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grantcraft
PRACTICAL WISDOM FOR GRANTMAKERS

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WHEN
PROJECTS
FLOUNDER
COMING TO THE RESCUE
WHEN GOOD GRANTS
GO ASTRAY

when projects flounder

coming to the
rescue when
good grants
go astray

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Introduction

Every floundering grant flounders in its own way, and each one calls more for judgment than for technique alone.

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Varieties of Floundering

Some grants flounder just because the program design or implementation plan had some flaws. Those tend to be the easier ones to fix. The other two types of troubled grants are usually harder: those where the grantee has organizational or management problems, and those where the grantee and grant maker have different (or even conflicting) values. In this guide, a group of grant makers share personal experiences with each type of floundering grant.

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Looking for Warning Signs

A few warning signs can help grant makers distinguish between fleeting or momentary problems and those that point to greater trouble ahead. When grantees turn up with chronic cash flow problems time after time, or when they start to engage in a desperate chase for dollars, or seize on dubious funding break-

throughs (poorly linked to their core mission), something deeper is likely to be wrong. When you sense that the grantee's board of directors is inattentive, or its founder suffers from major blind spots, you may be seeing signs of trouble. Most of all, trust your own inner feelings when they start to nag at you — even if the nagging isn't yet specific or clear. Several veterans recall the moment when they saw the "trouble" signals begin to flash. We include a minicase on page 6.

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Deciding to Intervene

When a grant starts to flounder, grant makers must choose whether to treat it as a failure or to stick with it and correct the problems. When grants are large or strategically important, when the funder feels a special obligation to the grantee, or when the grant maker represents a foundation that doesn't mind intervening in grantees' affairs, it may be particularly important — even necessary — to rescue a troubled grant, rather than writing it off. This section describes how some funders make that decision. We include a minicase on page 9.

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Tactics for Intervening

If you decide to try to rescue a floundering project, grant makers argue that it helps to get help from your colleagues and superiors, from other funders, and from consultants – but also to stay involved yourself. They also advise that you make the issues institutional, not personal, to avoid provoking a defensive or evasive response from the grantee and from yourself. In some cases, it helps to engage the grantee’s board. But above all, be sure to be aware of the power imbalance, and use your power judiciously. While you’re at it, you can try to create opportunities for learning so the next troubled organization or grant maker might benefit from your experience. We include a minicase on page 13.

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Publications and videos in this series are not meant to give instructions or prescribe solutions; rather, they are intended to spark ideas, stimulate discussion, and suggest possibilities. Comments about this guide or other GrantCraft materials may be sent to Jan Jaffe, project leader, at j.jaffe@grantcraft.org.

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Introduction

“It was at this time, that I started to feel completely in shark-filled waters. I started to feel I was caught in a bad dream. I was feeling oppressed by the whole thing, thinking ‘God, why did I ever get into this?’ ”

— Grant maker on realizing that a large grant to an entrepreneurial start-up was dragging her into an ethically questionable money pit

“There was an uproar in the grantee community. People wanted to know what we were supporting. I’d thought we had an understanding [between the foundation and the grantee on how the grant would be used] and instead it was turning into something quite different. I was catching a certain amount of flak... I was feeling trapped.”

— Grant maker on learning that a leading grantee was using foundation money to advance a previously undisclosed ideological agenda

“My heart sank at this meeting. I could tell that he felt this was hurdle-jumping, and unnecessary and undignified.”

— Grant maker on realizing exactly how a critically important grantee regarded the core objectives of his foundation’s major new initiative

Virtually every experienced grant maker has watched at least one grant slide over the line — from the type of grant that creates a nagging feeling to the type that inflicts sharp pain; from the type that you don’t feel quite on top of to the type that is suddenly in your face, demanding your intervention. Once across the line that separates managing a grant from managing a *floundering* grant, grant makers may feel they’re on their own. There is no guidebook or established best practice. And because each floundering grant flounders in its own way, and each one calls more for judgment than for technique alone, the value of a guidebook would be doubtful. That does not have to mean, however, that grant makers must go it alone, or that we can’t learn how to navigate through troubled grants more effectively. We can reflect on our experience — and those of other grant makers — to develop a better sense of how to cope with troubled grants.

WHERE THE EXAMPLES COME FROM

This GrantCraft guide distills the reflections of dozens of grant makers, 15 of whom generously performed a post-mortem on a floundering grant. (All of them were offered anonymity to ensure neither they nor their grantees would be embarrassed.) The grant makers worked in a variety of settings — from small family foundations to large grant-making institutions. The grantee organizations they described also varied in mission, age, size, and complexity. That variety notwithstanding, their stories generated a consistent set of themes well worth considering when a grant is sliding across the line.

Varieties of Floundering

The grant makers responding to troubled grants first faced the challenge of getting from a general sense of trouble to a more precise diagnosis that would offer some guidance about how to respond. In effect, each of the grant makers started off confronting what the organizational theorist Donald Schön has insightfully called “messes.” Schön argues that practitioners do not often encounter crisp, clear problems to which they simply apply technical solutions. More typically, they find themselves in a “swampy lowland,” facing “problematic situations – which are puzzling, troubling, and uncertain.”¹ The first job of the practitioner is to convert that mess, or problematic situation, into a better-defined problem. Usually the practitioner does this through an intuitive process of trial-and-error, moving from mess to problem to attempts at solution without ever naming (or even needing to name) the more precise diagnosis.

