundation is trying to accomplish with its grantmaking.... Focusing more on the question of how do we work through our grantmaking to do it in a way that is cumulative and strategic. What are the opportunities towards moving to the outcomes we'd like to see in certain areas of our programs?

Thus general operating support grants were not perceived as affecting the routine work of the foundation, but rather its relationships with a select set of grantees and the more significant discussions about what the foundation wanted to accomplish through its grant dollars.

**There is a perceived increase in general operating support**

Focus group participants felt that the traditional model of philanthropy funding innovative new projects and letting government fund continuing operations of these projects was no longer viable.

As of the late 80's, I think people were realizing that that was a model that, if it once worked (and I don't know if it really did once work, but it certainly was a model that was current in philanthropic thinking), people realized that it was, in many ways, a fallacious model for how things actually happened.

With this in mind, there was general consensus, across the focus groups and interviews, that foundations were more likely to make general operating support grants today than in the past. While referring to Foundation Center data that made this point, they also talked about local trends. In the Bay Area, the changing strategic focus of the United Way Bay Area was of concern.

The United Way was, for a long time, the general support – up to 27 percent of your budget. Then in the Bay Area they took on virtually the foundation model – talking in terms of endowment and donor advised funds – rather than giving allocations – they made grants and you had to apply.

This finding was also reflected in the answers from the survey. Approximately half said there had been no change in the number of general operating support grants made by their foundation. However, of those who reported a change, five times as many (30.3 percent of the total) said that they had increased these grants compared to the 6.2 percent who had decreased their giving in this area.

## CONCLUSIONS

Due to response bias, our findings are more representative of foundations that provide general operating support than those that do not. The percents that we report are somewhat higher than the Foundation Center's finding that 68 percent of the larger foundations in the country make general operating support grants. Given that this is more an analysis of policies and practices of those who make such grants, several themes emerge.

There are clearly a significant number of foundations that provide some form of general operating support funding. Larger foundations are more likely to make such grants and to make multi-year grants. However, if a small foundation is going to provide general operating support, it is more likely to devote a greater percentage of its grants and grant dollars to this end. Data from this research and from The Foundation Center suggest an increase in general operating support. Those we interviewed perceived a similar trend. Our study suggests this is a positive outcome for the field.

Foundation executives we spoke to understand that general operating support grants are helpful to nonprofits. However, there is also the feeling that nonprofits should look to sources other than foundations to provide funding for this purpose. General operating support grants are a way that a foundation can more easily advance a long term agenda, support a select number of organizations that are key to their strategic priorities, and help new organizations gain the capacity to be more self sufficient. Particularly when made as a multi-year grant, general operating support grants can permit nonprofits to take risks. They also affect the granting

foundation on a subtle level by increasing the dialogue about the key mission of the foundation and how it can best strategically achieve this mission.

Survey responses indicate no clear differences in reporting requirements between general operating support and other grants. Legally, this may restrict the foundation more than they realize (Fei et al., 2004). General operating support grants were mentioned as a strategy for funding advocacy work, but this finding suggests that promoters of this strategy need to be very explicit about the legal definition of general operating support grants so that funders do not inadvertently break the law.

Clearly there are many foundation executives who understand how operating nonprofits prize unrestricted funding, yet questions about the end result linger. Longitudinal research about the role of general operating support grants in a variety of types of nonprofits is needed to address the following questions. If a nonprofit is sinking, does general operating support help them stay afloat? How do new organizations funded with multi-year core support cope when that revenue source disappears? Borrowing from Bernholz (1999), what kind of relationship develops between a foundation and a nonprofit grantee receiving general operating support, especially multi-year support? Greater understanding of the nonprofit organization's perspective would likely reassure the foundation community about the wisdom of this strategy.

There are also broad questions about the role of general operating support in the nonprofit economy. We would like to know more about

changes in the level of general operating support funding relative to government and private donations. Is an increase in general operating support funding indicative of a structural shift in the nonprofit funding environment, or will the demand subside? Studies of the grantmaking styles of new philanthropists should focus on their interest in unrestricted funding. Similar questions could be asked regarding community foundations and donor-advised funds.

This research has several implications for grantseekers looking to increase the amount of general operating support they receive from foundations. The grantseeker should first understand that the majority of foundations do give at least some grants for general operations. However, the grantseeker would also be wise to understand that there is a tendency among some in professional philanthropy to consider these grants as somewhat risky, for several reasons. Foundations are facing increased scrutiny of their work from a variety of sources, and a program grant is generally easier to align with stated missions and goals. Additionally, many foundations are explicitly focused on funding innovative programs because they view this as their particular role as a funder vis-à-vis government and private donations. For these foundations, general operating support, particularly the long term commitments that many nonprofits dream of, can be viewed as limiting the foundation's ability to fund innovation.

Grantseekers may be able to alleviate these concerns. One strategy would be to focus on those foundations whose missions most closely align with their own. Our focus groups and interviews show that foundation executives are most willing to grant general operating support

to organizations that they see working for the same goals as their foundation. Then a simple strategy would be to highlight the innovations inherent in the nonprofit's ongoing work and demonstrate how a general operating support grant would permit them to experiment with different strategies as they address seemingly intractable social issues.

We also found that general operating support grants can potentially change the relationship between the foundation and the nonprofit, permitting greater honesty in discussing what does and does not work. However, our qualitative interviews indicate that these foundations still require a set of objectives for general operating support grants. Therefore, a nonprofit should always explain explicitly how the operating support has helped advance the mission of the organization. Besides being good professional practice, this will also build up the foundation's trust in the organization, which is essential to a long term commitment.

Conversely, foundation staff may find it beneficial to evaluate grantees on their potential as a partner in accomplishing a shared charitable mission. Foundations could then be able to justify general operating support as an investment in the leadership and infrastructure of their partner and look for ways to account for the investment to fit their reporting systems. Our research found greater support among foundation staff for general operating support versus their perception of their board's support for the practice. Viewing nonprofits as partners working towards a shared mission may provide a more congenial context for the discussion of general operating support during strategic planning with the board of trustees, and spark meaningful discussions about mission.

Concern about the wisdom of general operating support grants is an old debate in philanthropy, one that is unlikely to ever be settled. We have shown that only a few foundations have explicit policies in favor of general operating support, but many more make such grants and provide a variety of reasons for doing so. We hope that our systematic consideration of the issues has set the stage for more discussion and understanding of the issues on all sides.

**Endnotes**

<sup>1</sup> These numbers differ slightly from those in Table One because they rely on self-reported assets and revenues rather than 2003 IRS PF filings.

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