

## Tom's Tips on Core Operating Support Grants

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For the past two years, we have encouraged general grant applications for core operating support from organizations providing direct health services in traditionally underserved communities. Increasingly, our special project grants have also been focused on core support for a variety of direct service and public policy organizations whose work falls within our mission to improve the health of the people of California. The fact that we have not only dedicated a growing percentage of our grant dollars to core support but have also chosen to make a public statement about that commitment in our most recent annual report makes us somewhat unusual among foundations.

Many of our philanthropic brethren find it difficult to believe that grants for general support (i.e. with “no strings attached”) can be strategic, especially in comparison to the kinds of multi-year Initiative funding that TCWF has done in the past. But I have yet to talk with anyone from the grantseeking world who doesn't see it as bold, positive and yes ... strategic way to do grantmaking.

One of our Board members recently recalled with fondness a grantseeking interaction with a foundation program officer more than ten years ago. After pitching a list of projects for his agency, the P.O. responded “That's all very interesting, but tell me ... what do you really need?” By that question, she legitimized a conversation about the deeper strategic thinking of the organization rather than merely conducting a litmus test to see how the agency aligned itself with the funding strategies of the foundation. Core operating support grantmaking is, at its essence, about asking that key question.

Core support grantmaking is responsive, but it is not passive. It responds to the needs of organizations for agility and flexibility in meeting challenges in their environment and their internal operations. It is an empowering “vote of confidence” in the leadership and efficacy of an agency to provide funding in support of its core mission without requiring a new project or an “innovative” approach to enduring problems in its community. But that doesn't mean that we would provide core operating support to just any organization whose work fits within our mission, or that we will hand out grant checks on a “first come, first served” basis.

I would argue that we should actually be more selective about the groups that we will choose to provide general support. And that implies a qualitatively different -- and potentially more challenging -- analytic task for the Program Officer than was the case for the kind of project or RFP-style grantmaking we've done in the past. All of the due diligence practices we've previously outlined (See Tom's Tips on Due Diligence) still apply in the case of core operating support. But now you're also going to be expected to assess not just the validity of a project idea but the functioning (and needs) of the entire applicant organization.

In project funding, the bulk of the proposal and the subsequent site visit typically focus on the work plan, including details of program design, staffing and budget. Not much time is spent talking about the larger issues confronting the organization, of which this project is but a piece. Where is this agency in its life cycle? How is it functioning internally? What has been its

trajectory over the past few years in terms of size and diversity of funding sources? What are its plans and prospects for long-term sustainability? The answers to these kinds of questions have a direct bearing on the success of any finite project ... yet how often are they asked? And how much time is spent exploring them in depth? When the inquiry is focused on the prospect of core operating support, questions such as these become the centerpiece of the conversation.

That's one way in which our role becomes strategic. By asking fundamental questions about organizational health in a mindful and supportive way, we can raise consciousness and legitimize such concerns for executives and boards. Ultimately, we can also achieve a much more authentic and candid exchange than is typically possible when an agency believes it must construct a "new" project to attract foundation dollars.

Clarity about mission is the starting point for that dialogue. Rather than asking an organization to stretch beyond its mission to take on a challenge we have identified as part of a funding initiative, we need to ask how we can help strengthen its ability to fulfill that mission with maximum effectiveness. The more focused the organization, the better.

When similar conversations are held with organizations across a field or a geographic region, our approach becomes strategic at an even higher level. Are there particular challenges confronted by all the community health centers in the county? Is there some targeted work we could support to build the capacity of key California organizations in the field of environmental health? What could TCWF do to help "grow" the next generation of local leaders in mental health? It's questions like these that will form the foundation for our emerging grantmaking programs, and core operating support is the "door opener." The purpose of this memo is to help you prepare for those conversations.

### **Being Clear on our Purpose**

When our Board encouraged an increased emphasis on core support grants, its intent was that we would use this potentially powerful tool to be maximally responsive to the needs of front-line providers of health services in low-income communities. The Board was clear that these grants should be made essentially with "no strings attached." As we enter into conversations with applicants for core operating support, we should also be clear on that directive.

The questions about organizational health on the following pages are designed to help you more effectively gauge which agencies are good candidates for core operating support. They are not intended to provide you with a "checklist" or a "prescription pad" from which to diagnose an organization's needs and suggest corrective action. The purpose of this exercise is not to help us become more sophisticated about telling applicants what to do. Agencies are coming to us for money, not for organizational consultation.