Our grant makers’ stories reflect three prevalent types of floundering – each of which exhibited different warning signs, called for different interactions, and even created different dynamics in the grantor–grantee relationship:

Program design or implementation: These are the troubled grants we should be lucky to have, as the problem often becomes quite clear – i.e., some element of program design or operation needs correcting – and with some good analysis and brainstorming, solutions can often be found.

Organizational performance: In these troubled grants, the problem is not a grantee’s programs, which might be brilliantly conceived and very well implemented, but the organization that runs them, which might face one or a series of problems, ranging from financial mismanagement to high staff turnover.

Strategy or values conflict: More subtle, and sometimes more baffling, are situations where the problem is neither the grantee’s program nor organization – both of which might be running fine – but instead a conflict (usually not clear at the outset of the grant) between the funder’s vision of the underlying strategy and the grantee’s.

It’s useful to keep these distinctions in mind (though others could be just as useful) to avoid the pitfall of assuming all troubled grants are alike, and call for the same responses.

¹ Donald A. Schön, *The Reflective Practitioner: How Professionals Think in Action*. Basic Books, 1984.

Looking for Warning Signs

There should be some comfort in the fact that, almost without exception, our troubled-grant commentators described some early warning signs. Trouble didn't erupt like a squall. Usually the sky darkened gradually and the wind picked up slowly. By taking the warning signs seriously, the grant makers were usually able to minimize damage, if not avoid it entirely.

■ **Chronic cash-flow problems: Most nonprofits, especially small or new ones, have limited cash reserves and high uncertainty about the timing and sources of revenues, so a reasonable grant maker will not take occasional cash-flow problems as a sign of financial distress. But chronic cash-flow problems are almost certainly a sign of deeper trouble. Be wary of grantees who:**

■ **Describe recurring operating deficits as cash-flow problems**

■ **Return again and again for advances on grants because of low cash flow**

■ **Divert program funds to general operating support to cover cash-flow problems.**

One grant maker recounted his foundation's attitude change — from one of sympathy over cash-flow problems to one of suspicions that the problems were deeper: "When they first came to us, early in their floundering, the issue was cash flow. We tried to help them through that. But we were very uncomfortable because we were really patching things together to overcome what was actually bad financial management. Essentially, they had used \$60,000 of project money for core support. So

we decided to take a closer look." (See Minicase on page 6.)

■ **Desperate chase for dollars: Given how strapped many nonprofits are for resources, grant makers would do well to tolerate some dollar-chasing — where a nonprofit reshapes its programs at the margins to be eligible for funding, or where a nonprofit might start a new program that satisfies a funder's requirements but is not entirely consistent with the organization's real strengths or strategies. But grant makers who wound up embroiled in grantees' financial meltdowns usually noticed a particularly desperate type of dollar chasing.**

One recounted how a "wonderful group of people" became desperate after the loss of United Way funding, and compensated by "running after grants in fields only indirectly related to their work. Their lack of experience in budgeting for these new programs led them to grossly underestimate their costs. So, in the end, they received some new funds but lost more money running these programs." An earlier review of their entire financial situation — and their options — might have prevented considerable trouble.

■ **Dubious funding breakthroughs: Sometimes the pursuit of a single bold idea can mark the first steps toward improved financial health. Or it can be a misguided attempt to sidestep the hard work of financial analysis and management by chasing after a miracle cure.**

Case in point: An academic research center that was virtually invisible

IN THIS SECTION WE'LL DISCUSS SEVERAL PREVALENT WARNING SIGNS:

- Chronic cash-flow problems
- Desperate chase for dollars
- Dubious funding breakthroughs
- Inattentive boards of directors
- Founder blind spots

outside its university, and had no public constituency to speak of, became fixated on a direct-mail campaign. “I had run a nonprofit that did some direct mail,” explained a grant maker who was skeptical of their proposed breakthrough. “So I was asking the right questions. But they were already in over their heads. They had been forced to start using cash to pay for a direct mail campaign, which is very expensive. This led to cash flow problems, and then to a deficit.” The fact that a direct mail campaign — implausible to start with for this organization — was viewed as the key to financial turnaround was in this case a warning sign, not a mark of innovation.

■ ***Inattentive boards of directors: A disengaged board can often be a sign of trouble to come, so any impression that the board is inattentive, lacks appropriate commitments to track programs and financial performance, or does not seem reflective of or in tune with constituents’ needs can signal an environment where staff are not regularly challenged or supported in carrying out their work.***

Making assumptions based strictly on the board’s membership can mask an ineffectual board. “Do not assume that because the board has business people on it, the organization is well managed — or that because it has community people as members, their voices will be heard,” said one grant maker who fell into both traps. “Boards have surprising dynamics, and you need to learn how they are functioning when the grantee gets into trouble.”

