Monitor Institute
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# What's Next for Philanthropy in the 2020s
## Edge Overview: (Re)Designing the Enterprise

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# About this Document

This document is a companion piece to the Monitor Institute by Deloitte’s ***Seeing Philanthropy in a New Light*** report. It was created as part of the field-wide “What’s Next for Philanthropy in the 2020s” initiative, supported by **Deloitte Tax LLP**, the **Robert Wood Johnson Foundation**, the **John D. and Catherine T. MacArthur Foundation**, the **W.K. Kellogg Foundation**, and the **McConnell Foundation**. The initiative engaged more than 200 philanthropy executives, professionals, donors, board members, experts, and grantees in a dialogue about the current state of philanthropic practice and where it might be headed in the coming years. To learn more about What’s Next for Philanthropy in the 2020s, visit **www.futureofphilanthropy.org**.

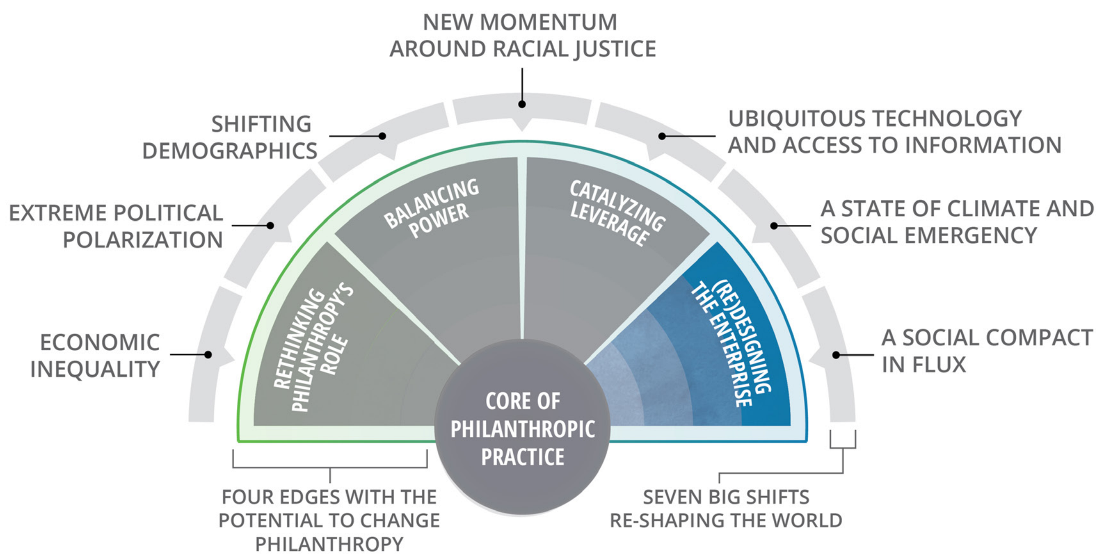
IN THE MONITOR Institute by Deloitte's ***Seeing Philanthropy in a New Light*** report, we explore how the world around philanthropy is changing, driven by a range of powerful social, economic, and political trends and forces. While foundations and donors have significant freedom to ignore many of these changes, certain "Big Shifts" around the field have proven to be inescapable.

Alongside these Big Shifts—and in many cases, in response to them—people and organizations are continuously experimenting with new ideas and strategies at the edges of the field. Most of these new approaches remain small and marginal to the mainstream core of philanthropic practice. But the "Edges" that are particularly well aligned with the Big Shifts show an outsized potential to sway and reshape the core over time. They can ride the momentum of the Big Shifts to grow in a way that will allow them to influence (or even overtake) the practices of the core over time.

Our aim is to identify promising Edges that, if scaled, could begin to challenge or change some of the core practices of the field that are no longer a good fit for today's philanthropic context. These are spaces for innovation where the Big Shifts are forcing philanthropic leaders to adjust their approaches and strategies. What these Edges will look like in the future isn't entirely clear yet, but there is an opportunity for funders, both individually and collectively, to investigate, experiment with, and invest in the potential of these promising areas of activity.

This document highlights one of these Edges: **(Re)Designing the Enterprise**. It examines the new practices that are emerging, identifying intriguing "bright spots" emerging in the field and outlining the key implications and trade-offs that underlie the different approaches.

## SHIFTS AND EDGES CHANGING THE CORE OF PHILANTHROPIC PRACTICE



# (Re)Designing the Enterprise

THE STRUCTURE AND CONFIGURATION of philanthropic enterprises have long been guided by a number of "default settings" that continue to hold powerful sway over much of the field. That's not to say that there hasn't been some degree of experimentation in the field, but even as the world has shifted dramatically around philanthropy over the decades, the normal assumptions about how philanthropy should be governed, structured, and managed have remained largely unchanged.

