The Dynamics of Funding: Considering Reliability and Autonomy
by Jon Pratt

This article presents a framework for assessing an organization's sources of support based on the reliability and flexibility of decision-making available to the organization. The problems created by low reliability and limited autonomy funding are an obvious and all-encompassing fact of life for nonprofits, but the solutions are not. The "Reliability-Autonomy Matrix" helps staff and board members to understand the complexity of their organization's revenue streams and their effect on every aspect of the organization's planning and management.

Every nonprofit organization begins with high hopes and aspirations for public benefit, with a mission to make the world a better place. An immediate challenge is how to put these goals into action, and how to finance the organization. Or, as one cartoon caption under a drawing of Moses holding two large tablets put it, "What about funding?"

Money is a limited and competitive resource; organizations without a permanent source of funds must do their best to accommodate the preferences and conditions of funding sources. Striking necessary bargains with devils and angels constitutes the defining struggle for nonprofit boards and managers. This existential dilemma is played out in every nonprofit budget and strategic plan: how does the organization raise funds to realize its higher purpose, while also scrambling for its continued existence?

The way an organization handles decisions about funding sources sets in motion an ongoing chain of consequences, further decisions and compromises about what the organization will and will not agree to do. Throughout the history of nonprofits, major changes in size, direction and strategy (and even new names and purposes) are more commonly due to shifts in revenue than to purposeful planning.

Among the funders of nonprofit activity, attaching conditions and targeted funding are considered valid methods for increasing the accountability and effectiveness of grantees. Whether it is a government agency or a private foundation, these managers have authority over a finite resource with many requests from the outside. They conclude from previous experience the type of activities most likely to succeed, and seek the "biggest bang for the buck" by focusing and restricting their money to a narrow range of activities.

For nonprofit organizations, not all funding has an equal effect on the bottom line. Complying with the conditions attached to funding--and coping with fluctuations in revenue--imposes direct and indirect costs and occupies the attention of managers and directors. The drawbacks of this situation are self-evident to anyone who has managed a nonprofit organization, but financial reports have the effect of simplifying the problem as "will we take in enough money to cover expenses?"

Board members, nonprofit employees and clients (and even other funders) frequently believe that an organization has more latitude with when and how it spends its funds than it does. This places nonprofit managers in the onerous position of enforcing and defending compliance with funding conditions, sometimes in the face of solid arguments for an alternative course--all the while being criticized that "if they wanted to do it, they could." Or worse still, different parts of the organization disagree about the existence of conditions, the wisdom of compliance, or the likelihood and severity of sanctions, causing internal conflict or even misappropriation.

An organization-wide appreciation of these revenue source issues is in the interest of the board and staff, informed by an examination of the two major variables: reliability and autonomy.

Reliability of Funding

To what extent can an organization predict its revenues year to year for budgeting, staffing and program planning? Is it reasonable to expect a particular funding source will be renewed? This information--projecting and tracking revenue and expenses--is key to managing any enterprise. Boards and nonprofit managers need to exercise their best judgment of what revenue will be available, with serious consequences if they are wrong; the decisions they make will be based on their confidence level regarding the relative stability or volatility of the organization's support.

The matrix divides twelve common types of nonprofit funding into three levels of reliability: high, medium and low. This necessarily gross categorization is useful to clarify between dependable and speculative sources, though individual organization's experiences will vary. The placement of a funding source on the reliability axis can be very different based on the organization's relationships, existing commitments, and other constraints influencing the funding source.

Three levels of reliability:

High reliability: United Way support, rental income, advertising, small-medium sized individual contributions, endowments, memberships.

Medium reliability: Ongoing government contracts, third-party reimbursements, major individual contributions, fees for services, corporate charitable contributions.

Low reliability: Government project grants, foundation grants, corporate sponsorships.

Organizational Autonomy

Dependency theory indicates that the autonomy of nonprofit organizations is directly related to the extent of their reliance on suppliers of funds.

From government contracts to foundation grants, a variety of conditions are attached to funding comparable to "If you take the King's shilling you do the King's bidding." These conditions can range from general targeting of an activity to extremely detailed specifications dictating the ingredients, personnel, time, place and manner of activity. For the donor these conditions represent due diligence assurances that funds will be effectively and responsibly expended, while the recipient organization may feel that some conditions are unwelcome, burdensome and counterproductive.

As with the reliability index, the matrix divides twelve common types of nonprofit funding into three levels of autonomy: high, medium and low. This similarly gross categorization is distinguishes between conditional and unconditional sources, and individual organization's situation will vary. The location of a funding source on the autonomy axis can be adjusted based on the organization's relationships, existing commitments, and other constraints influencing the funding source.

Three levels of autonomy:

High autonomy: small-medium sized individual contributions, endowment, memberships, fees for services, foundation operating grants.

Medium autonomy: major individual contributions, corporate charitable contributions, *Low autonomy*: Third party reimbursements, government project grants, ongoing government contracts, foundation project grants, United Way support.

Computing your Reliability-Autonomy score

Use the companion worksheet to compute your score. Organizations should feel free to change the rating for a funding type based on a frank assessment of their own situation and relationships.