It is your job to determine which agencies to recommend for a core operating support grant, and I believe we should "set the bar high" for such requests. But it is not your job to recommend specific courses of action for the organization ... even if your opinion is asked. They might well want to use part of a core support grant to pay for some technical assistance or consultation, but it's not our place to provide it.

Certainly, every core support grant will have objectives. And your conversation with them will undoubtedly touch on a number of issues that the organization may wish to address, should they receive a grant. It's perfectly acceptable for you to "legitimize" those issues as appropriate targets for action if asked ... but it should be done without mandating that an organization must (or even should) work on those issues as a condition for receiving a core support grant. While an agency may elect to use core support for capacity building, that is not the central purpose of core

operating support.

It's perfectly acceptable for an agency to request core support simply to help cover the basic costs of providing its programs... regardless of its other needs. It's up to you to determine whether such a request is a prudent move for the Foundation, given other alternatives.

## **Dimensions of Organizational Health**

There is a vast literature on organizations, and much of it applies to any endeavor that brings human beings together to achieve a common purpose. But there is a need to contextualize any such advice when it comes to the case of mission-driven community-based agencies. In its excellent publication Managing the Future: A Leader's Guide, the Fund for the City of New York identifies seven "management areas" adapted from the DeWitt Wallace-Reader's Digest Management Initiative. They are: Strategic Planning; Board Development; Financial Management; Fund Development; Human Resource Management; Legal Assistance; and Information Technology.

While there are potentially many ways to conceptualize and describe dimensions of organizational health, I submit that these seven topics could form the outline for a thorough and engaging site visit conversation to assess the appropriateness of a grant for core operating support. I'd also add an eighth dimension: Leadership. It's implied in all the other seven dimensions, and central to the success of any venture. While such a discussion could easily go on for a full day or more, here are a few key questions to get you started.

### **Strategic Planning**

A good place to begin is to ask about the history of the organization. How and when did it get started and how has its mission evolved over time?

Does the organization currently have a strategic plan? When was it developed? What was the process like? How did the Board respond? Was the staff involved? Was an outside consultant used to facilitate or did someone from inside the organization lead the process? What was the assessment of that experience?

To what degree is the organization currently operating according to the strategic plan? In what areas have expectations been exceeded, if any? How about disappointments or enduring challenges? In retrospect, was there a commitment of adequate time and resources to implement the plan?

Is the organization due for an updated or new strategic plan? If more than five years have elapsed since the last plan was developed, I'd suggest that it may be time for a new one, assuming that the organization's leadership is relatively stable and committed the potential benefits of the process.

(One use of core support dollars could be to help underwrite the expense of a Strategic Planning process).

### **Board Development**

A way to introduce this topic is to ask for a description of the Board: number of members, terms, current officers and their backgrounds, etc. How often does the Board meet and what's the typical attendance? Is there a committee structure? Do committees meet outside of regular Board meetings? How about recruitment of new members? What's the process?

How does the Board see its role? Does it understand the distinction between Board and staff? (Of course in most start-up situations, Board members typically fill in for staff, so that's a special case that needs to be taken into account. At some point, however, one can reasonably expect the Board to assume its proper role as a governance body).

Does the membership of the Board reflect the community served by the organization? If Board diversity is an issue, what's being done to increase it?

Does the Board recognize its role in fundraising? Do all personally contribute to the organization? Are there assigned responsibilities for fund development?

Has the Board engaged in a formal process of Board Development? If so, how recently? Who was the facilitator? How was the process perceived by the participants? What were the outcomes?

(Another potential use for core support funds is to underwrite the expenses associated with Board Development).

### **Financial Development**

Who other than the E.D. manages the finances for the organization? Is there a controller or financial manager on staff? What's her background? What's the E.D.'s background in finance?

What kind of financial reports are prepared (for the E.D. and Board)? To how many funding sources does the organization have to provide financial reports? Is the accounting software adequate to handle the task of multiple fund accounting?

What's the annual budget process? What's the procedure for modifications?

(This is the place to ask any questions that arose from reviewing their most recent audited financial statement) e.g.

What's their experience with cash flow? What do they maintain in the way of operating reserves? Do they have a line of credit with a local bank? How much?

What kind of debt service is the organization dealing with?

