
The Case for Operating Support

Kennard T. Wing
Council of Michigan Foundations
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Three Studies

- The Nonprofit Overhead Cost Project:
www.coststudy.org
- NFG Operating Support Study
- Heinz Endowments Study

The Nonprofit Overhead Cost Project

- Carried out by:
 - Urban Institute Center on Nonprofits and Philanthropy
 - Indiana University Center on Philanthropy
- Thanks to:
 - Atlantic Philanthropies
 - Ford Foundation
 - Charles Stewart Mott Foundation
 - David and Lucille Packard Foundation
 - Rockefeller Brothers Fund

Important Off-Topic Finding

- Widespread underreporting of overhead costs

Which Means...

- You can't draw valid conclusions from reported overhead numbers
- Your concept of adequate overhead may be based more on underreporting fantasy than what organizations really need

Strength of Nonprofit Organizational Infrastructure Varies Widely

■ **Strong infrastructure sites:**

- Latest hardware and software versions
- Blackbaud or MIP; Raiser's Edge
- Adequate staff with training and experience
- Adequate physical facilities; owned

■ **Weak infrastructure sites:**

- 1 copy of Quickbooks
- Access-based donor tracking built by work-study; out of date, not used
- Junior staff lacking training or experience
- Jack-or-Jill-of-all-trades who grew up with organization
- Roof leaks; Rickety furniture

Weak Infrastructure Compromises Organizational Effectiveness

Infrastructure Weakness	Consequence
Prior administrative director had no financial training	“This is the first year we’ve known what the numbers are.”
No finance person on staff; very junior administrative director	Missing invoices and cancelled checks; bookkeeping errors
Very junior administrative and development directors	Executive director deeply involved in preparing financial reports and grant proposals; doing their jobs instead of hers
Poor Access-based system for donor tracking	No donor analysis; limited ability to target fundraising
Poor Access-based system for student tracking; No client tracking	Inability to provide funders with basic output and outcome information
No finance person on staff; administrative director a long-term employee who grew up with organization	<ul style="list-style-type: none"> ▪ Only recently moved from cash to accrual accounting ▪ Restricted money spent for cash flow ▪ Employees were taking cash home at night ▪ Cost tracking by program, administrative and fundraising is “a work in progress.”

Restricted Funding (and Small Size) Lead to Weak Infrastructure

	Little or No Restricted Funding	5-49% Restricted Funding	50% or More Restricted Funding
\$1 Million or less			3 Weakest Infrastructure Cases
\$1-2 Million			
Over \$2 million	3 Strongest Infrastructure Cases		

Conclusions

- Nonprofits with restricted funding, esp. small ones, clearly struggling with inadequate administrative and fundraising infrastructure
- Inadequate infrastructure compromises organizational effectiveness
- Current spending on overhead at these organizations limited by policies of major funders

Operating Support Study

- Thanks to: Neighborhood Funders Group

Why Do You Give Operating Support?

- Responsiveness: grantees value it
- Leverage: worth more dollar for dollar
- Grantees can stay mission-focused
- Supports NPOs doing advocacy and public policy work
- Strengthens organizational sustainability and effectiveness for the long term
- Gives NPOs the flexibility they need to adapt to a rapidly changing environment

Why Don't You Give Operating Support?

- Don't want to fund things outside our mission
- No rationale for disengaging from a grantee
 - Could create dependence
 - No funds for new things

Mission Fit

- “Organizations that are working on issues of concern to us also need to work on other things if they and we are going to be effective. Operating support is still a very effective tool when we are funding partners whose mission is broader than ours, but whose other work complements and supports our focus.” – Sharon King, President, F.B. Heron Foundation

Dependence/Disengagement

- “A real concern, but not more of a concern than funding long-term projects. You need to be in relationship and conversation with the organization.” – Gayle Williams, Executive Director, Mary Reynolds Babcock Foundation
- “I don’t think the type of grant changes that dynamic. Requests for operating support go through the same competitive process as other grants. Organizations must apply and reapply.” – Carol Lamont, Program Officer, San Francisco Foundation

Measuring Outcomes

- “It’s no harder with operating support than with project support.” – Gayle Williams
- “We take the goals they have already set for themselves” –Carol Lamont

Conclusion

- Where there is substantial mission overlap or compatibility, operating support:
 - Strengthens organizational sustainability and effectiveness for the long term
 - Gives grantees the flexibility they need to adapt to a rapidly changing environment
 - Has no disadvantages relative to project support

The Heinz Endowments Study

- Pittsburgh Nonprofits:
 - Covet operating support
 - Multiyear unrestricted support the most valuable money of all
 - Operating support preferred to ANY kind of restricted funding

The Heinz Endowments Study

- National Scan of Foundations Providing Operating Support:
 - Requires consistent funding and stable priorities
 - Real limits to what program officer can do toward institutionalization
 - A philosophy, not a program
 - Creates brand value/imprimatur
 - Allows but does not require a closer relationship
 - Flexibility needed to address grantee size
 - Unique design needed to reflect grantee ecology, foundation stance, and program officer style

Story of a Hotline



Implications

- Look at what grantees need to be effective, not “program” and “overhead” labels
- Favor operating support, especially for smaller grantees and those with much restricted funding (unless diversified far beyond your mission)
- Pay realistic overhead on project grants
- Don’t reward low-overhead proposals
- Consider funding advocacy to change government funding practices for overhead

Contact Information

- Ken Wing
Kennard T. Wing & Company
224 Kathmere Road
Havertown, PA 19083
610-789-8727
kennarwing@aol.com

Underreporting of Overhead Expense Widespread

- **Many report zero fundraising cost**
 - 37% of IRS Forms 990 reporting over \$50K in private contributions report ZERO fundraising or special event costs
- **Proposal-writing costs not charged to fundraising**
 - Only 25% charge foundation proposal writing to fundraising; just 17% charge government proposal writing to fundraising
- **Personnel time not tracked by cost category**
 - Only 1/3 tracking staff time by category each payroll period

Nonprofits Responding to Pressure to Keep Real & Reported Overhead Low

- 25-35% of NPOs feel pressure from government agencies, individuals or foundations to limit overhead expenses
- Conscious of how reported numbers compare to peers
- Change reporting practices to keep the numbers down

Bottom Line is a Circle