■ ***Founder blind spots: Founders of nonprofit organizations are often rightly credited for their vision and determination in molding a mission into an organization, and almost as often found to be ill-suited for the job of running that nonprofit over time. Unless you know the skill set of a founder grantee, it’s worth a close look to determine if they have blind spots on critical areas like financial management or staff development.***

“She started this organization in the front room of her house,” recalled one grant maker from a small foundation about a founder-grantee who later “got in over her head. She had heart and soul in it, and was trustworthy.” But when the grant maker took a closer look after making increasingly larger grants over a series of years, she found “they hadn’t grown up as an organization. They didn’t have enough community involvement, in designing programs or on their board, and they didn’t have systems in place to keep track of their growing budget.”

Our grant makers do not seem to suggest — with the benefit of hindsight — that their nagging doubts should have triumphed over their inclination to move forward. There were strong cases to be made for setting qualms aside and making all of the grants in question. And in retrospect, most grant makers would *not* have run from the grant. If they had taken their gut feelings more seriously, they would have probed more deeply to investigate why they had nagging doubts, and tried to manage the grant more carefully. Or,

THOSE NAGGING FEELINGS

Many grant makers sensed trouble even in the absence of clear warning signs, describing “nagging feelings, uneasiness, or a sense of foreboding.” In most cases, the nagging feelings were followed not by program or organizational problems — but by conflicts over strategy or values.

One grant maker couldn’t square a grantee’s professional profile with the intended strategy of the grant. It occurred to her, but only as a passing thought, that the grant seeker was in some ways an implausible candidate to run a sex-education program. The grantee had been trained in the old school of social work and, more troubling, seemed professionally close to an old-school public health bureaucrat known as “Mr. Anti-Condom.” Yet the grantee had designed a good, evidence-based program, was eager to learn, and fully endorsed the funder’s agenda. When the grantee later published a lengthy abstinence-only editorial, written by Mr. Anti-Condom himself, in its newsletter for public health educators, the grant maker recalled her first nagging impression.

Another grant maker who decided to “make a bet” and support an entrepreneurial nonprofit’s ill-fated idea for offering social services online actually paused to clarify some of her nagging feelings for herself: “I said to myself, ‘I’m not entirely comfortable with the values behind this man’s approach, and he may not be entirely comfortable with mine. But it doesn’t matter — because the activities of the grant support both.’” It did matter later, however, when the grantee’s priority became almost exclusively profit, and when his methods involved privatizing public information by selling it for a fee.

in the words of one uneasy grant maker, “tiptoe into things very carefully.” Some who responded to gut feelings and got more closely involved in their troubled grants feel they minimized damage or, in a few

cases, succeeded in turning things around. Those who later felt trapped were the ones who had generally set their qualms aside and moved forward.

Minicase: A Floundering Organization

GRANT MAKER: A large foundation that believed promoting collaboration among environmental organizations was critical to its long-term strategy.

GRANTEE: A national umbrella organization of two dozen local environmental advocacy groups that had been founded several years earlier with the foundation’s support.

THE SITUATION: Complex, time-consuming, sometimes delicate intervention by the grant maker in the grantee’s financial problems, which were partly related to its lack of strategy.

Q. How did you know this organization was in trouble — and not just another cash-strapped nonprofit going through some hard times?

A. *The issue was cash flow. We tried to help them through that, but we were very uncomfortable because we were really patching things together to overcome what was really bad practice. Essentially, they had used \$60,000 of project money for core support.*

Q. You wanted to save this organization, but you didn’t want to enable bad management. How did you signal that you were there to help, but that things had to change?

A. *We knew that they were many thousands of dollars in the hole. So we met with the executive director and the board. We told them they needed to get their financial house in order, and that there would be no grant for deficit reduction. After considering their options, they came back with a wish list — a huge number of projects with an endowment goal on top of it all. But there was something missing. They had vision, but no steps to get there. They really needed help growing and*

building capacity for new revenue streams. They didn’t have sound ideas on this. We agreed that they would need some consultants to help them figure it out.

Q. This is a delicate moment to introduce new players. Was the grantee receptive to the consultants that you recommended?

A. *At first they were resistant to the consultants’ financial and management approach, which they found off-putting. About then, we also reached unanimous understanding that they had been taking on lots of projects without thinking strategically about what they should focus on. They were really stretched thin and were not saying “No” often enough. So we told them we needed benchmarks, which they could set, to focus their efforts — with the consultants’ help — on reducing the deficit within a certain period, and on attracting new members. It was rough going for a while.*

Q. It’s been more than two years since you intervened. Are things better?

A. *They’re pulling out. There’s no deficit any more. They’ve come an incredible distance. Once they figured out what they needed to do, they went to work. For an organization where discussion of money could be seen as poisonous — as a sign that you’ve lost your mission — they really shifted. They’re seeing that conferences, for example, could actually provide income. They also clarified that there was some service work that would never make money but was important. That led them to the development of new plans, where they began exploring how they could generate revenue from some of their work, and how they would fund the work that doesn’t generate fees.*

Deciding to Intervene

Every grant maker knows that, in the abstract, the right thing to do is to get involved in turning a floundering grant around, even when there might be a respectable way to cut your losses and get out. Every grant maker also knows that, in reality, there is usually precious little time for complicated rescue missions, especially when time spent in a turnaround can distract you from vetting new applications – which in turn increases the odds that you’ll need to rescue some of those later on. Our commentators on troubled grants usually had especially compelling reasons to get deeply involved. Here we discuss a few.

