

Looking for Impact?

Consider Grants that Strengthen Non-Profit Infrastructure

An Overview for Donors

Table of Contents

Introduction.....	2
1. The Case for Infrastructure Investment (Profit and Non-Profit).....	3
2. Funding Challenges.....	4
3. Infrastructure Funding Opportunities.....	5
4. Some Other Considerations.....	8
Conclusion.....	10
Recommended Resources.....	11

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Introduction

Many philanthropic decisions begin with a quest to define personal values, identify worthy causes and determine which organizations to support financially. All of these stages are necessary and natural steps in developing a philanthropic strategy. Over time, however, many donors find themselves asking deeper questions like “How can I be sure I’m giving to an effective organization?” and “How can I be an effective philanthropist?”

To answer these questions, donors usually begin to examine and measure an organization’s social impact to determine its grant-worthiness. But they often overlook the organization’s capacity to build infrastructure to deliver that social impact. The value of an effective infrastructure is not well understood by most donors, though it is critical for a non-profit organization to sustain its social mission.

A philanthropic strategy focused on effectiveness should look beyond a non-profit’s social mission to consider ways to invest in its organizational capacity and capabilities. This article explores opportunities for philanthropic investments that can strengthen non-profit infrastructure.

1. The Case for Infrastructure Investment (Profit and Non-Profit)

Philanthropy practitioners like the Hewlett Foundation, Grantmakers for Effective Organizations and Social Venture Partners suggest that one of the most important elements of a philanthropic “effectiveness strategy” is understanding that the organization and its people deliver the social impact. A non-profit’s social impact is the tangible end result of much work by the people, systems and activities of an organization.

Smart investments in organizational infrastructure, then, are necessary to produce a great outcome be it product, service or social impact. When investing in the private sector, for example, investors understand that a great product or service cannot be produced without allocating resources to the people, infrastructure and systems necessary to deliver it. Buying a company stock is also an investment in the ability of the management team and employees to deliver a return on that investment. These people are entrusted with accountability to optimize how funds are spent, allocating resources appropriately to product development, sales, processes, infrastructure, and so on.

Non-profits have similar needs for people, infrastructure and systems to produce social impact of the highest quality. If their organizational underpinnings and infrastructure are not strong, they cannot sustain their effectiveness for long. If the “ground floor” of the organization is not solid, it may not take long for the “floors above” to weaken or fail. And while the results of infrastructure investments may not be as tangible as stock price or earnings per share, infrastructure remains vital to the non-profit’s longevity and effectiveness.

For-profit and non-profit organizations alike benefit from strong infrastructures. Non-profits that are attentive to their systems and practices are more likely to be financially stable and retain key staff. They have strong leadership inside the organization and strong networks outside the organization. They have capable and engaged Board members. They can be adaptive to changes in the funding landscape and client base. They develop a culture of reflection and

planning. They are committed to results and have the capacity to monitor and evaluate their performance.

2. Funding Challenges

Despite the strong case for investments in infrastructure—known in the non-profit sector as “capacity building”—funding for organizational infrastructure is often hard to come by for a number of reasons:

- Developing donor excitement about a program or service is easier than communicating the full costs necessary to deliver it.
- Focusing on low administrative costs—which groups like Charity Navigator have equated with organizational effectiveness—deflects donor attention from other organizational needs.
- Reporting that the non-profit “spent less” is an easy way to satisfy donors’ concerns that their contributions are not being wasted.

Stories about the real-world impact of a non-profit— a life-saving vaccination, a child learning to read, or a microloan to a small farmer—are more compelling than the logistical requirements to make these actions happen. They are also easier to communicate, glossing over the nuts and bolts of non-profit work.

Simplicity also drives the attention to costs and expenses because they are easy for organizations to gather and communicate and simple for donors to understand. Exclusive attention to low administration costs, however, is like looking at a one small part of a painting through a long, thin tube: the viewer cannot see the whole picture.

By gravitating to simple stories, outcomes and low costs, non-profits and donors devote less attention to measures of organizational effectiveness and infrastructure. Non-profits and donors then rely on crude measures and shortcuts, more readily directing funds to building programs rather than necessary infrastructure.

To be more effective in the non-profit space, donors need a fuller understanding of “capacity building” through more detailed stories about infrastructure and more robust metrics of effectiveness and social impact. They may ultimately find that grants to fund infrastructure—including “overhead” in the form of people, processes and systems—may be as effective as grants to build programs.

3. Infrastructure Funding Opportunities

With an awareness of non-profit infrastructure needs, donors may then ask how they can integrate a “capacity building” approach into a philanthropic strategy. How can they identify infrastructure needs and then invest in an organization so that the organization and its people will be in a position to deliver the most positive social impact?

