

General Operating Support: A Guide for Trustees

By Rick Moyers

Trustees serve on the board of a foundation for many reasons. They are committed to the organization's mission and want to make a difference in their communities. Trustees also recognize the need to be careful stewards of the foundation's financial resources. Those resources are not unlimited, and understanding which types of grants result in the greatest positive impact – for both nonprofits and the communities they serve – is critical.

There is overwhelming evidence that general operating support grants can have significant impact on nonprofits and communities. Nonprofits frequently express the greatest need for these types of grants. Despite this, the percentage of funding given as general operating support has not increased over the past decade.¹

One reason for this lack of progress may be a lack of shared understanding about the definition of general operating support and common misperceptions among trustees and foundation staff. This guide provides an introduction for trustees and boards on general operating support grants. Foundation leaders can use this piece as a way to broach this topic and have candid conversations with their boards.

¹Grantmakers for Effective Organizations, "Is Grantmaking Getting Smarter?" 2017. Available at <https://www.geofunders.org/resources/968>.



I believe it is only through general operating support that an organization can get stronger, bigger, more strategic, more sustainable and do all the things that foundations and donors want it to do.”

– Quinn Delaney,
Board Chair,
Akonadi Foundation

The Case for General Operating Support

General operating support, which also is referred to as *core support* or *unrestricted funding*, is a term grantmakers and nonprofits use to describe grants made in support of an organization’s mission as a whole, as opposed to grants restricted to specific projects or programs. Because general operating support comes with no restrictions, organizations can use the funds wherever they’re most needed, including investing in organizational infrastructure such as technology, finance, talent and communications, as well as in programs or other capacities. For additional definitions, please see the appendix “Key Definitions.”

Such investments are especially important and represent a critical unmet need for many organizations. Nearly 10 years ago, a seminal article, “[The Nonprofit Starvation Cycle](#),” documented chronic underinvestment in nonprofit infrastructure and suggested that funders focus on impact rather than costs.² The authors pointed out that general operating support grants are likely to increase grantees’ ability to deliver results.

Nearly a decade later, despite persistent advocacy from GEO and other organizations, general operating support remains the exception rather than the rule in philanthropy. In its 2017 field study, GEO reported that just 20 percent of funders’ grantmaking budgets were allocated to general operating support grants, which is consistent with figures reported by the Foundation Center, the National Committee for Responsive Philanthropy and others.³ This also represents a decrease from the 25 percent of grantmaking budgets allocated in 2014.

Perhaps because funder behavior hasn’t shifted significantly, the issues highlighted in “The Nonprofit Starvation Cycle” haven’t changed either. In its [2015 survey about the financial health of the nonprofit sector](#),⁴ Nonprofit Finance Fund found that, of the responding organizations:

- 76 percent reported increased demand for services, with more than half unable to respond to increased need;
- 35 percent had less than three months of cash on hand; and
- 24 percent reported an operating deficit for the most recent fiscal year.

² Ann Goggins Gregory and Don Howard, “The Nonprofit Starvation Cycle,” *Stanford Social Innovation Review* 7, no. 4 (2009): 48-53.

³ Grantmakers for Effective Organizations, “Is Grantmaking Getting Smarter?”

⁴ Nonprofit Finance Fund, “2015 State of the Nonprofit Sector Survey,” 2015. Available at <http://www.nonprofitfinancefund.org/learn/survey>.



The Nonprofit Finance Fund report and other studies have documented a “brittle” nonprofit sector that is severely undercapitalized. Organizations frequently rely on fragmented funding, cobbling together smaller grants with individual restrictions and unique reporting requirements. This takes time and effort that could be spent on more important things – like delivering programs and services.

Further, few organizations have sufficient working capital or operating reserves to weather a sudden shift in government funding (or even a delayed payment), to take advantage of unanticipated opportunities, or to respond to changes in the environment or community needs. General operating support offers nonprofits greater flexibility in addressing such challenges. This increases the likelihood that nonprofits can be strong partners in achieving the impact sought by grantmakers and other stakeholders.