■ **Large-scale grants:** While most grant makers can live with the reality that not every grant will lead to flawless work, grant makers who faced the possibility of an especially large flounder understandably felt they *had* to get involved.

“It was a criminal waste of money,” one grant maker said, berating herself for having recommended a huge grant for the soon struggling online social service organization. “A mistake that big is not easy to live with, especially when it could have gone to other people struggling directly with difficult issues and constituencies.”

■ **Special obligation to the grantee organization:** A grant maker who has had a hand in forming a non-profit, or has set it on a path that later proves rocky, should think twice before retreating from even the messiest flounder situations.

“We have an obligation to stick with organizations that we had a hand in starting,” said one grant maker from a large foundation, explaining why she embarked on a prolonged organizational turnaround. In addition to helping start the organization, “we had urged them to develop a business plan laying out how they could find other donors.” That plan, based on some faulty assumptions, got the grantee off on a dangerous tangent with expensive fundraising. The grant maker concluded that the right thing to do was to figure out where the plan’s faulty assumptions were, to help create a new one, and to get the grantee help in implementing it.

■ **Strategic importance of the grant:** While every grant is made in the hope that it will make an important difference, some grants are obviously more important than others to the grant maker’s strategy and therefore warrant more attention.

Such was the case for the grant maker who faced a recalcitrant university dean, who wanted the grant maker’s money but demonstrated total indifference to the foundation’s goals of increasing faculty diversity. Why tangle with a powerful and stubborn player? Because success with this grant at this college could change the wider field of higher education: “It would give legitimacy and national visibility to the issues and send a signal to other colleges.” Or as another grant maker concluded: “If this organization went out of business, we’d have to invent it again.” (See *Minicase* page 9.)

■ **Organizational culture:** While an individual philanthropist might conclude, based on the factors above, that intervening would be justified and helpful, grant makers working in foundations have to consider one more factor: the style or culture of the foundation that employs them.

For a variety of reasons — reluctance to step on grantees' toes, preference

for a low profile, or comfort with the fact that some grants will simply fail and that moving on is the best strategy — some foundations might discourage intervention. It's important to understand your institution's appetite for hands-on grantee problem solving. Getting knee-deep into a complicated grantee situation — without the support of your own institution — can make a tough situation even harder.

Minicase: A Mismatched Strategy Leads to Floundering

GRANT MAKER: Senior grant maker at a medium-sized foundation interested in promoting the development of college-level multicultural curricula.

GRANTEE: Dean of a small but prestigious liberal arts college who was more interested in the foundation's money than in its multicultural agenda.

THE SITUATION: The floundering took a subtle form — the resistance of the dean to the program guidelines. He wouldn't withdraw the application, but he wasn't earnestly committed to it. The grant maker wanted to take a chance with him nonetheless, because this prestigious college could influence others. The result was a near stalemate.

Q. Although the grant seeker here knew about your guidelines, he submitted a thinly veiled proposal for general operating support. How did you try to redirect him?

A. *We had a meeting in which I said, "You'll note that our guidelines are to fund knowledge-building as it advances a multicultural perspective." We talked through very extensively what this might mean, and he said 'Yes, yes' and would nod his head — "this is true." But already I had concerns, and I could see from his responses that he was not thinking in these terms. There was some foreboding on my part. I decided I had to tip-toe into this. So I said, "Let's start with a planning grant."*

Q. You then got a proposal for a planning grant that displayed the same indifference to your agenda as the original application had done. How did you restate your position without seeming too heavy-handed?

A. *Well, I decided to get my boss and a colleague to meet with us to drive home that this was serious. We said, "This was a great first step, but more needs to be done to have this considered." We gave him names of individual scholars and*

centers from whom he could get advice. But my heart sank at this meeting. I could tell that he felt this was hurdle jumping and unnecessary and undignified. After two or three months, I got a call from an associate director, asking when they should submit the final proposal for long-term funding. This was an alarm bell. It meant they weren't preparing to do real planning work.

Q. Wouldn't a reasonable grant maker give up here?

A. *I needed this institution to take this seriously. It would give legitimacy and national visibility to the issues and send a signal to others. I was convinced of the importance of my goals, so it didn't throw me that this dean didn't get it. I was utterly convinced why this grant supported our mission.*

Q. How did you get a breakthrough?

A. *I called the dean and said, "Let's sit down and talk this through." He didn't show up, but sent a recently appointed associate dean. I began to get pleasantly surprised. She showed a real appetite and energy for this. I had a toe hold now ... I had sliding goals. I may be losing the dean, but I've got an individual with a fresh perspective who has real eagerness for this.*

Q. If this college was so critical, why entrust your goals to this junior player?

A. *I've learned along the way that for grant making in innovation, you often need unofficial, non-principal actors in an institution to be involved. I depend a lot on my ear for energy, character, and ability to find them. I look for evidence of sincere interest, commitment, and dedication. You can read that. You can make mistakes — so where I don't feel it, I double-check. But then I don't stick around.*

Tactics for Intervening

TACKLING TROUBLE HEAD-ON: ORGANIZATIONAL TROUBLES

It's usually not an option to treat a struggling organization merely as an interesting problem that grant maker and grantee are eager to fix. In these cases, the grantee has usually let things get out of control, and the grant maker usually wants to signal that things need to be brought back under control. Beyond whatever displeasure the grant maker might express, the problems of the organization might already be leaving its leadership feeling threatened and anxious. When a grant maker arrives asking questions, challenging faulty assumptions, demanding a plan for improvement, and meeting with the board, the situation can become tense.

