

is grantmaking **getting smarter?**

A national study of philanthropic practice

is grantmaking **getting smarter?**



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Grantmakers for Effective Organizations is a coalition of more than 350 grantmaking organizations committed to building strong and effective nonprofit organizations. GEO promotes grantmaking practices that improve nonprofit results.

More information on GEO and a host of resources and links for grantmakers are available at www.geofunders.org.

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introduction

Survey Finds Persistent Gap Between Nonprofit Needs and Grantmaker Practices

Most foundations are not making changes they and their grantees say are essential to supporting nonprofit success, according to a new survey from Grantmakers for Effective Organizations.

The survey, conducted by Harder+Company Community Research, was the second-ever comprehensive study of the attitudes and practices of staffed grantmaking foundations in the United States. It builds on a similar study conducted in 2003 by the Urban Institute in partnership with GEO.¹

Despite efforts in some foundations to shift to more nonprofit-friendly practices, a pronounced disconnect remains between the ways in which grantmakers are supporting nonprofits and what nonprofits say could contribute most to their success. Further, many grantmakers have not adopted practices that they themselves see as important for effective grantmaking.

Prior to fielding the survey, GEO spoke to hundreds of grantmakers and nonprofit leaders in interviews and focus groups as part of its Change Agent project. Asked which grantmaking practices are most likely to have a positive impact on nonprofits' ability to achieve results, grantmakers and nonprofits agreed on three top priorities:

- 1 Provide more general operating support
- 2 Provide more multiyear support
- 3 Work in a supportive and respectful relationship with grantees

In other words, a consensus emerged that grantmaking needs to get better in two areas: *the money* and *the relationship*.

The study found that walk trails talk in these areas. In short, few grantmakers are engaging in the practices they identified as essential to making nonprofits stronger and better equipped to achieve results. While there are pockets of progress, on the whole the field has a ways to go.

Still, some hopeful signs also emerged from the research. Even as progress across the foundation field has been slow generally, there is evidence of a continued movement of grantmakers committed to shifting to more nonprofit-friendly grantmaking practices. The survey identified two characteristics of such grantmakers. First – in perhaps the study's most striking finding – they are significantly more likely to have staff and board members with nonprofit experience. Second, they are likely to be part of the GEO community.

¹ *Attitudes and Practices Concerning Effective Philanthropy*. © 2004. The Urban Institute.

key findings

the money

The size of many grants, and the strings attached to them, often don't align with the results grantmakers are asking of their grantees.

Grantmakers want to help their grantees be as strong and as effective as possible. Yet most nonprofits struggle financially, and many nonprofit leaders complain of spending too much time focused on fundraising rather than on programs and mission delivery. Research by GEO and others has shown that many of the ways grantmakers provide financial support to grantees are actually counterproductive and can detract from nonprofits' ability to have an impact.

GEO's Change Agent project² and other research confirmed that one meaningful change grantmakers can make is to improve the ways in which they fund their grantees – i.e., the types, duration and size of grants, and the rules and procedures related to fundraising and reporting on grants.

The survey found that many respondents provided, at least to some extent, the types of support GEO believes can help grantees succeed. For example, 80 percent of foundations in the study said they devote a portion of their annual budgets to general operating support.

While this finding was encouraging, other findings validate nonprofit leaders' complaints that the burdens of fundraising and reporting on foundation grants can inadvertently diminish an organization's capacity to

achieve meaningful results. For example, although most respondents gave some money to general operating support, the study found that respondents devoted a median of just 20 percent of their grant dollars to it; and an overwhelming majority said they are not providing the funds needed to cover the overhead costs associated with funded projects.

The survey also looked at ways grantmakers try to minimize the burden associated with application and reporting for their grantees. Not only did very few respondents (12 percent) indicate they collect any information about how long it takes grantees to meet their organizations' administrative requirements, but there is a gap between grantmakers' perception and grantees' reality in this area. Large foundations in the sample (with a median grant of \$50,000) estimated that grantees spend a median of 10 hours on the proposal and selection process for a typical grant from their foundation. In reality, grantees of large foundations spend twice as long – a median of 20 hours per grant, according to data from the Center for Effective Philanthropy.³

“Devoting 20 percent of grant dollars to general operating support is not adequate to give nonprofits the flexibility and the innovation capital they need to operate programs most effectively.”

