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PRACTICAL WISDOM FOR GRANTMAKERS


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# WORKING WITH START-UPS

## GRANT MAKERS AND NEW ORGANIZATIONS


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# working with start-ups grant makers and new organizations


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**THIS GUIDE,** developed through interviews with seasoned grant makers, examines some approaches for supporting new nonprofits, or start-ups. It explores the processes grant makers follow in answering such questions as:

- What need will the new organization satisfy?
- How can a grant maker support the growth of strong leadership and governance?
- What kind of practical help would be most valuable at the beginning and over time?
- What form should the initial grant take?
- How can a grant maker help the organization plan to sustain itself?

*This guide was written by Ellen Arrick and Anne Mackinnon with assistance from Erika Shatz. The capacity-building resource was created by Natasha Dachos. Both are part of the GrantCraft series.*

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*Publications and videos in this series are not meant to give instructions or prescribe solutions; rather, they are intended to spark ideas, stimulate discussion, and suggest possibilities. Comments about this guide or other GrantCraft materials may be sent to Jan Jaffe, project leader, at j.jaffe@grantcraft.org.*

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# Introduction

Supporting a start-up is one of the most challenging forms of grant making. Sometimes, it entails trying to do something fundamentally new, something no existing organization has done or seems ready to do. It might involve testing a new approach to solving problems, designing a new kind of institution or program, or supporting a "rising star" or young visionary.

A start-up may also grow out of an idea that has taken shape in a trial or pilot form and now seems ready to grow into a larger, more ambitious undertaking. In either case, without an established, time-tested grantee to adopt the project and run with it, how does a grant maker proceed without stepping into an abyss?

Supporting a new organization inevitably means struggling with questions about its structure, growth, and development. It often means working with a team or group of people who have had a role in conceiving the idea, or whose participation is important in the design, planning, and launch of a new organization.

Then there is the matter of the funder's own role in setting the organization on a path toward independence. Does supporting a new organization necessarily mean that the grant maker shares some responsibility for shaping and building it?

As experienced grant makers explain, certain strategic and practical tensions commonly come into play:

## WHERE THE EXAMPLES COME FROM

**This guide was developed through conversations with grant makers and others in the nonprofit community, in the United States and abroad, who generously contributed their time, experiences, and insights. More than two dozen people shared their stories about working with start-up organizations. Our contributors come from foundations of all sizes and in all parts of the country; independent, family, corporate, and community foundations; advisors to philanthropies and other organizations; and leaders of nonprofit institutions.**

**A list of contributing individuals and institutions may be found on page 33.**

- Weighing the need for a new institution against the time, expense, and complexity associated with investing in a start-up organization.
- Finding the right balance between the grant maker's involvement in the development process and the new organization's need for independence.
- Helping a new organization get on a strong financial footing while planning for the funder's eventual exit.

## CAPACITY-BUILDING RESOURCES

For a compendium of technical resources in areas where start-ups typically need help and information, see GrantCraft's Web site (www.grantcraft.org/catalog/guides/startps/startups_resources.html). The compendium, based in part on recommendations from contributors to this guide, lists management, administrative, and planning resources in the following areas:

- Board development
- Communications
- Financial management
- Human resources
- Legal
- Real estate and facilities
- Strategic planning and coaching
- Technology
- General capacity building

Many resources are available free or at low cost.

The compendium does not include resources in program development, evaluation, or fundraising — large fields treated extensively in publications, training programs, and consultancies.

# Understanding the Need

Whether testing an idea that started within a foundation or researching a proposal from the outside, the grant makers interviewed for this guide stressed the importance of identifying the problem or opportunity the new organization will address and asking whether or not the conditions are right for a start-up. As one cautioned:

"Institutions have to serve a real purpose. You have to ask yourself, What gaps does it fill? Is there space for it? Is there a need for it? Is there a demand for it? Is there a constituency for it? And if you get the purpose right, then a lot of other things follow from it. If you get it wrong, the institution may survive, but it will always be a struggle."

Assessing the likelihood that an organization can succeed is never easy. To help answer some of the basic questions, our contributors recommended discussion, shared learning, research — and perhaps even a modest pilot of the service or function a new organization would perform. Those activities can also help gauge receptivity to an idea within a community or field, test the willingness of other funders to help with the start-up, and identify potential partners and leaders.

- **Map the field.** Many contributors said they begin the process of testing for need by mapping the missions, strategies, and geographic coverage of existing organizations, then checking for gaps. One funder compiled what she knew about local organizations working in child advocacy, then consulted a national source for ideas:

"We'd worked in the field long enough to know who the child

**WHAT ELSE IS OUT THERE? MAPPING THE FIELD**

For more information on mapping techniques, see the GrantCraft guide *Scanning the Landscape: Finding Out What's Going on in Your Field.*

**START-UP ORGANIZATIONS: WHAT, WHY, WHO?**

**What are some common start-up types?**

- New, stand-alone institutions
- Spin-offs from existing organizations
- Expansions or replications of existing models
- Networks or centers to serve other organizations
- Intermediary organizations
- Community foundations

**What intentions might a new organization fulfill?**

- Establishing a new service or innovation
- Capitalizing on a new opportunity or market
- Giving a project independence and room to grow
- Implementing work in new places using an established model
- Connecting organizations within a field
- Advancing knowledge and guiding new work within a field
- Coordinating a program of dedicated giving and fundraising

**Who proposes a start-up?**

- An innovator who wants to implement a new idea
- A leader from an existing organization who wishes to expand operations, replicate a model, or split off an independent entity
- A practitioner who hopes to bring coherence to, develop knowledge within, or raise the profile of a field
- A grant maker whose experience within a field suggests that a new organization is needed
- A constituency or community that comes together to meet a need or pursue an opportunity

advocates were in the state. Most of them were tied to a specific field, such as health care or foster care or residential treatment programs for juveniles. Or they had government contracts of some kind, and so that limited how effective they could be as advocates. We looked around at what was happening in other states and got helpful information from a national organization in the field. We learned that ours was the only state that didn't have a nonpartisan child advocacy group."

- **Consult widely.** It is a good idea to talk with practitioners, experts in the field, and other funders to see if a new organization makes sense. Experienced grant makers said they focused more on establishing need when considering a proposal for a start-up organization than when weighing a conventional grant.

For example, a group of grant makers had an idea that nonprofits might benefit from forming a technology network where they could share solutions to telecommunications problems. Before taking any action, the funders brought grantees, technical experts, and other grant makers together to talk over what such an organization might do and the extent to which it was really needed.

In another case, a grant maker explained how she solicited practitioners' ideas about forming a new organization, and how she made sure that the planning process was driven by their ideas, and not just her own:

"We made a real effort to listen to people from the field in terms of whether or not they saw the need for an actual entity. I think the function of those first few meetings was, in a way, to get the field to believe that we really did want them to do this and that we weren't going to put them through their paces and then take their best ideas and design what we wanted to do in the first place."

### DEALING WITH TURF BATTLES

When people say a new organization isn't needed, it's only sensible to take their caution seriously. Yet several contributors warned that a certain amount of friction with older organizations is inevitable. Some people will be negative, they argue, even if a new organization is sorely needed and the idea is sound.

One grant maker explained that negative comments often reflect a fear of competition for limited resources:

"While I'm a great believer in consultation, I also know that not all the people consulted have an objective view. A lot of people don't want to see another organization. So you have to learn to discount some people's fear of competition and their fear that resources will have to be shared."

The lead funder of a new nonprofit resource center tried to anticipate rivalries and address them during the planning process:

"We knew it was going to be a political hot potato as to where this new center would be located. The minute the word got out that there was funder interest in starting one, there were places that felt they should be chosen. We put together a very inclusive list, and a task force went out and made site visits with specific criteria in mind. It was important that the process be impeccable, so that even if people didn't like the outcome, they couldn't question how we got to it."

In another case, when a foundation created a new after-school organization, it quickly drew flak from existing programs in the same city. In that case, the grant maker gave the new organization a small additional grant for fundraising — specifically to help other programs raise money. "Right away," the grant maker recalls, "this new effort became a resource to them. Their suspicions didn't all disappear. But at least now there was some goodwill mixed in."

*'We made a real effort to listen to people from the field in terms of whether or not they saw the need for an actual entity.'*

- **Support shared learning.** Grant makers can also help those closest to the problem to explore it themselves, by enabling community leaders and practitioners to attend conferences or to visit others who are tackling the same problem.

  A piece of commissioned research helped move one group of funders to take action on an idea they had been discussing for some time:

  "We commissioned an initial white paper to kind of get this off the ground. Then we circulated the paper among several foundations that had been in informal conversation for quite a while. That played a catalytic role in getting the organization started."