Management and Governance Implications

The reliability–autonomy matrix helps reveal priority issues for board and management attention and indicates strategies needed to handle the relative reliability and independence of its money. The scores themselves are difficult to shift, such as to dramatically increase autonomy, since most mature organizations have an established mix of funding. Wherever a funding source falls within the matrix, it has a variety of management options, many of which increase the complexity of the management task.

One critical additional variable is the sheer number of funding sources. Most organizations work hard to diversify their sources of funding, both in type and number of sources, to reduce its volatility and risk of catastrophic loss (such as when a major funding source withdraws its support).

Boards of directors expect to be involved in budget planning and monitoring, but are often not aware of the degree of volatility of their funding, or what the organization should do about it.

Organizations low in reliability have a variety of possible actions to reduce the uncertainty in their environment:

- Higher cash reserves to fill in gaps, reduce roller coaster budget effect.
- Greater management and board attention to cash management, financial systems, predicting shortfalls and allowing quick decisions.
- Use of volunteers, consultants and temporary employees to increase flexibility of the workforce, reducing dislocation.
- Develop close relationships with organizations in the same subject area to track industry changes, share information on funding source preferences and behavior.
- Submit multiple applications to offset low response rates.

Organizations low in autonomy have a special set of problems, since funding sources are definitely willing to transfer funds to them, but want to do this in a particular way. An African proverb says that if you want to give a man a goat you have to let go of the rope, but of course many funders have perfectly good reasons why they can’t completely let go of the rope.

Boards of directors are less aware of their role in monitoring the restrictions placed on the funds their organization receive. Low autonomy organizations also have a special set of skills needed to preserve sufficient maneuvering room:

- Emphasize negotiation skills and develop a persuasive case of what the organization brings to the table (local community knowledge, flexibility, reputation, track record, volunteers, leveraged money, etc.) to equalize exchange and offset unwanted conditions.
- The board needs to monitor the consonance between the organizations mission and the nature of projects it is asked to undertake.
- The organization needs to be prepared to resist and reject incompatible conditions by having a gift and grant acceptance policy.

- Maintain a robust financial system to track and comply with conditions and restrictions on funding and effective segregation of funds. Monitor conditions on funding. Discuss as a board the purpose and contract monitoring.
- Increase the total number of funding sources, even if they are low autonomy, to reduce the degree of control of any one source. An organization with a dozen or more low autonomy funding sources can mitigate the lack of flexibility by modulating.
- Take part in policy networks and coalitions to resist or reduce excessive conditions by government funding sources.

The easiest type of organization to manage, and one of the most satisfying for a board experience, is a high reliability/high autonomy organization. These organizations can chart their own course and stay flexible, and have the time and freedom to ask the big questions and make long term plans. High reliability/low autonomy organizations are often large institutions enjoying tight relationships with government or the United Way, and often have long-term relationships in which funding conditions are accommodated over a long period of time.

The most difficult organizations of all to manage are low reliability/low autonomy (a.k.a., Dante's Seventh Circle of Hell). These organizations are stuck in an ongoing loop of project creation, submission and approval, and have a high need for both negotiation and earnings management, which sometimes are in conflict.

Many organizations are so steeped in their existing funding patterns and relationships that they no longer recognize the nature and limits of their situation. The matrix provides a different slant on an organization's revenues for boards and nonprofit managers, and serves as a useful backdrop for strategic and financial planning.

Editor's Note

The usefulness of the Reliability-Autonomy Matrix is not that it can be easily changed (which it cannot), but its potential to broaden awareness of funding limitations within an organization and to identify potential strategic responses.

For a quick method to analyze and score the organization's revenue reliability and autonomy, select "Reliability-Autonomy Score" to download an Excel spreadsheet template.

About the Author

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Reliability–Autonomy Worksheet

Calculate Your Score

(For the Excel worksheet, click here.)

To analyze an organization's revenue using the worksheet, first calculate the percentage of revenue from each of the funding types. Enter these amounts in the Percentage of Revenue column on the spreadsheet. (A blank copy of this spread sheet is available at the *Nonprofit Quarterly* Web site with built in formulas). Multiply the Percentage of Revenue by the Reliability Rating and Autonomy Rating for each funding source and total all the scores. This will produce two numbers for an organization's funding: a total reliability score and a total autonomy score. (*High*: 1.0 **-** 1.6, *Medium*: 1.6 **-** 2.3, *Low*: 2.3 **-** 3.0)

These scores can help an organization understand the nature of its management challenges, and point to available strategies to offset disadvantages of its funding profile.

Plotting Funding Sources on the Reliability–Autonomy Matrix

Since each type of funding (government, individual donations, program service fees, etc.) varies in its reliability and autonomy, it is useful to plot funding attributes by these two scales to understand the maneuvering room and management challenges an organization faces.

Ongoing Government Contracts

Taxpayers, legislators and contract officers have high expectations that government funds will be used in a particular way, and government contracts are well known for the number of conditions, reporting requirements and restrictions. Particularly in cases where a government program is the primary or even sole funder of a nonprofit organization, the contract relationship can turn into a principal-agent relationship, in which the agency behaves as a quasi-government office carrying out activities at the government's explicit direction. The conditions applied to government funding usually originate with specific legislative mandates (such as not permitting federal funds to be used for lobbying), or are created at the administrative level.