While there are many ways to analyze organizational strength, donors can focus on four key areas that often separate a successful non-profit enterprise from an unsuccessful one. These areas include:

- Board governance and leadership
- Staff leadership and development
- Financial strength and sustainability
- Program outcomes and evaluation

We describe these components of infrastructure below and identify opportunities for investment.

Board Governance and Leadership

In the non-profit world, a Board of Directors has certain identifiable duties and plays a variety of roles. The Board is responsible for financial oversight, creating and reviewing the organization’s mission and vision, setting strategic goals, and hiring and monitoring the executive director. The Board often plays a central role in fundraising efforts, too, helping to ensure that the organization has the resources it needs. The role and composition of the Board also changes over time, adapting to different stages of a non-profit’s development. If a solid, engaged Board is not in place, a non-profit organization will never meet its full potential.

Board development is a need at any stage of a non-profit’s lifecycle, from startup to mature. An organization may operate successfully for a time with a dysfunctional or lackluster Board, but not over the long term, and certainly not when crises or challenges arise. A strong Board leads to a strong organization.

A consistent challenge in the non-profit sector is ensuring that the Board of an organization truly understands its role and carries it out. There is often lack of clarity about the former and lack of efficacy in

performing the latter. Common refrains such as “the Board needs more people” and “Board members need to participate more in fundraising” are often true, yet the needs and nuances of Board development are more varied. Given the many challenges and opportunities for Board development, donors might view this as a new and exciting funding opportunity.

Some areas for possible funding include:

- Assessing Boards (skills and composition)
- Restructuring Boards (Board member responsibilities and committee structure)
- Evaluating Board meeting format and process
- Coaching for the Board chair or executive committee
- Assistance with structuring the Board orientation processes
- Group training around topics such as donor cultivation or member responsibilities
- Development of Board member recruitment plans

A high-functioning Board is active and involved, reflects the right mix of experience and skills, and has members who understand their roles. It establishes the appropriate committees and has a healthy, supportive relationship with the executive director. A high-functioning Board meets regularly (at least 6 times per year), has a current strategic plan, has a conflict of interest policy, provides orientation for new members, reviews financials at each Board meeting, and has conducted a performance review of the organization’s executive director within the last twelve months.

Finally, while financial investment in Board capacity is important, donors who are willing to volunteer their time and talent in the form of Board service can prove invaluable to the organization. Personal investment in a non-profit’s Board capacity can take many forms and is most effective when the donor / Board member and non-profit make an intentional match between skills and roles needed from both parties. Tapping the unique talents of individual Board members is perhaps the greatest challenge in the sector today. The need is great and the impact of effective Board leadership is almost unmatched.

Staff Leadership and Capacities

A non-profit organization is only as strong as its leader, typically the executive director. Executive directors have a hand in management, generally influence the overall “culture” of the organization, are instrumental to the establishment of longer-term vision and strategy, and usually hold most of the organization’s key relationships with other stakeholders (such as Board members, foundations and individual donors). How the executive director is perceived can influence funding and how the organization as a whole is viewed by others. Leadership transitions, welcome or unwelcome, can be a time when the issue of leadership matters most to a non-profit. Given all of these factors, effective philanthropy should aim to support and develop the leader of an organization.

There are many different ways to build the capacity of individuals to lead organizations, from one-on-one executive coaching to facilitated peer groups, seminars and workshops, multi-day retreats, intensive leadership development programs or even paid sabbaticals. It is important for individual leaders to choose the form and approach for their leadership development. Donors should give executive directors personal development options and allow them to choose the format that matches their style, interests and the time they have available. An investment in the personal and career development of the executive director can boost the morale and competence of that individual. In addition, the impact of that investment has the potential to permeate the rest of the organization and produce enduring benefits beyond a single leader.

One of the most vulnerable times in any organization’s life cycle is during a leadership transition. Donors tend to be wary of making new investments when an organization is in transition, but this is a time when donor support of an organization is critical. For relationships with organizations donors are already funding, transitions can be a good time to maintain or increase support in order to increase the likelihood of a smooth and successful process. Committed donors can underwrite executive search services, pay for consultants that specialize in transition management, and provide executive coaching for new executive directors. Leadership changes are inevitable, and

withholding or delaying funding during transitions can introduce additional instability. Donors can use transition support as a strategic opportunity to impact the organization.

By investing in a long-time leader, a new executive director, or supporting a transition process, nurturing the leadership of any non-profit organization is important.