- **Test the waters.** The same group of funders decided to pilot the service by inviting a small number of nonprofits to apply for the sort of help the new organization would provide:

  "The response to that initial invitation was very large, even though it was done selectively so that we wouldn't be completely inundated. It was very clear that the need was significant and that we needed a staff."

- **Check for talent.** Even when the need is real and the timing propitious, a start-up makes sense only if the right people are already involved in the project or interested in participating. One grant maker summed up the need for able and committed partners: "You can have the most brilliant ideas, but if you ain't got the horses, don't bother."

  Although some funders initiate start-ups themselves, others said they support a new organization only in response to a compelling proposal from someone of clear ability who wants to lead the work. "You need a visionary leader," the head of a corporate foundation said. This idea may seem so obvious that it's easy to overlook, but this grant maker argues that the skills of the prospective leader demand the most careful consideration before moving forward: "Who we choose to grant to has everything to do with the people. It's not what you fund, it's who you fund."

## GATHERING INFORMATION TO MANAGE RISK

Risk is a normal part of the business of philanthropy, yet start-ups arguably pose more risk than other kinds of grant making. The former director of a large community foundation argues that there are times when a big risk is warranted:

"Sometimes the critical thing is not to be so critical. Why not just ask, Could this be a valuable thing to do? And if the answer is yes, give them some support."

How can you offset the inherent risk of funding an organization that by definition has no operational or financial track record? Here are some ways grant makers have suggested for making the risks more manageable:

- **Cross-check with other players in the field.** A national grant maker described his disappointment with a start-up, based in a major American city, that never got off the ground, despite having what seemed like the makings of success. In retrospect, he wonders if he should have been warned by the organization's lack of a local foundation or government funder:

  "Maybe I should have asked myself, Why would I know something that the local community foundation doesn't know? If an organization doesn't have local funding, that might tell you something."

- **Try some techniques of "due diligence,"** similar to those private investors use for business start-ups. Even when there is no operating history to analyze, investors often gather other relevant information, such as the background of the people starting a new organization, the experience of other start-ups that might be comparable, and the opinions of potential "customers"— people who would benefit from and work with the new entity. For practical information on conducting this kind of risk assessment of a proposed new organization, see *Tool for Assessing Startup Organizations: A Due Diligence Supplement for Grantmakers*, available from La Piana Associates *(www.lapiana.org)* and developed with support from the David and Lucile Packard Foundation.

- **Pace your support.** The corporate funder of a start-up with an innovative but risky strategy chose to make its initial grant for two years only, with a promise of a very generous five-year extension if the model proved capable of expansion. According to the grantee organization's first executive director:

  "[The funder] needed the first two years to get comfortable with what we were doing. They had to be certain that their support wasn't a mistake for the company and that the model would be accepted by the partners we needed to involve."

# Moving from Idea to Organization

Once you know that a new organization is needed and warrants funding, the next step is helping its organizers to zero in on a workable mission and design an organization that's capable of carrying it out. The contributors interviewed for this guide admit that it's deceptively easy to presume that the people who initiated the idea for an organization have a clear picture of how it should be structured. Some recalled having plunged ahead with little planning and had things work out fine, but most preferred a more calculated approach.

- **Focus on the link between mission and operations.** Many grant makers emphasized that it's important to hammer out the precise mission of a new organization, how it will function, and what will make it distinctive. One contributor said that he habitually poses two simple questions at this point in the process:

  "What will it do? And how will it be different from other institutions? When you ask those questions, then you force people to think in a way that they probably have not been thinking. Hard realism sets in, and it gives you a focus and a purpose."

  Several contributors got useful guidance by pulling together a group of knowledgeable advisors to brainstorm these and other fundamental questions. The participants sometimes stayed involved as an advisory board through the planning process.

- **Study similar organizations.** Our contributors emphasized the value of talking to people — grant makers and practitioners — who have been involved with starting and operating comparable organizations. A grant maker who supported the development of a network of organizations working on economic and social rights described part of the planning process:

  "We looked at eight or nine or even more networks — not just from human rights, but from other fields: the landmines network, people working on women's issues. We did interviews with people who ran those networks, and we asked them what works, what doesn't work, what advice do you have for setting up a new network. They gave us advice on governance, staff issues, and the need for a steering committee that's really representative."

- **Learn from earlier attempts to satisfy the same need.** Some successful start-ups are actually second attempts to fill gaps in their fields. One contributor remembers learning a lot from his own previous, unsuccessful effort to create a network in an emerging field. The second time around, he was determined that the new organization would not repeat the errors of the first:

  "We went into it knowing from the beginning that we were going to have to give substantial resources if it was going to work. And we let the organizations know that it was our intention for those resources to be shared in such a way that everybody could benefit."

- **Take account of wider changes in the field.** It also makes sense to check in with practitioners about other changes going on in the field, and how those changes might affect

the prospects for the proposed start-up. For example, one international funder learned from his advisory group that plans for a new, centralized organization in another country would run counter to broader changes in that country's political climate.

"We decided fairly soon that we did not want to build a single institution, given the fact that the country was decentralizing. It would not have been enough, as it would have been ten years ago, to have only a national secretariat. We had to have local branches."

- **Hire a planner to coordinate voluntary efforts.** Some grant makers have facilitated the creation of a start-up by committing resources to hire an independent planner. This role can be particularly valuable when supporters are collaborating voluntarily to create a new entity, but none has the internal capacity to carry the full burden of coordinating the work. As one planner, later the executive director of the organization, explained:

"I was initially hired by one funder to staff this self-appointed task force. I organized meetings, took minutes, did research, corresponded with everyone. I was the basic administrator and kept things moving on a very short timeframe. I was working with presidents of foundations, local CEOs, but they were all volunteers."

- **Don't let planning become a substitute for action.** A grant maker at a family foundation recalls working with a group of young activists who wanted to do community organizing but had a hard time settling on a model:

"They really got caught up in the planning process. After a year, they could tell us how many people they had talked to, but that had no meaning for us. Our family grants committee wanted to see action. We said, 'Great. Let's see your plan for action, the structure you'll use to mobilize people. We want to see you take positions on issues.' And they came back to us with that. We funded them and also gave them funding to help move their offices."

### ARE YOU THE RIGHT FUNDER?

Before getting involved in a start-up, it is important to ask yourself whether there is a good fit between the scale and scope of the new organization and the knowledge and resources you as grant maker bring to the table. A workforce development funder at a national foundation succinctly advises, "Don't go around championing the creation of a new organization you have no hope of being able to support meaningfully." He also emphasizes the importance of having good firsthand knowledge of local needs, based on time spent in the community: "I've seen local start-up efforts I supported wither, in part because I didn't have the local presence and intelligence to manage the start-up process, or to even know if the start-up was needed in the first place."

As you think about scale and scope issues, you might ask yourself:

- Am I prepared to commit enough resources — both financial and human — to ensure the start-up's success?
- Do I have enough connection to the new organization's field and geographic area to be able to rally resources for it?
- Do I have enough connection to the institutions, community, and people the start-up is supposed to serve to know that they will want what it offers?
- Is there a viable exit plan for my grant making, or at least a strategy to bring my support down to a level that I can sustain indefinitely?
- Are the demands of supporting a start-up consistent with my own organization's operating style, institutional culture, and willingness to tolerate risk?

# Managing Your Role in Planning and Development

How deeply should a funder be involved in the design and evolution of a start-up? Grant makers' views on this question are almost dizzyingly diverse. Some have been so involved in the creation of the new organization that they personally filed nonprofit incorporation papers for it. Others believe fervently in a more "hands-off" approach, on the theory that too much involvement gives the funder too much influence, or that an organization that can't take control of its affairs at the beginning probably can't succeed in the long run.

For any given funder, the answer will depend partly on your own organizational savvy, the amount of help you believe the new organization needs from you, and the amount of time and other resources you can devote to forming and launching a new organization. These thoughts from other grant makers may be helpful in making your decision:

- **Adjust to the circumstances.** The right level of engagement depends not only on your own preferences and policies, but also on the circumstances of the particular start-up, which may change over time. One senior grant maker explained his philosophy:

  "I take a dynamic view of appropriate levels of participation. It makes sense to be heavily engaged in some phases of development and not in others. I started work with one group as a forceful participant in its founding discussions, with strong ideas about the mission, role, and strategy of the group. But as its board and leadership took up those ideas — and beat me back on a few occasions! — I was able to let go and let the board hire staff and manage the organization's affairs on its own, with my role transitioning to advisor and booster."

