



Executive Summary

We Can't Afford to Do Business This Way:

**A Study of the Administrative Burden Resulting From
Funder Accountability and Compliance Practices**

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**For
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I. Executive Summary

An organization runs a very successful and well-attended after-school program, but it is run on soft money (i.e., funding that cannot be relied on to continue). One year, the organization writes a proposal for increasing the physical fitness of the children, describing the active games in the schoolyard after school. The next year, it writes a proposal for a creative drama program, describing the play the kids put on every spring for their parents and the community and that is a huge success. It writes a proposal for an anti-bullying program, describing how the program has turned school “bullies” into schoolyard leaders by harnessing their leadership skills in a positive way. It writes a proposal for a school suspension program to allow the organization to support young people suspended from school; this program’s positive process allows these young people to return to school having learned some new skills and gained some insight into how they could do things differently. The organization also writes a proposal for a homework program, describing how the program provides support for children to complete their homework.

All of these proposals are, in fact, for the same after-school program that does “all of the above” every year, year in and year out, regardless of the “flavour of the month,” because the children need a well-balanced program that meets their needs.

Community nonprofit organizations had been raising concerns for quite some time about the growing administrative burden and point to such things as more numerous and complex grant application and reporting processes, and additional compliance requirements. We did not, however, have detailed data about the demands funders are placing on the organizations they fund or information on how organizations are managing. Without this information, we could not understand the nature and dimension of the administrative burden on community nonprofit organizations and how this burden affects their ability to deliver services in their communities that are collaborative, innovative, and responsive. The focus of this study was to address this gap in knowledge. We sought to understand how the grant-making process¹ operates in agencies with multiple funders and multiple programs.

We already know from recent research that the changes that funders made to grant making in the early 1990s, (moving from funding organizations to deliver services to contracting for specific programs) has resulted in a complex web of unpredictable, short-term targeted funding that threatens the sustainability of nonprofit organizations.² Moreover, research has found that most grants are funded at rates below cost recovery. Nonprofit organizations in Ontario, in 2004, delivered on average \$1.14 of service for

¹ In this study, the term “grants” is used generically to refer to the transfer of funds from funder to recipient. Such transactions are variously called service contracts, grants, or contribution agreements.

² Scott, K., & Pike, D. (2005). *Funding matters ... for our communities: Challenges and opportunities for funding innovation in Canada’s non-profit and voluntary sector*. Ottawa: Canadian Council on Social Development.

every \$1.00 of government grant funding. Administrative and management costs were frequently not included in government service contracts.³

Overlaid on the new funding regime was an additional challenge for nonprofit organizations. A series of “funding scandals” and Auditor General Reports has resulted in greatly increased financial controls for monies flowing from government. The nonprofit sector, while not implicated in the scandals, has found itself swept up in complex, time-consuming, and very detailed accountability reporting systems and controls. It is in this environment that this study was undertaken.

We set out to explore the dimensions of the administrative burden, which we define as the work undertaken by recipient organizations to comply with funder grant management practices, accountability, and compliance demands.

Research into the impact of grant-making processes is just beginning. A Rand Corporation case study⁴ focused on one organization’s capacity to meet funder demands and calculated the cost of compliance at 11% of budget and 44% of organizational time. In another study, the William and Flora Hewlett Foundation and a number of other foundations sought feedback from their grantees on their granting processes and relationships.⁵ And Jon Pratt has undertaken some work on understanding key characteristics of grants, measuring degrees of reliability and autonomy the grants provide to nonprofit providers.

In our study, we examined 66 grants in three community service organizations with different funder profiles. All three agencies were mid-sized, with annual revenues of \$3.8 million, \$2.3 million, and \$2 million, respectively. Since agencies volunteered for this study and needed a certain level of capacity to participate in such detailed research, the resulting sample of organizations consists of agencies that have membership funding from a United Way/United Appeal source.⁶ This funding provides agencies with more flexibility and greater capacity than many other nonprofit organizations. The sample of agencies included in this research, as the participants themselves point out, is therefore not representative and presents a *best-case scenario* with regard to the realities facing multi-funded agencies in the sector.

Findings

Only the key findings of this study are highlighted in this executive summary. Funders and the organizations they fund will find the detailed methodology, data, and

3 Eakin, L. (2004). *Community capacity draining: The impact of funding practices on community organizations*. Toronto: Community Social Planning Council of Toronto.