This is at least in part because philanthropy lacks many of the external pressures that typically spur organizational adaptation and innovation in other industries. Philanthropy doesn't have to adapt to keep its customers. It's not answerable to voters at the ballot box. And the result is that the traditional ways that many funders approach board structures, staffing, programmatic focus, and organizational roles have remained largely the same.

Yet many of these traditional structures and approaches may no longer be an optimal fit for addressing today's complex challenges. As funders begin to work differently—incorporating impact investing, engaging in public policy, working with businesses, catalyzing local systems change, shifting culture and popular narratives, and much more—they are experimenting with alternative organizational structures that may fit better to facilitate those activities. Funders are also redesigning their operations—from their daily grantmaking processes to board governance—to help them more effectively learn from their efforts, adapt, and create lasting change.

Our research identified at least four ways that funders have been actively trying to redesign the philanthropic enterprise:

- **Rethinking organizational forms:** Funders are experimenting with new structures for accomplishing their philanthropic goals, including DAFs, 501(c)(4)s, and LLCs.
- **Reconfiguring organizational design and talent models:** Funders are looking for new ways to organize and staff their work that better match their strategies and objectives.
- **Reconceiving governance:** Some funders are thinking carefully about the makeup and role of their boards to better position trustees to add value and provide effective governance.
- **Improving grantmaking processes:** Other funders are looking at the policies and processes they use in their work to make sure their practices are aligned with their values.

How an organization governs, structures, and organizes itself will have significant implications for how easily it can deliver on its aspirations, how it is reproducing or challenging existing power dynamics, and how well it collaborates with others to catalyze leverage. Where philanthropic form and function are mismatched, effectiveness and impact will inevitably suffer.

## Edge Practice 1: Rethinking organizational forms

The "foundation" form still provides a strong base for accomplishing many important charitable activities. However, donors are increasingly experimenting with alternative structures, such as donor-advised funds (DAFs), 501(c)(4)s, and limited liability companies (LLCs), that have the potential to be more efficient or effective vehicles for impact. From influencing policy to investing in social enterprises, these new structures offer their own unique benefits. And donors don't necessarily have to choose amongst the options; they can be used alongside each other to create a wide-ranging portfolio of impact initiatives that support a funder's goals.

### THE GROWTH OF DONOR-ADVISED FUNDS AS A GIVING VEHICLE

Donor-advised funds are not new, but interest in DAFs has exploded in the past decade (see the sidebar). DAFs allow donors to set aside money for charitable use without immediate pressure to decide how to use those funds—a "charitable piggy bank" of sorts. DAFs are also attractive because they offer tax benefits, allow donors to give anonymously, and are relatively simple to create and administer. As Elise Westhoff, CEO of the Philanthropy Roundtable, put it simply, "They allow people to get more money into the sector without the overhead or inconvenience of the private foundation structure."

While DAFs have been an incredibly effective vehicle for attracting philanthropic capital from wealthy donors, skepticism remains about how DAFs are being used. Unlike private foundations, DAFs do not have a minimum required distribution. Although DAF payout in aggregate was 22.4% in 2019,[1] well above the 5% minimum required of traditional foundations, critics argue that an unknown number of DAF accounts are hoarding assets that are locked away in investment accounts while receiving very favorable tax benefits. Critics also note that DAFs may overinflate the value of certain illiquid assets and that the funds are sometimes used by private foundations to game their minimum payout requirements. While the advantages to donors are clear, these critiques in aggregate call into question how DAFs could potentially be made more beneficial to communities and nonprofits.

Some have called for greater regulation on DAFs, while others are experimenting with variations on the DAF model that ameliorate some of these concerns. The North Star Fund, for example, requires its donors to actively make substantial gifts from their DAFs within three years of establishing them, alleviating the concern that DAF holders hang on to their funds for too long. Alternatively, the Napa Valley Community Foundation allocates up to 5% from all DAF accounts each year toward discretionary community impact funds as a way of ensuring that donor dollars are targeted effectively towards regional needs.[2]

#### DAFS BY THE NUMBERS[3]

- Grantmaking from DAFs in 2019 exceeded $27B, up 93% from 2015
- Assets in DAFs in 2019 reached $141.95B, up 84% from 2015
- Grant payout rate from DAFs was 22.4% in 2019

## NEW FORMS FOR NEW FUNCTIONS

DAFs and traditional charitable 501(c)(3) structures hold up well for funders who are primarily focused on making grants to nonprofits. Yet, more and more philanthropies are broadening their aspirations and using other tools, such as policy advocacy or impact investing, to create social impact outside of grantmaking. The 501(c)(3) structure does not lend itself as easily to those functions, and for some wealthy donors, the tax incentives derived from giving through a 501(c)(3) structure are less important than the benefits of using a less restrictive vehicle for creating social impact. Two structures in particular, 501(c)(4)s and limited liability companies (LLCs), have been growing in popularity as ways of giving funders additional latitude to do different kinds of philanthropic work.

