

# Toward More Effective Use of Intermediaries

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## Editors' Note

Many foundations see intermediary organizations (IOs) as offering a quick way to solve problems, but the reality is that intermediaries can add layers of governance and complexity. Funders use IOs for a variety of reasons—to bring programs to scale, to increase efficiency, to control foundation administrative costs (by transferring responsibility to IOs), or to strengthen knowledge and capacity in a given field. Also, some funders use IOs to build credibility and a reputation in areas where they were untested.

In many cases, foundations have succeeded in creating and using IOs to further philanthropic goals, yet in others the IO structure has led to conflict, extra work, and extra costs for the foundations and grantees. This paper discusses the reasons funders use IOs, the inherent benefits and difficulties, and the circumstances in which foundations might make this choice. Based on interviews with 70 funders, intermediaries, and grantees, it is the first systematic look at IOs across multiple foundations and fields of endeavor. The paper lays the groundwork for future analysis of the specific structures, costs, and effects of IOs.

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# Preface

This is a paper about the use, misuse, and better use of intermediary organizations. It notes the range of tasks that intermediaries of varying kinds have been given, identifies the main benefits and difficulties generated by those uses, and describes a number of the lessons to be learned from that body of experience. Its purpose is to identify “best practices” of foundations—or, more properly, to distinguish more effective from less effective practices—in selecting, tasking, and relating to intermediaries. Its focus is therefore on foundations. But since the consequences of interposing an intermediary between funder and grantee fall also on intermediaries and on grantees, the paper considers a number of benefits, difficulties, and effective practices for those organizations as well.

“Considers” is the appropriate verb. Useful though we hope it is, this study, for two reasons, is far from definitive.

The first reason is the paucity of prior work. Starting with the creation of the Local Initiatives Support Corporation by the Ford Foundation in 1979, the use by foundations of intermediaries appears to have increased very greatly. Among the likely causes have been the rapid growth in foundation resources during the 1980s and 1990s, the increasing philanthropic concern with strengthening whole fields of interest (health care, the environment, minority rights, arts organizations, and the like) rather than only individual institutions, and the tendency of newer and especially the larger West Coast foundations to staff themselves thinly and to make only large grants directly, delegating to regranting institutions the selection and support of smaller nonprofits. Yet this evolution has been almost entirely unstudied. There is descriptive literature on the development of financial intermediaries serving community development organizations, but neither data nor analyses that we could find on any other uses of intermediaries by foundations. Indeed, although there exists at least one account of how intermediaries are employed by one program in a particular foundation, there appear to be no published studies of the use of intermediaries across the range of programs within even a single major foundation.<sup>1</sup>

The second reason is the magnitude of the subject. The number of significant foundations is huge;<sup>2</sup> there exists no listing of foundations that have utilized intermediaries; few persons in any foundation that has utilized them are able to generalize even about the experience of their own foundation; and intermediaries of many kinds have been used for an astonishing variety of purposes under a wide diversity of circumstances.

So, producing a comprehensive study of the lessons to be learned from that range of experience would require an effort of heroic scale.

Charged only with describing what seem to be the larger truths about when and how funders now use intermediaries, and what good practice seems to be, this study was produced in two stages. In the first, to generate some initial hypotheses and to identify a sample of foundations to contact, I consulted with a number of persons knowledgeable about foundations generally. In the second, colleague Julie Peterson and I began the sampling. We first sought interviews with persons in each of the sixteen foundations that, in 2000, made grants totaling more than \$100 million; these foundations make larger and more numerous grants and use intermediaries more frequently than smaller funders do. We then interviewed persons from an equal number of smaller and mid-size foundations, including several community foundations. Since operating foundations have little need for intermediaries and little experience with them, virtually all of the foundations we interviewed were grantmakers.

In each case, we sought to interview an officer who had done substantial work with intermediaries. Where feasible, the interviews were conducted in person; in other cases, telephone interviews were conducted. We asked respondents about their experience with intermediaries generally and sought to examine in detail the costs and benefits of their use of at least one intermediary they regarded as representative. With some we also tested our evolving hypotheses about the benefits and costs of using intermediaries, and about means for enlarging benefits and reducing costs. We then sought to interview the relevant person at whichever intermediary a funder had discussed, and we ended by seeking the perspectives of a number of the relevant grantees as well. We also had the benefit of an unpublished survey of the views of some 30 grantees that had previously dealt directly with a foundation but were now, for the first time, working with intermediaries. Appendix I lists all persons interviewed.

We are truly grateful to all who consented to talk to us. Almost uniformly, they were generous with their time, candid—often strikingly so—in describing their experiences, and thoughtful in reflecting on what had worked well, what had worked poorly, and why. I am particularly in debt to the officers of the Cleveland Foundation named in the Appendix; in addition to providing thoughtful accounts of what they had learned both as funders and as intermediaries, they served as critical reviewers of an early draft of this paper. I am similarly indebted to Patricia Patrizi, who commissioned this work, and to the knowledgeable and extremely helpful group she gathered together to comment on a later draft: Elizabeth Bremner, Martha Campbell, Rick Cohen, Stacy Daniels-Young, Mario Gutierrez, Barbara Kibbe, Julia Lopez, and Joan Wynn. My greatest debt is to Julie Peterson, who conducted many of the interviews and who performed throughout the study as the best informed, most persistent, and most helpful of critics.

Peter Szanton

# Executive Summary

Foundations use intermediary organizations (IOs) to pursue their objectives more effectively—often when the foundations do not have the internal expertise or capacity, or do not wish to develop expertise or capacity internally, to perform functions such as selecting grantees in a specialized field, providing grantees technical assistance, and evaluating grantee performance. In the world of philanthropy, IOs can be “regranters,” receiving foundation monies to identify, assess, and provide grants to organizations with similar purposes. IOs can be capacity-builders, dedicated to helping grantees that are selected by foundations achieve their organizational or grant-specific goals. IOs can be created collaboratively by two or more foundations to establish a project or program of common interest. IOs can be evaluators focused on advancing knowledge about what works in an area of program interventions. Or IOs can serve as intelligence gatherers and grantmaking advisors on a particular issue or field without having any operational responsibilities. Many IOs play more than one of these roles. Regrants, for example, are frequently capacity-builders as well.

Whatever their purposes in employing IOs, foundations have generally been learning from experience rather than from research about best practices in this area. Since the creation of the Local Initiatives Support Corporation (LISC) by the Ford Foundation in 1979, the use of intermediaries by foundations appears to have increased greatly; however, there is a paucity of data and analyses to suggest when and how foundations might best employ intermediaries. The study conducted to produce this paper, although limited compared to the magnitude of the subject, offers some good news about learning: While there is great variation in IOs—in their functions, sources of funding, autonomy, specialization, and organizational forms—the lessons drawn from foundations’ experiences of using them are quite similar.

## Potential Benefits and Potential Problems of Using IOs

Foundations have much to gain by using IOs, both in grantmaking convenience and impact on the fields they target. The potential tactical benefits of IOs (for grantmaking convenience) include speed, reduced staff costs, lowered visibility on potentially controversial issues, the judgment of

independent outsiders, access to experts who could not necessarily be employed directly, credibility, and eased program exit. Strategic benefits for foundations employing IOs include the ability to strengthen grantees, learn more about grantee organizations and their fields, leave a field-building resource in place after grantmaking programs end, and encourage local investment in grantee organizations. Collaborative IOs—those created by foundations with mutual interests—offer the additional benefits of pooled funding, coordinated approaches to a problem or field, simplified administration for grantees, and greater flexibility.

Offsetting these potential benefits to funders are significant potential problems. First, funders—especially funders new to the use of IOs—tend to underestimate the complexity and the risks involved in placing an IO between themselves and their grantees and thus, they tend to under-manage the IO relationship. IOs inevitably bring to their roles their own histories, values and purposes. It is essential that funders, at the outset, make clear to IOs what they want to achieve, what they want to avoid, and what the relative responsibilities of IOs and funders are to be.

Second, when funders place IOs between themselves and grantees that they previously dealt with directly, complicated issues of trust often develop. IOs hired to help build the capacity of grantees, for example, require an understanding of grantees' deficiencies, but grantees will not readily identify their weaknesses to entities they do not know or trust and they are likely to be particularly protective if their weaknesses are greater or more numerous than their funders know.

Third, because IOs put some distance between funders and their grantees, the result can be funder inattention, followed by a loss of interest. “Outsourcing” all the difficult and hard work to an IO can result in little foundation engagement with the overall effort.

Fourth, IOs can develop an interest in the success of grantees that leads them to exaggerate grantee accomplishments. This places a premium on independent assessment of IOs and independent evaluation of grantee accomplishments.

Finally, the use of IOs can change funders' needs for staff. Because foundations often use IOs to change the nature of their relationships with long-term grantees from retailers to wholesalers, their own staffing needs can shift. Typically, with the use of IOs, foundations' “transactional” burdens diminish, but their priority-setting, managerial and oversight responsibilities expand.

## Issues for IOs and Grantees

Most of the problems IOs themselves encounter in their relationships with foundations stem from a failure to anticipate the risks involved. In addition to the trust problem, the main danger to IOs is insufficient or uncertain support. This could result from an IO underestimating costs—

e.g., because a capacity-building IO is faced with grantee needs deeper or more numerous than it expected or the funder allowed for. It could result from an IO's initially sufficient funding dropping because the value of the funder's assets slip, or from a key program officer being replaced by someone who regards the IO as an excessively expensive middleman, or from donor fatigue that begins to afflict the funder's board. Insufficient support is particularly dangerous for nonprofit IOs because, like many nonprofit grantees, their capitalization may be thin and their reserve capacity small. Also, IOs and grantees may pay a price for candor. If a funder's staff (and board) would like to believe that their prior grantmaking was wise, they may not welcome an IO's finding that the deficiencies of traditional grantees are deep or their effectiveness is questionable.

Grantees often have their own difficulties with IOs. They may be troubled by an IO simply because it severs what previously had been a direct relationship with a funder, thereby removing the "seal of approval" that direct support from a prestigious foundation implies. IOs are very likely to impose tougher requirements on grantees—for more frequent or detailed reporting, or for evidence of results achieved, rather than accounts of hours worked or clients "served." Such requests may be seen as "disrespectful" or evidence that the IO is more like an overseer or agent of the funder than a helper. More threatening are IOs that push for substantive and perhaps radical change. Viewing the grantee's field strategically, IOs may conclude, for example, that additional funding is not the most urgent requirement, and that service priorities should change, or that competing grantees must specialize and then coordinate.