- **Strive for balance.** Many contributors said that they struggle with the tension between participating fully in planning discussions and dominating the conversation. A grant maker from a large foundation explained that he and his colleagues tried to defuse this tension by reassuring others that funders were contributors to the decision-making process, not arbiters:

  "We were active participants, but we were not determinative participants. In other words, we weren't saying, 'You're not going to get funding if you do it that way.' But neither were we staying behind the scenes pretending that we didn't have any ideas at all. We had ideas about what might work, what might be useful. We put them on the table the same way other people did."

- **Let plans take shape at a reasonable pace**. Grant makers are often impatient to see rapid progress, sometimes before other participants in the planning are ready. One grant maker reflected on this tendency in himself — and wondered if a more patient attitude might have yielded a broader commitment to the planning group's conclusions:

  "If I had it to do again, I would have recognized at the get-go that this was going to need a tremendous amount of time to just build the initial trust and the initial vocabulary so that we could move forward, and to

let that grow at its own pace instead of feeling like it wasn't moving fast enough. The most effective way is for them to experience the issues and problems themselves and identify the needs and the solutions."

- **Match help with need.** It can be tempting (and costly) to load up a start-up process with technical resources, only to discover that the result was *too much* advice and expertise — more than the organizers of the project needed or could absorb all at once. It's important to be sure that a start-up effort is getting as much technical expertise as it needs, but grant makers caution against overwhelming the project with too much outside help. (See the section on "Getting the Most from Technical Assistance," beginning on page 19, for more thoughts.)

- **Pick your issues.** Some contributors said they felt comfortable compromising on (or even ignoring) decisions about details so they could focus their energy and credibility on larger questions of structure, mission, and values. In particular, they emphasized areas where a funder's perspective, outside the pressures of the field, could add distinctive value to the conversation. One national funder recalled hammering hard on a single point — that a new workforce policy consortium include constituencies beyond the training organizations represented at the planning table:

"I was completely indifferent to some issues, but I really drove on the multi-stakeholder point. Once I had that, I could back off. I'm reasonably confident that without my pushing, they wouldn't have gone in that direction. They saw the needs of their own organizations, whereas we saw community colleges, labor unions, and other groups engaging on the same issues. If they had gone in the other direction, I wasn't going to put money into that. I think that's appropriate. Where you don't want to use your [influence as a funder] is to push them on more picayune details of the strategy."

- **Know when to move on.** Getting involved with a new organization from the beginning is exciting, and sometimes it's hard to disengage. A grant maker who helped design a nonprofit technology organization and served on its board described her feelings about letting go:

"As with any kind of founding role, it is so hard to walk away. You don't think the organization can survive without you, because you care so passionately. But it was good for the organization that we left, even though it was painful for us. Sharing the ownership is so important, and for us to step back helped make room for others to step in at a point where the organization had enough infrastructure to handle that."

*'... for us to step back helped make room for others to step in.'*

# Building Supportive Constituencies

A new organization needs all the friends it can get. Often, a new presence in a field is perceived warily by other, older organizations, whose leaders may fear that the start-up will compete with them for funding or influence, interfere with their work, or otherwise complicate their lives. To ease those tensions, contributors to this guide urge building support for a new organization among a wide circle of potential funders, partners, clients, colleagues, and the general public. As one notes:

"When we were developing a new community foundation, we must have spoken to 60 or 70 people in a short space of time, sometimes in groups, sometimes individually. Consultation has a number of advantages. First, it helps you understand what exactly is needed. Second, if you then go ahead with it, the consultation helps create a wider ownership of that institution, wider legitimacy, wider support, without which no institution can really thrive or succeed."

Here we offer several suggestions for how you can involve potential stakeholders and cultivate the support of likely allies:

- **Engage key constituencies in the planning process.** Grant makers often bring potential clients and stakeholders into at least some early discussions about a new organization. Their engagement can build trust and sharpen everyone's understanding of the needs the institution will fill and how it should function. Some contributors warned, however, that if stakeholders are included in the planning process, their participation should be real, not *pro forma*, to reap the full benefit of their involvement. Don't, as one grant maker put it, "have a plan and then bring people together to plan."
- **Bring people together without forcing collaboration.** Sometimes people need to learn to work together before they can participate comfortably in a planning process. To create an international network on freedom of expression, one funder began by trying to defuse distrust among organizations that might eventually join the network:

### COMMUNICATING EFFECTIVELY WITH THE PUBLIC

Funders have different attitudes toward their own visibility, but most are eager to help their grantees communicate with key constituencies about their work. How can a funder help a new organization clarify and deliver its message?

One local grant maker recruited board members with communications expertise for two youth development start-ups in her city. Each organization developed a communications approach suited to its mission:

"One supports the development of positive recreation activities for kids, and it has tended to work a little more behind the scenes. The other is geared toward policy leaders and the leaders of nonprofits, so they had a higher profile from the beginning. Both have annual reports and Web sites, but the policy-oriented one also has a great e-bulletin that they send out about children and the state budget. Both organizations got help from a board member who was very knowledgeable about communications."

Some foundations lend the resources of their communications offices to support the launch of a new organization or to publicize an important event or milestone. As a practical matter, one contributor said that she usually offers to draft the press release:

"If they say yes and sound relieved, then I know they need the help. If they say they'll handle it, then fine. After they've done a first draft, I can look it over and make suggestions."

A funder's support and commitment can be assets if an organization needs to demonstrate its stability. An international funder described the effect his presence can have during times of political instability:

"I'm not the spokesman for the group, but I go along to meetings because it gives a certain amount of credibility to them to know that the foundation is involved. My role is just to be there and demonstrate that there's foundation backing."

"We sponsored a meeting of about 20 organizations and talked about setting up an international 'freedom of expression exchange.' The language was very deliberate because the one thing all these groups were willing to do was exchange information. That was non-threatening. If you talked right away about joint action, that would have been threatening."

- **Open doors for the start-up and its organizers.** Grant makers often have access to networks through which start-ups can get advice, support, and visibility. As one grant maker pointed out, for example, he sometimes helps simply by making sure his grantees are "in the right rooms."

Realizing, for example, that a particular new group was working in a field that tended to be "quite insular and clubby," he took steps to get its director invited to a regular policy gathering. He explained:

"One of the things I learned was that there's a morning meeting once a month of organizations working in our policy area. And I learned that this new group wasn't in the room. All it took was a helpful comment."

A grant maker from a large philanthropy brought together a group of locally prominent people to advise on the creation of a new community foundation. He hoped that its members would be able to use their expertise and influence to benefit the new organization politically, financially, and programmatically:

"It was a constituency-building effort and a legitimacy-building effort. We were trying to create a brain trust of people who could work through the particulars of certain questions. How do we get this thing going? Who has to be involved? What doors have to be opened? How do we decide who's going to do what? What will the mandate be?"

- **Sponsor activities that build skills.** The funder of a new community development corporation sponsored leadership training for representatives of key local constituencies. Those participants became the core of neighborhood planning initiatives:

"We took groups of people — young people, students, community leaders, parents, public officials — through a two-year leadership development program. They learned about youth development. They learned about collaborating and program design. We ran several rounds of these sessions. What happens is, when you have three or four hundred people who have been through a similar process, you get a critical mass of people who understand the same language, who have some of the same kinds of experiences, who have some of the same values."

### GETTING AND SHARING CREDIT

A grant maker who was involved in the creation of a new child advocacy group knew that the organization needed to build a formidable track record to attract additional funding. Yet the group's effectiveness would also depend on being perceived in the field as a good and generous partner. How could the new organization project a public image that combined forcefulness and cooperation? How could it share the spotlight without allowing its own contribution to be overshadowed?

The answer, the grant maker contends, lay in the executive director's determination to build effective coalitions, and her skill in leading people to work together for policy change. Fairly soon, peer organizations began to trust her willingness to collaborate and acknowledge their work. As a member of the organization's board, the grant maker sought to ensure that other board members recognized the value of the director's approach:

"The board had to see that, sure, we want to show how effective we are, but we need to make sure we're not trying to take credit for everything or refusing to give credit where credit is due. Everyone has recognized that when you make progress in public policy, it's never due to just one group's effort."

Any new organization that competes, or is perceived to compete, directly with others will almost certainly attract animosity. It may therefore be worthwhile for both the start-up and the grant maker to reach out to potential rivals as early as possible. Even if you can't ease their anxiety completely, it helps to make sure, at a minimum, that channels of communication remain open.