## 501(C)(4)S

A growing number of funders have begun to engage in policy and advocacy in recent years, and since the 2010 *Citizens United v. Federal Election Commission* decision, those with specific policy and political agendas have increasingly embraced the opportunities afforded by 501(c)(4) social welfare organizations, which are permitted to lobby broadly for legislative and regulatory changes.

Charles and Lynn Schusterman Family Philanthropies, for example, includes both the charitable 501(c)(3) grantmaking funded through the Charles and Lynn Schusterman Family Foundation, as well as advocacy activities supported by the Schusterman family. This gives the Schusterman family additional flexibility to use a wide range of advocacy investments, including supporting policies and legislation, to advance their values and work. While traditional foundations are able to do limited policy advocacy, this approach allows funders to connect its advocacy work more directly to its social impact goals.

501(c)(4)s are also becoming an important part of the portfolios of some established foundations (that aren't able to create new (c)(4) structures), given the outsized potential of 501(c)(4)s in influencing policy and the resource flows that accompany them—although it needs to be done carefully. As Tim Silard, President of the Rosenberg Foundation noted, "We try to align and complement our grants to nonprofits with support for 501(c)(4)s working on the issues. In most cases, we don't need new ideas to create the change we want to see. We know what we need. We just need the political will and muscle to win."

## LLCS

Limited liability companies, of course, are not new, but using them as a vehicle for philanthropy has become more prominent over the past decade. LLCs have comparatively fewer legal and financial constraints than 501(c)(3)s and allow funders to bring multiple different philanthropic vehicles together under one umbrella. Some parts of an LLC can generate profit, other parts can support social enterprises, and some can engage in policy advocacy and political activity—providing greater flexibility, as well as greater integration, across different efforts.

Emerson Collective structured itself as an LLC in 2004 to be able to leverage a number of these tools when addressing issue areas like education, immigration, cancer research, media & journalism, and the environment. In media, for example, it has launched the for-profit documentary film production company Concordia Studio to promote impactful storytelling and narratives. Guided by the belief that journalism is a means to strengthen democracy, Emerson Collective also supports nonprofit journalism entities such as ProPublica and The Marshall Project. As Anne Marie Burgoyne, a Managing Director of the Emerson Collective, has explained, "We're structured as an LLC, which allows us … to have a wide variety of individuals with very different skills, very different ways of coming at the world, and different ways of thinking about problem-solving. Our goal has been to ask not just 'How do we make a grant here?' The cry we use is 'How do you go beyond the grant?' … 'How do you use an array of different kinds of tools to create social change?'"[4]

## IMPLICATIONS AND TRADE-OFFS

501(c)(4)s and LLCs both provide useful options for funders, providing them a wider array of options for creating change and allowing them to pick the right tool for the job to create impact. Funders who choose to address climate change, for example, may intervene on a number of levels—pushing for policy change through direct political activity, making private sector investments in green energy, and providing traditional grants to local conservation organizations.

And while 501(c)(4)s and LLCs provide funders greater flexibility, there remain a number of concerns. For one, there are worries about the rise of "philanthropic dark money," as these vehicles allow for donors to undertake large-scale philanthropic, political, and financial activities with very limited reporting requirements compared to a traditional foundation structure.[5] Kathleen Enright, President and CEO of the Council on Foundations, notes, "Because LLCs and 501(c)(4) s are less transparent, it is difficult to know who is doing what—and that can ultimately lead to mistrust of our sector. That can feed concerns already raised by critics and ultimately hurt trust. This is worrying for philanthropy's ability to achieve what we hope to because trust is at the heart of strong organizations, effective collaborations, and thriving communities."

Another concern is the general rise of politicization of the social sector. While adding a 501(c)(4) may be the right move for an individual funder or for accomplishing a particular goal, the collective growth of these models has the potential to change the nature of the field as a whole in ways that aren't easy to predict as funders blend charitable and political activity. It could lead to greater scrutiny and regulation, or it could produce more "zero-sum" spending, as philanthropic funders on the right and left of the political spectrum engage in an arms race that leads to more money for lobbyists at the expense of more traditional charitable spending for schools, parks, and the arts. Or the shift could lead to a boon of better public policy that is highly aligned with effective philanthropic activity. No one really knows what will happen, but with greater use of 501(c)(4)s and political spending, the philanthropic sector is heading into uncharted waters.

