Who is Supporting Nonprofit Financial Sustainability?

Hawai'i Community Foundation

New unrestricted support program yields unexpected benefits for other grantmaking.

Quick Grantmaker Stats

Type of funder	Community Foundation
Geography/Issue Area	State of Hawai'i
When founded	1916
Total assets (as of FY 2013)	$572,000,000
Annual giving (as of FY 2013)	$33,477,427
Number of staff	58
Website	http://www.hawaiicommunityfoundation.org/
Brief description of the program/ practice being discussed	The FLEX Grants Program started in 2013 as a way to support high-performing nonprofits.

1. Describe the situation or practice.

In 2013, the Hawai'i Community Foundation launched a new grantmaking program for unrestricted support called FLEX Grants. The foundation describes the goal of the program as to "invest in nonprofits that embody good management and demonstrate high performance by providing them with a source of flexible unrestricted support." Grants are awarded for one year and can vary in size up to $50,000, but the amount awarded is typically no more than 20 percent of a grantee's operating budget. Grant funds can be used for salaries, administrative costs and program costs, as determined by the grantee.

The foundation invested in nonprofit capacity building, technical assistance and leadership development for over a decade. While it could see many positive outcomes, it was concerned about only making incremental progress. "Our grant dollars are small, total HCF grantmaking makes up less than 1% of the revenues flowing into the sector (in Hawai'i) each year. So we'd been thinking about influence and how we can have a greater influence on the sector to move towards effectiveness, towards performance."

There were other reasons for HCF to consider high performance. "Because we're a community foundation, we work with a lot of donors who rely on us for strategy or due diligence," said Pi'ikea Miller, a Program Director with the foundation. "FLEX gives us a framework for evaluating performance, and many of our donors want to know who the high performers are in the fields they're interested in supporting."

Through this grantmaking initiative, the foundation is focused on finding and supporting high-performing nonprofits. These are organizations that are able to: 1) demonstrate their importance to the community or population served; 2) capture and use information about their work in order to continue improving; 3) describe impact, including a clear rationale for their strategies and approaches; and 4) demonstrate financial stability. The foundation expects that these aspects will differ across different types and different sizes of organizations.

The foundation believes that robust, data-based performance management in nonprofit organizations allows them to better understand the impact of their programs and maximize resources, and this type of management is ultimately linked to greater community impact.

This view represents a shift for the foundation and its grantees. As Miller noted, "many grantseekers are used to demonstrating how important the need is for their program, but this is not a need-based grant. It's a grant for demonstrated high performance."

To date, the FLEX Grants program has been competitive, which foundation staff members think is a clear indication of the need for more unrestricted operating support. In the first year, the foundation received $16,000,000 in requests, but was only able to award a fraction of that support — approximately $2,900,000 to 176 organizations. In the second year, the foundation was able to grow the program and plans to award approximately $4,300,000.

2. What have you tried to do differently?

Because this type of program was new for the foundation and many staff would be describing and representing the program, the design had to be collaborative. It would be the first time several departments in the foundation — including program staff, communications, philanthropic services — had designed a grant program together.

The FLEX team started out by identifying specific criteria with which to evaluate proposals and how to score them. The goal was to ensure consistency across a team of 11 foundation staff reviewers. One of the ways they approached the task was to create an assessment matrix for all reviewers to use in defining what a low, medium and high score would look like. Using that matrix, the group of reviewers did mock exercises and shared examples of how they would rate a particular response to a question.

During the review process, reviewers had team and one-on-one conversations about the scores of different proposals and helped each other to make scoring decisions. "It's not a perfect science, but it helped us develop a shared understanding of what we were looking to support across a wide range of proposals," Miller said. One team member was also charged with spot reviewing proposals, and a peer review meeting with reviewers and foundation leadership helped to vet reviews for consistency.

3. What has been the result?

"We have received overwhelmingly positive feedback from nonprofits saying 'thank you, this is the kind of help we've needed,'" Miller said. First year grant reports[1] indicated that 67 percent of grantees said FLEX had a significant impact and 28 percent said it had a moderate impact on their responsiveness to their community. In terms of impact on their effectiveness, 53 percent said it had a significant impact and 32 percent said it had a moderate impact on increasing the effectiveness of their programs.

"The FLEX fund has also started to impact the way we do our other grantmaking," Miller said. "Some grant programs now include questions from the FLEX application, or the results of the FLEX assessment are incorporated in their decision-making process." It's changed the kinds of questions we're asking of potential grantees about who they are serving, why they chose the strategies they use, and about how they use information to continually improve what they do." The foundation has started using the information it collects to inform its work in other areas and grantees have begun referencing the FLEX application in other grantmaking programs. Other programmatic work has changed as well. In particular, the foundation is feeling more confident in its ability to assess organizations against specific measures of high performance. It's looking at how to insert the questions it asks for FLEX into other programs.

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[1] Figures based on a 90 percent response rate.

Foundation staff members have also been surprised at the openness of other funding partners to supporting the FLEX pool. In the first year, the foundation was able to consolidate 14 different funding sources into the FLEX program, significantly reducing the burden on grantees because the program uses one RFP and one reporting format. In the second year, 24 different funding sources are participating.

4. What are your key insights from doing the work?

The foundation keeps refining the program. Staff members knew it would be an iterative process. "We recognize that we're still in a beta phase, and people appreciate that as we learn more we're working to make the program better," Miller said.

After the first round, the foundation realized that it needed to create two different requests for proposals, one for organizations with budgets under $100,000 and one for $100,000 and above, in recognition that those groups weren't comparable. For larger organizations, the foundation still looks for evidence of high performance. For smaller organizations, the foundation is looking for high quality programs or projects that are connected to the community.

The foundation has also been using stakeholder feedback along the way to make other improvements. For example, it asked a few nonprofits to fill out a draft request for proposals to identify changes that were needed to make it more user-friendly. Now that applications are submitted online, the foundation also asks for feedback about the technical aspects of submitting a proposal. And, in response to feedback that the foundation could be clearer about what information it was looking for, the foundation offers short webinars to run through the request for proposals with potential applicants.

"FLEX is a big change for us, we supported capacity building for years but never asserted a point of view about what we think high performance looks like. Ultimately our goal is greater community impact and we think high performing nonprofits are better positioned to deliver impact. At the same time, by involving and influencing our donors and funding partners we hope to grow that impact."
– Pi'ikea Miller, program director, Hawai'i Community Foundation

The foundation is still grappling with what to do about nonprofits that apply and aren't selected. In the denial letters the foundation offers a deeper explanation of the top reasons most proposals were denied and links to helpful resources. The letter also encourages rejected applicants to call foundation staff to discuss their application in more depth, which many did. But the foundation wants to do more to support high performance.

To this end, the foundation is attending meetings all around the state with groups of nonprofit executives, consultants and other funders to identify the issues and challenges facing the nonprofit sector in the next 3 – 5 years and the needs that exist beyond grant dollars. It has also launched a survey to get the perspectives of nonprofit board members. These activities, in combination with the FLEX program, are helping the foundation determine what role it can play in building the capacity of nonprofits moving forward.

Grant Application Assessment Criteria

The foundation uses a number of criteria to assess FLEX Grants applications. These include:

- What does an organization do on an on-going basis to assess or understand community need?

- Can an organization make a compelling case, preferably with external or 3rd party data, that the results it's trying to achieve are important for the community it serves?

- Is there a clear and realistic rationale for why an organization uses specific strategies or activities to achieve results?

- Does it have a system to collect data or evidence that demonstrates its impact?