Recommendations for Capital Grantmakers

Courtesy of NDI NEW MEXICO

Sharing Lessons Learned

The Kresge Foundation is committed to an ongoing discipline of analysis and learning, ultimately using those lessons to inform both its work and the larger field. Between 2010 and 2012, the Arts and Culture Program made 36 capital grants focused on Institutional Capitalization. In mid-2013, the Kresge Foundation sought Nonprofit Finance Fund's assistance in evaluating the effectiveness of these investments.

The resulting report contains findings on trends and themes for the entire cohort, including: models of success and characteristics of organizations with weaker results, an assessment of why the program did or did not produce the desired results, and recommendations for funders interested in supporting capitalization. These lessons will continue to inform the work of the Arts and Culture Program as it pursues new strategic priorities, and the full report is available on both the Kresge and NFF websites.

Summary Findings

As a result of Kresge funding, grantee organizations are largely thinking in multi-year cycles and taking great strides to plan for long-term financial health. They are increasingly engaged in the following best practices:

- Budgeting for surpluses
- Developing capital budgets based on systems replacement plans
- Planning to create or grow cash reserves
- Developing policies for these reserves
- Asking for flexible reserves as part of capital campaigns

Although some organizations were previously engaged in these practices, many have adopted them due to Kresge grant requirements. For many grantees in the cohort, achieving improvements in financial health will take some time to materialize. Many organizations struggle with difficult choices about the size and scope of the organization given the demand of their audiences and the propensity of their donors to give. Moreover, institutional and individual donors rarely provide the flexible capital that would support grantees in their efforts to right-size and adapt. Very few funders are making capital grants outside of facility acquisition and endowment.

Distilled below are key findings and takeaways for grantmakers considering these types of capital investments.

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Photograph by Christopher Duggan

Recommendations for Grantmakers

PLANNING

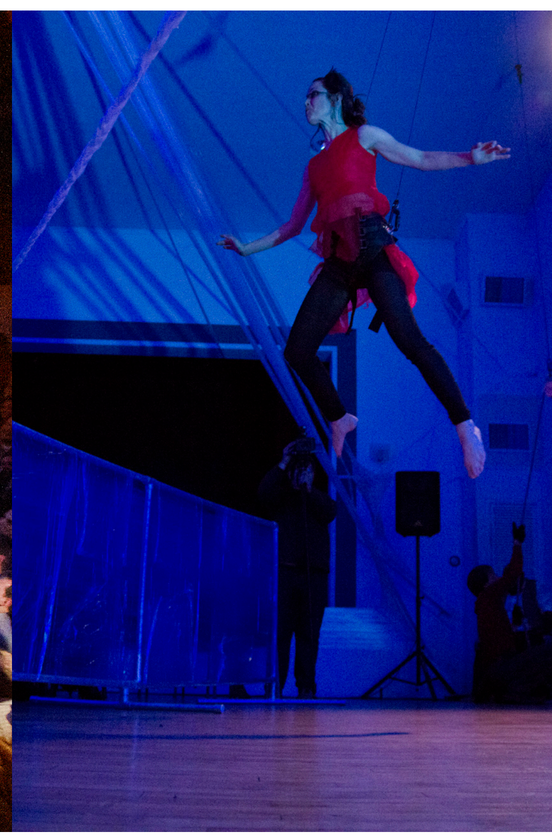
Start with education. Trainings on capitalization best practices, strategies and vocabulary offered at the outset of a capital grantmaking program can help build a shared understanding among managers and staff. A terms sheet may be helpful to ground the vocabulary.

Include the board. Strong knowledge about capitalization at the staff level is not enough. Trustees influence fundraising priorities and serve as a pipeline to major donors. Board education and buy-in about capitalization (beyond facilities and endowments) should be a pre-requisite to participation in any capitalization program.

Encourage realistic, integrated planning. Consider supporting organizational planning efforts that link vision to strategy, and strategy to a financial roadmap with balance sheet goals. A strong capitalization plan is grounded in a clear understanding of a grantee's historical and current financial situation. It sets targets for the types and amounts of capital resources needed to achieve long-term business and savings goals. Organizations undertaking business model change should also conduct a marketplace analysis grounded in evidence of demand among donors and audiences. For organizations with facilities and/or other fixed assets, a realistic assessment of long-term repair and reinvestment needs is a critical planning component.

Place and proximity matter. It can be challenging for a national foundation to make a hyper-local investment without boots on the ground to regularly assess leadership strength, local market forces and other conditions favorable to the adoption of capitalization practices—even with site visits and ongoing contact. Proximity often strengthens this relationship and national foundations may want to seek local funders as partners.

Courtesy of **CLEVELAND PUBLIC THEATER (THE GORDON SQUARE THEATER)**



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MAKING THE INVESTMENT

Tie your grant to the plan. If an organization has prepared a thoughtful, data-driven capitalization plan with the board's involvement and approval, the most helpful investment is aligned with the priorities in that plan. Trust that organizations often know best what the most needed form of capital is for them—even if it means paying down debt or accessing recovery capital.

Match capital to need. Organizations need different kinds of capital at different phases of their development. When making a capital grant, it's important to know the primary capital challenge. All nonprofits require working capital as a first order of business—to manage cash flow and handle everyday risk. Organizations in crisis also need capital to repair a structural deficit and pay off accumulated debts. Stable organizations may benefit most from cash reserves to navigate a rainy day and support periodic risk taking. Organizations embarking on any kind of business model change need flexible, multi-year capital to cover temporary deficits as they adapt their operating model.

Right size the investment. Capital investments should be made in proportion to the scale of an organization's goals, as quantified in its capitalization plan. Funding discrete projects (for example: a critical facility repair) can be just as meaningful as larger capital investments. When seeking large-scale change, however, organizations need enough capital to cover the one-time cost of the change, as well as the temporary deficits incurred during the transition period. When ambitious change is intended, explore pooling resources with other funders.

Be flexible with match requirements. Some organizations may be more successful raising flexible capital from their boards and other major donors if the investment is structured as a challenge. For organizations without a strong individual donor base, or those with too many competing priorities, a match requirement can be distracting and may detract from efforts to raise much needed operating support.

IMPLEMENTATION

Pair the investment with an advisor. Balance sheet change—especially when it is associated with a plan to grow or adapt programs and operations, merge, or restructure—is not easy, even for the most sophisticated organizations. While sound planning is critical, implementation requires a willingness to make data-informed decisions along the way. Grantmakers who make large, multi-year investments should consider providing resources for ongoing coaching and consulting with advisors who bring expertise in change strategy and management, market/donor analysis, and financial modeling and reporting.

Encourage peer-to-peer learning. Many grantees benefit from having a safe space to discuss their business and capitalization challenges with organizations that are grappling with similar situations. To ensure grantees can prioritize this, consider setting aside grant funding for convenings and less formal one-on-one discussions.

Invite ongoing dialogue. Encourage grantees to openly discuss their capitalization progress and challenges with you. Set the tone that these conversations are not an exercise in compliance but a forum for exploration and problem solving.

Be patient! Capitalizing organizations is a long-term, often risky endeavor. Grantmakers should be aware that some investments may not achieve their desired results in the time expected, if ever. Economic downturns, leadership change and staff turnover—on the funder or grantee side—can all have tremendous impact on grant outcomes. Patience is essential when assessing outcomes of a long-term strategy.

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