**501(c)(4)s and LLCs both provide funders a wider array of options for creating change and allowing them to pick the right tool for the job.**

Nevertheless, it's clear that these alternative structures are becoming increasingly popular with donors who want to be able to use a wider range of tools beyond just grantmaking to achieve their impact goals, meaning that they are, more likely than not, here to stay.

## Edge Practice 2: Reconfiguring organizational design and talent models

The rapidly changing landscape of public problem-solving is beginning to challenge many common assumptions about how to organize and staff philanthropic efforts. The default structure for a funder has been to organize under issue areas and hire subject-matter specialists in those areas, but some funders are rethinking this configuration as they clarify their aspirations.

### ORGANIZATIONAL DESIGN

With the recognition that people don't live their lives in silos, more funders are questioning why philanthropy is organized that way. "Silos don't work for the interconnected problems we face today," shared Alandra Washington, Vice-President for Transformation and Organizational Effectiveness at the W.K. Kellogg Foundation. Describing the Foundation's journey to become more "networked," she continued, "We needed to start breaking the silos down. After a certain point, we realized we needed to reengineer our whole structure to do that."

By breaking down silos, funders can take more interdisciplinary approaches to addressing issues and even be more nimble. The W.K. Kellogg Foundation adopted Agile practices—a methodology from software development that relies on constant collaboration between cross-functional teams. The approach integrated internal silos and flattened hierarchies. The Foundation moved away from having distinct functional departments toward more self-sufficient, programmatic teams. These teams were staffed with experts across a variety of functions who previously sat in separate units (e.g., communications, evaluation, and grants eligibility). As a result, programmatic teams work collaboratively to answer their own questions rather than engaging in continuous back-and-forth with siloed functions. The Foundation's leadership also decentralized grant approval responsibilities to programmatic team leaders, further empowering them to take ownership of decision-making processes.

### TALENT MODELS

As funders rethink their organizational design to work with more agility across silos, they are also considering new talent models. Graham Macmillan, President of the Visa Foundation, reflected on which skills have been valued over time. He said, "Previously, credibility in the field was given to practitioners with advanced degrees in a technical topic. The past twenty years, I've recognized a shift in valuing interdisciplinary skill sets and market-based skills, driven by project management capabilities. Looking ahead, I believe there will be an increased appreciation of the need for values alignment on issues like social justice, equity, diversity, and power."

Funders are looking for skills and experiences that match their approach to creating impact. Those focused on grassroots movement building may hire activists and community organizers, where those engaged in impact investing might hire finance professionals.

One funder shared with us how it shifted its talent model to better address climate change in the United States. In response to a highly polarized political context, bridging the political divide was critical to the foundation, so it built a broad political coalition in the places where it works. Its CEO reflected, "If you believe you need a much bigger tent of coalition members, then you need a ringmaster to organize that tent." So, the funder did something unexpected and hired staff without traditional issue area expertise. When finding talent, the funder prioritized those individuals who possessed deep regional relationships and an ability to engage with stakeholders from across the political spectrum.

Funders are also recognizing that you can "staff" beyond your organization. Why should a foundation define its talent base as only those it directly employs—instead of finding ways to tap the new resources made possible in a more dynamic and networked professional landscape? To do this, some are hiring intermediaries or consultants to help them identify and select potential grantees, bypassing the need to establish a foundation. Others are turning to organizations like Arabella Advisors or Tides to outsource a suite of grantmaking and advisory services. These approaches allow donors to have the benefits of deep social sector and programmatic expertise without the complications of hiring a permanent team. Many community foundations are adding advisory services as well. The Boston Foundation, for example, merged with a philanthropic consulting practice called The Philanthropic Initiative to expand the range of advisory services it could offer to donors.[6]

### IMPLICATIONS AND TRADE-OFFS

Efforts to update organizational design and talent models are an important way for funders to better align their daily activities with the impact they hope to create. Doing so recognizes the interconnectedness of the challenges funders are facing and the opportunity to create complementary approaches to engage more (and different) stakeholders, foster collaborative relationships, weave networks, and learn together.

But changes to organizational design and talent models must be carefully planned and implemented. Like most shifts, it is a balancing act, and there are real reasons for having silos in the first place. Silos allow for well-defined programs with clear goals that are staffed with topical or functional specialists. Many funders intentionally build this deep organizational and programmatic expertise over years or even decades. Funders that want to move away from silos may struggle to figure out where in the organization to house that issue area expertise. And on a practical level, many foundation professionals have worked in a specific organization model for years. Configuration changes can impact morale, staff engagement, and, ultimately, attrition if not handled with care.