Financial Strength and Sustainability

Gaining insight into a non-profit’s financial management is a relatively straightforward process: just review the financial statements. The statements alone will indicate whether the organization is in a healthy financial position and if the organization is meeting revenue and expense projections.

More critical to assessing fiscal health, however, is seeing how the organization uses its financial information. Organizations that do not routinely perform cash flow planning, do not have contingency plans in the event of a short-fall, or are simply unrealistic in their projected revenue growth, are at risk of failure. Just like a private enterprise, non-profits can fail to act or change spending patterns when revenue projections fall below goals. Red flags include big discrepancies between budget and actual receipts and expenditures, large debts or liabilities, very little cash in the bank, or huge projected changes between the current year budget and the next year’s projected budget.

Paul Shoemaker, Executive Director of Social Venture Partners Seattle, cites examples to illustrate the failure to use financial information properly: a non-profit with plans to hire new staff even if the necessary funding is not available; a Board that failed to give an executive director a clear directive to cut costs even when a cash flow crisis seemed imminent; and a Board that became a “react and ratify” Board by abdicating too much of the financial fiduciary role to the staff. It is also common to see stories of a local, significant non-profit that runs into a financial crunch “out of the blue.”

How can donors promote financial strength and sustainability in non-profits? At a minimum, donors should require attention to financial management that

addresses nimbleness in financial planning and the development of sound financial systems.

Requirements might include:

- Including Board members who have the acumen to provide financial oversight
- Conducting a review of the diversity of funding sources and demographics of donors
- Consistently producing detailed forward looking cash flow projections
- Producing actual income and expense statements that reconcile differences from prior projections
- Reviewing income and expenses over several time periods (rolling three months, annual, and multi-year) to identify trends and changes
- Including a process for financial benchmarking against peer groups as a way to provide additional insights to determine if those metrics are reasonable. For example, below-average expenditures on infrastructure are often viewed positively, but might indicate a lack of sustainability and planning for the future. Above-average expenditures on infrastructure might indicate redundancies due to suboptimal methods for sharing information or a poor understanding of which actions are driving results.
- Obtaining audited financial statements and ensuring that audit best practices are in place. Best practices include separating the responsibilities for receiving funds, expenditure approval, check writing and checkbook balancing.
- Creating finance and audit committees within the organization

In addition to requiring that organizations have proper financial management and planning, donors can invest to support financial strength through training for Boards of Directors, the executive director and/or other senior financial staff.

Any donor that has managed, led or served on the Board of a private company will recognize the importance of these basic financial practices. At the end of the day, a non-profit needs to be fiscally sound

with appropriate internal controls to ensure that it can sustain its social mission.

Program Outcomes and Evaluation

While many non-profits have basic outcome evaluation systems in place, most of them could benefit from an even stronger internal capacity to measure results. Being “outcomes-driven” is vital. But what does that mean in practice? Should grant-making be tied to performance in a rigorous way? Should programmatic milestones be met for a grantee to receive continued funding? Should a non-profit be evaluated based on the programmatic effectiveness that the organization can demonstrate? To all of these questions, the answer is “yes.” But a high level of outcomes-driven thinking is possible or practical only if the non-profit can actually evaluate programs in a meaningful way and use that information to shape the programs. Results measurement must be tailored to the specific organization, and the staff needs to develop a conceptual framework, methodologies, tools and the skills to interpret and analyze results.

Donors can invest in evaluation and outcomes systems to help guide a non-profit to make adjustments to their program and also direct limited resources to achieve better outcomes. The better a non-profit can be at articulating and measuring effectiveness, the more likely the non-profit is to garner support from other funding sources. By investing in program evaluation capacity, donors are investing in the very livelihood of the non-profit and its core mission.

4. Some Other Considerations

General Operations and Unrestricted Support

Many grants explicitly bar non-profits from applying funds to support general operations or place restrictions on how the funds can be used. These restrictions hamper the flexibility of the organization to use its resources wisely. As an analogy, think of building a strong non-profit like putting together a 100-piece puzzle. When too many grants are restricted or designated for the same purpose—say, for the “program” but not the other needs of the organization— the non-profit has essentially been given 5 of one piece and 6 of another piece but not the whole set required to complete the puzzle. How can the non-profit succeed in completing the whole puzzle? How can it build a strong and complete organization to fulfill its mission?

By shifting grants to general operating and unrestricted support, donors achieve several things. First, they allow non-profits the financial flexibility to direct dollars where they are most needed. Second, they simplify financial reporting requirements. Third, they give non-profits room to make organization-building and infrastructure investments. Unrestricted grants are also more helpful to managing cash flow than program-specific grants.