Grantees may also see IOs as competitors. They may believe that an IO absorbs funds that might otherwise have gone to themselves. Grantees may worry that an IO will claim credit for their own future successes. Or, because IOs are generally better funded and more diverse in their work than grantees, and because their staffs tend to be better paid, a grantee may fear that an IO may recruit some of its most valuable staff members. Probably the most threatening situation is that in which the IO provides—or is feared by the grantee as likely to offer—some or all of the same services as the grantee itself provides. Whatever the source of concern, grantees may be wary of IOs. Funders need to take that possibility into account and seek ways of reducing grantee concerns. They might require, for example, that as a condition of employment, an IO explicitly agree not to compete for the clients, staff, or funding of the funder's current grantees.

Grantees may have some special concerns about IOs created by collaboratives. One is the pooling of information among many funders. This makes it more difficult for grantees to tell different stories to different funders. One funder in a collaborative may be aware of grantee weaknesses unknown to other funders and, since members of collaboratives tend to pool what they know about grantees, the grantees' deficiencies become more widely known. Another grantee concern about collaborative IOs is that they may become "all-or-nothing bets." If a collaborative decides

against funding, grantees' income may dry up entirely. While some collaboratives encourage grantees to deal with funders directly as well as through the collaborative, nonetheless, if a majority of collaborative funders decide that a prospective grantee is unworthy of support, even members that disagree may be discouraged from providing further funding.

## Implications for Foundations

When a foundation decides to interpose an IO between itself and grantees, or between itself and a field that was previously supported directly, questions arise about communication with grantees, management of IOs, foundation staffing needs, relations with other funders, and foundation program planning (including exit strategies). Although the body of research to inform foundations about these questions is slim, their collective experience is substantial enough that potential problems can be anticipated and often avoided. Foundations *can* use IOs more effectively when their goals for IOs are clear and when they know what to expect from IOs and grantees in this relationship.

# The Nature of Intermediaries

Broadly speaking, an intermediary is any person or organization whose function places it between two other persons or organizations. Obviously, then, foundations themselves are intermediaries; they stand between individual donors and ultimate grantees. John D. Rockefeller's philanthropy illustrates the transition. His early gifts, small and large—dimes to poor children, personal checks to the University of Chicago—were made quite directly. Later, he created a foundation and it then made grants. Most grantees are intermediaries as well. The homeless, not the homeless shelter; the patients, not the hospital; the local residents, not the Community Development Corporation, are the ultimate beneficiaries that most foundations seek to serve. But, no one consulted in the course of this study suggested that, as the term was understood in philanthropy, "intermediary" normally referred either to a foundation or to a grantee. Then what did it refer to?

There was no agreement. It turns out that, in the world of philanthropy, "intermediary" has no accepted definition. For some, the term applied only to organizations that regranted funds received from a foundation. "Unless you fund, you're not an intermediary," a senior foundation officer announced. Offered that definition an hour later, another officer of the same foundation responded, "Oh, no; that's just a financial view. An intermediary is anyone that a grantee thinks it has to be responsive to. And they are not all regranters." But many respondents preferred a functional definition: "An intermediary is any organization that performs a program function that the foundation would otherwise have to perform itself," as one person put it.

But what is a program function? Is technical assistance (TA) a program function, for example, and are TA providers therefore intermediaries? Some respondents thought clearly not: TA providers were simply grantees; they stood to the side, not between grantor and grantee. Suppose a funder intended to strengthen a grantee or group of grantees quite fundamentally and thereby put an end to "annual rescue operations," as one funder put it. Would a TA provider with that mission be an intermediary? A few respondents thought not; it would just be a consultant. But most concluded that such TA providers were indeed intermediaries, on either of two theories. One was that if the foundation wanted to raise a grantee to a substantially higher level of capability, and the job of the TA provider was to achieve that, then it was clearly performing a program function and was

therefore an intermediary. The second theory was broader: Any foundation giving a TA provider such an assignment would sooner or later expect advice from it as to whether the grantee was worth continued support. Even if the TA provider were not a regranter, therefore, it could strongly influence grantmaking. That would make it an intermediary and, as one respondent remarked, “any savvy grantee would see it that way.”

## A Definition

Clearly, there is a continuum of relationships that funders may form with other entities to more effectively pursue their objectives. Imagine the use of regranters as anchoring the left end of that continuum. A regranter is clearly an agent of the funder and, within whatever boundaries the funder has set for it, its authority over grantees is essentially complete. It stands between funder and grantee, it performs the archetypal program function—grantmaking—and so not merely influences but decides who shall be funded. Under any definition offered us, a regranter is clearly an intermediary.

At the opposite end of the continuum stand informal relationships among two or more foundations. Two foundations with programs in the performing arts, for example, decide to jointly support several conservatories. Their staffs jointly develop criteria for selecting particular conservatories, make joint site visits, and informally agree on how the grants of each might supplement those of the other. Each staff then presents a proposal to its own board, and each board independently decides whether and to what extent to fund it. Here two organizations are also working together, but no entity stands between either funder and any grantee; only the funders themselves perform program functions and, although each funder may somewhat influence decisions of the other, that effect is minimal because each was independently interested in supporting conservatories in the first place. Here, clearly, there is no intermediary under any definition.

For purposes of this study, the question “What is an intermediary?” is essentially a question of how far to the right along that continuum to draw the line. Since the study’s purpose is to examine the use by foundations of entities that any substantial group of funders think of as intermediaries, it seemed most useful to draw that line somewhat to the right of center. We therefore treat as an intermediary any organization that is employed by one or more foundations and that meets any of three tests. It:

- funds a grantee or grantees directly; or
- performs a function so important to the funder that, absent an intermediary, the funder would have had to perform it itself; or

- relates to a grantee, grantees, or a field of interest in any other way that makes it a potentially significant adviser as to further grantmaking.

Many intermediaries, of course, qualify on more than one ground. Regrants, for example, are frequently capacity-builders as well, performing an important program function. But we include all that meet any one of the conditions.<sup>3</sup>

## Great Variation

So defined, the variety of intermediaries (abbreviated throughout the remainder of this paper as “IOs”) is extraordinary.

They vary broadly *in function*. Some provide funding. Regrants do so with foundation funds (as the Hawaii Community Foundation does with environmental funding from both the Packard and Hewlett foundations); national community development intermediaries do so with syndicated tax credits. Many provide some form of TA: training, coaching, or advice. A few, like the Tides Center, might be regarded as “administrative enablers”—fiscal agents and back-office service providers. Some do community organizing. Some advocate for changes in policy or fund research, such as the International AIDS Vaccine Initiative, which does both. Some, like many of the Robert Wood Johnson Foundation’s National Program Offices, are mainly off-site managers of a foundation program. Some serve principally as advisers to a funder and have little direct connection to grantees; the relation of the Vera Institute of Justice to the Ford Foundation’s international policing program is an example. Others have little relation to their funder, but like most of the Charles Stewart Mott Foundation’s Intermediary Support Organizations, have close relationships with grantees. Some form one link in a chain of IOs. Thus, a national Community Development Financial Institution (CDFI) may make a grant to a local CDFI, which lends or grants to a Community Development Corporation (CDC), which lends to a grocer in an under-served neighborhood. Many perform some combination of these functions.

IOs vary in *sources of funding*. An IO may be created and supported, at least initially, by a single foundation, as the International AIDS Vaccine Initiative (IAVI) was by the Rockefeller Foundation, or it may have support from several foundations, as The Energy Foundation had from its inception from Rockefeller, MacArthur, and Pew, and as IAVI has now. It may also have funding from public agencies and corporations as well as foundations, as Cleveland’s Neighborhood Progress, Inc. does. Or, as many CDFIs do, it may have sources of earned income as well as grant funding.

IOs vary also in *degree of autonomy*. Some regranters are seen by funders as institutions of such excellence that they should be left free to use grants entirely as they see fit. Others are tightly constrained. One set of regranters, for example, was required by its funder to be transparent in its procedures, to perform analyses of need, to convene potentially complementary groups, and to support potential lead organizations through training and funding for strategic planning. In this case, moreover, in addition to monitoring the regranters, the foundation monitored their impact by maintaining direct contact with many of the organizations they funded.

IOs vary by *degree of specialization*. Some exist only to serve as IOs; others are IOs only on the side. Philadelphia's OMG Center for Collaborative Learning, for example, a consulting organization whose principal products are analyses and evaluations, also serves as a capacity-building IO for a program of the Pew Charitable Trusts.

Finally, IOs vary in *organizational form*. Most are nonprofit organizations of diverse kinds—foundations (especially community foundations), public charities (United Ways, for example), departments of universities, research organizations, or trade associations supporting the social goals of their members. But some (Brody and Weiser, for example) are for-profit firms, and some, relying on established organizations for administrative and financial services, are not formal legal entities at all.

Although relatively rare, a particularly significant variation in form—significant in that several of its benefits to funders and of its costs to IOs are distinctive—is between what might be called unitary and collaborative IOs. Most IOs are unitary. Whether for-profit or not-for-profit institutions, they are permanently established legal entities not governed by any funder or combination of funders. The Corporation for Supportive Housing, for example, is an independent 501(c)(3) organization governed by its own board of directors and supported by various funders to work with local communities interested in enlarging the stock of permanent housing for persons who are homeless or at risk of homelessness.

Collaborative IOs are different beasts. They are made up of funders—often a large number of funders—that have agreed for some period of time to pool resources and let the pool be allocated by decisions of collaborative members operating as a group. Chicago's Fund for Immigrants and Refugees is such a collaborative IO. (See box on page 14.)

There are less pure cases—Cleveland's Neighborhood Progress, Incorporated, for example, where the collaborative is governed by a combination of funders, local government officials, and representatives of affected communities. But in all collaboratives, the defining characteristics of an IO are present. The collaborative stands between individual funders and grantees. It regrants, and in many cases seeks to build organizational strength in its grantees. It typically becomes a significant source of advice on grantmaking to individual funders as well. Commonly, it performs all three roles.

IOs can extend a funder's reach and amplify its power. They may also distort a funder's intentions.

### A Collaborative IO

In 1996, concerned mainly about the effect of welfare reform on immigrants, and stimulated by the offer of a challenge grant from the Open Society Institute, 18 mostly small Illinois grantmakers formed the Fund for Immigrants and Refugees (FIR). They made grants to it, with the Chicago Donors Forum acting as fiscal agent, jointly hired an executive director, and reviewed grant applications together. In determining which applicants to support, each funder—some represented by board members, some by executive directors, some by junior staff—had the right to cast one vote regardless of the scale of its contributions. In a pattern designed to supplement the work of the Illinois Department of Human Services (IDHS), a shifting mix of advocacy, legal services, and community organizing was funded. IDHS later became a direct funder of FIR. Participants report high satisfaction with the Fund's processes and its results, the smaller funders especially being pleased with how much participation has taught them about community needs and alternative ways of meeting them. Created as a two-year experiment, the Fund was still in operation six years later.