Despite these challenges, the upside of integrated, networked approaches to organizational design and talent is bringing some funders back to the drawing board, where they are reconfiguring teams and adjusting talent models to maximize their ability to advance their social impact goals.

## Edge Practice 3: Reconceiving governance

The first corporate boards in the United States were born in the 1800s, with a form and function borrowed from Great Britain. Philanthropic foundations later inherited these board governance structures from the corporate sector, but they were not necessarily designed to serve the unique needs of the social sector. As Rebecca Aird, Director of Community Engagement at the Ottawa Community Foundation, summarizes, "Boards are nineteenth-century solutions to twenty-first-century problems."

Grantees, program staff, executive leadership, and board members themselves have all expressed some frustration with modern board governance in the philanthropic context. For instance, board governance can be too slow when responding to crises, too "in the weeds" when approving each and every grant that a foundation makes, too opaque in how they make decisions, and too insular in their composition. Given these challenges, a number of funders are exploring how to ensure that boards and governance are done in a way that adds value and uses board members to their highest and best purpose.

## RECOMPOSING THE BOARD

There is little doubt that foundation boards, as currently constructed, often lack significant diversity. A BoardSource survey of foundation CEOs found that 85% of their board members were white.[7] Furthermore, 40% reported that they did not have a single person of color on their board. This gap in racial diversity reinforces the point that philanthropic boards are rarely reflective of the communities they serve. If they were, though, some funders believe that boards could be a powerful catalyst for change. As Arelis Diaz, Director, Office of the President at the W.K. Kellogg Foundation, shared, "If we really changed the face of boards in philanthropy, we could spark significant movement. By changing the composition of leaders that hold power and make decisions, we could collectively inspire and provide the cover for all institutions to change."

In addition, some funders are also changing board composition to prioritize different skills and experiences for new board members. For some funders, this means adding board members with lived experience and community expertise in areas that a funder supports. Others are looking to add more people with foundation and nonprofit expertise on their boards—recognizing that corporate boards are filled with corporate experts and so, perhaps, foundation boards should have greater social sector expertise. The issue of board composition is even more complex for family foundations who are sometimes looking to add nonfamily perspectives to their boards. The Barr Foundation, which was governed by two family members for its first two decades, began an intentional process of adding nonfamily trustees.[8] The Foundation codified this commitment, declaring that the majority of its board must be composed of nonfamily members.

## RESHAPING THE ROLE OF THE BOARD

While some funders are thinking about the composition of the board, others are exploring how to rethink the board's role. One of the most traditional roles for boards is program and grant approval. This can be a major pain point for boards and staff alike. Board members feel frustrated when asked to approve grants for organizations they know little about. At the same time, foundation executives and staff devote significant time and energy to preparing for board meetings and managing board members' expectations. Ultimately, many see this as an intricate dance where the result—a rubber stamp for most proposals—leaves everyone dissatisfied.

A handful of funders have begun rethinking board governance processes so that board members, executives, and program staff can play to their strengths. Brenda Solorzano, CEO of the Headwaters Foundation in Montana, actively engaged her board members and helped them reconceive their duties and relationship with staff. She remarked, "I told the board that they would hold us accountable and be in partnership with us. They needed to stay at a governance level, think about our high-level strategic vision, and allow staff to create work plans beneath the strategic vision. After all, why did they hire me if they still needed to be in the weeds?" The Foundation's board moved away from approving grants to setting and steering the overall strategy, spending and investment policies, and a yearly work plan that consisted of a strategic framework for each initiative, as well as aligning on high-level outcomes. As CEO, Solorzano assumed the responsibility of approving grants, and the program staff was free to focus on operationalizing the Foundation's strategic vision rather than dedicate high levels of effort to board management.

## RECONSIDERING SPENDING POLICIES

Even if some funders are moving boards out of grantmaking and budgeting processes, boards still play an important role in determining a funder's spending policies. For large foundations, the default setting used to be existing in perpetuity, spending enough to meet their legal payout requirements while allowing their endowment to grow.

Conversations about spending policies have been ongoing in the background for years, but the dialogue has recently been accelerated as a part of philanthropy's rapid response to the COVID-19 pandemic. Now, boards are increasingly asking about whether their organizations should spend more and the implications of doing so.

Many board members have reflexively set their organization's spending rates right around the legal minimum of 5%, with small and infrequent deviations, in order to be good stewards of resources and to ensure that assets grow for

### SPENDING DOWN

Beyond just changing their spending rates, some funders are choosing to spend down entirely. In fact, half of all newly established foundations in the past two decades are time-limited, spend-down institutions. Funders are choosing to spend down for several reasons.