JOHN WEILER

Senior Program Officer, F.B. Heron Foundation

² For more information, see www.geofunders.org

³ Based on data from more than 14,000 grantees of large foundations (median grant size of \$50,000). See Center for Effective Philanthropy, Analysis of Key Predictors of Grantee Ratings of Process Helpfulness and Time Spent (prepared for Project Streamline) and Project Streamline, *Drowning in Paperwork, Distracted from Purpose*, 13.

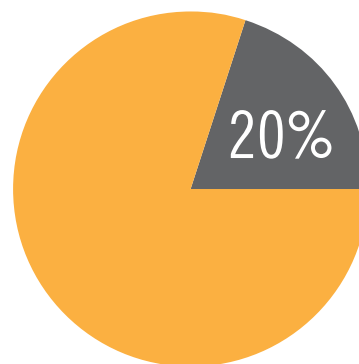
What types of support do foundations provide?

Types of Support	ALL RESPONDENTS
Foundation devoted a portion of its annual grantmaking budget to general operating support grants	80%
Foundation renewed one-year grants sometimes, often or always	75%
Foundation supported capacity-building activities among its grantees	65%
Foundation awarded multiyear grants of two years or more sometimes, often or always ⁴	60%
Foundation directly supported grantee leadership development activities	44%
The proportion of grant dollars the foundation currently devotes to general operating support grants is greater now than it was three years ago	22%

- ▷ The median grant size for all respondents was \$20,000.
- ▷ Respondents said they devoted a median of just 20 percent of their grant dollars to general operating support during the last two years. This figure is similar to Foundation Center data, which found general operating support to be 19 percent of grant dollars awarded in 2006.⁵
- ▷ Only 20 percent of foundations in the study noted that grants often or always included the appropriate overhead to cover the amount of time grantees spent reporting on their grants.
- ▷ Only 41 percent of respondents said their application requirements were often or always proportionate to the size and type of grant.

“In our zeal to be thorough, strategic and effective, grantmakers often fail to consider the cumulative impact that thousands of separate requirements have on grantseekers.”

RICHARD TOTH
Chair, Project Streamline



Respondents said **20%** of grant dollars were devoted to general operating support.

⁴ The question included a note that for the purposes of this survey a multiyear grantee would not be expected to reapply for funding each year of the grant period.

⁵ *Foundation Giving Trends*. © 2008. The Foundation Center. Based on a sample of 1,263 of the largest U.S. foundations.

To what extent do grantmakers try to minimize the burden associated with application and reporting for their grantees?

Application Practices Engaged In	ALL RESPONDENTS
A common application form (e.g., from a regional association of grantmakers) was accepted ⁶	27%
Financial and other standard applicant information available online from GuideStar was accepted	25%
Proposals that were prepared for other funders were accepted	17%
Foundation compensated nonprofits for their time if it approached them and requested a proposal – but then ultimately rejected it	2%

Reporting Practices	ALL RESPONDENTS
Final reports were required often or always	90%
Grant reports were always read by at least one staff member	90%
Grant reports were used to foster learning and a useful exchange between the foundation and its grantees often or always	59%
Reporting requirements were often or always proportionate to the size and type of grant (e.g., a one-page report requirement for a small grant or event sponsorship)	58%
Receipt of grant reports was always acknowledged within four weeks	40%
Interim reports were required often or always	38%
A common grant report form (e.g., from a regional association of grantmakers or GuideStar) was accepted often or always	25%

▷ Fewer than half of all respondents (40 percent) tracked the time it took for them to acknowledge receipt of funding requests. More than half tracked the time it took to approve a typical grant (54 percent) and to make the (initial) payment after a typical grant award was approved (54 percent).

▷ According to their own estimates, it took respondents a median of seven days to acknowledge receipt of funding requests (among those that did so), a median of 90 days to approve a typical grant, and a median of 21 days to make the (initial) payment after a grant was approved. According to respondent estimates, grantees should expect to wait an average of three and a half months to receive a check from the time the proposal is submitted.

▷ Very few respondents (12 percent) reported they collected any information about how long it takes grantees to meet their organization's administrative requirements.