### Similar Lessons

Because IOs differ in so many respects, the lessons to be drawn from the experience of foundations in using them might be expected to differ greatly as well. Strikingly, though, the major lessons appear to be quite similar. As the discussion that follows demonstrates, most of the costs and benefits of using IOs apply regardless of their various types and uses. A main reason why the costs and benefits of differing forms of IOs are similar is that IOs share two fundamental characteristics. By virtue of a relevant capacity—knowledge, experience, willingness to work the details, capacity to make connections—they can extend a funder's reach and amplify its power. And by virtue of their own histories, values, incentives, and needs, they may distort a funder's intentions. From the first come the potential benefits of using IOs and from the second the potential problems to be solved in their use.

# Potential Benefits to Funders of Using Intermediary Organizations

## Benefits of Grantmaking Convenience

The most important benefits of using IOs flow from their strategic value, their capacity to assist the development of a field or to alleviate a social problem. But funders also use IOs tactically, as instruments of convenience. Before considering more substantive reasons, we briefly note some such tactical uses.

One is *speed*. For a funder interested in beginning a program rapidly, finding an existing IO to run it is likely to be faster than identifying and recruiting qualified new staff. Similarly, a foundation whose endowment has suddenly expanded and which therefore needs to increase pay-out quickly will generally find disbursing funds to a regranteeing IO easier and faster than requiring a perhaps already overburdened staff to identify and fund additional worthy grantees. (Where such a foundation is new and its staff is small, it may have little choice but to employ IOs in this way.)

*Reducing overhead* is a possible second reason. IOs off-load staffing costs; they thereby offer funders at least the appearance of leanness. And some uses—employing regranteeing IOs in geographically remote locations, for example, rather than establishing regional or international offices—may, in fact, keep overhead down.

A third tactical use of IOs is to provide *political protection*. For a funder interested in supporting a risky or controversial program, the use of a regranteeing IO may provide insulation from public notice or outside pressure. A funder wishing to support organizations some of which may be vulnerable to fraud or self-dealing may want a particularly well-informed regrantee to select grantees.

An IO's *independence of judgment* may offer a fourth advantage. A foundation wanting a fresh perspective or more objective assessment of a grantee might seek them from a respected IO rather than relying on the views of its own staff.

A fifth tactical consideration involves *staff recruiting*. IOs may be a solution when the capacity needed is so specialized, or technically advanced, or geographically remote from the foundation, or needed on such a small

Funders may use IOs to achieve speed, reduce overhead, provide political protection, acquire independent judgment, gain credibility, and ease program exit.

scale, that its practitioners are unwilling to leave their more natural environments to join the foundation's staff.

A sixth reason, as a program director at a new foundation acknowledged, is that using institutions with established reputations as IOs can give the funder a *credibility* that its own performance has not yet earned.

Finally, IOs may *ease program exit* for funders. The problem to be addressed may be only temporary, or it may not fit the funder's long-term interests and hence its long-term staffing needs. A funder's newness, or an expected transition in its leadership, may make its own long-term direction uncertain. Under any of these conditions, engaging an IO for a limited period can simplify the exit problem. (As noted below, though, the reverse may also be true: A foundation may wish to create an IO in order to attract other funders and serve a need or field of interest semi-permanently—longer, in any event, than the foundation itself may wish to be bound to that field.)

For any of these reasons, or for any combination of them, funders may reasonably conclude that using an IO will be faster, more convenient, safer, or more efficient than hiring staff. But these are benefits primarily to the funder. What are the larger and more substantive potential benefits of using an IO?

## Benefits to the Field

**Strengthened grantees.** A principal benefit of employing an IO is the strengthening of a grantee or set of grantees. By virtue of some combination of training, experience of staff, and perhaps geographic location, IOs have capacity that a funder doesn't. They know more about a substantive field, about the relative value of service providers in a particular area, or about the characteristic weaknesses of nonprofit organizations. They know how to strengthen nonprofit management, or to establish a secondary financial market, or to induce a staff that had been counting inputs to focus on outcomes. They are likely to be able to spend more time assessing and assisting grantees than funders can. And most IOs approach grantees with attitudes that differ from those of funders. As an IO director put it, "We balance accountability for performance with joint problem-solving. We get in there and try to work it out. Yes, we're in their face, but its not 'perform or die.'"

A particularly powerful form of help involves networking. IOs that are tasked, as most are, to strengthen a group of grantees or a field generally become convenors and connectors. One result is that grantees become, often for the first time, part of a network of peers. "For many of the organizations we deal with," said the president of a regional IO, "the opportunity to network is more important than the grant money they get." The network may be not only a means for sharing useful information but a motivator for stronger performance—either because a group of grantees

IOs that are tasked to strengthen a group of grantees or a field generally become convenors and connectors.

Relationships between grantees and IOs tend to be freer, more open, more collegial, and more candid than those between grantees and funders.

newly aware of each other become competitive, or because they all feel some responsibility to the group or to a helpful IO. As one grantee commented, with the IO “you’ve got competition kicking tail.” And she added, “[the IO] sees the grantees as part of a family or team. If we fail, the IO looks bad. What we do reflects on the family.”

Beyond connecting grantees with each other, IOs connect needs with capacities. The capacities may be their own; many provide practical and welcome training, for example. (Describing the effect of a training conference organized by IO, one grantee executive said that when her staff returned, “it took a month before their feet touched the ground.”) But IOs also connect grantees to outside sources of training, advice, and technical assistance, and some broaden grantees’ reach to prospective board members and to new sources of funding. Some go farther still and represent the needs of a field to policymakers.

Regranting IOs somewhat resemble funders, but their central purpose is almost always to grow or strengthen the grantee’s field. They themselves are part of that field, and they seem generally more understanding of grantees’ problems than foundations typically are. Thus, relationships between grantees and IOs of virtually all types tend to be freer, more open, more collegial, and more candid than those between grantees and funders—and therefore more helpful.

The help may produce any of a number of results for an individual grantee. The grantee may adopt a new strategy, or better align its priorities with needs, or learn to track outcomes rather than inputs, or coordinate its work with that of sister organizations, or enlarge its funding base. In any such case, a further result is likely to be better proposals. The experience of working with an effective IO is likely to enlarge a grantee’s competence, better focus its energies, clarify its remaining needs, and better specify its goals. Its proposals, therefore, may well be of greater interest to its funders.

More commonly and more powerfully, clusters of related organizations are enhanced. A new source of capital may be developed so that many more supportive housing units can be built; a dozen local arts organizations may be more rationally managed; a more coherent pattern of giving may be introduced to the field of energy conservation. The summary of one field-funder spoke for many: “[The IO’s work] just gave us greater assurance that our dollars were making a difference.”

**Funder learning.** Examining individual grantees more freshly, more closely, and generally more expertly than funders normally can, IOs learn more about them than funders know. They are assisted by the fact that, subject to the “trust” problem discussed below, grantees dealing with IOs are often willing to acknowledge deficiencies and problems they tend to conceal from funders. IOs focused on a related group of grantees, or on a field, are likely also to identify systems issues—gaps in service, patterns of dysfunction, or strategic opportunities—that funders may have missed. Indeed, IOs that respond effectively to systems problems or opportunities

may make a set of grantees far more attractive or accessible to a wider range of prospective funders. The ability of the national Community Development Financial Institutions to provide both new sources of capital and knowledgeable technical assistance for Community Development Corporations, for example, tended to legitimize the community development field in the eyes of funders previously uninvolved in the field.

Funders intending to “hand off” a program to a regrantor may learn little from an IO’s work. But that intention appears to be rare, and all other funders can develop a more detailed, more complete, and more realistic understanding of their grantees or of a social issue through IOs. Indeed, IOs may serve funders most powerfully by inducing them to rethink their objectives on the basis of such realism.

An especially common form of learning concerns the weaknesses of grantees. The nonprofit service providers that dominate grantee ranks are widely understood to be vulnerable—under-capitalized, under-staffed, and unprofessionally managed. Nonetheless, grantees tend, naturally enough, to emphasize their capacities rather than their weaknesses in dealing with funders. And funders may be reluctant to probe for weakness, too thinly staffed to do so effectively, or more interested in supporting innovative new programs than in reducing vulnerabilities through the provision of core support. In times of growing endowments, funders may simply be preoccupied with making grants rather than with assessing their results. (Exaggerating, but not greatly, one foundation official remarked that, “Foundations spend 95 percent of their time making grants and 5 percent monitoring them.”) Accordingly, IOs, and especially those tasked to build capacity, often discover weaknesses the funder was not aware of. As one funder commented about a typical case, “We thought we were spending a lot of money on TA. But [the IO] kept saying it wasn’t enough. And they were right.”

Collaboratives offer additional sources of learning. Because they involve a number of funders in common staff work and joint decisionmaking, participants in collaboratives are exposed to new information of many kinds. Some concerns prospective grantees—perhaps indicating how differently grantees present themselves to different funders. Some indicates the working methods of other funders. (“It often happened that our funders were really surprised to see how others did their work,” as one collaborative’s executive director reported.) Some highlights rationales for funding priorities quite different from their own. Collaborative members have also cited learning from the proposals of grantees they didn’t ordinarily deal with; from the collaborative’s staff, which was sometimes more knowledgeable than their own; and from outside experts serving as advisers to the collaborative’s grant review process.<sup>4</sup> Smaller funders especially seem to value the learning derived from collaboratives. It amounted, in the words of the president of one of them, “almost to professional development.”

Some IOs are positioned to identify gaps in service, patterns of dysfunction, or strategic opportunities that funders may have missed.

*Changed relationships.* IOs employed, even briefly, by a funder that previously dealt directly with grantees often permanently change the relationship between funder and grantee. Often, an interest in producing such a change was what moved the funder to employ an IO. “It’s been interesting, because we normally give a grant and then let go,” said the lone staffer of the Pennsylvania funder that undertook a process to encourage coordination among service providers with the help of an IO. (See box.) “Here we were trying to change the way organizations did

IOs employed by a funder that previously dealt directly with grantees often permanently change the relationship between funder and grantee.

### Using an IO to Encourage Coordination Among Service Providers

In 1995, concerned about cutbacks in government funding and duplicate appeals from social service providers, the trustees of the Katherine Mabis McKenna Foundation, a family foundation in Westmoreland County, Pennsylvania, decided to try to encourage greater coordination among the providers, and to do it in a “consumer-friendly way.” To plan and lead the effort, the foundation’s one-person staff hired Teeter Associates, Inc., a local consulting firm with which it had worked successfully before. To give the work both legitimacy and influence, the foundation and the firm—the IO in this case—recruited prominent persons in the county’s businesses, government agencies, and funders to serve as members of a Human Services Task Force. Serving as staff to the Task Force, the IO presented a study on the basis of which the Task Force concluded that agencies should be encouraged to work together and that both their funders and their board members should be involved in planning next steps. Following an endorsement of the effort by the county commissioners, meetings were held first with local funders and then with staff and board members of 28 local service providers. After one such meeting, an agency board member remarked, “This is a whole different way of thinking. We normally are thinking just about our agency. . . . Now we’re thinking about the whole county’s needs and how to serve them.”