For some, spending down allows a funder to make a bigger and more immediate impact. The Aaron Diamond Jr. Foundation, which decided to spend down its assets in response to the HIV/AIDS crisis, invested heavily in research resulting in the discovery of combination drug therapy, which reduced the mortality rate of HIV in America and Western Europe by 80%.[9] For funders focused on pressing issues today, there is more consideration of whether spending resources today will ameliorate conditions in the future.

Another reason to spend down more quickly relates to family dynamics and donor intent. As many family foundations are going through generational changes, sunsetting a foundation allows the family to bypass the complexity of managing a perpetual foundation, whose staff members are often navigating the conflicting preferences of multigenerational boards. It also gives living donors more control to ensure that the foundation's spending is in line with their original intent.

Regardless of one's reasoning for spending out, the decision to do so needs to be planned carefully, as it can have unintended consequences. Some proponents of perpetuity note that if everyone were to spend down, it would jeopardize philanthropy's ability to respond to the next crisis and to assure long-term resources for ongoing needs.[10] Others point to the ripple effect on other funders, as well as grantees and communities. Funders whose grantmaking dollars balloon in the short term and then fall to zero creates unusual financial pressures for grantees and the other funders who support them, who sometimes need to make up the loss when a major funder exits an area.

As spend-down foundations grow more popular, their boards need to carefully consider the opportunities and challenges of spending down. Barbara Kibbe, former Director of Effectiveness at the S. D. Bechtel, Jr. Foundation, described how the Foundation thought about life after it closed its doors in December 2020. She said, "We realized we could hurt the field with the money we were pumping out. We had to think about life after we were gone and the durability of our impact. So, we started having conversations with grantees about what would help them continue the work. We decided to make a combination of grants, including programmatic and general operating support, to help them build capacity."

use in future generations. Some funders are making this somewhat mechanical decision more explicit and bringing new analyses to the question. Dimple Abichandani Executive Director of the General Service Foundation, explains, "Spending policies are the invisible architecture in philanthropy. People get caught up in dividing up budget, but the real money is in the spending policy. And just like the budget, it's a reflection of one's values." So, the Foundation adapted the legal principle known as the "Balancing Test" (a process for complex decision-making that allows participants to weigh multiple factors) to reassess its spending policy.[11] Abichandani engaged the board, dividing them into pairs and assigning each to one of seven factors that would guide the Foundation's future spending. These factors included questions about the Foundation's commitment to perpetuity, as well as their approach to responding to the urgent needs of the moment. Each pair presented its perspective, and, after group deliberation, the board voted to increase the Foundation's annual spend to 10% for the upcoming four years.

**"Spending policies are the invisible architecture in philanthropy. People get caught up in dividing up budget, but the real money is in the spending policy."**

### IMPLICATIONS AND TRADE-OFFS

There is appetite from many philanthropy professionals, including some board members, to reconceive both the mandate and composition of boards. But these changes can be difficult to make in practice. To address this, some funders have engaged in ideation processes where board members can imagine new possibilities for themselves and even learn about analogous success stories. Brenda Solorzano remarked that members of her board were more inclined to reconsider their responsibilities after they spoke with other foundation leaders who had embarked on a similar journey.[12] Leaders should be mindful, however, that this journey is lengthy and needs to be handled with care. Program and investment staff may see their responsibilities change as the board's role changes. It is important to be transparent about how changes for the board will ripple across everyone's work and have a proactive plan to help teams and leaders navigate these transitions.

While these types of questions about governance and efforts to reform boards are nothing new, there is real opportunity to increase impact by reconceiving governance. Generational shifts for long-established foundations, combined with more nuanced discussion on power across the field, are creating increasingly fertile ground and momentum to do just that.

## Edge Practice 4: Improving grantmaking processes

In response to COVID-19, many funders have changed their philanthropic processes, accelerating existing trends related to grantee selection, reporting cycles, due diligence, and measurement. More than 800 funders signed onto the Council on Foundations' pledge to reduce or eliminate restrictions on grants and ease grantmaking and evaluation processes during the crisis. Now that funders have made some significant adjustments though, questions remain about what will stick and what will snap back.

Updating internal grantmaking processes is sometimes relegated to an afterthought in strategy processes, but improved systems can drive program effectiveness, increase impact, and signal a funder's values to external partners. The processes can be just as important to a funder's work as goal-setting and strategy. That's because, outwardly, funders are committed to helping grantees achieve their goals, but inwardly, they are structured to optimize for their own, rather than grantee needs. And every hour grantees spend on entering information into foundation systems is one hour fewer spent on programmatic work. That's part of why changes to processes can have deep implications for how funders and grantees work together.