It is natural for a donor to want to know exactly what they are funding and what results will be achieved with their grant. This goal can still be met with a general operating grant. Donors can set expectations about what the organization will accomplish and then assess performance (see Program Outcomes and Evaluation section) to determine if additional funding is merited. An unrestricted grant does not mean that the organization will not be accountable for its activities.

Patience

Meaningful organization-building does not happen overnight. While some needs may be tackled quickly, the majority take months and sometimes years. Organization-building is often iterative and may need to be revisited due to changes in resources, leadership and more. It is also common for non-profits to identify challenges or problems and then find that the “presenting problem is not the real problem.” Sometimes organization-building requires digging

deeper than the obvious challenges to get to underlying issues. Organizations are complicated, and accomplishing large, positive change is rarely accomplished with a quick fix.

There are also periods of time in an organization’s development when it just makes sense to pause. During a leadership transition, for example, it is hard to keep moving full-steam-ahead on a variety of other organizational projects. Projects may be put on hold until the new leader is in place and can assume the appropriate level of direction in setting strategy and priorities. In these cases, progress is not stalled but simply slowed down to the right pace.

Organizational Self-Assessment

Organizations need to examine themselves systematically, set priorities, and develop an action plan. While creating an organizational road map seems like an obvious first step, it is rarer for non-profits to do organization-focused planning than program-focused planning. Paying for time for a nonprofit to conduct a self-assessment can be an innovative way to invest in the organization’s effectiveness. It can also yield residual benefits that last long after an initial analysis.

Several self-assessment tools for nonprofits are available at no charge or with the help of a consultant. The Organizational Capacity Assessment Tool, created by McKinsey & Co. for Venture Philanthropy Partners and TCC Group’s Adaptive Capacity framework, are frequently used in these exercises.

The McKinsey tool, as an example, allows key staff and the Board to evaluate how their non-profit is faring in the following areas:

- Mission, vision, strategy and planning
- Program design and evaluation
- Human resources
- Senior management leadership
- Information technology
- Financial management
- Fund development
- Board leadership
- Marketing, communications and external relations

Key staff and Board members can complete assessments independently with these tools, then convene as a group to compare results and develop a set of “scores” that best represents consensus of the group. By discussing the results and working methodically through their findings, the group can gain insight about their strengths and weaknesses. They can use their findings to guide the development of their annual work plan and organization-building goals.

Using these tools also encourages organizations to rate themselves on a scale. The nonprofit then gets a picture of where it sits on a continuum of organizational capacity. It can also learn “what good looks like.” An assessment tool also opens up new opportunities for dialogue, engages multiple staff in conversation about capacity building and helps establish a new vocabulary for discussing organizational effectiveness and change.

According to Paul Shoemaker at Social Venture Partners, management- and organization-strengthening tools from the private sector are increasingly being applied to the non-profit sector. They need to be adapted and translated to a different context (just as a management consultant would translate concepts when working in different industries), but the results can help non-profits build a stronger organization.

Conclusion

Philanthropic investors ultimately want their dollars to deliver the greatest possible social impact. It is valuable to recognize that the social impact is delivered by an organization and its people, not just individual programs. Funding initiatives that build capacity and organization infrastructure foster non-profit sustainability and ultimately produce greater social impact over the long term.

For more information on this topic or additional assistance with philanthropic topics, contact your Goldman Sachs Private Wealth Manager.

Recommended Resources

General Resources across Multiple Areas

- Grantmakers for Effective Organizations – www.geofunders.org
- Center for Effective Philanthropy – www.effectivephilanthropy.org
- Bridgespan Group – www.bridgespan.org
- Foundation Strategy Group – www.fsg-impact.org
- Lapiana & Associates – www.lapiana.org
- Stanford Social Innovation Review – www.ssireview.org
- NPower National – www.npower.org
- Social Venture Partners – www.svpseattle.org and www.svpi.org – SVP will gladly provide a broad array of resources, documents, guides and best practices across all of these areas, upon request. Email info@svpseattle.org
- Other Funders that practice a “capacity building” approach
 - Robin Hood (www.robinhood.org),
 - New Profit, Inc. (www.newprofit.com),
 - REDF (www.redf.org),
 - Venture Philanthropy Partners (www.vppartners.org)

Board Governance and Leadership

- Board Source – www.boardsource.org
- Independent Sector – www.independentsector.org

Staff Leadership and Capacities

- Bridgestar – www.bridgestar.org

Financial Strength and Sustainability

- Non-profit Finance Fund – www.nonprofitfinancefund.org

Program Outcomes and Evaluation

- TCC Group – www.tccgrp.com
- Organizational Research & Evaluation Services – www.organizationalresearch.com
- The Aspen Institute – www.theoryofchange.org