Following an analysis by the IO of overall needs and possible means for meeting them, Task Force members approved funding to facilitate self-evaluation, expanded communication, and joint planning for agencies that chose to participate. Many agencies chose to participate and a number of funders, including one national foundation, supported the work. Conceived of as a short-term effort, the program was still in operation five years later. Collaborations had evolved, an agency had been dissolved, evaluations had led to more effective performance, and in the view of both the foundation and the IO, a culture change had occurred in the county. When local fire companies decided to jointly purchase imaging equipment that none could afford by themselves, for example, they asked the IO to develop a plan for its joint funding and common use.

business.” In that case, functionally related grantees better aligned their policies and integrated their services and so were regarded by their funders as far worthier of support.

Other relationship changes may result. Grantees that, because of their specialized nature or geographic distance from the funder, had never before been supported by a funder, can now be assisted through the IO. The reverse may also be true and grantees previously supported by the funder directly must now apply to a more specialized and more knowledgeable funder, a regranting IO. Sometimes a grantee’s new breadth of support allows an early funder to devise a non-fatal exit strategy. In other cases, the foundation’s fuller understanding of the weaknesses of a class of grantees diminishes its interest in innovative add-ons and increases its funding of core functions, more selective funding, or fewer, larger, and longer-term grants. Or, quite commonly, grantees have been made more capable and so can be held to higher standards. “We changed the way we related to grantees,” reported one program officer. “We said ‘we’re going to give you more than before, but now it’s going to be against objective standards.’”

*Durability.* As suggested earlier, the use of an IO may make psychologically easier a funder’s exit from a short-term commitment because the funder need never have established close or working connections with grantees. But some IOs, although open to the withdrawal of individual funders, are intended to remain supportive of a field or set of grantees for a long period of time. That is especially the case with IOs that, like The Energy Foundation or the Local Initiatives Support Corporation (LISC), are established with large-scale and long-term funding from a number of foundations and are designed to address a major social need. The founding funders may well hope to end their own commitments over time, but they can reasonably expect that, if the IO proves effective (and is not too closely associated with its original funders), it will draw support from additional sources and continue its work long after some or all of the founders have gone on to other interests.

*Local responsibility.* A number of funders, especially national foundations, have used local IOs to establish a local identity or to induce a greater measure of local responsibility for change. Community foundations and foundations with a clear regional identity (the Foundation for the Mid-South, for example) have effectively served that purpose. “We never considered staffing up for this program,” said the president of a major foundation, “because the local sites needed to take ownership of reform.” The president of another funder spoke of wanting to “ground the program with a familiar face.”

A local Community Development Financial Institution offered the reciprocal perspective: If national funders wanted to support community development in the CDFI’s city, they had no feasible alternative but to

work through the CDFI and thereby to observe locally-established objectives. “[The IO] made national funders operate in line with our priorities,” said a pleased local funder. But local regrants can play a broader role. As the director of a Mexican grantee funded by a Mexican re-granter commented, “It appears that this way of doing philanthropy, and the responsibility bestowed on [the board of the IO], has fostered in them an increased sense of stewardship for the community and led them to expand and rethink their view and understanding of the issues which their community is facing.”

## Additional Benefits of Collaborative IOs

To greater or lesser degree, strengthened grantees, enhanced funder learning, changed funder-grantee relationships, increased durability, and increased local responsibility can result from the effective use of any kind of IO. But collaborative IOs may produce several additional benefits.

*Pooling of funds.* The most obvious value of collaboratives, and the predominant reason for forming them, is that they pool funds from many sources and so can take on larger problems, or deal more decisively with smaller ones. Local collaboratives that attract the participation of national foundations may enlarge support very substantially, especially for smaller grantees. The president of one local collaborative claimed that, “We’ve generated more resources for [the grantees], through national funders and others, by probably a factor of ten.” The degree of assistance may have been exaggerated but its nature was real. Fuller support can produce results different in kind as well as in degree. As one funder put it, “If the funders generate enough resources . . . you can get a synergy of groups coming together to develop a common plan of action because each group knows it will be funded.” Another emphasized the leverage implicit in a combination of funders: “It sends a different message to grantees when four or five funders say, ‘This is important to us.’”

The Chicago-based Fund for Immigrants and Refugees got started with a challenge grant that induced many smaller grantmakers to pool funds to meet the challenge. (See box on page 14.) But collaboratives may also yield a less explicit matching effect when funders feel the need to participate simply because respected peers have signed up. Cautious boards, especially of smaller funders, are sometimes willing to provide funds because a collaborative’s higher-profile members offer the protection of shared risk. Collaboratives may induce support beyond the borders of the collaborative itself as well. Several respondents spoke of funders whose policies precluded granting to a re-granter and therefore avoided joining a collaborative, but were nonetheless sufficiently impressed by the collaborative’s membership or approval processes to independently make parallel grants to the collaborative’s grantees.

*More flexible use of public funds.* In several instances, collaboratives that attracted city, state, or federal funds in addition to private resources were able to use the public money much more flexibly than the participating public agency could have done, even when the public money represented a substantial portion of the collaborative's total resources. In a particularly creative current case, a similar effect is being sought through an opposite strategy. A large group of local funders has contributed directly to a county's budget for a well-designed early childhood initiative. The private funds enable the county to make the program universal rather than targeted. All parties expect that the program's resulting popularity will yield political support for total public funding in the future. In the meantime, the entire project, funded largely by public sources, is overseen by a partnership committee dominated by the private funders.

*Coordination of approach.* Collaboratives can generate more unified and coherent strategies for responding to a problem, or to the often multiple needs of a set of grantees. Significant enough even when the collaborative's members are all private funders, that capacity can be even more powerful when a collaborative contains public officials as well. At minimum, the group may then be able to reduce disparities and duplications in policy or procedures; in the best case, it might produce genuine coordination between public and private efforts. As one foundation program officer remarked about a public-private collaborative, "It's a forum. A lot of interests are forced to deal with each other. So it coordinates, and it educates—us too." And as another private funder made clear, the best policy in such cases is to let the governmental participants take the credit.

*Administrative simplicity.* A lesser but still significant form of collaborative coordination is administrative. A collaborative allows grantees to relate to one funder rather than many. The collaborative's procedures are likely to be more demanding than those of any single funder, but they normally require grantees to submit only one grant application, to observe one set of procedures, to produce only one report on activities or accomplishments, and one accounting of the funds. Such reductions in administrative burden are greatly welcomed by grantees, especially by smaller grantees.

*Greater openness to unconventional grants.* A few funders reported that the necessity to agree on grants tended to impose a kind of lowest common denominator strategy, or at least to keep controversial grants small. But a larger number had experienced the reverse: Since no funder provided more than a minority share of any grant (and often a number of safe and popular grants were being made), the group was willing to approve some grants that were riskier or more unconventional than any member might have made on its own. "There is safety in numbers" was the explanation. The key variable here seems to be the quality of staff. As

one funder noted, an able and confident staff will propose contentious or risky grants if their potential is high; a less venturesome staff will more likely pass on these types of grants.

Interestingly, collaboratives also seem to generate stronger resistance to inappropriate proposals. As one program officer reported, a local collaborative could resist much more easily than a single funder a proposal from an applicant whose effectiveness was doubtful but whose political connections were strong. “You can always blame [the turn-down] on the group,” was his comment.

### Capacity Building for Arts Organizations

In 1995, after a commission of Cleveland community leaders concluded that many of the city’s arts organizations needed stronger governance, more professional management, and sustained support, the Cleveland Foundation committed to five years of investment in both operating support and organizational capacity building for 17 local arts organizations. The foundation’s traditional project grant approach changed to permit unrestricted annual support, and its commitment to fund capacity building was new and substantial. To lead the effort to strengthen organizations, the foundation contracted with an IO, National Arts Stabilization (NAS), an independent non-profit service provider whose purpose was to assist arts organizations in improving their financial and management skills

Employing a mix of its own staff and consultants, NAS first assessed the needs of each of the organizations and helped the foundation design a program to address them. The assessments were confidential and not shared with the foundation. NAS and each organization jointly developed work plans focused on deficiencies identified in the assessment, and NAS provided high-level executive training seminars, group workshops, and individualized technical assistance designed to help meet work plan goals. Progress against the goals was evaluated each year by the arts organization, NAS, and the foundation, and each year a new work plan was developed.

Results at the program’s midpoint are mixed but encouraging. The program is expensive and demands considerable foundation staff time. Despite the early assessment, the needs of the arts organizations proved greater and its own work therefore harder than NAS had expected. Maintaining the agreed confidentiality is a challenge. Another local funder wonders whether the effort is inappropriately intrusive. The program made clear that two of the 17 organizations were no longer viable and the foundation assisted them to an orderly closure. But many organizations have become more self-aware and strategic in their thinking, and their proposals to foundations are of far higher quality. The foundation believes it has broken a decades-long cycle of “rescue grantmaking” for arts organizations and has learned much about organizational readiness and the time and approaches required for effective capacity building.

# Potential Problems for Funders Using Intermediary Organizations

Funders tend to underestimate the complexity and the risks involved in placing an IO between themselves and their grantees.

The use of IOs can create risks and problems for funders as well as offer potential benefits. We describe here some of the principal problems associated with using IOs and the measures that funders have used to avoid or respond to them.

*Undermanagement.* Funders, and especially funders new to the use of IOs, tend to underestimate the complexity and the risks involved in placing an IO between themselves and their grantees. As a result, they often undermanage the IO relationship.

An IO inevitably brings to its role its own history, values, and purposes. Yet to grantees, many IOs, and especially regranteeing IOs, become the public face of their funders. The result is that a funder's relationship with an IO is potentially a high-stakes affair: substantial, consequential, potentially embarrassing, and not fully controllable. So it is essential that the funder, at the outset, make quite clear what it wants to achieve, what it is determined to avoid, and what the relative responsibilities of IO and funder are to be. Then the funder must supervise and manage the relationship. One funder stressed that, "Role clarification is absolutely essential and it is rarely done right. And that reverberates with the grantees." A foundation vice president put the need more broadly: "You need to manage the relations and manage the message." That may not be easy. Speaking especially of an established IO, the president of a major foundation remarked, "[They had] an existing way of doing things, an already developed philosophy about what was needed and staff already in place. . . . [We] put in a lot of money but could not leverage it as we hoped."