### MAKING THE APPLICATION PROCESS EASIER AND MORE EFFECTIVE

Many funders are trying to improve the application and due diligence processes, making them less burdensome and more useful for potential grantees. JustFund, a giving platform designed to reduce friction in grantmaking, created a common proposal for grantees, similar to the popular "Common App" for undergraduate university admissions. Grantees fill out the proposal once and use it to apply to funding opportunities while making their work visible to all funders. Alternatively, the Robert Sterling Clark Foundation asks prospective grantees to submit an application that they previously sent to another funder.[13] This way, the Foundation can understand the nonprofit's work and make decisions on providing multiyear general operating support without requiring the organization to write a new proposal.

Other funders are making the application process more collaborative and productive for grantees, acting as a real partner through the process. The John D. and Catherine T. MacArthur Foundation's *100&Change* prize competition, which awards a single $100M grant to an organization with potential breakthrough ideas, aims to improve its due diligence process by bringing a learning orientation. The Foundation works to help push potential grantee ideas forward, even during the application stage. MacArthur and its affiliate, Lever for Change, have developed an organizational readiness tool that allows nonprofits to self-assess their application and established a peer-to-peer review process where prospective applicants review each other's proposals. Proposals that pass this initial screening receive feedback from five "wise-heads," global luminaries and thought leaders from across sectors. Finalists are assigned a technical reviewer who has expertise in the field to continue refining the project idea. Importantly, it is a co-creative process. The goal is for nonprofits to advance their ideas during this stage, not just have them evaluated. The competition also promotes top-ranked, vetted proposals in the "Bold Solutions Network," a marketplace that allows other funders to consider financing these ideas. The network has already unlocked an additional $419M beyond what 100&Change has funded.[14]

While there are many different approaches to improving application processes, many are grounded in the belief that funders should aim to reduce the burden on grantees, allowing them to put their time and energy into the work with communities, rather than their work with funders.

## BUILDING LONG-TERM GRANTEE PARTNERSHIPS

One of the most cited pain points for grantees is the expectation that they will jump through fundraising hoops—*annually*. One nonprofit leader exclaimed, "[The process] blows my mind. We've been around for years and partnered with the same funders repeatedly, but we still need to submit meticulous funding applications every year. Just trust us already!"

To reduce this burden, some funders are exploring longer-term options and take a more graduated approach to building a relationship and trust. Mijo Lee, a board member of Grassroots International, described its "long-term partnership" model. Both sides enter a partnership, in the beginning, through a small grant. As the relationship deepens, rather than establishing a funding relationship and revisiting it annually, Grassroots International is making a long-term commitment to accompany its partners, in recognition of the long-term nature of deep societal transformation. Lee shared, "Once we establish that partnership, our partners don't have to worry about whether their funding will get renewed every year. As long as we are in operation, they can depend on it; it does not change with a change in leadership or some new trend. Only once, in my five years, have I seen a long-term partner defunded. That was a mutual decision because the grantee decided to pursue a new vision altogether. Ultimately, it becomes less of a funder-grantee relationship, but more of a political ally, who is not looking for short-term outcomes, but long-term change and movement building." This kind of long-term approach invests heavily in the funder-grantee relationship initially, building trust for the long run.

## INCREASING TRANSPARENCY

To some, transparency is about being clear on what you do and do not fund, but a more complete picture of transparency involves much more. It's about having "glass pockets" about who you work with, what you do, and how you do it. Louise Pulford, CEO of the Social Innovation Exchange, shared, "Most foundations think they are more transparent than they really are. There is so much that goes on inside the 'black box,' especially with regard to how decisions are made. These decisions include how people are hired, how grants and contracts are given, how strategic focus areas and topics are decided upon, and what considerations drive funding decisions."

The Autodesk Foundation is one example of an organization working to build transparency and accountability into all aspects of its work. Through an open discovery form hosted on the Autodesk Foundation website, any interested organization can self-nominate and connect with Autodesk Foundation's Portfolio & Investment team. After a grant is awarded, due diligence records are available upon request to other funders and grantees, including notes on potential risks and impact opportunities. Moreover, the Foundation has published a five-year road map of its funding areas, rationale, and impact targets to create accountability and provide clarity to current and prospective portfolio organizations. Joe Speicher, Executive Director of the Autodesk Foundation, said of these efforts, "Those of us in philanthropy need to be clear about what we are funding, why we are funding it, and what the criteria is; it's the first step to reducing bias - and ultimately leads to better impact outcomes."

## MEASURING EFFECTIVENESS IN GRANTMAKING

Alongside grantmaking processes, many funders are also rethinking the way they approach monitoring, evaluation, and learning as new data methods, tools, and analytics continue to expand. Andrew Dunckelman, the Impact and Insights Lead for Google.org, for example, explained, "Philanthropy struggles to talk about our impact and measure it. But technology can help. We think about 'lean data.' We want to get maximum insights from the minimum amount of input." The Google.org team is exploring how artificial intelligence and machine learning can reduce the burden on grantees while helping organizations to learn from each other more effectively.