# Establishing Strong Leadership and Governance

Among the start-ups described by our contributors, some began with an executive director who needed to recruit a board, while others began with a board that had to locate and hire an executive director. In either situation, a grant maker can offer assistance — although, as our contributors stressed, it's essential to bear in mind that the goal is the independence of the new organization and a strong working relationship between its board and director.

### HOW CAN YOU HELP BUILD A CAPABLE, COMMITTED BOARD?

- **Look for a diverse set of skills and backgrounds**. Boards need to include people who are knowledgeable about the organization's field and specific work. Also valuable are members with professional expertise in law, management, government affairs, communications, or a combination of those fields. Most boards benefit from having members who represent stakeholder groups or diverse perspectives on the problem being addressed. In addition, many boards need to include at least some members who are willing and able to help raise financial support. Some grant makers work with the grantee to create a grid listing the types of skills and experiences the board needs to have and the potential candidates that meet those needs.

- **Look beyond your usual networks.** While your own networks and contacts may be a good starting place to look for board members, it is also important to widen the search to include constituencies and networks that may not be immediately known to you. For example, to construct the board of a local youth organization, one grant maker sought influential people from the business community:

  "You look for people who bring knowledge and resources to the table, and who you hope could help in the future as partners. One goal of the organization is to make sure the business community is better informed about how children are doing in the community, so we looked for business leaders who were interested in supporting our work and learning about those issues."

- **Encourage active, ongoing recruitment.** Some contributors said they used the moment of incorporation, when an advisory board becomes a formal board of directors, to urge board members to fill gaps in their collective expertise. It may also be a good idea to set maximum terms of service for all board members. One grant maker who took this approach believes it should be the norm:

  "The grantee made sure from the start that the board would rotate. People would phase out. This is almost a universal rule: Deadwood never moves, good people move anyway. For vitality, for ideas, for new directions, any board needs to change. Otherwise you just get a group of like-minded people, and the whole organization becomes stiff."

- **Create advisory committees to supplement the board's expertise.** Some organizations use advisory committees to monitor scientific developments, gather community

## BUILDING IN DIVERSITY

The opportunity to build a new organization around diversity and related core values is one of the most appealing aspects of the start-up process. Several contributors suggested ways for funders to help start-ups think through the application of values to their mission, then hold on to their commitments under the stress of the early work.

- **Setting expectations.** A funder may ask a new organization to review its mission statement, program plan, operations, staffing, and board membership to be sure they reflect the importance of bringing diverse perspectives and people to the table. By doing so, as one nonprofit consultant explains, a grant maker can help inspire thoughtful practice:

  "When you know, for example, that having a diverse board or staff is an expectation, it makes you think differently and take steps that you [otherwise] might not take because they're hard and you can rationalize them away. That's an important role for philanthropy: to help people aspire to things that are not necessarily what they think about in their day-to-day lives."

  Technical assistance can help here, and so can pointing grantees to organizations that have "gotten it right." Some foundations use a "diversity table" to help grantees map their progress toward building a diverse board and staff. (For an example, see the "Agency Diversity Form," available for download on the Web site of the Hyams Foundation at www.hyamsfoundation.org).

- **Looking at the practical side.** Funders and other organizations often espouse a commitment to diversity for ethical reasons, but there are practical incentives, too. As one grant maker explained, her foundation asks potential grantees to articulate how diversity is going to make their organizations more effective:

  "When it comes to diversity, we try to get beyond the numbers issue. It's not just about counting heads: It's about understanding why diversity is important. We've begun to ask our grantees, What does diversity contribute to your work? How is diversity among your staff or on your board going to make you more effective?"

- **Making connections**. Some grant makers support a practical commitment to diversity by helping grantees solve problems or make new connections. An international grant maker, for example, was frustrated when several grantees argued that they could not recruit qualified women for management positions. He suggested that the organizations — all based in a region where women have traditionally been excluded from higher education — work together on a plan to cultivate their lower-ranking women employees for promotion.

  A U.S. grant maker encounters similar situations:

  "We often hear grantees complain that they cannot find women and people of color for their boards who have the connections or personal wealth to bring funds to a new organization. This is not a trivial concern, but, in my experience, the problem is usually due more to the limitations of the grantee's personal and professional contacts than to the 'pool' of potential board members that's actually out there. Grant makers can sometimes be helpful by expanding their connections."

- **Examining your own assumptions.** Sometimes, it helps to take a fresh look at your own patterns as a grant maker. On the topic of start-ups, one funder explained that he realized a few years ago that his foundation rarely received start-up proposals from minority residents of their home city, and that the few proposals they did receive tended to be disappointing. He and his staff asked what they could do to change the situation. Their response included offering developmental support to potential grantees and rethinking their own attitude toward proposals:

  "We decided to try to get them technical assistance, exposure, partners."

*Some funders said that investing in an executive search was a necessary step to move an organization, and its voluntary board, from planning to operations.*

input, advise on evaluation, or otherwise get the benefit of deliberation among people with specialized knowledge of the field or problem area. The director of an international health care organization described the role of his advisory committee, made up of researchers, physicians, and health policy officials from around the world:

"Our expert committee meets one month before the board [meeting] to discuss our progress in the field and consider what we ought to do next, which countries to work in, how to expand. We summarize their recommendations for the board. Their input has allowed us to bring some very strong recommendations to the board on program. And that has let the board give most of their attention to finances and governance."

### HOW CAN YOU HELP ENLIST A CAPABLE DIRECTOR?

- **Urge patience and thoroughness in the search.** Many of our contributors stressed the importance of urging care in identifying and selecting a strong executive director, whatever your role may be in the actual hiring process. New organizations are naturally eager to get started, and a vacancy in the top position may frustrate organizers and board members. But a funder can bolster the determination of a board to conduct a thorough search for executive leadership and hold off a decision until the right person is found.

  One grant maker described the struggle to get a board to look beyond the obvious "big names" for an executive director:

  "We wanted to impress upon them that, even though you want to have leadership in place as soon as you can, you should remember the old bromide that it's always easier to hire someone than to fire someone. That argued for being very deliberate and taking as much time as necessary to identify a short list of good candidates and to look beyond the usual suspects, look beyond the retired eminences, for someone who would be very dynamic."

- **Fund a professional search.** Some contributors said they had worked informally with board members to recruit an executive director, yet most endorsed a more formal search using a professional firm. Indeed, some funders said that investing in an executive search was a necessary step to move an organization, and its voluntary board, from planning to operations. One funder explained that her foundation decided to pay for an executive search immediately following the establishment of a board of directors.

  "The planning group did a mission statement and an initial plan of work and a budget. It was very broad-brush. Then there was a transition to an elected board, and most members of the board came from the planning group. From that group, we formed a search committee, and they worked with a search firm to find and hire the first CEO. At the same time, the funding partners were making grant commitments for the first five years of operations, and the board and a director were ready to carry out the work."

## SHOULD YOU TAKE A SEAT ON THE BOARD?

Some grant-making organizations prohibit staff members from serving on the board of any organization they support, to avoid potential conflicts between their role as a grant maker and their role as a board member with fiduciary responsibility to the organization they serve. Others make a practice of reserving a seat for a representative of the foundation — often a senior staff member or a trustee — on the governing board of any organization receiving significant, long-term support.

Between the two positions is a middle territory, in which grant makers ponder the pros and cons of serving on boards of grantee organizations on a case-by-case basis. The dilemma is especially acute with start-ups, where deep involvement can sometimes be at odds with the desire to encourage independence. As a corporate funder at the "hands-off" end of the spectrum explained:

"We don't sit on their boards. We are not involved in hiring. We do offer our advice on planning and growing an organizational structure. But it's their organization. They have to own it."

Regarding a policy that discourages but does not prohibit board service, one program officer said:

"We have an informal policy that staff do not sit on nonprofit boards. Our preference is that staff members don't serve. Our goal is to create equity among our potential applicants. If we are serving on boards, we feel that equity is compromised."

One national foundation had previously refused to participate in grantees' boards, but it made an exception when another funding partner — a corporation — asked for its participation on a new board:

"The company saw the foundation as a reliable philanthropy that had been investing in the area for many, many years. They wanted us there for their own confidence and protection."

On the "pro" side of the question of board membership, one foundation president sees her involvement as an opportunity to nurture a sense of responsibility among the other members:

"I emphasize that the group is not going to work unless the other board members really take it on…and bring their talents and resources to the table."

A grant maker involved with a start-up designed to assist nonprofits looked for ways to ensure that grant makers remained involved without dominating the board:

"We were very intentional about the composition of the board because we wanted it to be primarily made up of nonprofit leaders. There were no more than three funders on the board, even though there were more than three involved in funding it. We also developed committees or subgroups and invited other funders to participate in those."