12% of grantmakers collected information on the time grantees spent to meet their requirements.

⁶ The Project Streamline study found that 34 percent of grantmakers accept a common grant application. www.projectstreamline.org.

key findings

the relationship

Tapping the wisdom and perspective of nonprofits is a critical component of effective grantmaking, but most grantmakers are slow to adopt this way of working.

Research shows that nonprofits view the quality of their relationships with funders as a critical factor in their success.⁷ Problems in the grantmaker-grantee relationship can create major burdens for nonprofits. A case in point: the challenges associated with raising money from foundations is a primary factor contributing to burnout among nonprofit executive directors.⁸

Improving the grantmaker-grantee relationship is a crucial step toward more effective grantmaking. To the extent that the relationship is built on honesty, transparency and trust, grantmakers will have a better understanding of the day-to-day challenges and opportunities facing grantees – and a better sense of how best to support and enable grantee success.

Engaging grantees and other stakeholders as active partners in a foundation's grantmaking can take a variety of forms – from simply asking for grantee feedback on a regular basis to proactively recruiting people with nonprofit experience to sit on the foundation board.

While most grantmakers recognize the value of working to mitigate the power imbalance with their grantees, the survey found that taking active steps to do so is still not common practice. For example, less than four out of 10 respondents (36 percent) reported they solicited feedback of any kind (anonymous or nonanonymous) from grantees through surveys, interviews or focus groups. In addition, less than half (48 percent) said they sought external input on grant proposals from representatives of recipient communities or grantees.

On the plus side, nearly all grantmakers that solicit grantee feedback (97 percent) reported that they have made changes based on what they've learned, most often improving grantmaking processes or communications.

There was a small increase in the proportion of respondents that reported they had solicited nonanonymous feedback, rising from 21 percent in 2003 to 25 percent in 2008. Similarly, the number of respondents who said they had solicited anonymous feedback from grantees in the past two years was larger, increasing slightly from 18 percent in 2003 to 22 percent in 2008.

“The real challenge is making (reporting) useful for grantees. Reporting is usually viewed as the final hoop that organizations have to go through, rather than an opportunity for real learning.”

LATIDA LESTER

Senior Program Officer, Community Grants
Saint Luke's Foundation

⁷ *Listening to Grantees: What Nonprofits Value in Their Foundation Funders*. © 2004, Center for Effective Philanthropy, and *Listen, Learn, Lead: Grantmaker Practices that Support Nonprofit Results*. © 2006, Grantmakers for Effective Organizations.

⁸ *Daring to Lead 2006: A National Study of Nonprofit Executive Leadership*. © 2006, CompassPoint Nonprofit Services.

To what extent are grantmakers seeking and using feedback from grantees?

Practices	ALL RESPONDENTS
Foundation solicited feedback of any kind (anonymous or nonanonymous) from grantees through surveys/interviews/focus groups	36%
Foundation solicited nonanonymous feedback from grantees through surveys/interviews/focus groups	25%
Foundation solicited anonymous feedback from grantees through surveys/interviews/focus groups	22%

“We no longer just make grants. We will share our ideas and thoughts on what we want to do and get a lot of feedback. Sometimes you may not like what you hear, but you need real dialogue with grantees so that everyone can do a better job.”

CHRISTINE VAN BERGEIJK

Vice President, Programs, Hawai'i Community Foundation

Foundations of all types use the grantee feedback they received in similar ways.

- ▷ 60% changed their grantmaking processes (e.g., application and reporting procedures; turnaround time).
- ▷ 57% changed their communication with applicants or grantees.
- ▷ 44% assessed how well their foundations engage stakeholders.
- ▷ 39% assessed the performance of program area(s).
- ▷ 38% changed their grantmaking strategies/priorities.
- ▷ 33% changed their grantmaking patterns (e.g., size, type, duration of funding).
- ▷ 31% changed the assistance they offered beyond the grant payment.
- ▷ 27% used grantee feedback as a criterion to evaluate their own staff's performance.

To what extent are grantmakers engaging grantees and other relevant stakeholders to inform their work?