There's probably nothing better to reduce unproductive tensions than a clarification of the grant maker's intentions. If the goal is to uncover mismanagement and assign blame, interpersonal prospects are bleak. But if the goal is to shine a light on problems so they can be fixed — with the grant maker's help and encouragement — a tense relationship can nonetheless be productive.

Once you've spotted the warning signs, figured out the nature of the trouble in question, and decided you are committed to intervention, your work in managing a floundering grant raises a number of new challenges: You are ready to deal with a struggling, possibly even oppositional, grantee who has probably been conditioned not to share any evidence of human or organizational foibles with funders. On the long continuum of intervention options — between authoritarian intervention on the one hand and endlessly sympathetic support on the other — is the one spot that is right for your situation. The six intervention tactics below, drawn from our commentators' stories, are offered as a starting point for considering how to find that right spot.

■ ***Don't go it alone. Given how difficult it can be to find the right intervention strategy, it can be especially helpful to involve colleagues in your assessment of the situation and review of options. They can act as sounding boards and provide some perspective if you're in danger of underestimating or overestimating the gravity of the problem.***

Especially in larger foundations, grant makers sometimes assembled an ad-hoc group of colleagues to advise them. While struggling over the online social services organization, our commentator "turned to a number of colleagues with long experience in this area and sharp noses for some of the issues involved — especially legal and financial." Having convened the group, it's important to listen very attentively not just for affirmation but for doubts and criticisms as well. When one of

her colleagues questioned the desire of clients to use online social services, this grant maker heard it "as an off-hand remark. I should have heard it in a completely different way" — since his skepticism went to the heart of the project's vulnerability.

■ ***Make it institutional, not personal. Especially when you are worried that a grantee's strategy is beginning to conflict with funder strategy, it's useful to use the foundation's previously stated goals as reference points. A grantee is less likely to see your intervention as a personal judgment, and more as a matter of reconciling the goals and objectives of two institutions. And involving colleagues early on, particularly superiors, can also help grant makers avoid the embarrassment of informing the institution after a problem becomes severe.***

Commentators for this guide often opened some of their most important conversations — where they were broaching the trouble — with lines like: "You'll notice that the foundation guidelines emphasize... ." Feeling "the most heavy-handed I had ever felt in my foundation career" on the day she was forced to question a grantee's strategy, one grant maker was careful "to argue my case by getting out of the 'me box' and putting forth the foundation's program principles."

In many cases, the grant makers brought colleagues or bosses into these conversations, either to underscore that the grant maker is acting for the institution, not as a free

agent, or to “drive home that this was serious” — or both.

- **Engage the board.** While the prospect of engaging a grantee’s board may be especially unappealing — it can seem very heavy-handed and can complicate grantor-grantee interactions — it is often a wise tactic. Like bringing in foundation principles and colleagues, it frames the intervention as an institutional matter. It emphasizes that the grant maker is seeking an institutional commitment to a turnaround, and signals that the organization needs to make itself accountable for improving the situation.

A grant maker from a small foundation whose grantee had diverted an entire grant to another project without the funder’s approval, and then never followed up with any reporting, made a meeting with the board a condition for consideration of additional funding. “I *insisted* on meeting the executive director and her board. Part of the problem here was that although the executive director had a wonderful vision, she didn’t really have an active board, and they needed to be engaged.”

- **Use your power judiciously.** Along with the funder’s power to influence grantees comes a responsibility to use it carefully and constructively. It’s easy to use too much power — making demands where suggestions might do — and thereby alienate the grantee and damage the prospects for a constructive problem-solving effort. If there is no question about competence, but the issue is more about

judgments in strategy (where reasonable people can disagree), an expression of your concern and some dialogue-prompting questions might be right. If there is an egregious problem of performance — putting the grant dollars and the organization’s constituents at risk — a more challenging posture might be appropriate, if you’re on guard for the possibility of overdoing it.

A grant maker who questioned a grantee’s depth of commitment to their agreed-upon strategy — but who didn’t doubt the grantee’s competence — “drew on a nudging strategy. In my youth I would have been much more blunt. Now I see the power this position gives me, and I have the security of knowing people will listen carefully. I could raise concerns without hammering them.” Facing a quite different situation — faulty fundraising assumptions, followed by growing deficits with no plan for a turnaround — another grant maker felt compelled to issue a warning. “We told them they needed to get their financial house in order, and that we wouldn’t be funding their deficits.” It got the grantee’s attention and, because it was followed by offers of help, led to important improvements.