A compromise approach was suggested by a grant maker who coordinates a network of venture philanthropy partners and has worked with dozens of start-ups:

"Our sense is that, in building engaged, long-term relationships, 'requiring' a board seat sets the wrong tone from the start. We think that the funder should not ask for or require a seat on the board but should be willing to step up if asked by the nonprofit. Whenever our members have been asked to serve, it has worked out well."

Another compromise model places the grant maker in an *ex-officio* capacity, participating in board activities without the potential conflicts of full membership.

## IF YOU'RE ON THE BOARD, BEHAVE

A funder can bring valuable skills and resources to a board of directors or can be a real (if unintended) hindrance to its effectiveness. The difference, argues one nonprofit executive, is often related to the grant maker's ability to manage the fact that he or she is not just another board member:

"If someone isn't comfortable with the difference, or if they think they're there to police the intentions of the foundation, it can be a disaster. It can ruin the confidentiality and trust a board needs to be effective."

One grant maker who has served on several start-up grantee boards urges fellow grant makers to be "self-regulating" about the requests and suggestions they make when they serve on boards:

"Your voice carries disproportionate weight. Funders sometimes make offhand comments and the grantee's staff will spend time tracking things down that the funder may have forgotten about."

The director of another organization, a youth development group, spoke glowingly about the contribution of a board member who represents a family foundation that provided start-up support:

"She's interested in our mission, not just in their grant to us. She brings a wealth of knowledge in our field, relationships with other organizations, introductions to other organizations. Because she's on our development committee, she hears clearly what our issues are when we get turned down — what our organizational weaknesses might be. She is very professional. We feel comfortable sharing our internal affairs with her."

## HOW CAN YOU HELP BUILD LEADERSHIP CAPACITY?

- **Help leaders meet and learn from one another.** Formal and informal professional networks can give leaders of new organizations opportunities to learn from people who have faced similar challenges. Many of our contributors said they supported such networks within a field or locality. One grant maker working in Africa used the concept of peer-to-peer learning to structure technical assistance for a new community foundation:

  "I brought in people who had worked in community foundations in the United States to partner with Africa-based technical assistance providers. The idea was to exchange information and lessons, as opposed to importing expertise from America to Africa. It wasn't about teaching, it was about sharing."

  To get the networking process started, at least informally, it may help to invite people from similar organizations to a retreat or conference where they have time to get to know one another. A large national funder brought its nonprofit education grantees together regularly to discuss their work and hear from leaders in the field. The director of one group, a start-up, noted that those meetings were tremendously important, especially during the early years of his organization:

  "They brought us all together, which was a wonderful use of their convening power. We were doing different things, but we were all pilgrims on the same path. We had a lot to teach each other, a lot to learn, and it was just terrific to be able to do it in company with others."

- **Offer management training and coaching.** Training or consultation from a management specialist can sometimes work well, especially for building the capacity of an entire leadership team. As a grant maker supporting several new organizations in a region explained:

  "We funded a capacity-building training program for start-up groups plus a number of other grantees. This involved organizational development, management, strategic planning, fundraising, and board training. They created a tailored training plan for each organization. They did an assessment, worked with the boards, did some survey work, and created a work plan for each organization."

# Getting the Most from Technical Assistance

Many grant-making organizations give start-ups money to hire consultants in key areas. It's not always necessary to pay for expert help — some advisers may volunteer their services, either as board members of the new organization or simply as a *pro bono* service to help it get started. Still, when resources permit, a paid professional relationship has the benefit of making the organization's work a priority for the technical adviser.

Some of our contributors feel strongly that a new organization should select and retain its own technical assistance providers, to reinforce the idea that the start-up, not the foundation, is the client. Others take a more active role in finding and deploying consultants. Here are some of the principles they considered most important:

- **Technical assistance can't solve everything.** As one grant maker observed, technical assistance is "no substitute for the three things you really need — a strong entrepreneur, a strong idea, and a strong market." Even with those elements in place, he cautioned, it's sometimes necessary to admit that external solutions won't fix an organization's problems:

  "I was a technical assistance provider before I came to the foundation, and I saw a lot of situations where advice was not going to solve the problem."

- **Grantees need some degree of choice and control.** Some funders pointed to what they called the "third-party payer problem," or the tendency of funding organizations to hire technical assistance providers directly, with the grantee exercising little discretion or control. Said one:

  "I'm increasingly of the mind that money and responsibility need to flow to the main client. The grantee needs to be deeply involved in selecting their technical assistance, and they need to have the authority to fire them if the work isn't what they need. Why not just give them a grant and say, 'Use these resources to get the work done'?"

- **Help grantees figure out which technical assistance providers are best.** One grant maker said that he keeps tabs on the best providers and communicates about the track records of providers with his grantees. "We have the scope and background to get this kind of intelligence," he explains, "while our grantees often don't."

- **Each start-up needs a different type, amount, and mix of support.** By paying attention to the strengths and struggles of the people leading the new organization, a grant maker can get a sense of what support is needed to fill gaps in their expertise or to free up their time for other tasks. As a corporate funder observed:

  "It takes a personal relationship between the grant maker and grantee to decide the right amount of technical support, without it being too much or too little. What is a lot of technical assistance to one person may be very little technical assistance to someone else. You can't stamp out grants like a machine. Each organization has its own unique needs."

## ESPECIALLY FOR SMALL FOUNDATIONS: TECHNICAL ASSISTANCE WITHOUT GRANTS

It's easier to find expert advice if you can make grants that cover normal consulting fees. But what if cash support for technical assistance isn't within your means? Grant makers offered some suggestions:

- **Do it yourself.** Some contributors from smaller foundations said they have occasionally pitched in themselves to get a new organization up and running, if the need was great and the available resources slim. According to one, "It wasn't as simple as anointing the organization. My role became working with them to sort out the details: working with a pro bono lawyer to file the articles of incorporation, beginning the process for the 501(c)3, purchasing equipment, getting an office, arranging for telephones, internet access, computer. I did all of that."

- **Offer in-kind assistance, including expertise from within your own organization.** The board members of one corporate foundation sometimes provide assistance to start-ups, according to the foundation's director: "We give more than money. Some of our board members have expertise in areas our grantees need, such as government connections, business planning, or legal advice."

  Other funders provide space, equipment, and even intellectual companionship to people trying to build their good ideas into new organizations. As the director of a small foundation that works exclusively with start-ups explained:

  "For us, in-kind assistance includes office space, furniture, technology, accounting systems, graphic design, certain kinds of consulting, and someone with experience to talk to. Some of their needs can be handled with a template, such as how to apply for nonprofit status, which we just hand to them. Other areas require more tailored assistance, such as helping them flesh out their program and values, using a process that facilitates their own thinking."

- **Make connections with potential partners.** A grant maker in a family foundation observed that a link between compatible organizations can strengthen the operations and financial outlook of both organizations:

  "I was able to facilitate getting women from a new immigrants' rights group together with people from a local women's health center. The new organization helped train health center staff to work with women in the immigrant community. The training helped the health center improve its services, and the new group got an important ally in the community."

- **Make referrals to other sources and materials.** Many free and low-cost tools and forms of guidance are available to help nonprofit organizations build their management systems and capacity. A collection of resources can be found at: www.grantcraft.org/catalog/guides/startps/startups_resources.html

# Planning and Building a Stable Future

A sturdy, lasting organization needs things that very few start-ups enjoy at first — a variety of funding sources; strong support from constituents and colleagues; prudent financial, strategic, and operating plans; and a complete mix of staff talents and skills. When a new organization first opens its doors, many of those elements won't be securely in place. The essential requisites of a durable organization are typically built over the first several years of operation, often with help from funders. Funders tend to get involved because they're interested in assisting the grantee organization, but most are motivated as well by their hope to make a responsible exit in a reasonable amount of time.

One important goal of an organization's early years is to establish a diverse funding base and a sufficient flow of resources to carry out its mission. Many grant makers describe this goal "sustainability." Sustainability implies the presence of a committed, capable staff and board, with enough depth to survive the inevitable turnover. It also means having not just the right amounts of income, but the right kinds: cash flow to support operations, support for core expenses as well as projects, reserves for emergencies, discretionary funds, and also perhaps long-term sources to support growth in physical plant or generate income. It also means having built a strong enough reputation to attract and hold clients, allies, and funders.

In this section, grant makers who have weathered the incubation period with start-up organizations offer several ideas on how to help a grantee move from a strong start to a durable, independent life.