Newly established IOs present other problems. Lacking established cultures, they don't soon generate value conflicts with their funders, but much time may pass, and much investment may be needed, before they become productive. Reflecting on her own experience in creating an IO, a foundation president noted that a year and a half had passed before a board was chosen, a full staff was hired, and the IO was ready to operate a

regranting program. And the IO was then still weak, she reported; her foundation had underestimated the staffing it would need.

A number of factors appear responsible for the tendency to underestimate the time, attention, and funding it takes to make an IO effective and responsive. Funders may see an IO as a means to hand off a responsibility rather than as an entity whose use also creates a responsibility. Program officers may lack managerial skills or interests.<sup>5</sup> An IO that hadn't previously played that role may itself underestimate the difficulty of its task and need a good deal of supervision and support to handle it well. A regranting IO, operating in a field the funder is unfamiliar with, or at a location geographically distant from the funder, may assume great independence and be particularly hard to oversee. Finally, the program director who chose an IO and to whom it was responsible may move up or out, or on to other programs, leaving its management to a successor with quite different priorities. In any of these situations, the IO's performance may well be unsatisfactory.

Six main means of dealing with such undermanagement risks were described in the course of our interviews.

1. *Be clear.* This principle was emphasized especially by funders who had been taught its importance by incurring the consequences of ignoring it. The task is simply to understand that determining what is to be accomplished and what is to be avoided, and communicating those expectations quite clearly to the IO, is the funder's responsibility. "If the foundation doesn't clarify the mission target," a senior program officer remarked, "others will clarify it for you." "You especially have to have a conversation [with the IO] about values," said another. But if the IO is to be a regranter, a conversation is not likely to be enough. One major funder required a regranter's staff to attend the foundation's own program officer training. Another maintains detailed guidelines for establishing common expectations between themselves and IOs and works to ensure they are observed.
2. *Choose people you know.* Where possible, choose an organization whose values and competence are known. Those relationships still need to be managed, but where funder and IO understand each other from the beginning, the grossest kinds of problems are unlikely. "It worked," said one program director, "because I had known the [IO] principal for many years. And we put in the time to make it work. It all comes back to that."
3. *Go slow.* When the funder has not worked with the IO before, the IO's discretionary authority can be limited until

"Role clarification is absolutely essential and it is rarely done right. And that reverberates with the grantees."

it has demonstrated both competence and alignment with the funder's values. A common form of this strategy is to use the IO first as an advisor in grantmaking and only later to give it grantmaking authority on its own. Perfection, of course, is not the standard. "You have to understand that building an effective relationship with an IO takes time," remarked one funder, "and you have to allow it room to make mistakes along the way."

4. *Pay attention.* Another corrective is simply paying sustained attention. "Funders need to have someone spending significant time . . . understanding what is going on with the IO and keeping the board informed as well," as one program officer put it. Others stressed the importance of developing "a system of ongoing communication," especially informal communication and especially with grantees. Several funders provide some funds directly to many of the grantees that an IO is also assisting, and thus insure direct communication. Others require monthly funder-IO conference calls, host periodic IO-grantee meetings, make unscheduled grantee site visits, or hold receptions designed to encourage random conversations between grantees and the funder's board and staff.
5. *Invest in the IO.* A number of funders noted this need. "Be concerned about the health of the IO," said one. "They can take on more than they can sustain or do well. And you want sustainability and quality." A funder experienced in establishing new IOs noted that those "that hired greater numbers of staff and invested most heavily in infrastructure development were the more successful." Several made clear that when the functions assigned to the IO seemed likely to strain it, they funded added capacity in the IO itself. In some cases additional funding was provided to build only the needed strengths, but in two cases large funders intending to use an IO for many years upgraded its capacities generally and quite substantially. As the grateful president of that IO commented, "[The funder] enhanced [our] grantmaking and level of sophistication by light-years."
6. *Minimize the relationship.* This strategy is quite different from the others; it is not so much a means of dealing with the problem as of allowing it no chance to occur. One foundation whose staff is minimal by design and that therefore relies heavily on regrantees, chooses only IOs whose judgment and expertise it regards as unimpeachable. It has supported local

land trusts, for example, by funding a highly regarded environmental organization to select grantees. The foundation therefore believes that once it funded the IO, its job was done. “It’s not about relationships,” said the program officer, “it’s about product. We give them the funding, and they do it.”

**Problem of trust.** When funders place IOs between themselves and grantees that they previously dealt with directly, grantees tend to become concerned; some become resentful. Where, as is often the case, one task of the IO is to strengthen grantees’ capacities, the relationship between IOs and grantees may begin in a particularly awkward way. The reason is that strengthening a deficient capacity requires an understanding of the deficiency, but grantees won’t readily identify their weaknesses to entities they don’t know or don’t trust. They are likely to be particularly protective if, as is often the case, their weaknesses are greater or more numerous than the funder knows. So grantees want assurances of confidentiality, and capacity-building IOs want to be able to provide them. Both want the funder to allow evidence of weaknesses to be held in confidence by the IO, or to be ignored in future grantmaking. As an IO’s program director remarked, “They needed to know that there was a wall between us and [the funder] on that. It wasn’t easy for them to believe. And it wasn’t easy for us to manage, since we were advising [the funder] about their performance. But we worked at it, and it turned out okay.”

The principal measures that funders and IOs have used to make it “turn out okay” appear to be these:

1. **Establish a “no-fault” environment.** Some funders—seemingly a minority—have tried to develop what one called a “no-fault, no-consequences environment” in their dealings with grantees. Another mentioned that having “a learning agenda as well as an outcome agenda makes it easier.” Knowledge, even of unsolved problems, can be treated as of value when there is a learning agenda. More concretely, funders can provide grantees with explicit assurances that information from the IO about grantee deficiencies will not be sought and, if conveyed, will have no impact on funding. Some funders—especially those experienced in the problem—have built the expectation of a “wall of separation” into their contracts with IOs.

Similarly experienced IOs insist on such expectations, and may also help funders understand that, as an experienced IO flatly put it, “All grantees are weaker than you thought.” As several respondents noted, IOs can also try to reassure grantees by pointing out that they were hired because the funder was already aware of grantee deficiencies and that, as one IO

When funders place IOs between themselves and grantees, grantees tend to become concerned; some become resentful.

officer put it, “We are in this together. My success is tied to your success.” Taken alone, however, atmospheric characteristics, verbal assurances, and understandings between funder and IO may be more convincing to funders than to grantees. So those measures often need to be amplified by others.

2. *Maintain funding commitments.* The most powerful way for a funder to induce trust is to reward it. And the reward that matters most to grantees, of course, is funding. Probably the dominant reason why the case cited above “turned out okay” was that while employing the IO, the funder maintained the previous level of its operating support to the grantee; its capacity-building funding through the IO was additional and separate. That practice is common, but it may still leave some grantees worried about the eventual effects of negative reports from IO to funder. Probably only firm commitments to multiyear support, combined with the use of familiar and trusted IOs, will be reassuring enough to induce candor about weaknesses from anxious grantees. Understandably, though, few funders appear willing to go that far. They want to retain the freedom to end support of grantees that even effective IOs report they cannot help.

3. *Split grantmaking and assistance staff.* Where the IO is both a regranter and TA provider, the grantee is likely to be particularly uneasy. “We try to differentiate staff to deal with that,” reported the president of such an IO. “The people who evaluate are not the same as those that assist. But it’s a challenge.” In this case, the knowledge of grantees that they had no choice—essentially all their funding came through this IO—helped make the challenge manageable.

4. *Maintain ignorance.* IOs may also choose to remain ignorant of some grantee faults. They may, for example, organize a retreat for the senior staffs of a number of grantees, but absent themselves so that common problems can be freely discussed. “Our staff was smart enough not to be in the room,” said the director of one such IO.

5. *Provide effective help.* Another method of engendering trust is actually to help. Over time, well-chosen IOs, rather than funders, can resolve the trust issue simply by visibly strengthening grantees. Because IOs generally have greater experience, a broader perspective, and a wider network of contacts than individual grantees, they can often help in unexpected and therefore particularly striking ways. They may be able,

“Good IOs are not gatekeepers; they are gate-openers.”

for example, to recruit more influential board members, identify additional sources of funds (sometimes in other programs of a familiar funder), help produce more persuasive grant applications, or put grantees in touch with peer organizations with useful learning to share. An IO official summarized this point by remarking that, “[Good IOs] are not gate-keepers; they are gate-openers.”

**Loss of interest.** IOs are generally utilized for a period of years. The interposition of an IO for that length of time between a funder and grantees (and especially geographically distant grantees) can readily produce funder inattention followed by loss of interest. The funder’s staff may maintain some contact with the IO but less, and often far less, with grantees. If the IO is particularly capable (and perhaps especially if it is working on a multiyear grant), the funder may have little week-to-week contact even with the IO. “Problems result,” said a senior foundation officer, “when we outsource all the difficult and hard work—with the result that we have little engagement with the effort. This is particularly risky if . . . there is a transition in [our] personnel and the next generation has no association with the project.” In such circumstances, moreover, the funder’s board may hear little about the IO and nothing about the grantees for some years. The board, like staff, may well have gone on to other interests. The principal risk is that support for both IO and grantees may be ended prematurely. But another is that an IO with purposes of its own may deviate from the funder’s intentions. A third is that the funder, perhaps insular to begin with, becomes even more removed from facts on the ground.

Funders have developed many devices for maintaining meaningful contact with grantees. The general principle behind virtually all of them was sounded by the senior vice president of a funder who commented, “What you save in transaction costs you’d better invest in communication costs.” Among the devices:

1. **Maintain direct contact.** As noted earlier, funders can schedule monthly conference calls with IOs and grantees, host periodic IO-grantee meetings at their own offices, make unscheduled grantee site visits, or hold receptions at which random conversations between grantees and funder’s board and staff can occur. But the most powerful measure is to maintain working contact by continuing to provide some funds directly to grantees being served by IOs—even regranting IOs. “We do that,” one funder noted, “exactly so that not 100 percent of our intelligence is coming through some IO.”
2. **Task the IO.** Some funders highlight the risk to the IO, task it to report with vividness and frequency, and try to bring

“Problems result when we outsource all the difficult and hard work—with the result that we have little engagement with the effort.”

such reports to their board's attention. Since IOs' own interests are served by complying, and since many IOs not only work more closely with individual grantees than funders do but also have a deeper understanding of the needs and significance of the grantees' field, they may be able not merely to maintain but actually to stimulate and enlarge the interest of receptive funders.

3. *Task the grantees.* Most grantees strongly wish to maintain direct connections to their funders. Especially if troubled by an IO's behavior, they will seek ways to communicate concerns to a funder. But they can be encouraged more generally to report good results, new learning, unexpected circumstances, or anything of special interest directly to the funder.