Last, but possibly most important, general operating support allows program officers and other staff to focus on building strong relationships with nonprofit partners. General operating support grants can serve as the basis for more open and candid discussions about the organization, unmet community needs, management and leadership challenges, and other issues. Funders who engage in these conversations are more likely to become trusted partners and influential advisers than those who engage in conversations focused on what line items can be included in the grant budget. General operating support naturally allows program officers and others the opportunity to focus on more strategic conversations.

Clearing up Common Misconceptions

If the case for general operating support is compelling and the need is well documented, why hasn't general operating support gained more



Funders across the country are beginning to recognize that a low budget does not equate with organizational effectiveness. In order to manage successful programs, nonprofits must have the capacity to invest in infrastructure and the people at the heart of their work over the long-term.”

– *Philanthropy California's [Full Cost Project](#) website*

traction in philanthropy? There are several ongoing and persistent misconceptions about the definition and implications of general operating support. Clearing up some of them may allow grantmakers to see general operating support from a new perspective.

Misconception 1: General operating support funds unnecessary overhead

While general operating support gives grantees greater flexibility to pay for overhead, general operating support grants are not by definition “overhead grants.” General operating support grants give organizations greater latitude in how they spend and the ability to spend more on critical resources, like human capital and technology solutions. General operating support also can be used for a range of other needs, including evaluation and learning, building reserves, program innovation, and other typically underfunded strategic priorities. Many funders draw parallels to investing in the private sector, where investors rarely dictate how their investment dollars are used.

In addition, when we provide project or restricted support, we require nonprofits to spend more administrative time considering how to shape their financial needs to match a particular grant structure. This encourages nonprofits to spend time creating new programs to capture the interest of funders or deciding how to reposition ongoing work as “projects” to fund expenses that would otherwise be covered by general operating support. It would be more efficient if nonprofit staff could request the kind of support they need most, spending less time on grant applications and more time providing critical services.

A closely related misconception involves the tendency to conflate program costs and overhead. The salaries of legal aid attorneys, youth workers or community organizers, for example, are not overhead – they are direct programmatic costs. Many nonprofits try to do too much with too little money, piecing together funding for programs from multiple funding streams, many of which fail to cover the full cost of providing the service. Poorly paid employees who lack professional development opportunities and basic office infrastructure are far less likely to have the capacity to implement high-quality programs that achieve the impact we all want to see.

Misconception 2: General operating support makes it harder to assess the impact of a grant

Grantmakers considering general operating support often wonder, “How will we know if our grant had an impact if the organization can spend it on anything?” or “Won’t our grant just be going into a big pool? How will we know whether we made a difference?” Grantmakers who provide general

operating support understand that solving the most pressing challenges can rarely be attributed to a single grant or grantmaker. Savvy grantmakers consider the impact of their contribution to addressing these issues and know that there are a variety of ways to think about learning and evaluation.

Organizations that receive general operating support grants still report back on their finances and programs and are accountable for their overall performance. Comprehensive reports produced for multiple audiences – such as annual reports, audited financial statements, IRS Form 990s, or materials prepared for the organization’s board – are often more reliable barometers of financial and programmatic performance than narrative and financial reports prepared for a single funder to report on a restricted grant.

The success of a general operating support grant also can be measured by the organization’s overall success in meeting its goals and achieving its intended impact. A general operating support funder may want to discuss specific targets or benchmarks but should make sure that the goals are reasonable and commensurate with the size of the investment. It is also important to consider the nonprofit’s capacity for tracking and reporting on specific targets or benchmarks.

