

CLIENT ADVISORY

Transcendental Operations

Finding the excitement in unrestricted support

Summary

Anyone involved in philanthropy can attest to the nonprofit community's persistent pleas for operating or unrestricted grant support. This advocacy tends to meet a wall due to realities of supply and demand. Vast as it is, philanthropic capital is no match for the operating needs of the nonprofit sector, an industry unto itself and third in employment among US industries behind manufacturing and retail.

Restricted versus Operating

Recognizing this reality, many funders prefer to reserve their support for special situations, such as organizational startup or expansion, new projects, and leveraging opportunities. Purists of this school might frame their approach as a values statement, reading something like this:

The nonprofit sector has been at the vanguard of almost every social improvement in America, from civil rights to education reform, to environmental protection to ____ (your cause here). Private philanthropy is also special, opening the way for more general support, usually forthcoming from a combination of other sources such as government, earned income, and individual contributions.

This is a fine theory but perhaps overly idealistic. Nonprofits need fuel to operate and can hardly be expected to innovate from a base of poverty.

Operating Versus Restricted

In 2011, 27 percent of all GMA client grant support was dedicated to operations. This figure declined to 22 percent in 2012 but is still substantial. Adding into the mix our clients' considerable support for long-established *programs* within larger operating budgets, the percentage is even higher. In recent decades, we have seen a growing acceptance for operating requests, among foundations large and small. Large funders appreciate the value of unrestricted capital as a means for taking organizations to scale; small funders, many of them faced with their own operating challenges and working without paid staff, can appreciate the absurdity of placing too many restrictions on small grants.

Closely related to operating support is the multi-year commitment. The two are often combined, either as a formal agreement or as an unstated expectation. This combination can result in a trade-off, again closely tied to supply and demand, as an increase in future-year commitments inevitably corresponds to a drop in the availability of discretionary income.

A blind adherence to operating support can equate to routine, the great enemy of all good grantmaking. If my contribution is a fraction of an organization's overall budget and my expectations are kept low, my grantmaking can lapse into a form of sleepwalking.

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Can funders have it both ways, enjoying the greater excitement and control afforded by restricted giving, while satisfying the very real need for unrestricted support? We think so; here's a short list of reasons why:

Startups Need to Operate: Startup organizations, inherently risky and interesting, are particularly in need of unrestricted support, often to meet first salaries. Funders can provide unrestricted support at the start up stage while enjoying all the risk of being in at the ground floor.

Projects Operate: Even special projects carry a portion of overhead. Sensitive funders should make allowances for this reality and encourage their applicants to itemize the true cost of their programs, which for tactical reasons are usually under-budgeted.

When Programs Expand, so do Operations: Whether planned or providential, expansion generally results in increased operating costs, even when efficiencies of scale are realized. Funding an organization's operations through a period of growth (sometimes referred to as capacity building) can be immensely rewarding and can serve as a good complement to other more restricted support.

Emergencies Happen: This is particularly true in times of economic downturn, but even in flush times nonprofits can require emergency support, sometimes for no fault of their own. If the organization's services are valued and the bailout plan is plausible, this type of support can be justified.

Mission Trumps Tactics: The etymology of philanthropy is itself a mission statement. The best grantmakers and grantseekers are anything but static, have an articulated vision for the future, and are nimble enough to adjust to unforeseen circumstances, including opportunities. The more clearly mission is articulated and the more vital the participants, the more the restricted- versus-operating debate begins to look like the wrong question.

Phil Hall is a Principal and Director of Grantmaking Quality at GMA Foundations. He can be reached at 617-426-7080 or phall@gmafoundations.com