*Temptations to exaggerate.* Funders tend to evaluate their IOs in terms of the gains made by grantees. The result is a powerful incentive for IOs to exaggerate grantee performance. An IO may exaggerate in many ways. It may "cream" in the selection of potential grantees; it may seek visible rather than fundamental change; it may ignore or suppress unfavorable evidence, or utilize only captive evaluators. At worst, it may invent favorable data.

The problem is not likely to be severe if the IO is known and substantial, or where the grantee's objective—reduction in a locality's infant mortality, for example—is clearly measurable. But some degree of temptation, like the incentive, is unavoidable. And if the IO is the main source of the funder's information about grantee performance, exaggerations may well remain unchallenged; neither the program officers who proposed the effort nor the board members who funded it may be interested in probing for signs of failure.

Foundations have used at least three means to reduce this vulnerability.

1. *Make the IO's work evaluable.* The most important means is to agree at the outset on a measure of IO performance other than simple grantee performance. "You've got to work on what to measure and how to measure. Otherwise, all you get are stories," one program officer commented. The assessment of IO performance is a poorly developed field, and the outcomes achieved are likely to be affected by many circumstances beyond the IO's control, so measuring the value added by the IO's work always requires thought and sometimes ingenuity. But at least a rough measure of IO success or failure can generally be established. Funder and IO can establish that measure together. The measure should be as specific as possible, there should be funder-IO agreement on the kinds of data to be collected in order to make the

The assessment of IO performance is a poorly developed field.

measurements, and the funder should have the dominant role in selecting an independent evaluator. In determining what measures to use, the funder should consider whether potential measures may produce unintended incentives. An IO asked to make community development loans but evaluated on the basis of its default rate, for example, may decline to make the socially venturesome loans that the funder values most.

2. *Use known organizations as IOs.* Funders can employ as IOs only organizations they know and respect, even though these organizations may not have previously served as IOs. The Vera Institute, for example, had been well known to the Ford Foundation as a grantee before being asked to become adviser to Ford's international program on police reform. Funders using unfamiliar IOs can limit their responsibilities until it is clear that reporting will be candid.
3. *Reward honorable failure.* Probably the most effective means of inducing candor in an IO is for a funder to create a relationship that recognizes difficulty, emphasizes learning, and accepts risk. As one funder put it, "Exaggeration is a natural dynamic; it's unavoidable. You just have to create developmental relationships, not punitive ones." Another put it this way: "Make [the relationship with the IO] a way of learning together, and factor in an acceptance of failure." Strong board members may be more than accepting of failure; they may look for it, and suspect its absence. "Our trustees are starved for bad news. We look hard for it," one program officer reported. "So when [IOs report honestly], they aren't penalized; they have a great conversation with our board, and get another multiyear grant."

*Tension with other funders.* Transforming the relationship between a funder and some set of grantees generally involves trying in some way to change the grantees. The funder may insist on greater coordination among grantees or perhaps a merger; it may condition its support on their acceptance of some form of organizational development; it may require business plans with explicit goals and a schedule for meeting them, or set some other unaccustomed requirement. But the grantees thus affected will almost always have other supporters as well, and some of them may believe that such requirements are unjustified. "What we were doing," said a funder that sought just such a change, "created tension with another foundation we had often worked with and hoped to have join us as a co-funder. They saw this . . . as an inappropriate interference with grantee autonomy." This is a problem to which there is probably no full solution, but at

least it can be foreseen and perhaps damped. A careful explanation to other funders, in advance, of the reasons for seeking such a change should at least moderate tensions and help preserve collegial relations as to other joint endeavors.

*Changed staffing needs.* A difficulty that may follow from the use of an IO is that a funder's staffing may no longer match its tasks. As noted earlier, foundations often use an IO to change the nature of their relation with long-time grantees—from retailer to wholesaler, for example. But the funder's staffing pattern is likely to have been designed with retailing in mind. So funders that have achieved such relationship shifts may find their workload changed but their staffs no longer matched to it. "The workload on staff was heavy, and it was different," as one such funder commented. Typically, the funder's transactional burdens have diminished but its priority-setting, managerial, and oversight responsibilities have expanded. The more a funder uses IOs in such ways, therefore, the less need it may have for administrative staff and the more need for substantive staff.

With the use of an IO, a funder's staffing may no longer match its tasks.

## Problems Specific to Collaborative IOs

As they involve special benefits, so collaboratives introduce special difficulties. Three in particular were described by our respondents, each of them inherent in the nature of collaboratives and to some degree unavoidable.

*Compromised priorities.* The objectives of a collaborative's funders are ordinarily similar but rarely identical. Their priorities are likely to differ, at least in degree. A collaborative making many grants may be able to honor every funder's priorities, at least in part. But if only few grants are made, compromises tend to be imposed. "We sacrifice the purity of our objectives," as one collaborative member put it. This is particularly the case for lesser contributors if a predominant funder—perhaps the source of an initial challenge grant—expects its priorities to prevail.

*Burden on staff.* The work of a collaborative is staff-intensive. Unitary IOs can focus on the field or the grantees they serve. Collaboratives must also manage the complexities of their own operations: recruiting donors, establishing agreed procedures, preparing and staffing meetings, building consensus concerning the purposes, scale, and recipients of grants. Those tasks are at least burdensome; if a collaborative's members are numerous or contentious, they may also be difficult. In any event, they are likely to take time. "Collaborations inevitably slow down the process; they are ponderous," as one funder remarked.

By far the most useful resource for aligning priorities and speeding processes is an able and persuasive staff. “Collaborative staff need to be particularly skillful at facilitation,” another funder noted. Finding staff equal to those tasks is a burden sometimes overlooked. Indeed, some collaboratives are given no staff of their own at all, the lead funder being expected to handle all administration.

*Difficulty of exit.* The larger the number of funders supporting a grantee, the easier it is for any one of them to exit—in principle. And since collaboratives, by definition, contain a number of funders, they might tend to ease the exit of any single funder. Though limited, our evidence suggests otherwise. Collaboratives formed by a small number of key funders, like those addressing problems of enduring social importance, seem to be organized with the expectation, sometimes explicit, that all funders will provide long-term support. Such constraints, of course, are intended to benefit a field and often do: Funding becomes more assured over time, less subject to changes in political regime or philanthropic fashion, and less vulnerable to the vicissitudes of the market. This may be especially valuable where public as well as private funders are involved. “We’re a counterforce to local politics,” as a member of a public-private collaborative put it, “so [grantees] are less subject to shifts in political sentiment.”

But the expectation of long-term participation also constrains the funders. Commenting on this “locked in” effect, one funder remarked that, “[The collaborators] are not always clear about what the end game is. And if [the collaborative] doesn’t work, you’re screwed, because you’re stuck with it.” What keeps a funder stuck with it is rarely a contractual commitment; more often it is simply membership in a philanthropic community. “What keeps you involved,” as another explained, “is mainly concern for good relations with your co-funders.”

To this point the study has examined the relationships between foundations and IOs from the perspective of funders. But if funders’ future use of IOs is to be better informed and more effective, they need to consider the main consequences of those relationships for IOs themselves and for grantees. It is to those questions that the study now turns.

# Problems and Benefits for Intermediary Organizations and Grantees

## Benefits to Unitary IOs

The benefits to a collaborative IO accrue to the funders who make it up and these were outlined above. The three main benefits of being a unitary IO are:

**Existence.** Many unitary IOs owe their existence to their roles; they were established only to play them. The Energy Foundation, The National Institute for Dispute Resolution, and the Corporation for Supportive Housing are prominent examples. And it is often an attractive existence. IOs so created tend to be well-funded, designed to attract additional funders, tasked to powerfully affect a field or social problem, and almost always intended to be semi-permanent institutions, often more durable than the foundation programs that first supported them.

**Capacity.** Even preexisting organizations are likely to be strengthened by becoming an IO. As noted earlier, they may be bolstered by the direct investment of foundations using them as IOs; their skills may be expanded by the experience of assessing and advising grantees; or, as one informant noted, they may acquire “the added heft and access to effect change” that accrues to regranters of substantial funds.

**Status.** Quite apart from any new capacities but simply as a result of its new role, an existing organization that becomes an IO is likely to be enhanced in status. A consulting firm chosen as an adviser to a locally important funder; a community foundation asked by a national funder to organize a local response to the national’s challenge grant; and a regranter whose choices influence the priorities of a locality or a field are all likely to assume a more visible and respected status in their communities or fields of expertise.<sup>6</sup>

## Problems IOs Face

As with the problems funders have in using IOs, most of the problems IOs themselves encounter stem from a failure to anticipate the risks involved. Other than the “trust” problem discussed above, three dangers to IOs were particularly noted to us.

*Insufficient or uncertain support.* This problem may have several sources. One is that IOs may underestimate the costs associated with the functions they have agreed to perform. That may be because a capacity-building IO is faced with grantee needs deeper or more numerous than it expected or the funder allowed for. In response to such a situation, “[Our] infrastructure costs were enormous,” an IO director remarked in recalled surprise. Or an IO’s initially sufficient funding may drop because the value of the funder’s assets slip; a key program officer may be replaced by someone who regards the IO as an excessively expensive middleman; or donor fatigue may begin to afflict the funder’s board. Insufficient support is particularly dangerous for nonprofit IOs since, like many nonprofit grantees, their capitalization may be thin and their reserve capacity small.

At bottom, IOs, like grantees, are at the wrong end of a power relationship with a funder. So no assurance of adequate resources is likely to be absolute. But some form of the “Go Slow” response described earlier may be helpful. IOs might begin their work with a short exploratory phase and avoid agreement on the terms of a longer assignment until they have tested the needs of the grantees and the attitudes of the funder. Because funders also benefit from agreements founded on good information, their best course is to encourage such an approach where circumstances permit.

*Penalties for candor.* IOs as well as grantees may pay a price for candor. Because the funder’s staff (and board) would like to believe that their prior grantmaking was wise, they may not welcome an IO’s finding that the deficiencies of traditional grantees are deep or their effectiveness is questionable. And, of course, grantees so labeled will argue as well. Not many IOs caught in that vise will value candor above continued employment. In the words of a senior foundation officer, “The IO tells you bad news. The program director doesn’t want to hear it. It happens a lot. So then the IO joins the good news parade.”

IOs can try to avoid that parade in several ways. They can stress to funders from the beginning that, as one IO director put it, “All grants are chancy, and all grantees are less able than you imagine. The closer you look the clearer that becomes, and we are in the business of looking closer.” “You’ve got to prepare your funder for failure,” as another IO staffer remarked. IOs can also avoid retrospective assessments, and concentrate on current needs and the improvement of future outcomes. Funders can help by accepting the conclusions of competent IOs concerning how much help grantees need, even if that estimate seems surprisingly

As with funders using IOs, most of the problems IOs themselves encounter stem from a failure to anticipate the risks involved.

large. And, as discussed above, funders can also demonstrate that they seek and value learning.

