

# Toward More Effective Use of Intermediaries

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# 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.