Do they budget depreciation as an operating expense?

Explain any deficits in previous years, etc.

(Some possible uses for core support funds in this arena are to hire a skilled financial manager, upgrade financial systems, train staff, pay for an audit, or even to create an operating reserve to help with cash flow difficulties, if you're convinced that they're manageable).

### **Fund Development**

Does the organization have a fund development plan (or business plan)? If so, how recently was it done? Was a consultant used? Who? How was the process? Is the plan on track? Any surprises, for good or bad?

Is there someone on staff other than the E.D. who has responsibility for fund development?

What's the Board's role in fund development? (if not addressed earlier)

How has the organization's budget changed over the past few years (increased, steady, declined)? By what magnitude has it changed?

What are the agency's sources of funding by category (e.g. government, fees for service, foundations, corporate support, United Way, individuals)? (What's the "pie chart" look like by percentage?) How has that distribution changed over the past few years? Plans for the future?

How does the organization reach out and try to raise money from individuals? What is done in the way of donor recognition?

(Some uses for core support dollars in this domain include preparation of a development plan, fundraising training for the Board, hiring a development director or fund development consultant, underwriting expenses associated with fundraising, etc.)

Since this is often the top issue on the "wish list" of smaller organizations, some particular cautions are in order. Development directors are not a "magic fix." They should not be hired with the expectation that they will raise money for the organization all by themselves. At best they can orchestrate the activities of others, starting with the Board. Also, there are no "bargains" when it comes to development advice. If they're budgeting \$20,000 for the salary of a development director, that's a case where they may very well get just what they pay for ... and no more. Ultimately, the "sustainable" solution is to build a base of individual donors, but many agencies will do anything to avoid the work that entails ... yet in this time of unprecedented individual wealth, the prospects for individual donor solicitation have never been brighter.

### **Human Resource Management**

How are they doing re: recruiting and retaining qualified staff? How do their salaries compare with other agencies in their community? Others in their field? Did they offer a cost of living increase this past year? How much? How about merit increases?

What's the staff benefit package as a percentage of salaries? Does it include health insurance? Any retirement other than Social Security?

How are issues of cultural competence addressed in the delivery of services to multi-cultural populations?

Are there published personnel policies or an employee handbook? Do all staff have a copy? How recently were they updated?

Is there a budget line for staff development and training? What did they do in the past year?

How do the E.D. and her staff deal with work-related stress?

(Some potential uses for core operating support in this realm might include adding a key staff position such as an Associate Director to more effectively manage personnel issues in the absence of the E.D., upgrading key salaries and/or benefits, engaging an organizational consultant, underwriting some needed staff development work or even a program staff retreat).

### **Legal Assistance**

Does the organization have access to legal advice on matters such as personnel, contracting, real estate (leases, etc.)? Is there a lawyer on the Board?

Has the organization had any recent dealings with the IRS?

Who is the designated person in the organization if an employee wants to lodge a complaint of sexual harassment? (good indicator of how grievances are handled)

How up-to-date are the organization's articles of incorporation and bylaws?

(Check most recent audit re: any pending litigation, etc.)

(One use for potential core support dollars might be a "legal checkup," particularly if the E.D. is new and the previous E.D. was in place for an extended period of time. Sometimes things are allowed to lapse under such conditions.)

### **Information Technology**

How up to date are the organization's information systems? Is there anyone on staff who has that as her responsibility? If not, what do you do for technical support?

How about training for staff? Are resources adequate to meet the needs of the agency?

Does the organization have an information technology plan? Is one needed?

(Core operating support can be used to purchase technical advice as well as to upgrade hardware or software ... but with caution. Many organizations have wasted valuable resources on the wrong equipment or software based on bad advice or unwillingness to seek help).

### **Leadership**

How long has the E.D. been with the organization? What keeps her going? What are her plans for the future? If she has a time horizon for retirement or resignation, what's the plan for succession?

What level of support does she currently enjoy within the organization? Does she have a Deputy Director she can rely on? Does she have a good Assistant?

How supportive is her Board? What are the challenges there?

What's her "growing edge?" What does she do for personal and professional renewal? Does she have an effective network of peers to consult with?

What's the state of leadership in her field, from her point of view?

What's her single biggest challenge?