- **Create opportunities for learning.** In many cases, the commentators we interviewed faced committed, competent grantees who were simply struggling with one or another aspect of their work. In fact, sometimes nothing was off track yet — but the prospects looked questionable because of limited vision, poor grasp of best practice, or lack of

TALKING PAST EACH OTHER: CONFLICTING STRATEGIES.

Misunderstood and conflicting strategies have their roots in miscommunication — as grant maker and grantee misunderstand each other’s underlying intentions, make assumptions about their compatibility, or withhold nagging doubts about the prospects for the grant. And since the trouble is really one of conflicting judgments or preferences about strategy — not necessarily a problem of performance — the solution requires a new commitment to thoughtful dialogue.

The grant maker and grantee need to arrive at a shared understanding of the problems the grantee faces and establish a candid dialogue where the two can figure out what to do. One grant maker recounted a critical meeting where she had to “frankly express my concerns” over the way a grantee’s strategy was ultimately at odds with the foundation’s. “I told her my foundation had taken lots of heat” because of the grantee’s choices. She asked where the grantee stood, inviting a full discussion about their underlying assumptions, values, and preferences. Although sometimes painful, the meeting “actually reassured me about her, that the issue was confusion and inexperience” — not an irreconcilable difference.

WORKING SIDE-BY-SIDE: PROGRAM PROBLEMS

When it's a program gone wrong, grant makers and grantees have the option of working side-by-side, treating the problem program as neither one's fault. The organization's competence is not necessarily in doubt, nor is the solution likely to involve a prolonged intervention in the organization. And rather than calling a grantee to account, the grant maker's job is often to help in a process of analysis, learning, and correction.

Still, grantees are likely to be sensitive. When setting up a meeting for a struggling grantee to learn from more successful counterparts, one grant maker was careful to keep the foundation out altogether: "They're more comfortable talking to a fellow grantee, because they find it less territorial or judgmental." Even so, suggesting such a meeting initially "made them formal and hesitant — though we later sensed a huge sigh of relief. And then the meeting itself was very productive."

focus. Constructing a formal learning opportunity often turned things around, and usually avoided putting the grant maker in the position of patronizing the grantee with tutorials.

Grant makers especially favored this strategy during the proposal development stage, when they sometimes concluded that the grant seeker was not well enough informed to develop a compelling plan. Before committing to her troubled sex-education grant, that grant maker arranged a study trip to Boston, Chicago, Los Angeles, and London for the grantee to see programs that reflected best practice. She returned with new information and ideas. "She was on board about safe sex and the HIV epidemic, as well as condom promotion."

Sometimes grantees funded under the same grant initiative can become learning resources for each other, if a grant maker facilitates their contact. When one grantee among ten was getting poor results on a home-visiting program, the grant maker "wrote to the three high-performers [which it identified through their reports] and asked what they were doing well. We shared that list with the others, and invited the problem grantee into a meeting with the high-performers. We didn't participate ourselves, because as hard as you try there's always a barrier between funder and nonprofit. They

found it less territorial and less judgmental to work with other grantees. And they learned a lot. In fact, they found they had a number of simple 'for want of a nail' problems, and were really able to improve their program." (See Minicase on page 13.)

■ **Consider using consultants (carefully). If the trouble is advanced and complicated — e.g., a financial management meltdown — arranging for a consultant to do a thorough diagnosis and turnaround might be the best choice. Beware, however: The combination of grant maker, grantee, and grant maker-funded consultant working on the organization's problems can sometimes be complicated, with tangled lines of accountability. Allowing the nonprofit to participate in the selection of the consultant can head off some of these complications by building in trust up front.**

When a funder challenged a floundering grantee to develop a turnaround plan, the grantee "came back with a wish list — a huge number of projects, with an endowment goal on top of it all. But there was something missing. They had vision, but no steps to get there. They really needed help growing and building capacity. They were inexperienced, unrealistic. We agreed that they would need some consultants to help them figure this out."

Minicase: A Floundering Program

GRANT MAKER: A senior grant maker at a small hospital-conversion foundation that promotes access to health and wellness services.

GRANTEE: A well-respected health-care nonprofit that was doing a surprisingly poor job implementing a home-visiting program.

THE SITUATION: Relatively manageable. If the problem is discovered early on, and if the foundation can point the grantee toward best practice, a program in trouble can be turned around without a protracted struggle. This can be a far cry from situations where the organization, not the program, is floundering — and further still from situations where the funder and grantee are struggling about strategy, not performance.

Q. What were you trying to accomplish with the grantee, and how did you know things were not going well?

A. *We awarded six grants to support home-visiting programs that would send nurses and health aides to elderly shut-ins or teen mothers — people who were unlikely or unable to get to the hospital or doctor's office. We require a report after the first six months of a grant, so we can often spot a problem*

early on. In this case, we discovered that grantees' performance varied widely. Three of the six were doing well, but three were struggling. One in particular — run by a strong organization with lots of health expertise — was completing only 16 percent of their visits! So it was clear from the very first report that there was a problem.