Such goals should be set in partnership with nonprofits rather than imposed by the funder. This requires that grantmakers understand the organization’s broader goals and strategy in order to agree on targets. For more information about navigating the role of trustees in learning and evaluation, please see [“Trustees as Partners in Learning and Evaluation.”](#)⁴

Misconception 3: General operating support creates dependence

Many grantmakers emphasize future sustainability in their application and review processes. In these cases, “sustainability” is usually used as shorthand for “How will you keep doing this after we stop funding it?” Some grantmakers worry that general operating support grants will become part of the grantee’s annual operating budget and the organization will come to depend on an annual renewal.

As a field, we need to step back and reevaluate our aversion to creating long-term funding relationships with nonprofits. Grantmakers rely on nonprofits to be the “boots on the ground” for achieving impact, and



Building trust leads to long and lasting relationships that are going to bring a funder greater rewards than any report. If there is trust and mutual accountability then it comes naturally to offer what the partner needs, which, more often than not, will be general operating funds.”

– *Sasha Rabsey,*
The HOW Foundation

⁴Grantmakers for Effective Organizations, “Trustees as Partners in Learning and Evaluation,” 2017. Available at <https://www.geofunders.org/resources/trustees-as-partners-in-learning-and-evaluation-926>.

nonprofits rely on grantmakers to provide the funding for the activities that make a difference in the lives of those they serve. This is not dependency; it is partnership. Nonprofits' needs do not vary depending on the type of funding grantmakers provide.

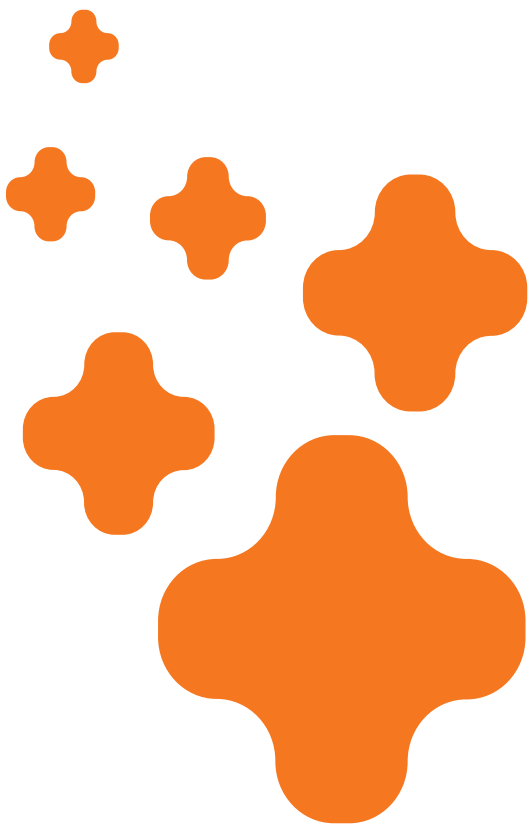
Grantmakers should communicate clearly at the outset of the grant about prospects for renewal or the intended time period of the investment. This gives nonprofits time to plan for shifts in funding. Grantmakers should also consider what kind of capacity-building support they might be able to provide to increase the financial resilience of nonprofits. Multiyear commitments allow nonprofits to better plan for the future because their revenue stream is more predictable. Grantmakers can also consider how they might develop specific goals and targets around sustainability with their nonprofit partners to help nonprofits plan for future financial needs.

In summary, many of the cautions against general operating support either don't hold up under scrutiny or can be mitigated by careful planning and clear communication. General operating support is an excellent tool for organizations that are committed to long-term impact and nonprofit resilience. When we provide funding that gives nonprofits space to innovate and the security to know that we are committed to their long-term success, they worry less about their own survival and focus more on delivering high-quality programs.

Moving the Conversation Forward

In many situations, trustees may be acting on staff recommendations about policy and specific grants, and trustees should be thoughtful about and respectful of their partnership with the chief executive and program officers in suggesting further conversation about general operating support. However, foundation boards are important policy-making bodies for philanthropy and can often influence the direction and priorities of the organization. For the pendulum to shift toward general operating support in any significant way, trustees need to understand the issue and push for change.

