What Every Board Member Needs to Know About Overhead

Brian Burwell, The Bridgespan Group
We’ve been hearing about the “overhead” problem for years
Foundation investments are concentrated among top grantees

SAMPLE 5-YEAR PORTFOLIO (BY RELATIONSHIP)

Top 3% of grantees receive ~50% of funds

FINANCIAL HEALTH ANALYSIS OF TOP GRANTEES

Persistence of deficits
- $10M+: 51%
- $500K-$1M: 21%
- Less than $500K: 28%

Amount of operating reserves
- $10M+: 59%
- $500K-$1M: 24%
- Less than $500K: 17%

Baseline for financial health
- Likely financial weakness
- Significant financial weakness

Source: Bridgespan Analysis
The sector’s most critical organizations are financially distressed.

LARGEST 15 FOUNDATIONS’ GIVING:
2008-2012

274

2% of grantees receive ~30% of funds

FINANCIAL HEALTH ANALYSIS OF TOP 274 CO-FUNDED GRANTEES

13,980 grantees

47%

58%

28%

19%

26%

23%

Persistence of deficits
Operating reserves

Source: Bridgespan Analysis
Typical indirect cost “flat rates” range from 10-20%
Grants don’t cover all costs

**ORGANIZATION NEEDS...**

**Direct Costs** + **Indirect Costs** = **Actual Cost of Project**

**...WHAT IT RECEIVES**

**Project Grant Amount**

**Indirect Costs Left Unfunded**

Source: Bridgespan Analysis
Flat is wrong

Source: Bridgespan Analysis; Financial data and conversations with select organizations (excluding pass-throughs)
Policy Is Not Practice

Effective-awarded IDC rates for sample of "top 200" grantees, 2009-2014

Source: Bridgespan Analysis; Financial data and conversations with select organizations
First, grantees need to secure adequate grants from funders to **cover the true costs** of core functions.

Second, grantees should partner with funders to **accumulate unrestricted funds** and **build operating reserves**.

Third, only if the first two steps are completed, can grantees put themselves in the right position to use funds to **scale impact**.
Investments Must Be Tailored to Business Models

“Generic capacity building has not led to impact; to be relevant and useful, capacity or capability building must be anchored in identification of segment by business model.”

—Executive Director, Leading Foundation
All Business Models are Unique

Our Definition of a Business Model

- Approach to Impact
- Financial Structure

A set of common goals, barriers, and opportunities

Source: Bridgespan Analysis
# 12 Business Models in the Nonprofit Sector

## Advocates
1. Professional Advocates
2. Mobilizers

## Intermediaries
3. Network Backbones
4. Field Builders
5. Investors
6. Technical Assistance Providers

## Direct Service Organizations
7. Government Partners
8. Place-Based Community Supports
9. Program Providers
10. Human Capital Liaisons

## Public Good Providers
11. Content Creators
12. Cultural Institutions

Source: Bridgespan Analysis
Prioritizing Core Capabilities

Drive performance, warranting differential investment

Table stakes for any non-profit to operate

Organizations with multiple business models need to optimize capability sharing across business models

Source: Bridgespan Analysis
More Clarity on Business Model(s) = Better Decisions

What are the core business model(s) that drive our organization, and how do these models inform the tradeoffs that my leadership team is making every day?

Which capabilities should we invest in with the finite resources we have today?

What is the logic behind our choice of business models and what key capabilities enable success across business models?

Which peer organizations can we be looking at and learning from?

What revenue streams should we consider as we chart our path to greater financial resilience? What are the implications for our choice of business models?

How can we communicate with funders about the core capabilities that we want to invest in?

Source: BoardSource

Source: Bridgespan Analysis
Progress We’re Making

1. “True Cost Project”, working with 5 leading US Foundations to change funding policies and practices

2. Refining our approach to defining the business models that make up the nonprofit sector

3. Identifying core capabilities nonprofits require to be successful in each business model and across business models
Discussion and Q&A

• How would you apply a business model lens to your organization?

• What are the ways in which you would envision this lens would be helpful to your relationships with your funders?

• What best practices have you observed in how funders and grantees can get better aligned on critical investments required to support successful and financially resilient organizations?
The Bridgespan Group is a global nonprofit organization that collaborates with mission-driven leaders, organizations, and philanthropists to break cycles of poverty.

For more information, visit [www.bridgespan.org/insights](http://www.bridgespan.org/insights)