(Some potential uses for core support include increasing the E.D.'s salary if it hasn't happened for some time, hiring a good assistant or a Deputy Director, paying for a mini-sabbatical for personal and professional renewal, or some other professional development activities, if that's been an unaffordable "luxury" for the organization. Another use for core support can be to help the organization "bridge" the transition during a change in leadership).

### **So...which organizations are good candidates for core operating support?**

The first and foremost criterion is the match between the mission of the applicant organization and TCWF's mission. Is this an agency whose core mission is dedicated to improving the health of traditionally underserved populations via health promotion, wellness education or disease prevention? If it is not – for example if it is a Community Development Corporation that wants to add a health component to its work – it may still be a candidate for project funding, but not core operating support. Lofty statements regarding "improving the health of the community" are not sufficient if the organization does not provide direct health services or advocate for changes in health policy as the centerpiece of its work. Every non-profit in California would love to have

a core operating support grant. It's up to us to be focused in our choices.

The second criterion is your judgment regarding the quality of the services that the organization is providing and, therefore, its value to its community. What's its reputation? Is it grounded in the reality of the people it exists to serve? Is it connected to the local "ecosystem" or does it stand alone? Is it a "cornerstone" agency in its field ... or a promising start-up that is filling a gap for an underserved neighborhood that no one else has stepped forward to fill? For public policy groups, it is their track record of accomplishments and their ability to relate to the key constituencies that they represent. No matter how detailed or thorough your analysis of internal organizational health, it's meaningless if the agency doesn't meet the larger tests of relevance and effectiveness.

Once you have satisfied yourself that the agency is dedicated to health promotion and is a valued asset to its neighborhood or to the state, then your organizational assessment comes into play. At what stage is the organization in its life cycle, as revealed in the answers to the questions on the preceding pages? What contribution might core operating support make at this point? How might it positively affect the trajectory of the agency's development? What are the key issues that need to be addressed? A good concluding question to your site visit might be: "Given all the things we've discussed, what would be your number one priority if you had unrestricted dollars today?" ... or to put it more simply "What do you really need?" If the answer you get is really thoughtful and candid, you've arrived at a promising point of departure. If, on the other hand, the answer is off the wall, that tells you something important as well.

As a footnote, I'd like to reinforce the importance of having a Board member present for this kind of conversation, preferably the Board Chair. The impact of many of these questions can be magnified when asked in the presence of Board members. First of all, it can strongly reinforce the Executive Director if she's been trying to get her Board to move on some key organizational needs. Hearing from a funder that we care about such things is an important message to send. It can stimulate a variety of positive ripples at the Board level. Sometimes an E.D.'s answers give the Board member some new insights into her performance as well. It's also important to hear a Board member's answers to some of these questions ... don't let the E.D. do all the talking. I'd suggest that you direct some questions first to the Board member. It should give you a unique insight into the internal dynamics of the organization that can otherwise be difficult to gauge.

### **What about the writeup for a core operating support grant?**

Our technique here will evolve with more experience, but here are some preliminary guidelines. First, you should directly address broader organizational issues (both strengths and challenges) in the body of the writeup. Answers to the questions suggested in this memo should give you plenty of rich material to work with. Second, if this is a direct service grant, the grant objectives should include a direct service target that is pro-rated according to the amount of the grant. For example, if the grant is for \$50,000 a year for two years, what's the equivalent in direct services (patient visits, health education encounters, etc.) for that amount? Then, you should include one or more objectives specific to organizational issues that will be addressed with this funding (such as some of the suggested uses for core operating support referenced in the preceding pages).

Since this kind of funding is so prized by non-profits, it's also important that we clearly indicate up front whether the grantee will be encouraged to apply for renewed core operating support directly on the heels of the current grant. Will they have to wait a specified period of time (e.g. a year) before reapplying? We have no hard and fast rules on this question at present, but we should not set up the expectation that any one organization can expect core support in perpetuity.

I suggest that two two-year grants back-to-back should be the maximum before an organization has to wait at least a year before returning.

### **Postscript**

The move toward more core operating support grants sets us apart from many of our philanthropic colleagues ... I believe in a positive way. It calls on us to demonstrate a higher level of sensitivity to the real needs of the organizations we fund. I believe it will be a profound and satisfying learning experience for all of us that will only enhance our responsiveness to the underserved communities it is our mission to serve. I encourage you to share your comments on this memo, and I look forward to sharing our lessons learned on the road ahead.