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Discretionary Grants: Encouraging Participation... or Pandora's Box?

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The National Center for Family Philanthropy
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- Foundations have widely varied views on discretionary grants
- NCFP's new *Passages* on discretionary grants just published
- Looked at trends since the *Passages* published in 2001
- Included an online survey and interviews with foundation leaders



Wanted to assess the impact from factors such as:

1. Drop in assets due to poor economy
 2. New generations joining boards
 3. Increased government scrutiny of foundations
- About half of foundations use discretionary grants.
 - Since the 1990s, the percentage has been growing but it recently leveled off.
 - Plateau may be temporary and related to the shrinking of endowments.



Reasons why some foundations *oppose* them:

- Keep boards from focusing on shared goals
- Don't get the same scrutiny as core grants
- Confuse grantees when grants are made outside the foundation's mission
- Can lead to questions about potential self dealing
- Can be a source of strife when families expand and more people want to participate
- May inhibit personal philanthropy of family board members
- Aren't part of a strategic grantmaking approach, making it difficult to assess impact or see how grants add up to some kind of change or impact



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Reasons why some foundations *favor* them:

- Engage geographically diverse families
- Keep personal passions from taking time on board's grantmaking agenda
- Keep focus on things the board members can agree on
- Train future trustees
- Allow quick turnaround in disasters / emergencies



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The Marion I. and Henry J. Knott Foundation

- Based in Baltimore and founded in 1977
- Approximately \$50 million in assets and four staff
- Grants are made in Baltimore and several counties in Western Maryland
- Has 32 board members who are active in the grant process including all site visits



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Rationale for a discretionary grants program:

- A way to say thank you to board members for their board service
- A way to be more responsive, more quickly, to nonprofits
- Each board member gets \$2,500 annually to designate
- An open process; nonprofits invited to submit proposals; grants posted on website



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- Board members can submit their own grant proposals or can pick from a list of requests the executive director circulates monthly
- Grants must meet the foundation mission and guidelines
Board members have to submit write-ups for any grant they wish to make
- Grant Committee chair reviews for compliance and rejection can be appealed to Board Executive Committee



Observations and recommendations:

- ❑ The culture of silence. Discretionary grants seem to be a “taboo” subject.
 - Aren’t seen as strategic and sometimes viewed as a “perk.”
 - Not usually posted on foundation’s website.
 - **Recommend:** Discuss openly and regularly.
 - Use them to engage board members.
 - Don’t just ask for proposals; look at reports, too.



Family dynamics related to discretionary grants:

- Discussion of them often leads to difficult conversations about payout, values, family philanthropy, eligibility to participate in the foundation.
- **Recommend:** Be mindful when you open up the topic and be prepared for the issues that might surface. An outside facilitator can be helpful.
- Don't let discussions of discretionary grants become a proxy for addressing other issues – like spouses being eligible to be on the board.



Importance of written discretionary grants policy and conflict of interest policy.

- This is important for legal reasons to prevent misuse of funds and also to support healthy, upfront discussion when such issues arise.

Write a rationale. Revisit the policy regularly.

- Develop a clear rationale for both your program and your discretionary grants – so the board is clear on the different purposes of each grants portfolio -- then review this every three years.



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Can be huge administrative burden.

- Maybe limit how small grants can be
- Require the board to do most of the due diligence (this also helps increase learning and engagement)
- Move to a donor advised fund



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What else we learned:

- In general, more transparency is always better. Consider posting them on your website.
- Giving staff the opportunity to make discretionary grants has some plusses.
- Matching gifts programs are an option in combination with or in lieu of discretionary grants.