*Inappropriate requests.* Both funders and IOs report instances in which funders casually expected miscellaneous services beyond the scope of IO functions. “They were using our staff as though it was their staff,” one IO president recalled. Thinly staffed funders may be particularly vulnerable to that temptation. Clear and explicit understandings about the relative roles of both parties, reached at the outset and reduced to writing, help avoid such problems. So do prior working relationships between funder and IO—another reason why both IO and funder might consider an initial exploratory phase before concluding a longer-term agreement. One IO reported that out-of-bounds requests from the funder diminished once the IO began reporting more fully on all its in-bounds activities. Another IO relies on a strong and influential board. But for all but the most secure IOs, resisting inappropriate funder pressures is not easy. The only sovereign remedy may be funder self-discipline.

## Issues for Grantees

The potential benefits to grantees of being funded or assisted by an IO have been largely described above. To recapitulate very briefly, IOs spend more time assessing, assisting, and funding grantees than funders normally do; IOs generally understand more about the problems, opportunities, and needs of a field than funders do; and IOs approach grantees more nearly as helpful colleagues than funders can. For all three reasons, IOs can greatly strengthen grantees, and strengthen them in many ways. And as they do for funders, collaborative IOs may provide grantees some benefits that unitary IOs don’t offer—mainly more broadly based and potentially more stable support, and administrative simplicity.

But for quite a number of reasons that funders should be aware of, grantees may suspect or resent IOs, or have difficulty in dealing with them. The main sources of those tensions appear to be the following.

*Severed relationships.* Grantees may be troubled by an IO simply because it severs what previously had been a direct relationship with a funder. Regranting IOs, which represent themselves as the funder’s grantee, and which thereby remove the “seal of approval” that direct support from a prestigious foundation implies, are likely to be seen as demeaners of status as well as threats to income, and especially resented.

Diplomatic sensitivity on the part of the IO can diminish this problem, but more important is the degree to which the change seems helpful to the grantee. As one grantee commented, she wasn’t bothered by a break in the relationship with the funder because she’d never felt that there was much of a relationship; it consisted mostly of sending in quarterly reports. She

IOs, like grantees, are at the wrong end of a power relationship with a funder.

talked with the IO, on the other hand, “almost weekly, and I know everyone on that staff.”

The funder’s behavior is also important. Most funders of capacity-building IOs continue their supporting grants to grantees during the course of the IO’s work, and any funder can remain in direct contact with grantees in the several additional ways described above. (See “Maintain Direct Contact,” p. 30.) One program officer reported that he was especially careful to provide direct grants, even to grantees being supported by a regranter “where the prestige of a direct grant is important to the grantee.”

***Tougher requirements.*** IOs are very likely to impose on grantees requirements that funders don’t. These may be largely administrative—for more frequent or detailed reporting, or a different kind of data: evidence of results achieved, for example, rather than accounts of hours worked or clients “served.” But even such relatively modest requests may be seen as “disrespectful” or, as one grantee put it, “feeling [that the IO is] more like an overseer or agent of the funder than a helper.”<sup>7</sup> Much more threatening are IOs that push for substantive and perhaps radical change. Viewing the grantee’s field strategically, IOs may conclude, for example, that additional funding is not the most urgent requirement, and that service priorities should change, or competing grantees must specialize and then coordinate. Or they may be more intrusive still. As one IO reported, “We’ve forced mergers among grantees. That was resented, even though we smoothed the way, provided consultants.” Funders dealing directly with grantees can also condition support on such changes, and some do, but IOs are more frequently the instrument used to induce change or to force it.

In engineering grantee change, of course, the IO is indeed an agent of the funder. Able IOs help grantees to accept that, and to understand that some forms of help require a measure of intrusiveness. Funders also have helped by informing grantees, clearly and in advance, why they have engaged such an agent. Nonetheless, as pointed out above, funders often do use IOs to create a different kind of relationship with grantees. If the prior relation was satisfactory to the grantee, the response to any attempt to change it, however beneficial in intent, is likely to be anxiety and resistance.

***Threat of competition.*** For any of several reasons, grantees may see IOs as competitors. They may believe that an IO absorbs funds that might otherwise have gone to themselves. (Smaller funders, and especially those supportive of grassroots organizations, seem to share that view and therefore limit their use of IOs.) Grantees may worry that an IO will claim credit for their own future successes. Or, because IOs are generally better funded and more diverse in their work than grantees, and because their staffs tend to be better paid, a grantee may fear that an IO may recruit some of its

most valuable staff members. Moreover, the anxieties that grantees, and especially grassroots grantees, feel for any of these reasons may be amplified by the sense that funder and IO staffs share a collegiality, based on common backgrounds, from which they are excluded.

Probably the most threatening situation is that in which the IO provides—or is feared by the grantee as likely to offer—some or all of the same services as the grantee itself provides. The IO may in fact be a “predator,” as one grantee put it, intending to displace the grantee. It may not, but nonetheless be feared to be; in either event, the concern will cause problems. A grantee staffer worried about a predator IO made clear that she had “a real fear about turning in my best program plans to my biggest competitor.”

A different form of that fear may arise where the grantee is engaged not in service provision but in research. In one such case, a regranteeing IO, seeking to speed the research, pressed grantees to share information. As one grantee’s president noted, “There’s an inherent tension between [that interest] and our live-or-die concern about proprietary information.” Partly for that reason, the relation in this case between grantee and IO was complex and attention-demanding. “There’s no steady state where you can stop working on the relationship,” our informant went on to say. “It has its inevitable ups and downs. You can’t go on cruise control.”

Whatever the source of concern, grantees may be wary of IOs. Funders need to take that possibility into account and seek ways of reducing grantee concerns. They might require, for example, that as a condition of employment, an IO explicitly agree not to compete for the clients, staff, or funding of the funder’s current grantees.

**Confusion about accountability.** To which is a grantee accountable, the IO or the funder? Some uncertainty about the answer may be caused simply by the presence of an IO. But if the IO is imposing tough requirements or high standards and the funder and grantee are still in direct contact, the grantee will have a strong incentive to meet only the funder’s standards and to observe only the funder’s wishes. Doing so, the grantee may undercut the IO entirely; at worst it may benefit from the principle that he who has two masters has none. The solution here is straightforward: Funder and IO need clearly differentiated roles and the IO must have whatever authority it needs to perform the role assigned. It is the funder’s responsibility to establish that clarity, provide that authority, and communicate both to grantees.

**Ignoring context.** Grantees may be concerned that an IO will “do its thing” whether that particular “thing” is appropriate and needed or not. IOs of limited skills may be particularly prone to that fault. Grantees may have experienced IOs of regional or national scope whose priorities were based on deficiencies common to a field or on the expectations of their funders, rather than on the needs of a particular grantee. A community

In grantee relationships with IOs, “there’s no steady state where you can stop working on the relationship.”

development financial IO, for example, may offer to a Community Development Corporation (CDC), on attractive terms, funds intended only for housing construction while the community the CDC serves may believe that its greatest need is a shopping center. Grantees are likely to resist, or use badly, approaches that ignore local context.

## Grantee Concerns about Collaborative IOs

In addition to the concerns grantees may have about any IO, two potential worries may be created by collaboratives.

*Information sharing.* The pooling of information among many funders is one. Grantees relating to one funder at a time can tell different (and sometimes quite inconsistent) stories to each. “They’d rather play one funder off against another,” remarked an officer of a funder who now dealt with a set of grantees only through a collaborative. One funder in a collaborative may be aware of grantee weaknesses unknown to other funders. Since members of collaboratives tend to pool what they know about grantees, the discipline of consistency is imposed on grantees, and their deficiencies become more widely known.

*All-or-nothing bets.* More worrisome than information sharing, perhaps especially to weaker grantees, is the risk that if a collaborative decides against funding, income may dry up entirely. Some collaboratives encourage grantees to deal with funders directly as well as through the collaborative. Nonetheless, if a majority of collaborative funders decide that a prospective grantee is unworthy of support, even members that disagree may be discouraged from providing further funding. So a collaborative represents something of a lottery for potential grantees. The payoff may be larger and more stable funding, but the associated risk is that all or almost all funding may disappear. As the president of one collaborative worried, “By putting ourselves between them and the funders,” he said, “we disempower grantees. Their own fundraising abilities atrophy.”

# A Funder's Checklist

In the form of a checklist, this section suggests how each of the decisions a funder might make about an IO would be affected by the findings of the study. Obviously, no checklist can raise every relevant question about the use of an IO. Still less can it suggest every consideration relevant to answering those questions. But this list should provide at least a crude framework for considering the most important issues raised in the course of this report.

## Should we use an IO?

*Yes*, if the foundation can identify and effectively manage an appropriate IO, and the foundation:

- does not have, and likely cannot acquire, the skills necessary to meet its objective with the grantee(s); or
- does not have and might be able to acquire the necessary skills, but would have no longer-term use for them; or
- has or could appropriately acquire the necessary skills, but would like to learn by observing the work of a competent IO before developing or organizing those skills internally.

*No*, if the foundation cannot identify or effectively manage an appropriate IO or:

- the foundation does have the skills necessary to meet the foundation's objective; or
- the foundation does not have but could acquire the skills necessary to meet the foundation's objective and those skills would be sufficiently relevant to the foundation's future work to justify bringing them into the foundation; or
- the use of an IO seems advisable on other grounds, but the resulting loss of direct contact with a significant grantee or field would incur heavy substantive or political costs.

*It depends*, in cases that fall outside of the criteria above. Suppose, for example, that the foundation doesn't have, and cannot appropriately acquire, the skills necessary to meet its objective with the grantee(s), but neither is it able to effectively manage an appropriate IO. Depending on a wide range of other factors, the foundation's decision (and some of the relevant questions) might be to:

- Rethink its objective, given the difficulty of achieving it. (How important is the objective? How authoritative was the decision to achieve it? Is there a more achievable objective that would serve the same values?)
- Select an IO that is likely to require little management. (Is there such an IO? Is there any organization we already know and trust that might capably take on the IO role?)
- Do the best it can with internal staff or consultants, while learning what it will want from an IO, and how to select and manage one, and acquiring suitably managerial staff. (What internal staff might be spared to do this? What consultants might be helpful? How is the necessary learning to be captured, and by whom? How long do we want to devote to such learning?)

## If we do use an IO, what should be its task?

The generic answer is, "Whatever is most needed by the set of grantees or field or issue that we care about, and that our foundation cannot supply." Specific needs might include:

- The wise distribution of funds to otherwise unchanged organizations.
- Technical assistance. (What kinds? To achieve what level of capability? How?)
- A model program. (To be a model of what?)
- Greater coordination or integration of services among organizations. (Which organizations?)
- Better or more accessible information about best practice.
- Greater demand for the field's services.