4 Lara-Cinisomo S., & Steinberg, P. (2006). *The cost of meeting funder compliance: A case study of challenges, time spent and dollars invested*. Santa Monica, CA: The Rand Corporation.

5 Buchanan, P., Bolduc, K., & Huang, J. (2005). *Turning the table on assessment: The grantee perception report*. Cambridge, MA: The Center for Effective Philanthropy.

6 Three different United Appeal organizations funded the organizations in this study. Even a relatively small, flexible grant seems to make the difference between organizations that can contribute to sector innovation and knowledge building and those that cannot.

interpretation necessary to begin work on short- and long-term initiatives to improve grant-making effectiveness in the full study report.

The findings are sobering. The administrative burden placed by funders on community nonprofit organizations is so heavy and so unrelenting, and places so many constraints on their ability to operate that it is a wonder they can deliver any services effectively. This is what we found:

The actual impact of the funding process is directly at odds with the very reasons governments and other funders engage nonprofit organizations to deliver community services. Community-based nonprofit organizations are believed by both funders and the Canadian public to be in closer touch and have better reach into their communities.⁷ They are seen as having less bureaucracy and are therefore more flexible and responsive than government or larger organizations could ever be. They are widely viewed as cost effective. The current grant process, however, works against these agency strengths and actively prevents agencies from effectively serving their communities and delivering effective, responsive services.

Funders, large and small, rarely give community organizations any latitude to adapt or adjust programs and finances to meet local conditions and changing circumstances. Organizations and communities are constantly shifting and changing. They do not remain static. Grant flexibility is essential if an organization is to actually function in a way that maximizes its capacity. The more strings tied to funding, the less ability the agency has to respond to changing agency and community circumstances (e.g., staff turnover, equipment failure, pregnancy leaves, service emergency, partnership opportunity, emerging community issues, etc.). Some 55% of grants provided agencies with little or no flexibility to adjust programs or expenditures. Another 42% of grants allowed changes that were pre-approved by the funder (this approval is often difficult and slow to obtain). Only 3% of grants allowed the agency to adjust programs and expenditures to meet local circumstances and most effectively achieve the program objectives specified by the funder in the grant.

Grant applications tend to be overly long, complicated, and difficult to complete. Some 55% of grant applications were rated difficult or extreme, i.e., they asked for information the organizations could not reliably know and a level of detail that was not even required for internal management. One extreme-rated report took seasoned staff 15 days to complete.

The reliability of funding sources for agencies remains tenuous. Some 42% of grants were seen to have little to no reliability, while only 13% were rated as reliable year on year, and 45% were rated as somewhat reliable.⁸

⁷ Muttart Foundation, The. (2006). *Talking about charities 2006: Canadians' opinions on charities and issues affecting charities*. Edmonton: The Muttart Foundation.

⁸ Reliability is the measure of certainty that program funding will continue year to year.

The cumulative administrative burden on agencies is all consuming. The agencies respectively completed 182, 48, and 94 major funder reports a year. Each funder and/or program had its own report requirements and formats. Securing and reporting on grants is the priority activity for the survival of organizations and their programs, pushing aside other organizational priorities such as overall agency budgeting and strategic planning, community relations, staff development, and program management.

Multi-year grants, as currently designed, do not solve the administrative burden. First, multi-year grants are uncommon – only one in five of the 66 grants in our study were multi-year. Second, of these multi-year grants, 40% could not be renewed and 60% required the same level of reporting each year and so did not reduce administrative demands. The lack of renewal options for many multi-year grants poses serious administrative challenges for agencies operating ongoing programs.

Funders are slow to approve/reject grants, and the slow response time causes “gap” problems for service delivery. Agencies often found themselves with “nine months” to deliver “12 months” of service. If an agency guesses wrong and retains staff during the “gap” and then does not receive the grant, it incurs significant debt. If it lets staff go, program delivery and continuity suffer. Response time for 73% of grants was four to five months or longer from the time the proposal was submitted to the time the funder made a decision.

Agencies reported that the political vulnerability of grants and programs is increasing. There are two parts to this, which agencies see as interconnected and reinforcing. First is the uncertainty resulting from rapid and unpredictable funding and program shifts. Second is that when programs are seen by funders or politicians to be more high profile, contentious, or risky, the agency can be subjected to more onerous compliance and other demands or to explicit political interference.