Stakeholder Engagement Practices Engaged in Sometimes or Often	ALL RESPONDENTS
Met with grantee leaders to learn more about mutual issues and trends from their perspectives	90%
Staff conducted site visits	90%
Attended grantee events (e.g., fundraisers, performances)	88%
Assessed the needs of the communities or field(s) foundation serves (e.g., through surveys, interviews or focus groups)	61%
Brought together funders and grantees to discuss matters of mutual interest	59%
Invited grantees to address board members sometimes or often	56%
Sought external input on grant proposals from representatives of recipient communities or grantees	48%
Sought advice from a grantee advisory committee about policies, priorities, practices or program areas	36%
Delegated funding decision-making power to representatives of recipient communities or grantees	14%

To what extent are grantmakers engaging in learning for improved practice?

- ▷ Half of all respondents said they have formally evaluated the work that they fund. This figure is virtually unchanged from the Urban Institute's 2003 survey. And while more large foundations tend to conduct formal evaluations than small foundations, there was a significant increase in the proportion of the smallest foundations that said they conducted formal evaluations, up from 31 percent in 2003 to 41 percent in 2008.
- ▷ Among those that report they conducted formal evaluations, the proportion of respondents that rate strengthening their future grantmaking as a very important reason for doing so increased from 60 percent in 2003 to 73 percent in 2008, a sign that more grantmakers are looking at evaluation as a means of improvement rather than merely as an accountability mechanism.



Half of grantmakers formally evaluate the work they fund.

key findings

the movement

While there is substantial work to be done to improve the way grantmakers support nonprofits, the study did find pockets of progress in some key areas. There is evidence of a continued movement of grantmakers committed to engaging in more nonprofit-friendly grantmaking practices.

The study also found two characteristics among grantmakers making that shift. First, they are more likely to have staff and board members with nonprofit experience.

GEO's previous experience and research suggest that foundations with staff and boards that reflect the knowledge and experience of those they are trying to serve are more likely to identify with grantees, and thus will engage in grantmaking practices that support nonprofit success. The survey results support this view. Foundation respondents that have staff with nonprofit work experience were:

- Twice as likely to support grantee capacity building and nearly three times more likely to directly support grantee leadership;
- More than three times as likely to solicit anonymous feedback from grantees and more than five times as likely to solicit nonanonymous feedback from grantees; and
- More than twice as likely to ensure application requirements are proportionate to grant size and type.

The second characteristic the study found was that grantmakers engaging in the practices linked to stronger nonprofits and better results are more likely to be part of the GEO community – a finding that speaks to the value of engaging with colleagues to share knowledge and experience. For example,

- More than half of GEO members (53 percent) in the survey sample indicated they make multiyear grants of two years or longer often or always, compared to less than a quarter of nonmembers (23 percent). One-fifth of GEO members (21 percent) never or rarely make multi-year grants, compared to 43 percent of nonmembers.
- More than three-quarters of members (78 percent) indicated that it is very important for their organization to solicit advice from those outside it, compared to just under half of nonmembers (49 percent).

“I wouldn’t dream of hiring a program officer who didn’t have substantial nonprofit experience. In this job you need to know what life is like in the nonprofit world.”

ALBERT RUESGA

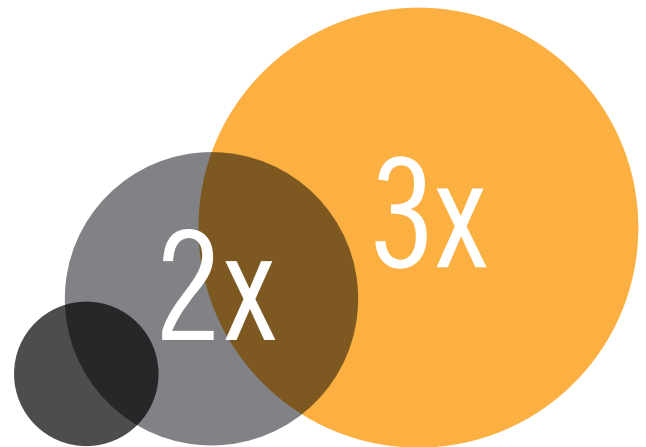
Vice President, Programs and Communications
The Meyer Foundation

Based on our credo that grantmakers are successful only to the extent that their grantees achieve meaningful results, GEO will continue to share stories and perspectives on how smart grantmaking practices in all of these areas can contribute to nonprofit success.