Here are four steps trustees can take to advance dialogue about the feasibility of making general operating support grants.





1. Examine preconceptions

All trustees come to the board table with a set of ideas based on media coverage of the sector and their experiences in other settings – experience in business, service on other boards or even interactions with fundraisers. This can influence perceptions about topics like overhead rates or the number of nonprofits in the area. Trustees should consider the preconceived ideas they might have brought to their board service, whether those ideas are based on evidence or anecdote, and how those preconceptions might be affecting their openness to providing general operating support.

2. Embrace learning

The subject of nonprofit capitalization can be daunting, especially for trustees who are used to being experts in their fields. Understanding the current system of nonprofit financing and how that affects the type of support that could have the most impact may require a significant amount of learning and discussion. Boards and chief executives should make time for these conversations, and trustees shouldn't shy away

from asking questions. Boards that are considering general operating support might develop a learning agenda that includes input from and dialogue with nonprofit leaders about their real-world experience. Trustees could also consider how they might connect with and learn from other boards that or foundation staff who have experience with general operating support.



3. Signal openness

Some chief executives and program staff are aware of the potential of general operating support as a grantmaking strategy but don't believe they can get their boards to sign off. Trustees who are willing to have a conversation or consider general operating support should signal their interest and openness by engaging in conversation with fellow trustees and staff. Likewise, if staff seem reluctant to discuss general operating support, trustees should consider how they might introduce the concept and continue to regularly revisit the conversation.

4. Consider experimentation

One way to address misgivings or lingering questions about the effectiveness of general operating support grants would be to encourage staff to test the approach with a select set of nonprofits. The best candidates are organizations that have existing relationships with the grantmaker and whose goals are well aligned with the grantmaker's intended impact. Trustees might consider setting aside a certain percentage of grantmaking dollars to support these experiments and should allow adequate time to implement general operating support before assessing the results.

Conclusion

Although most trustees view their work in broader terms than simply writing checks to nonprofits, providing financial resources to nonprofit organizations remains a core function of most grantmakers.

The reality that grants are only one piece of a larger financial puzzle for most nonprofit organizations has profound implications for the type of grant support that is most needed. Trustees who are committed to the long-term strength and resilience of nonprofits and the effectiveness of their work recognize that general operating support is a strategy for greater impact.

Appendix: Key Definitions

This guide uses terms and concepts that are not widely used or understood outside the nonprofit sector – and are subject to debate and misunderstanding even among nonprofit professionals. For clarity, here is how these terms are used and defined.

Capitalization – As defined by Nonprofit Finance Fund, “the distribution, nature and magnitude of an organization’s assets, liabilities and net assets.” *Capitalization* refers to the flow of financial resources to organizations and how organizations deploy those resources for immediate and long-term needs (also sometimes called capital structure in the context of specific organizations).

General operating support – Grants made in support of an organization’s mission as a whole, rather than restricted to specific projects or programs (also sometimes called unrestricted support, general support, or core support).

Indirect costs – Expenses incurred by grantees that are not associated directly with a particular program or service. Examples might include insurance, internet access, or audit and fundraising costs (also sometimes called shared costs, administrative costs, or management and fundraising costs).

Operating reserves – The accumulation of unrestricted surpluses that are liquid (as opposed to invested in fixed assets) and therefore available for use at the discretion of an organization’s board (also sometimes called working capital).

Overhead – An imprecise term often used colloquially to describe an organization’s indirect costs or management and general and fundraising expenses.

Program support – Grant funding that is restricted to a specific project or program (also sometimes called restricted support or project support).

Unrestricted net assets – The difference between an organization’s assets and its liabilities after accounting for restrictions placed on funding. Operating reserves are almost always a subset of an organization’s unrestricted net assets. Some unrestricted net assets (such as buildings) are not liquid and cannot be used as operating reserves or working capital.



Additional Resources and Examples

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For more examples of how grantmakers are implementing general operating support, please visit <http://bit.ly/2oW9zT1>.



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