Q. How did you help the grantee get on track without being threatening?

A. *We wrote to the three high-performers and asked: What are you doing that's working so well? We used their answers to create a top-ten list of practices, which we circulated to everyone. We then suggested a meeting of the top performers and the struggling grantees, to sit down and talk turkey. The weaker programs picked up a lot. Lots had to do with how to operate in dangerous neighborhoods. It turns out some of the grantees had really well-designed programs with great technical competence, but they lacked street savvy. We helped them get some of that savvy.*

Q. The result?

A. *By the next report, performance had really improved.*

WHAT GRANTEES WISH GRANT MAKERS KNEW

We asked some experienced grantees to react to the advice and experiences that grant makers shared about floundering grants. What would they add? Amplify? Challenge?

Their advice to grant makers:

WORK ON THE UNDERLYING RELATIONSHIP

"The focus needs to be on creating a good grantor-grantee relationship, not on the tactics for intervening when things go wrong," said one grantee. "If it all comes down to technique, you're in trouble. You need the relationship first." In other words, if a good relationship is established up front, problem solving would be a joint undertaking by grantor and grantee, not an "intervention" by one into the affairs of another. Suggested principles for a grantor-grantee relationship include:

■ **Explain your hoops.** Grantees accept that grant makers have interests of their own that need to be satisfied over the course of the grant. While grantee compliance with these interests may at times be derided as "hoop-jumping," more grantees, apparently, would be happy to comply — if they had better guidance on the nature of the hoops. "Even when it comes to jumping through

hoops," said one, "we can still agree on the hoops up front and understand what they're for. If I understand what the grant makers want, I can propose some ways of meeting their needs. I've never been called in to talk about expectations before the grant, though I have been called in when it's too late. The agenda should be talked about up front."

■ **Make a commitment, not just a grant.** It would help if grantees expected that grantors really had an abiding interest in how the program unfolds. "Instead of saying when the grant is made, 'Off you go, and don't get my name in the headlines,' there needs to be a way early in the negotiation around a grant where the grant maker is willing to take responsibility for the outcome and enter into a partnership to support getting there."

■ **Encourage candor.** Problem solving is hampered when problems are taboo. "Everyone has to do a dance that makes it too risky to tell the truth," commented one grantee. "Grantees worry that

funders don't like risks or may not really want to hear the truth. So both become too polite to deal with the problems the grantee might face. ... It would be great if something could be done to reward honesty: 'I'll keep funding you if you keep growing and changing.' A few funders do this, but they're rare."

■ **Don't make it solely a business relationship.** One grantee argued that focusing on budgets, outcomes, and grant agreements would make the relationship too "transactional." "If it becomes, 'I have these resources and I want this job done' then it's a contractual relationship. You really need to create a basis for relationship that leads to openness."

■ **Make it a business relationship.** Another grantee argued that frank discussions about problems is precisely what characterizes a good business relationship, and that grant makers *should* be more business-like: "up front with their concerns and willing to get into the issues."

WATCH THE MIXED MESSAGES

Several grantees pointed out that while some grant makers might want or expect a more candid, solution-seeking approach from grantees, philanthropy as a whole sends a conflicting set of messages. Thinking about the mismatch, one concluded, “They’re on Mars and we’re on Venus.” Grantees urged grant makers to bear in mind that:

■ **Problems are stigmatized.** “I see grant makers signaling that they don’t want to know about grantee problems.” A recent case in point: An executive director of an established and financially stable non-profit wrote to eight long-time funders to alert them to problems she saw on her horizon, many related to cash-flow problems created by a new government contracting approach. The response: Six did not reply, but she learned via back channels that four of them expressed concern about her “crisis” to one another. Two responded by opening a dialogue about the problems and possible consequences.

■ **Help-seekers can be punished.** While grant makers might be frustrated that nonprofits are reluctant to share emerging problems, grantees sometimes find that being proactive is not rewarded. After

one grantee discovered that a new technology staff member had bootlegged the job – and even used bootlegged software – she explained to a key funder what had happened. The funder’s response: It stopped funding. “This is really a ‘don’t ask/don’t tell’ environment.”

■ **We chase dollars desperately because we’re desperate.** If grant makers are right to be wary of grantees engaged in a desperate chase for dollars – which can sometimes lead them away from their competencies and mission – then, said one grantee, “We need to talk about why that occurs. Part of the issue is that there’s not lots of capital available. Does the grant maker have any responsibility for helping the grantee figure this out?”

DON’T BE TOO POLITE

The grantees consistently – and counterintuitively – found that the grant makers they read about were too angst-ridden about pointing out problems to grantees. “It feels overly polite, with too much pussyfooting around,” said one. Reflecting on the worries of one grant maker about challenging a grantee, another remarked: “If I were in her shoes, I would go out there and say, ‘Enough already.’” And while

another agreed “there is too much concern about stepping on toes,” she also argued that, wherever possible, grant makers should “convey support and constructive criticism in every paragraph.”

IN HINDSIGHT: KEY LESSONS FROM GRANT MAKERS

What did our commentators most commonly wish they could go back and do over? Almost all of them expressed regrets about due diligence – which would have enabled them to steer away from trouble, or to be better prepared for it if they were still committed to the grant.