Our goal is to expand isolated examples of success into common practice so progress is visible when we conduct the next survey in 2011. GEO invites all grantmakers to join the movement toward smarter grantmaking for stronger nonprofits and better results. Learn more at www.geofunders.org.

“A grantmaker doesn’t have to do all these things to be effective. Even just adopting one or a few of these practices can have impact. GEO’s hope is that grantmakers will take a hard look at their own practices, consider how they relate to their own attitudes and what their grantees say they need, and make the appropriate changes necessary to best support nonprofit results.”

KATHLEEN ENRIGHT
Executive Director, GEO



Foundation respondents that have staff with nonprofit work experience are **two to three times** more likely to engage in grantmaking practices that support nonprofit success.

appendix

Key Differences by Foundation Type and Size

Analysis of the data looked at how foundations differ according to both foundation type and asset size, and found some significant variances in practice.

Key Differences by Foundation Type

Practices Related to the Money	ALL RESPONDENTS	COMMUNITY FOUNDATIONS	CORPORATE FOUNDATIONS	INDEPENDENT FOUNDATIONS
Median grant size	\$20,000	\$6,125	\$10,000	\$25,000
Foundation awarded multiyear grants of two years or more sometimes, often or always	60%	36%	73%	67%
Foundation supported capacity-building activities among its grantees	65%	72%	55%	62%
Foundation directly supported grantee leadership development activities	44%	54%	26%	40%
Reporting requirements were often or always proportionate to the size and type of grant (e.g., a one-page report requirement for a small grant or event sponsorship)	58%	63%	56%	56%

Practices Related to the Relationship	ALL RESPONDENTS	COMMUNITY FOUNDATIONS	CORPORATE FOUNDATIONS	INDEPENDENT FOUNDATIONS
Solicited anonymous or nonanonymous feedback from grantees	36%	48%	28%	31%
Trustees participated in site visits sometimes or often	62%	61%	39%	64%
Assessed the needs of the communities or fields the foundation serves sometimes or often	61%	72%	49%	57%
Invited grantees to address board members sometimes or often	56%	60%	46%	55%
Delegated funding decision-making power to representatives of recipient communities or grantees	14%	30%	15%	8%

Key Differences by Foundation Size

Practices Related to the Money	ALL RESPONDENTS	\$10 MILLION OR LESS	\$10–\$50 MILLION	\$50–\$100 MILLION	\$100–\$400 MILLION	OVER \$400 MILLION
Foundation awarded multiyear grants of two years or more sometimes, often or always	60%	47%	57%	62%	73%	81%
Foundation devoted a proportion of its annual grantmaking budget to general operating support grants	80%	73%	81%	78%	87%	94%
The proportion of grant dollars the foundation currently devotes to general operating support is greater now than three years ago	22%	17%	21%	22%	29%	34%
Foundation supported grantee capacity-building activities	65%	44%	64%	73%	78%	94%
Foundation directly supported grantee leadership development activities	44%	25%	43%	46%	57%	76%

Practices Related to the Relationship	ALL RESPONDENTS	\$10 MILLION OR LESS	\$10–\$50 MILLION	\$50–\$100 MILLION	\$100–\$400 MILLION	OVER \$400 MILLION
Foundation has formally evaluated the work that it funds	50%	42%	44%	53%	58%	84%
Foundation solicited anonymous or non-anonymous grantee feedback	36%	23%	31%	34%	51%	68%
Assessed the needs of the communities or fields foundation serves sometimes or often	61%	50%	58%	65%	72%	80%
Invited grantees to address board members sometimes or often	56%	46%	57%	63%	61%	61%
Delegated funding decision-making power to representatives of recipient communities or grantees sometimes or often	14%	12%	13%	13%	17%	21%



About the Survey



GEO conducted its 2008 national survey of staffed grantmaking foundations to gather baseline data on key grantmaking practices both nonprofits and grantmakers agree are critical to support nonprofit results. Overall, 820 out of a possible 3,590 organizations (23 percent) responded to the 2008 survey. Our intent is to repeat this survey in 2011 to track progress in the field.

Smarter grantmaking. Stronger nonprofits. Better results.



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