Both large and small grants impose heavy administrative burdens.⁹ Most grants, whether large or small, were equally restrictive and gave agencies little ability to adapt programs or shift finances. Moreover, a significant number of small grants placed a heavy application burden on agencies. There appears to be little differentiation in processes to reflect the size of the grant or the ongoing nature of the relationship between funders and agencies.

All three organizations described themselves as “operating on the edge,” with staff more than fully engaged and extremely vulnerable should a senior manager leave. The organizations had no capacity for cross-training, and all three were operating without key staff in management or administration positions (these positions were unfunded as opposed to vacant). Grant applications and reporting, and addressing the challenges posed by funder practices and restrictions, dominated the attention of senior management in all three organizations.

⁹ Small grants were defined as those of \$50,000 or less, and large grants were defined as being greater than \$50,000. Our sampled consisted of 34 small grants totalling \$566,000 and 30 large grants totalling \$8.8 million.

Senior managers are very aware and worried that they cannot replace themselves. Senior managers reported that frontline staff are reluctant to take on management jobs. Moreover, the agencies do not have the administrative capacity to train the next generation of senior managers. The reluctance of funders to compensate senior managers adequately is compounding succession-planning.

Grant management, of necessity, takes priority over other management responsibilities. In all three organizations, tremendous organizational energy is directed at meeting funder requirements. Indeed, the executive directors of these agencies describe an environment in which their key responsibility is to manage the demands of funders and the many constraints and problems funders impose on the organization so that the staff can actually get some work done and meet community needs.

Funders need to do things differently. United Ways provide the best reliability and program and financial flexibility to the organizations they fund. The federal government was significantly more restrictive on grant terms and conditions and imposed a higher reporting burden than other funders. The provincial government, municipalities, and foundations had similar profiles; they provided little flexibility to agencies to manage their programs and finances, and 40-50% had very complex application processes.

In sum, the overload of information requests and filings, the lack of delegation of decision-making to the agencies, the problems caused by the granting processes, and the failure of funders to consult with grantees were all identified by participating organizations as contributing to the difficult administrative burden.

None of the agencies we studied had a portfolio of funders that supported them to get on with the task of delivering effective services and building communities. There were a few funders and programs in the sample whose funding practices included exemplary components that agencies perceived as helpful. However, even the best of these practices were not sufficient to appreciably moderate the overall administrative burden experienced by multi-funded organizations. Nonetheless, the better funding practices do demonstrate that it is possible to design effective and accountable funding processes that support nonprofit organizational capacity and encourage innovative and responsive local service delivery.

In Conclusion

The findings of this research give credence to the concerns raised in the study *Pan-Canadian Funding Practices in Communities* about the current effectiveness of community investments, the sustainability of the nonprofit sector, and its capacity to address the complex problems facing Canadians. Significant funding reform is required if we are to re-energize the nonprofit sector and free up organizations to work with their communities to develop innovative solutions to the challenges facing society.

As Eric Young¹⁰ described, we live in a changing world that even ten years from now will look very different. Young warns that the decisions we take today will significantly shape our emergent future. He goes on to describe the scale of the changes required as he notes that the public and governments are currently locked in a relationship that is inauthentic and ill suited to the modern condition: “Current cultures of accountability are different from cultures of adaptability” (Young, pg 12) Today the world needs adaptive systems, agencies need to be freed up to be learning organizations.

Our study provides further evidence that funders are not giving agencies the flexibility they need to innovate or adjust services, or to partner or develop new way of responding to the complex challenges facing communities. We have too much of the wrong kind of accountability – too many administrative demands that sap productivity. Agencies need to be able to respond to local situations and search for new ways of meeting community needs. Funders need to involve their service providers in designing effective services and give them the stability and flexibility to try new ways of doing things.

The data are clear: we can’t afford to do business this way. It is in everyone’s interest to reform the funding process by minimizing the administrative burden and maximizing the flexibility of agencies to adapt, respond, and innovate, with a focus on results, not controls. It is urgent that funders, nonprofit organizations, and local communities come together to create new administrative systems that can most effectively support the objectives of improving community well-being.

¹⁰ Young, E. (2003). *Remarks at Policy Learning and Distributed Governance: Lessons from Canada and the UK*. London, UK: Canada House.