■ **Testing hypotheses.** Faced with a large grant that he knew would be fairly high-risk, one grant maker later regretted not getting enough input from experts outside his foundation. “I should have done much more testing of the hypothesis, and asked many more people how they thought this would work.”

■ **Probing for commitment.** In a few cases, programs flagged when they were assigned to junior staff by top leadership of the grantee organization. This turned out not to be a case of delegation, but a marginalizing of the program. “It got handed off to someone for whom it wasn’t really a priority, and they were overworked,” explained one grant maker about how a program of critical importance to her foundation was orphaned by more than one grantee organization.

■ **Investigating the company they keep.** One grant maker would have been more alert to strategy conflicts if she had “done more digging into [the grantee’s] institutional partners, their advisors. But I didn’t have the eyes and ears to follow through.”

■ **Keeping their enthusiasm in check.** None of the grant makers confessed to being enthralled by charismatic grant seekers, but a couple suspect they got carried away with appealing ideas that deserved harder scrutiny. “He was personally very appealing,” one grant maker said of a later-troubling grant seeker, “yet he was not really charismatic to my way of thinking. Instead, I was swept away by the idea [of web-based services]. I was swept away by the times.”

■ **Staying in closer touch.** After recounting a wayward grantee’s transgressions in diverting grant money and not filing reports, one grant maker took some of the blame: “It was poor practice for us. I was really at fault for not going over there [after reports were not forthcoming] and checking into things directly.”

■ **Proceeding with caution on business development.** Two troubled grants foundered in part when the grantees wanted to convert their nonprofit programs into proprietary businesses, which called for an

assessment not only of how the mission would fare, but of how the *business* would fare. Grant makers who felt competent to assess nonprofit’s finances felt they got in over their heads when it came to judging market demand, balancing debt and equity, and keeping up with a fast-changing market place.

■ **Arranging institutional marriages can be tricky.** Because the funder’s vantage point allows them the distance and perspective from which to see like-minded nonprofits toiling in solitude, they are often eager to press collaboration on grantees. But if they don’t support a period of thoughtful exploration by the potential collaborators, the result can be a contrived and unsustainable partnership that satisfies the grant maker but doesn’t advance important work.

For additional guides and other materials in the GrantCraft series, see www.grantcraft.org.

OTHER WAYS TO USE THIS GUIDE ...

This guide was written with several audiences in mind — not grant makers alone, but also the many other people with whom they make decisions and formulate goals. As you work through the issues raised in this guide, you might find it useful to distribute copies to others who can be important to your success. For example:

WITH YOUR BOARD ...

If your board considers individual grants, either routinely or periodically, the members might find it helpful to review past problems in light of this guide, or to decide how to respond to floundering grants that may emerge in the future. You could ask them to read the guide with questions such as these in mind:

- Do we have the kind of relationship with our grantees that makes it possible for us to spot warning signs in time, and to respond effectively?
- What kinds of problems have we encountered most frequently, and how have we responded? Were those responses as productive as we would like?

WITH GRANTEES ...

This guide may not be helpful to share with grantees in the midst of a floundering situation (it was written mainly with the grant maker's needs and responsibilities in mind). But under less stressful circumstances, it might be helpful to share the guide with certain grantees for a candid discussion about how both parties should respond if trouble arises, or for a discussion about how both of you have reacted to past problems and what that experience has taught you. These questions might be relevant:

- What can we do to be certain that both grant makers and grantees have enough information about the progress of a grant without getting in one another's way?
- Do the interactions between grant maker and grantees produce the kind of trust and free exchange of ideas that will make trouble less likely, or make problems easier to resolve?

WITH COLLEAGUES AND ADVISERS ...

You might find it helpful to discuss this guide with other grant makers, or with experts who advise you on grant making, either informally or in organized discussion sessions. The guide could prompt a discussion about:

- How others have handled floundering grants, and how that experience compares with your own and with those in this guide.
- What potential problems appear to be on your horizon, or on theirs, and how you might prepare for (or prevent) those possibilities.

AS A TRAINING TOOL FOR GRANT MAKERS ...

Because this guide explicitly offers guidance to grant makers from their colleagues and from grantees, it is readily suited for use in training sessions — such as the initial orientation of new grant makers, or in personal-development training later on — wither at a single foundation, or other venues that bring together grant makers from different foundations.

AS A TRAINING TOOL FOR THOSE WHO AREN'T PRIMARILY GRANT MAKERS ...

People who aren't full-time grant makers — administrators, legal staff,

communications specialists, intermediaries, and other support personnel — might find it useful to think through the situations illustrated in this guide, if they sometimes deal with grantees. These are some issues they might consider:

- Are there warning signs of a floundering grant that might be visible to other parts of the foundation before the grant maker sees them? If so, what is the best way to respond?
- When a grant seems to be floundering, who in the foundation (or among its advisers and associates) might be helpful in resolving the problem? And when should such assistance be called in?
- When other parts of the foundation communicate with grantees — for example, in administrative or legal correspondence, in offering technical assistance, or in the course of program evaluations — does their correspondence contribute to an atmosphere of candor and trust that will help us in times of trouble? Or do they inadvertently do things that encourage grantees to conceal problems?

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