### WHAT SHOULD YOU THINK ABOUT WHEN STRUCTURING THE INITIAL GRANT?

Depending on how it's made, the initial grant to launch a start-up organization can be crucial for helping the organization develop a secure and sustainable funding base down the road. Meanwhile, though, it should also provide a start-up with the early security it needs to define its mission. As one funder explained:

"At the beginning, [the start-up's managers] know they have core support from the foundation, and they can survive with that. If they find an interesting challenge, they might decide to take it on, or they might decide not to take it on. They can afford to be a bit choosy, which I think is good."

To make an initial grant that serves both purposes — incubating a new organization in the early years, and boosting its odds of building a broader funding base later — grant makers offer these suggestions:

- **Be realistic about timing.** Many of our contributors felt strongly that the initial grant should last at least three years — probably more — for an organization to achieve sustainability. One contributor described a recent decision to extend a three-year grant to five years:

  "We anticipated three years of funding, but we extended the grant to five years. We realized that there are critical stages that we need to support our grantees through. I think that three years of start-up funding is too short to become self-sufficient."

## WRITING A FINANCIAL PLAN

Many contributors said they collaborate with the planners of a new organization to create a detailed financial plan for the first several years, then arrange their initial grant to support the key features of the plan.

A corporate grant maker explained how her foundation helped one grantee build a small, local project into a national organization:

"We helped them put together a five-year business plan for the expansion. We then gave them core support using a declining model over their first three years."

One grant maker worked closely with the managers of a start-up organization to be sure they understood the financial implications of operational decisions:

"From the very start, I was concerned that it had to be a lean organization. I was worried they'd haphazardly add on staff. So I said at the beginning, 'you have to have a staffing plan.' We went through the plan and I asked, 'Why do you need two of these? Why do you need half of this? Why don't you combine those two positions?'"

Another contributor worked with a new local foundation to create guidelines for using the endowment his foundation — a large, international funder — had created:

"We suggested that they plow 50 percent of their endowment income back into the investment. They showed us various calculations and explained that was too high. After negotiation, we agreed to 40 percent reinvestment in the first three or four years."

Others said they typically provide an initial three-year grant, renewable for a second three years if the organization shows acceptable growth and progress.

- **Consider offering diminishing levels of support.** Some funders extend their support over longer periods of time by scaling back their annual grant over successive years. Some are careful to provide less than the full operating budget, a strategy that requires the grantee to begin fundraising immediately:

  "We provided a $500,000 start-up grant over three years, providing 80 percent of her budget in year one, 50 percent in year two, and 20 percent in year three. They had to raise an increasing amount each year."

- **Draw in funders who supported earlier work on the same issue.** When start-ups grow out of smaller projects, it's often possible to bring the funders of the earlier work together to support the new organization. One international start-up was funded equally by two organizations that had collaborated previously on disease control projects: A national foundation supplied the core operating budget, while a major pharmaceutical company made in-kind contributions of equal value. In that case, the foundation program officer believes that balancing the contributions helped strengthen the collaboration and ensure the involvement of both funders:

  "Although we didn't exactly design it to be an equal match from the beginning, it was good that it worked out that way, because it kept us on an equal footing at the start. The funding has diversified since then, so the funding is no longer equal."

### HOW CAN YOU HELP PLAN FOR GROWTH AND INDEPENDENCE?

According to several of our contributors, it's a good idea to plan from the outset with an eye to the longer term, when the organization will probably be larger, have more staff and funders, and be pursuing a more complex mission. It's never too early to make sure that the internal systems in finance, accounting, and human resources can be expanded as the organization grows. It may also be important to forecast how fundraising and other revenues will adapt when the original funders reduce or end their support. Grant makers offer these suggestions:

- **Assess the capacity of the organization's governance, staff, and management systems.** An assessment normally includes thinking about how these will change as the organization becomes more established. Typically, for example, the board takes on more and more responsibility as time goes on, while the executive director gains competence and stature within the organization and the larger professional community. That can mean that the executive director will have less time for overseeing internal operations, and the board will need more help and information from staff.

  Some funders encourage board members and staff to conduct a self-assessment to gauge the capacity of the organization and formulate goals for growth. For a self-assessment

tool used by Social Venture Partners with its potential grantees: www.svpseattle.org/about_svp/model.htm

- **Examine the organization's financial possibilities and changes in its condition.** Experienced grant makers say that they look at a range of factors in considering the financial prospects of an organization: revenue sources, operating expenses, core funders and one-time funders, infrastructure capacity and needs, among others. The director of a small foundation explained what she looks for:

  "Even if you aren't decreasing the amount of your grant, you want to see it going down percentage-wise as a share of their budget. If it's going up or staying stable, that's not a good sign. We'd ask for a face-to-face meeting to talk about it."

- **Be clear about your own commitments.** Foundations take very different approaches to phasing out their funding for a start-up organization. Although most funders exercise a certain amount of flexibility in how they close out support, it's helpful for all parties to understand the foundation's general policy.

  One grant maker, for example, says that her urban community foundation does not make multi-year commitments, but it does tell grantees the foundation's average grant size and its average duration of support. She also works with grantees to establish the basis on which performance will be judged. As a result, they have a realistic understanding

### LOOKING AHEAD: ENVISIONING THE FUNDER'S WITHDRAWAL

A national foundation created five community-based youth development organizations in the late 1980's. The plan was to make them fully independent over a twenty-year period, as the organizations worked through five phases of "community readiness."

To build capacity in each community, the foundation formed independent local boards and helped them develop unique programs in pursuit of common goals. As the program director explained:

"Our intention was to let them decide what it is that they need to do to make their community the place that they want it to be. Eventually, each board got away from what we had set for them to do when they started. We said, 'Fine, you modify whatever you need to do to carry out the programmatic intent.' We had five goals, and they were all pushing toward them in their own ways."

The foundation provided support and technical assistance in key areas:

"We gave them money and help for communications for their own launches. We also helped with fundraising and endowment. We didn't go to other foundations to say, 'Hey, do you want to fund these guys, because we think they're good people?' Instead, we helped each community set up an endowment and encouraged them to deal with their long-term financial security by adding to that endowment."

The program director has seen the organizations move steadily toward sustainability. At the same time, he believes that the grantees' transitions toward independence would have been easier if he had done more to explain the steps and how they fit together:

"If I were doing this again, I would decide on the indicators of community readiness for transition and share them more openly with the community. Sometimes people thought everything was going along fine, and they were moving along, and then I'd say, 'Uh-oh. Time to transition now.' I'd look at the criteria and say to myself, 'Yup, that one's ready to transition. That one's ready.' I should have said more about the criteria from the beginning. I should have talked about them more often and more regularly. That would have helped them be more ready when the time came."

### IS AN ENDOWMENT REALISTIC?

To the director of an organization struggling to raise each year's operating budget, an endowment may seem like an obvious and highly desirable goal. Experienced grant makers and nonprofit leaders advise, however, that the decision to launch an endowment campaign should be made with great care. For advice on questions to ask before getting started and how to plan an endowment campaign, see the GrantCraft guide *Providing for the Long Term: Supporting Endowments and Investable Assets*.

of how long the foundation's support is likely to last, what amounts of support are reasonable to hope for, and how their organization will be assessed, year by year, as funding decisions are made.

- **Ask about other funders.** The organization's ability to attract other funders is essential to its long-term sustainability. Some grant makers look closely at the mix of grants and funders, asking whether they're likely to provide support over the long term, whether a large share of funding is scheduled to end at one time, and other questions. One grant maker suggested, as well, that funders' reputations make a difference in her assessment of the organization's stability:

"I look for funders who are experts in the field. If an organization succeeds in getting grants from specialist grant makers, it's often a good indicator that it's generating valid, high-quality projects."

## BEING AVAILABLE, AND HELPFUL, AFTER THE LAUNCH

Meeting the demands of funders can be difficult and confusing for the people involved with a start-up, especially if they've never run an independent organization or been accountable to an external grant maker. You can help by explaining how your foundation works — how proposals and grants are reviewed and monitored in your organization and how long each step is likely to take.

New organizations also tend to struggle with a burden of work far greater than anyone expects. Many grant makers who fund start-ups make a point of checking in frequently, if only to lend a sympathetic ear. A corporate grant maker emphasized the importance of regular contact:

"You need to call your grantee and say, 'How's it going?' The grantee recognizes that you care. You find out about day-to-day activities that they didn't plan to discuss with you, and you can help them."