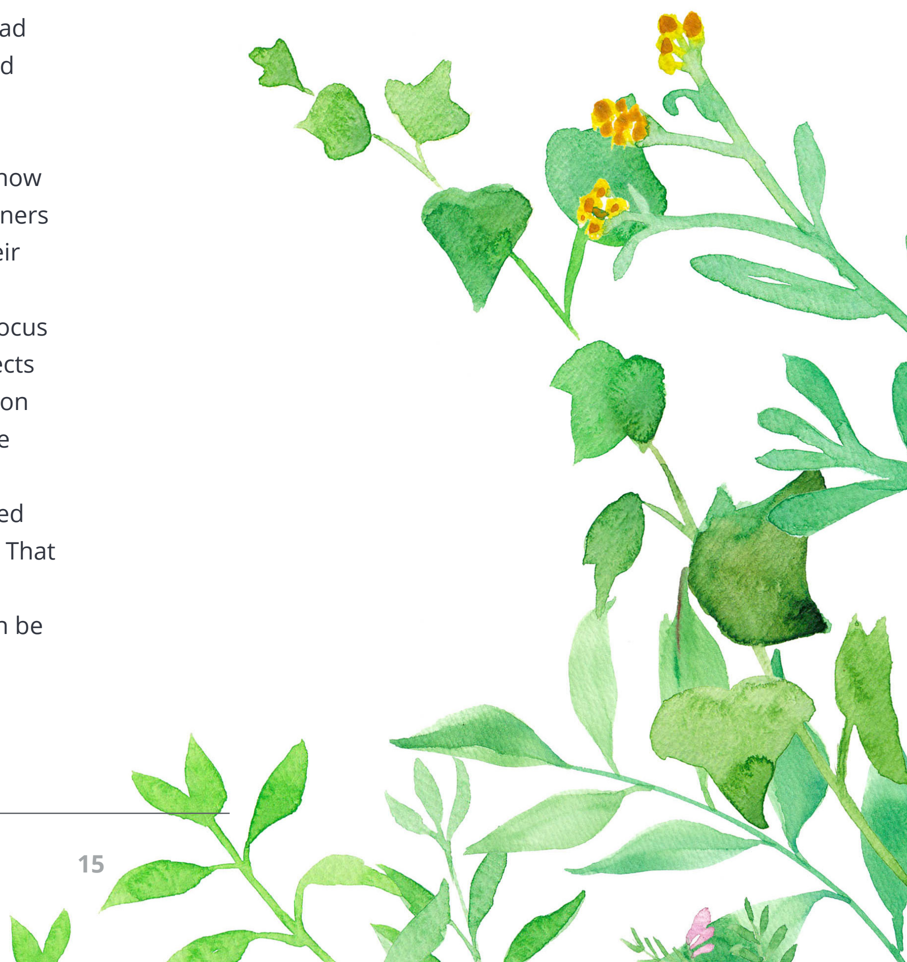
But you don't have to be a technology firm with artificial intelligence capabilities to be thoughtful about evaluation. As the Monitor Institute by Deloitte's 2018 *Reimagining Measurement* report noted, the starting point for measurement shouldn't be about metrics and methods, but rather on deeper questions about what decision-makers need to know to make better choices. As one expert told us, "Instead of evidence-based decision-making, we need decision-based evidence-making."

The challenge is for funders to think about how they can work with grantees and other partners to learn more productively and improve their efforts. The Open Society Foundations, for example, have recognized that it's hard to focus on lessons to be learned from various projects when evaluation is considered only in relation to what grants to support and renew. So the foundations have separated conversations about funding allocations from those focused on learning from projects they supported.[15] That way, nobody feels as though they are being graded or penalized, and what's learned can be useful in future grantmaking.

## IMPLICATIONS AND TRADE-OFFS

Funders are looking to strike a balance with many of their grantmaking processes. Funders are looking to find the right mix between providing longer-term funding to core grantees while also moving beyond the proven "usual suspects"; between easing burdens on grantees and getting the right information; between having an open door and saying a lot of "no's" or having more targeted process and saying "yes" to more applicants. For each funder, this balance looks different.

Another reason that funders are focusing on their processes is that, without developing internal processes that match their stated values, funders can inadvertently undercut the authenticity and intent of their work. So, while conversations about workflows and processes may not attract headlines any time soon, they have meaningful implications for how much effort nonprofits are dedicating to their work in communities and how much they are dedicating to funder management.



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