- Greater supply of the field's services.
- A combination of several of the above.  
(What are likely to be the *dominant* needs?)

## How should an IO be chosen (or created)?

The key questions are likely to be:

- Are there organizations with high competence in the needed functions which we know to be responsive to our values and concerns? If so, they are the lead candidates.
- If the foundation has no experience in working with organizations having the relevant skills, how might we test their responsiveness and compatibility prior to choosing one?
- If there appears to be no organization with all the requisite skills, would an investment in a known and respected organization with related skills be likely to equip it to perform the needed functions?
- If we can identify no organization that meets any of the above criteria, should we consider creating a new entity to serve as an IO? If so, how long might it take and how much effort would be required before appropriate board and staff could be recruited, and effective operations could begin?

## Should we consider a collaborative IO?

Yes, if:

- our objective will require more resources than we alone can (or wish to) provide, and
- there are other substantial funders interested in that objective, and
- the values and styles of operation of one or more of those funders are sufficiently consistent with ours to make for a comfortable co-funder relationship.

No, if:

- the resources we wish to devote to the objective should be sufficient to reach it, or

- no other funders are interested in the same objective, or
- the values and styles of operation of other funders that are interested in the objective are not similar enough to ours to suggest that we could work comfortably together.

*If Yes*, consider especially:

- What should be the minimum requirements of a collaborative concerning staffing, minimum contributions, voting rights, and duration of commitment?
- Do we want to affect the funding or policymaking of some governmental body or the degree of collaboration between public and private actors? If so, should we seek governmental involvement in the collaboration from the outset?

## How should we orient and instruct the IO?

If a unitary rather than collaborative IO is to be chosen or created, what guidance or instructions should we give it regarding the following:

- our goals for its work.
- our sensitivities and risk tolerance.
- our interest in learning.
- the importance we attribute to candid reports on problems and progress, and the likely consequence of hearing various forms of “bad news.”
- what kinds of grantee problems need not be disclosed to us.
- the degree of contact we expect to maintain with grantees.
- the degree of oversight the IO should expect from our staff.
- the degree of contact the IO should expect to have with our board.
- by whom and against what standards the IO’s work will be evaluated.
- our willingness to invest in needed IO capacities.
- impermissible forms of competition with grantees.

## How should we evaluate the IO?

By:

- maintaining sufficient direct contact with grantees to provide a fair sample of grantee views on IO performance;
- working out with the IO, at the outset, an agreed set of specific indicators of progress toward our goals for the IO;
- retaining the right to select the person or persons to perform independent evaluations; and
- choosing those persons, in conjunction with the IO, for their understanding of the environment in which the grantees and IO work as well as their formal evaluative skills.

## What are the implications for the foundation?

The principal implications appear to be these:

If we intend to interpose an IO between the foundation and grantees or a field that we previously supported directly:

- When and what should grantees be told of the foundation's reasons for doing so?
- What assurances about continued support, if any, should we give grantees?
- What should we tell grantees about whether they will now be accountable to the IO or to us?
- How will the prior level of our staff's interest in the program be maintained? How will our board's?

Whether or not we have previously dealt directly with the likely grantees:

- How will we monitor and, as necessary, instruct the IO?
- What degree of direct contact with the grantees, field, or issue should we maintain?
- What check will we have on the accuracy and candor of the IO's reporting?

- What are the implications of these various responsibilities for our staff? Is it well-matched in size, abilities, and interest to those tasks?
- What are the implications, if any, of the functions we have assigned to an IO for our relations with other funders?
- Do we have an exit strategy? Is it consistent with the expectations of the IO? Of grantees?

## Endnotes

1. A useful description of community development financial intermediaries is Y. Thomas Liou and Robert C. Stroh, “Community Development Intermediary Systems in the United States: Origins, Evolution and Functions” in *Housing Policy Debate*, Vol. 9, Issue 3, (1998). The sole published description we have found of the use of intermediaries by a foundation program is Catherine Lerza, “Road-Tested Devolution: Mott’s Block Grants,” *Foundation News and Commentary*, September/October 1997.
2. The Foundation Center counts more than 18,000 American foundations as large; the number of small foundations, though indeterminate, is clearly greater.
3. Although they advise foundations about grantee performance, evaluators are not included. They are ordinarily individuals, not organizations; they do not relate to grantees in the sense the definition intends, and no respondent regarded them as intermediaries.
4. The use of respected and independent advisers—which appears to be more common among collaboratives than individual donors—may add legitimacy to the grant-making process in the eyes of the grantee community. This was the case, for example, when immigration attorneys served as *pro bono* participants in the proposal reviews of the Fund for Immigrants and Refugees.
5. If so, that would be understandable. As one foundation officer commented, “Program staffs normally assess prospective grantees, handle routine administration, and perhaps commission some evaluations. But they don’t do much that you’d regard as management. So they aren’t chosen for managerial abilities.”
6. At least one IO director thought that being a staffer for an IO had an additional benefit: It was more challenging and more satisfying than being a program officer. There is a lot of movement, in both directions, between funder and IO staffs, she explained, and a program officer lives and dies by the board meeting, but at the IO there are wins and losses every day.
7. Each of the sources of tension between grantees and IOs, and this one especially, may be magnified by color or class issues, real or imagined. Even funders with strong records of hiring minority staff and supporting minority grantees appear to have difficulty in finding a sufficient number of minority-staffed IOs. A high proportion of IOs are therefore staffed by persons of lighter skin and more formal education than are common in some grassroots and minority-based service providers. Such IOs are liable to be seen as overseers and resented on multiple grounds if they play their roles with a heavy hand.

# Appendix

## Persons Interviewed

### Funders

Annenberg Foundation . . . . .	Gail Levin
Mary Reynolds Babcock Foundation . . . . .	Gayle Williams
The Bricco Fund . . . . .	Mary Louise Mussoline
The California Endowment . . . . .	Alicia Lara Deborah Grieff (consultant)
Annie E. Casey Foundation . . . . .	Kathleen Feeley Ralph Smith
The Cleveland Foundation. . . . .	Kathleen Cerveney Susan Eagan Robert Eckardt Jay Talbot
Doris Duke Charitable Foundation . . . . .	Betsy Fader
East Bay Community Foundation . . . . .	Michael Howe
The Ford Foundation. . . . .	Barry Gaberman Jan Jaffe Mary McClymont (former)
Bill and Melinda Gates Foundation . . . . .	Gordon Perkin
Goldseker Foundation . . . . .	Timothy Armbruster
William and Flora Hewlett Foundation . . . . .	Michael Fisher
The James Irvine Foundation. . . . .	Martha Campbell
Jacobs Family Foundation . . . . .	Jennifer Vanica
The Robert Wood Johnson Foundation. . . . .	Marian Bass Peter Goodwin Rona Henry Robert Hughes Molly McKaughn

Kellogg Foundation . . . . .	Leah Austin Thomas Reis
The Kresge Foundation . . . . .	John Marshall
Katherine McKenna Foundation, Inc. . . . .	Linda McK. Boxx
Charles Stewart Mott Foundation . . . . .	Ron White
Open Society Institute . . . . .	Deborah Harding
David and Lucile Packard Foundation . . . . .	Jeanne Sedgewick
William Penn Foundation . . . . .	Gerry Wang
Pew Charitable Trusts . . . . .	Frazerita Klausen Joshua Reichert Susan Urahn
Polk Bros. Foundation . . . . .	Nikki Stein
Z. Smith Reynolds Foundation . . . . .	Valeria Lee (former)
Rockefeller Foundation . . . . .	Tim Evans Julia Lopez Joyce Mook

### Intermediaries

Academy for Educational Development . . . . .	Patrick Montesano
Baltimore Community Foundation . . . . .	Timothy Armbruster
The Cleveland Foundation. . . . .	Robert Eckardt
Community Strategies, Aspen Institute . . . . .	Meriwether Jones
Corporation for Supportive Housing . . . . .	Carla Javits
Foundation for the Mid South . . . . .	George Penick
Fund for Immigrants and Refugees . . . . .	Alice Cottingham
Hawaii Community Foundation . . . . .	Piikea Miller Kelvin Taketa
International AIDS Vaccine Initiative . . . . .	Seth Berkeley
Local Initiatives Support Corporation . . . . .	Timothy Murray (former)
Ms. Foundation for Women . . . . .	Anna Wadia Marisha Wignaraja
National Arts Stabilization . . . . .	Gail Crider
Neighborhood Progress, Inc. . . . .	Eric Hoddersen
North Carolina Community Development Initiative . . . . .	Abdul Rasheed

OMG Center for Collaborative Learning. . Thomas Burns  
Philadelphia Neighborhood  
Development Collaborative . . . . . Beverly Coleman  
Teeter Associates, Inc. . . . . Robert Teeter  
Tides Center . . . . . David Salniker  
Vera Institute for Justice. . . . . Christopher Stone

### Grantees

Acre Family Day Care . . . . . Anita Moeller  
AlphaVax . . . . . Peter Young  
Cabarrus County (NC) CDC . . . . . Louise Mack  
The Good Faith Fund . . . . . Penny Penrose  
Hispanic Association of Contractors  
and Enterprises. . . . . Guillermo Salas, Jr.

Michigan Schools in the Middle. . . . . Patricia Benson

### Consultants and others

Brody and Weiser. . . . . Francis Brody  
Center for the Study of  
Voluntary Organizations . . . . . Pablo Eisenberg

Chapin Hall, University of Chicago . . . . . Joan Wynn  
Council on Foundations . . . . . Allison Wiley

# About the Author

## Peter Loeb Szanton

Peter Szanton, President of Szanton Associates, is a consultant to governments and nonprofit institutions. He is the author of *Not Well Advised*, co-author of *Remaking Foreign Policy: The Organizational Connection* (with Graham Allison) and *National Service: What Would It Mean?* (with Richard Danziger), and editor of *Federal Reorganization: What Have We Learned?* Also, he has written numerous reports and articles. He has been especially concerned, both as a consultant and as a client of consultants, that advice to decisionmakers be useable.

Mr. Szanton was Associate Director of the White House Office of Management and Budget during the Carter administration, and has served with two presidential commissions on federal organization. As founding president of the New York City–RAND Institute, he directed an extensive effort to improve the performance of that city’s municipal agencies.

Mr. Szanton serves on the boards of a number of nonprofit organizations, such as the Center for Policy Studies, Central European University; Partners for Democratic Change; and Eureka Communities. He has chaired the boards of Youth Service America and the National Academy of Public Administration. He holds BA, MA, and LLB degrees from Harvard.

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