The director of a family foundation makes sure his grantees understand that he's available to talk with them when they need to, even if he doesn't necessarily initiate conversations:

"It's about relationship. They call sometimes and ask for input. I don't have time to make all those contacts myself, but they know if they call me I will make time to talk to them."

Some grant makers try to make it clear that they're aware of the competing pressures grantees face — including pressures created by funders themselves — and that they're willing to be flexible. One program officer who funded a community initiative found that these pressures called for a constant, careful balancing of interests:

"Whenever there's a difference between what I think and what the people in the community think, the director is kind of torn. Should they do what the community wants them to do, or should they just do what I want them to do? And the secret is, they have to give a little bit both ways."

Finally, an experienced grant maker who has nurtured dozens of start-ups argues simply for the power of a funder's sincere confidence:

"One of the most valuable things you can give is your belief and expectation that the grantee is going to succeed."

# ‘Putting the Flesh on the Bone’

## A CONVERSATION WITH MANAGEMENT ADVISER SUE STEVENS

Susan Kenny Stevens is a consultant and author specializing in financial management and organizational development. A GrantCraft interviewer spoke with her recently about the financial challenges typically faced by new organizations.

**Q.** You’ve seen a lot of new organizations struggle in the early years to establish a strong financial foundation. Where, in your experience, do start-ups usually need assistance, and what can funders do to help?

**A.** *From a funder’s perspective there are two kinds of start-ups: new organizations that come to the funder for money, and organizations that funders start themselves. They have very different financial profiles, and they need different things.*

*Nonprofits that start under their own steam tend to be very lean in terms of staff. They’re usually led by a charismatic person, someone who’s pretty much a Jack- or Jill-of-all-trades. That person just wants to get a service out to the community or the marketplace, and they create an organization around them to get the job done. The last thing on their minds is spending money to get organized financially. They learn how to do fundraising from the get-go, but their financial management systems are often weak. I have literally seen people operate organizations out of their own checkbooks.*

*On the other hand, an organization that starts with a funder as progenitor usually has enough funding to hire two or three people in differentiated roles. One of my funder clients calls those projects “start-ups on steroids,” a fantastic term, because they start all bulked up. They tend to be more financially mature right out of the gate, except in the area of fundraising. They haven’t had to go through the hoops of getting people to invest in them.*

**Q.** Are there basic financial characteristics or capabilities that a funder should encourage in a start-up?

**A.** *First, a new organization should have a clear expectation of what service they’re going to provide on a daily basis, what size they will attempt to be initially, and what resources they need to do that. I believe it’s healthier for an organization to do what it does on a stable basis, especially at the beginning, than to have a budget that fluctuates from year to year.*

*Second, they need to understand how to manage cash flow, how to project the timing of income and match it to the timing of expenses. Cash flow is the name of the game. Every nonprofit has cash flow problems, particularly in the early days. If you have control of that, you have control of your destiny.*

*Third, and as simple as this may seem, it’s not spending more money than they have. If you have a $50,000 budget, don’t spend $51,000. If you have a $500,000 budget, don’t spend $550,000. It’s also important to get in the habit of spending on the basis of income, not budget. Many nonprofits think that if they have money in their budget, they can spend it. If money doesn’t come in like you think it’s going to, you don’t have it to spend. If you spend more money than you have, you get mired down in debt, you’re always looking over your shoulder, and you can’t look forward.*

**Q.** How can a grant maker check for those things in a helpful way?

**A.** *A big part of the job of a start-up organization is trying to piece funding together. One of the challenges is accounting for that money. A critical question a funder can ask is, “How do you account for your funds?” Some people will show you their check register. Others will be able to show a financial statement. The point is not to judge but to ask yourself, “Okay, if I were going to give them an extra $10,000, how might they use it to upgrade their financial knowledge or information management?”*

*Another option might be to help them outsource their back-office services through another nonprofit group or a management support organization, or MSO. In Minneapolis, I’m working with a group of mature organizations that are considering combining their information technology, finance, human resources, and building management services into one organization. In Denver, there’s a group that provides bookkeeping, accounting, financial management and record keeping, including payroll, for nonprofits in the area. These groups are growing up in other places, as well. The assistance they provide is really valuable for management and compliance. And next year, when it’s time to apply for another grant, the information is all there.*

**Q.** Do you know of a grant maker whose involvement made a real difference to a new organization?

**A.** *Here's an example from my own life. Almost 25 years ago, when I was the administrator of a new nonprofit, I was putting together a proposal for a grant toward a capital campaign. As part of the request, I had to show the budget for the campaign. The program officer came back to me and said, "Great, but show me three years of income and expenses for your entire operations, too." And I thought, "What does this have to do with anything? There's absolutely no way I could come up with a three-year budget." And she said, "I'll help you. Bring this year's budget to me, and if you've got last year's budget, bring it, too." So I did. This was before we were using computers or spreadsheets. We laid out last year, this year, and then we just built the budget for three years. It seemed so simple, but I never would have thought of doing that. In fact, it was one of the most important professional experiences of my life.*

*What it did for me was get me out of short-term thinking and force me to create a financial plan for myself. I realized, "We're actually going to make it. We're here, and we're going to make it." That was a real gift. It wasn't even financial advice as much as a reshaping of my mindset about living hand to mouth.*

**Q.** Did that grant maker have special skills? Could anybody do that?

**A.** *Anybody can do that. That grant maker was no expert in finance, not at all. But she understood that our organization was ready to move to a new stage. If the foundation was going to invest in us, they wanted us to start looking at the next stage of life. She could have said the same thing to me at an earlier point, but I wouldn't have been ready to hear it.*

*To receive assistance, a group needs to be ready, willing, and able. Ready is one thing. Willing means being willing to change, to take the knowledge you gain from technical assistance and change your habits, systems, practices, whatever the issue is. Able means having the ability to take the advice and do something with it. I've seen groups that are ready, they're even willing, but they have a hundred things to worry about, and the financial side is still on the back burner.*

**Q.** In your book *Nonprofit Lifecycles: Stage-Based Wisdom for Nonprofit Capacity,* you talk about organizations that shift from what you call the "start-up" stage to a more developed "growth" stage. What about organizations that don't make it? What goes wrong?

**A.** *Some groups can't get organized financially. Others don't want to. A mindset takes hold that we don't have money and we never will. We rationalize why we don't have money, why no one will give us anything. This is a self-defeating attitude that can slip into our normal mindset.*

*The truth is, the more financially healthy and sound your organization is, the more likely you are to be able to focus on your mission. If you're deep in debt and you can't meet payroll and you don't know where the next nickel is coming from, it's pretty hard to be thinking about the next step in doing something wonderful for society. Some groups are plagued by practices that are not sound, and even self-defeating. They just can't get ahead.*

**Q.** What about strategic planning? Should a funder help a start-up with that?

**A.** *I don't believe in strategic plans in the start-up years. Strategic planning is about focus, and the last thing you want to do is focus a start-up. People buy into a plan, board members in particular. People who like routine like plans, but start-ups need something different. Start-ups need entrepreneurs who can think big and take advantage of opportunities.*

*The task of a start-up is to cast the net widely, get lots of people interested, and let it evolve with other people's input. I'm not saying there isn't a skeleton of a plan, but you want to put the flesh on the bone during the start-up phase. Ideally, a funder will let a start-up be a start-up. Let them make mistakes. Let them kind of stumble a little bit, because the fall isn't so great if they stumble, and they're learning as they go. Start-ups learn from experience. That's how they gain capacity.*

*'The truth is, the more financially healthy and sound your organization is, the more likely you are to be able to focus on your mission.'*

# Helping a New Organization with Fundraising

As a grant maker, you may feel compelled for a number of reasons to get involved in fundraising for a start-up. Because you understand the organization, you can be an advocate for its leadership and its work. You understand its strengths and weaknesses and can speak knowledgeably on its behalf. Other potential funders are likely to listen to you, take your calls, and attend presentations by the grantee at your request.

On the other hand, you might hesitate to make commitments that will take time away from your regular grant making. You may also be worried about overstepping the boundaries of your role and assuming responsibilities that should fall to the new organization's board and executive leadership. Moreover, you may be concerned about losing credibility with colleagues in the grant-making world if you "pitch" your own grantees to them. And finally, grant makers who are used to playing the role of bestower of resources often feel uncomfortable on the other side of the table, asking for money.

Grant makers who contributed to this guide have different views of participating in fundraising. Some were actively involved in advocating on the new organization's behalf; others preferred a more low-key approach, focusing on developing the new organization's own fundraising skills and networking abilities. This section will take a look at the range of approaches grant makers use to engage other funders and help build a start-up's own fundraising capacity.