For ongoing government contracts with nonprofit service providers, the reliability tends to be high, since governments have the power to tax and control its own income stream (subject to political fluctuations, depending on jurisdiction). However, nonprofits as outside contractors are often easier to cut in times of budget shortfalls; so in the current economic situation, government funders are somewhat less reliable than usual for nonprofits. (Reliability: 2, Autonomy: 3)

Government Project Grants

Short-term government demonstration or project grants are more competitive and speculative on the front end, and far less likely to be renewed, though just as restrictive. (Reliability: 3, Autonomy: 3)

Small to Medium Individual Contributions/Memberships

While an individual person's behavior is unpredictable in the short run, in the aggregate an organization can learn its own renewal rate for larger numbers of small and medium sized contributors. Small donors are unable to exert specific preferences over an organization, though may be asked to contribute to special funds defined by the organization itself. (Reliability:1, Autonomy: 1)

Interest/Endowment/Royalties

Organizations with substantial passive income are most commonly larger institutions with a long history, frequently in higher education or the arts, and of course private foundations. (Reliability: 1, Autonomy: 1)

Corporate Contributions

Corporations donate funds to benefit their local community, generate good will and gain legitimacy as good corporate citizens. Corporate contributions programs are increasingly targeted by subject area, and the amount available is subject to corporate profitability. In comparison to private foundations, corporate contributions programs are more willing to provide general operating support, and more likely to make regular annual contributions, placing them in the middle range for both reliability and autonomy. (Reliability: 2, Autonomy: 2)

United Way/Federated Funds

The United Way and other federated funds operate as a giving club, in which many individuals and institutions contribute to a single pot, jointly committing to devote the total money raised to priorities developed through a planning process. Applying similar due diligence goals to government, United Way campaigns attach substantial budget and reporting requirements to document how funds were directed to specific populations and issue priorities, and reported back to donors. United Way campaigns can also restrict the fundraising schedules and solicitation lists of the agencies they support. (Reliability: 1, Autonomy: 3)

Major Individual Contributions

Unlike small individual donors, large donors have more interaction with the organization, and are more likely to have organizational representatives offer choices or seek input regarding the use of their funds.(Reliability: 2, Autonomy: 2)

Fees for Service

Charging for services, whether tuition or orchestra tickets, puts nonprofits in the marketplace, where the "invisible hand" of supply and demand is at work. The selling organization has broad authority over decisions about how it will provide the goods and services, though it must pay close attention to satisfying customer demands.

This funding stream can keep organizations solvent, make them aware of current tastes and needs, and can lead them far beyond their founders' original vision. Since market failure is a common rationale for the existence of nonprofit tax exemptions, relying on paying customers presents temptations to stray from an organization's original mission and intended beneficiaries. (Reliability: 2, Autonomy: 1)

Rent/Advertising

While not passive income, organizations with the capacity to generate rent or advertising revenues generally have a reliable source, as long as they deliver what the customer needs. (Reliability: 1, Autonomy: 2)

Corporate Sponsorships

Corporate sponsorships are a marketing expense to the company, generating publicity and good will, and most importantly attracting or retaining customers for the sponsor. The demographics of the people an organization reaches is the key selling point for sponsorships. Corporate sponsors make clear demands for visibility and marketing benefit. The life cycle of corporate partnerships, sponsorships and advertising campaigns is generally short, related to a one-time event or sometimes a 2-3 year relationship. (Reliability: 3, Autonomy: 2)

Foundation Grants (operating)

Operating grants reflect a decision by a foundation to grant unrestricted support the overall activities and direction of an organization. The Foundation Center reports that 11.5 percent of foundation grants in 2000 were generally for one year's operating support. Foundations are reluctant to create an expectation of funding in perpetuity, though the relationship between a specific funder and grantee can greatly increase the reliability of this source. (Reliability: 3, Autonomy: 1)

Foundation Grants (project)

The other 88.5 percent of foundation grants are specific to a particular activity (a project, building or equipment) and are generally limited to one to three years. While most organizations would prefer operating support, foundations exhibit a strong preference to select projects and negotiate their design, considering this scrutiny and selection activity as the key value they add to the process. The conflict between the foundation's need to express their identity and the organization's need for autonomy is unlikely to change; making yes-or-no decisions and setting conditions for support is the foundation's primary mechanism of adding value.

Special projects are frequently designed and discussed in advance with foundations by their applicants, seeking to gain insight as to the likelihood of having a grant approved. While many projects are approved, the risky nature of the process and the need to design, segregate, start up and wind down projects is a substantial expense to the organization. The added costs and dislocations required to implement special projects lowers the value of these funds to an organization (in comparison to operating grants). A little discussed question is what foundations believe occurs after one of these projects ends. (Reliability: 3, Autonomy: 3)

Other

Organizations have a variety of other specialized sources that are unique to their situation, from special events