A Conversation With Fred Ali, President/CEO, Weingart Foundation

MARCH 18, 2016

Fred Ali is president and CEO of the Southern California-focused Weingart Foundation, where he is drawing on past experience as a nonprofit executive to recast the relationship between a foundation and its grantees and has become a champion of the movement to cover full costs and provide nonprofits with unrestricted flexible funding. In this latest installment in a series of conversations with foundation leaders, Ali and Nonprofit Finance Fund CEO Antony Bugg-Levine discuss money, power, influence, and outcomes.

Antony Bugg-Levine: The Weingart Foundation is known for providing unrestricted support — a rarity in the world of philanthropy. What led you down this path?

Fred Ali: My own experience as a nonprofit executive has always guided my thinking. When the financial crisis hit, I remember the board meeting where I was asked, “What do we do now?” I made the argument for unrestricted support, and it really made sense to the board. We brought in some of our grantees, as well, to help design our approach. Our board has always appreciated when they hear from the field.

A lot of people said that nonprofits would just take the unrestricted money and invest it in programs, because demand was growing exponentially and it is in nonprofits’ DNA to put programmatic needs first. And in our first round of unrestricted grantmaking, that’s exactly what we saw. Then we started to see a shift. Based on the questions our program officers were asking, what we started to see, and what we continue to see — is that nonprofits recognized that these were very special dollars. We started seeing organizations use these dollars to invest in their infrastructure, to bring back the financial management position that was lost or the development person they needed, and it was heartening.

ABL: How do you balance the philosophy behind giving grantees the autonomy to do what they know how to do best while at the same time meeting your own need — and your board’s need — to know the impact of those dollars?

FA: When we made our decision to devote the bulk of our funding — now over 60 percent — to unrestricted funding, it immediately raised the question of impact measurement. After a few years of hard work, we recently announced a new assessment framework for our grantees that evaluates organizations on nine functional areas, including board governance, financial operations, fund development, staff and infrastructure, client and constituent engagement, diversity, cultural competence, organizational strategy and adaptability, and executive leadership. With the assistance of Paul Harder and Company, we co-created the framework with our grantees. We wanted a framework aligned with our core values as a responsive grantmaker. We wanted a process that maintained a commitment to transparency and practical, actionable learning. And we wanted something that would not create undue burdens on grantees or on our own staff but that would provide us with useful information.

Our theory of change is that if you give a reasonably managed, well-governed, strategically focused nonprofit organization flexible, unrestricted dollars, good outcomes will follow.

ABL: The framework gives you a way to determine whether an organization is more effective over time, but how do you measure the contribution your grant made to that effectiveness? Many funders are concerned about attribution versus contribution if they were to move to more general support. How do you and your board approach that issue?

FA: The system we have designed understands the complex nature of assessing contribution to impact. We’ve developed a process to understand the growth in organizational effectiveness over time. And it starts with the questions we ask in the application process. Then, when a program officer makes a funding recommendation, they complete a detailed assessment based on their perception of where the grantee is against the nine functional areas of our framework. That provides a baseline. At the conclusion of the grant period, we ask the grantee to complete an online assessment, which gives them the opportunity to talk about where they are on those nine areas, and about big-picture organizational changes, and whether or not they are able to attribute the use of our unrestricted funds to any movement in those areas. The program officer receives this information, compares it with his or her initial perception, and then has a discussion with the grantee around the growth that has been achieved and areas of continued need. Last but not least, the program officer completes a closeout report that serves as the application for a new grant. Although it’s still early in the process, things seem to be going well for both grantee and program staff.

ABL: Often, there’s a perceived zero-sum tension between providing grants that enable
A lot of foundations are interested in buying outcomes and are not terrified interested in really supporting organizations. Funders may not explicitly say that, but the incessant focus on restricted programmatic funding has come at a huge cost to our sector. When we were considering a shift to unrestricted grants, we took a look back and found that many times the organizations we were supporting were not producing the outcomes we were looking for because they didn’t have the ability to invest in the kind of infrastructure necessary to produce those outcomes. So when I hear foundations object to our approach, I have to ask, “What are you trying to accomplish? Does your grantmaking approach help or hinder the development of capacity and sustainability?” It’s pretty clear we have a lot of nonprofit organizations that are doing incredible work that are being asked to do even more work and are not getting the kind of support they need to do that work effectively.

AFL: In our State of the Sector survey, we ask about which aspects of financial health nonprofits feel comfortable discussing with funders. Not surprisingly, program expansion is at the top of the list, followed by things like the need for operating reserves and unrestricted income. There are two ways to read that: either organizations aren’t discussing these things because they think their funders don’t want to listen, or organizations simply don’t know what they need. When you talk about building an effective organization, it sounds like what is important to you is that effectiveness doesn’t solely come from a decision by a funder to provide unrestricted grants, it also requires the nonprofit itself to understand its financial position around things like liquidity and reserves. What’s great about your approach is not so much that you want to give unrestricted support, it’s that you have set out to build effective organizations. Being willing to fund full costs and provide flexible support is necessary but insufficient to engender effectiveness. Nonprofits must understand their financials, and a lot is gained by creating trust-based relationships with grantees around issues of money.