**WHAT CAN YOU DO TO CONNECT THE NEW ORGANIZATION WITH OTHER SOURCES OF FUNDING?**

- **Consult other funders early.** Some contributors pointed out that other funders are more likely to contribute resources if they have a meaningful early role in planning a new organization. As one grant maker described his approach:

  "When we brought a group together for brainstorming, we also brought half a dozen other funding agencies to the table. We always try our best to show that this is not just our foundation's baby."

  Still, as one contributor pointed out, engaging other funders in the development process is a delicate business:

  "We talked to their program officers, and they helped to flesh out the model. This gave them ownership of the project. Still, there's a little bit of a game you play. Other foundations will return your calls, and you can be low-key about it, saying 'Here's an organization you might be interested in.' But you can't do it all the time — they get on to you. They see it as your project."

- **Serve as a "reference."** Being available to talk to potential funders can help open doors for a new organization. A corporate grant maker observed:

  "The grantee can come to us with a list of fundraising prospects. We'll look them over and say, Sure, use

our name. We support them but don't do their fundraising work. Being a reference for the new organization to other grant makers and donors is fine with us."

- **Find out what other grant makers are supporting.** A grant maker can learn about potential resources for the new organization through participation in professional and affinity group meetings of grant makers in a given field or community. That information can then be shared with grantees. (See "What Grantees Wish Grant Makers Knew", on page 31.)

- **Host or participate at events where other grant makers can learn about your grantee's work and meet its leaders.** Some funders host seminars or sponsor roundtables where staff from the organization can make presentations or participate on panels. They might look for opportunities for grantees to be showcased in conferences. One grant maker in health care routinely receives advance notice of conferences and seminars, sometimes with requests that she propose participants. She often nominates someone from a start-up she supported to be a presenter, or offers to include the organization's work in her own presentation, if there will be potential funders in the audience.

### HOW CAN YOU HELP THE NEW ORGANIZATION DEVELOP ITS OWN FUNDRAISING SKILLS?

- **Help the grantee create fundraising materials.** A group of funders that collaborated in supporting a new organization helped the start-up write "generic" materials that described the need it was filling and the services it rendered. This basic information was used initially in proposals to their own organizations, but later it was adapted for additional funders:

  "We helped them prepare a case statement that could be adapted and reworked, depending on the particular foundation or corporation."

- **Provide training.** A grant maker who works with community-based organizations helped them pay the cost of attending fundraising workshops:

  "Learning those skills helped build their capacity as organizations, so when we left that capacity was in those communities."

- **Create opportunities for practice and feedback.** The proposal writing process at your own organization can be an opportunity for start-up grantees to practice skills they can use elsewhere and get feedback from you on their efforts. As one grant maker found in his work with community organizations:

"They had worked a lot with our staff around putting together grant proposals and applications. They transferred some of that knowledge and became very effective at getting resources from other funders and agencies."

- **Make sure that executive directors devote enough time to fundraising.** Internal issues legitimately demand the majority of the attention of an executive director at the beginning of a start-up process, but eventually, an executive director's attention will need to shift. As one funder explains:

"It's a question of how you spend your time. Do you spend 90 percent of your time thinking about how to do a successful program and 10 percent on where to get more money? Or do you spend 50 percent of your time doing the research that's required to figure out where the money is, and then 50 percent on your program? Or maybe it's 40, 40, 20, with 20 percent of your time going to attention to detail. The point is, you've got to shift your attitude if you're going to have the resources to continue the work."

- **Encourage board participation in fundraising.** The head of a local funders' consortium coached the executive director of a small children's charity to be more forthright about asking for help from her board:

"She called to ask advice about raising money to hire a fundraiser. I said, 'Tell me about your existing fundraising.' And she said, 'It's all been grants from foundations.' I said, 'You know, you really need to be looking at where your board is because hiring a fundraiser isn't it. The *it* is having a board that's prepared to fundraise.'"

- **Offer incentives to fundraise.** Several contributors talked about grant policies that encourage organizations to involve other funders. One international grant maker developed a tiered system of matching grants to give a new microenterprise funder an extra push to seek support from local sources:

"We said something like, If you raise money in the United States, Europe, etcetera, we will match it one-to-one. But if you raise money here, in this country, we will match it at an enhanced level, three-to-one or two-to-one, up to a certain ceiling. We did this with their active consent."

## WHAT GRANTEES WISH GRANT MAKERS KNEW

Here are some suggestions from grantees on what funders can do to make the start-up experience more satisfying for grantees and grant makers alike:

- **Tell us how you operate.** Nonprofit directors said they appreciated it when grant makers took the time to help them get a clear picture of how the funding organization operates, how long things take, what the approval process looks like, how likely it is that they'll get funding at any stage, and what kind of reporting is expected.

- **Learn more about the funding interests and specialties of other funders.** As one nonprofit director explained, "I hear from start-up grantees all the time who tell me that they asked their program officer where to look for funding and were told, 'I don't know. Go ask my other grantees.' Despite their affinity groups and conferences and other gatherings, a lot of program staff don't seem to know what their colleagues in other foundations are doing. Why don't they know this? Why can't they mobilize to bring funders together?"

- **Don't make a planning grant instead of saying no.** Some grantees raised a concern about funders who support the planning stage but aren't committed to helping the grantee act on the expert advice they receive, either because of funding limitations or ambivalence about the mission and goals of the start-up:

  "If you're going to invest in technical assistance, be ready to support the follow-on. Funders often support strategic planning, but once the grantee has done the work and is ready to perform, the funder won't provide further help."

- **Recognize the importance of the second phase of innovation.** People who lead organizations beyond the point of being good ideas are often frustrated by the next challenge they face: maintaining their funding by generating discrete projects. Just as they feel ready to build their organizations in earnest, they find that funders only want to know about individual initiatives, not the organization's overall growth and effectiveness. "When you invest in IBM," said one nonprofit director, "you're not investing in the development of a particular laptop. You're investing in the continuing development of the organization. Couldn't funders invest in a similar spirit in nonprofit organizations?"

# Key Lessons from Grant Makers

- **Don't fund a start-up unless it's really needed.** Many contributors questioned what they see as a basic premise of many start-up organizations: that there aren't enough nonprofit organizations out there already. "It's quite the opposite," said one. "There are *too many* organizations as it is."

- **New organizations need three key elements to thrive: good leadership, a strong model, and a real market for their work.** If those are present, an organization will probably succeed in solving its other problems. Without them, the contributions of a funder — expertise, technical assistance, money, and other kinds of support — might not tip the balance toward success.

- **Reaching the point of sustainability often takes more time than anyone anticipates.** Grant makers told story after story of organizations that needed more time to get organized, achieve stability, and move confidently toward independence than originally planned. The economic downturn that began in 2000 exacerbated that tendency. According to our sources, many funders have been responding by offering core support for longer periods, often for five or six years or more.

- **Intangible forms of support make a bigger difference to start-up grantees than to grantees from established organizations.** Confidence, collegiality, informal advice, and professional connections are just a few of the things a concerned funder can offer a new executive director who's trying to bring coherence to a new organization, a new staff, and a new board.

- **The tension between giving enough help and micromanaging a new organization can be a tricky one to handle, both personally and professionally.** Many grant makers said they found it painful to step away from an organization in which they had invested enormous amounts of time, worry, and commitment. It was helpful, they said, to remind themselves repeatedly that the organization's independence was the real goal of their work, and to act and plan accordingly.

- **Funder policies about board service usually reflect deeply held principles about the ethics of the funder-grantee relationship and the long-term interests of both parties.** In practice, however, there may be good reasons to alter those policies in particular cases — to serve on a particular board even though your organization urges against it, or to refuse board service even when it's allowed. The main thing, our contributors urge, is to decide thoughtfully and to recognize that you have a special responsibility to help both board and management succeed.

## OTHER WAYS TO USE THIS GUIDE

This guide was developed to help a grant maker or donor think through a decision to support a start-up organization — by definition a new venture, with a new mission and no operational or financial track record. In addition to questions about the risk involved and the need for a new organization, grant makers confront questions about their own role in helping a new organization get started and ensuring it has ongoing support. Other people involved in a start-up may need to grapple with similar concerns. You may wish to share this guide with:

- A potential grantee with an idea for a new organization
- The start-up organization's prospective board members or advisers
- Candidates for leadership positions in a new organization
- Partners in creating or funding a start-up

Because it presents the words of grant makers describing an array of real dilemmas, the guide can also be a tool for training new staff about the approach, philosophy, and core values of a foundation or other donor institution.

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