AFL: If you’re doing it the right way, unrestricted funding allows you to look holistically at the organization rather than just a specific program. And that opens up the possibility of having candid conversations where grantees can talk about things like financial instability, liquidity, and other issues they are usually afraid to talk about because they may be perceived as weaknesses. Today, a number of years into this approach, we look at our grant applications and grantees and see that they are really candid about the issues our grantees have, the problems they face, and what they could do with unrestricted dollars. It’s a much richer and more productive kind of relationship. The survey work that NFF does is incredibly helpful and in many ways reinforces the approach we have taken.

AFL: What else have you learned is necessary for foundations to be partners in building the effectiveness of the sector?

AFL: As someone who ran nonprofits for years, I was always struck by the fact that, in many cases, foundation program officers fundamentally didn’t understand our work. They may have had a fairly strong background in programmatic issues of homelessness or mental health, for example, but they didn’t truly understand how a nonprofit works. To effectively support nonprofits, you need to understand the field. You can’t come to work for the Weingart Foundation unless you have work experience in the sector. That applies to everyone from our receptionist to the CFO. Now, nonprofit experience, in and of itself, isn’t sufficient, but at least you know you’re dealing with an individual who has some sensitivity to nonprofit issues. And if we hire that person, we provide them with continual training. With the help of partners like NFF, we make sure our program officers really understand nonprofit financial management.

AFL: Besides hiring people with nonprofit experience, which might not be a short-term solution for most foundations, it strikes me that bringing grantees into the board room is another way to close the foundation/grantee gap and make sure that people in the field are heard. In addition to correcting misperceptions, it also cultivates empathy. We spend a lot of time making sure the voice of nonprofits is heard in the rooms we find ourselves in with funders and, at the same time, helping nonprofit clients understand the constraints their funders are under. How much better we all could be if we cultivated a more generous spirit!

AFL: Building empathy is a tried-and-true formula. When we bring people from the field into the board room, it always goes better.

AFL: We’re seeing more support for the idea of covering full costs. With your leadership, with Darren Walker at the Ford Foundation voicing support, and with GuideStar’s visible leadership on the Overhead Myth campaign, we are seeing new momentum around this issue, which is something some of us have been talking about for a long time. NFF’s Claire Knowlton just wrote a piece for Nonprofit Quarterly that makes the case for full costs, and it has sparked a good deal of discussion. Are we having our full cost “moment” as a sector? Is it a sign of real change, or a flash in the pan?

AFL: I think we are having a moment, and it’s important. But a lot of the people engaged in those discussions may not be at the right levels in their organizations. At most of the conferences where I’ve presented on this topic, the audience has primarily been program staff.

We need more boards and executive staff to engage in this discussion. That is where people like Darren Walker are having an impact. I think it is incumbent on us who really care about this to force the conversation at that level. That’s the next thing we’re going to do here in California. stories with a series of briefness for foundation executives.
There's also a training issue. We've seen program offers almost universally accept the need for full-cost funding, but they have no idea how to have the conversation with their grantees. We need a different kind of training for program officers and nonprofits. Because many times even if the program officer is asking, nonprofits can't answer questions about their full costs. It's an issue for both sides, but if we invest in it together, hopefully it will lead to better outcomes. We also need to engage more deeply with government. Philanthropy can lead on this issue, but the real money is on the government side.

ABL: What arguments do you find most persuasive with government when talking about full costs? Here in New York, we had the bankruptcy of one of our largest social service agencies last year, and to a certain degree that helped people recognize that underfunding the human services sector creates instability. So one argument is that paying full costs is necessary to ensure a stable safety net. But there is another argument around equity and fairness. Why is it that hospital systems get billions of dollars to subsidize their transition to a new accountable care orientation and the same kind of money isn't being made available to human services organizations facing similar disruption? Are there other arguments you find particularly effective?

FA: What has been most effective in our experience has been bringing nonprofits face-to-face with their counterparts in government and have them explain what happens to them on a day-to-day basis because of inconsistent, indirect cost recovery. It morphs into a discussion about the multiple reports that are required and about what happens when payments are delayed. I think it's a mistake, however, to assume that people in government do not care about this. We've found there are a lot of people in government who do care about this but haven't had a forum to discuss it.

ABL: We've also found that many in government don't understand that they're not paying full costs. When we shared a lot of our survey data with people in the federal government responsible for working with nonprofits, they were surprised to learn that 70 percent of respondents said their federal grants rarely or never cover full costs. So again, when people understand the issue, the question becomes how to implement the solution. People say they "get it" but don't know how to make it work.

FA: Along with a number of funders in California, we've been involved in an initiative to encourage foundations and as well as governments to pay full costs. This includes helping them understand the new "Uniform Guidance" issued by the White House Office of Management and Budget which states that a nonprofit's indirect costs are legitimate expenses that need to be reimbursed.

In California, we've put a lot of energy into working with the City and County of Los Angeles. The city just passed a unanimous resolution directing its CFO's office to develop a plan for the implementation of the OMB guideline. That's big. And it wouldn't have happened if philanthropy didn't lead on the issue. If governments paid full costs, especially in the areas of health and human services, our foundation dollars could be spent much more effectively.

Antony Bugg-Levine is CEO of the Nonprofit Finance Fund, a national community development financial institution with more than $300 million in assets that helps nonprofit organizations connect money to mission and supports philanthropic innovations such as growth-capital campaigns, cross-sector economic recovery initiatives, and impact investing. His conversation with Fred Ali is reposted here with the permission of Bugg-Levine and NFF.