

Discretionary Grantmaking

SHOULD YOUR FOUNDATION
LET MEMBERS GO SOLO?



Foundations typically approach most grants as a team sport, debating their merits and deciding, collectively, whether they're likely to achieve the foundation's goals. However, in addition to granting as a group, some foundations give their board and/or family members a portion of funds to donate as individuals. This practice, called discretionary grantmaking, is legally permitted as long as the grants are consistent with the foundation's charitable purpose, and there aren't restrictions in the charter documents to prohibit it.

If your foundation is considering providing discretionary funding, there are pluses and minuses. **When you weigh the advantages and disadvantages, you'll understand why some foundations allocate an ample portion of their budgets to discretionary grantmaking, while others choose not to provide this funding.**

Pros and Cons /

Whether to allow discretionary grantmaking is an important decision. Before proceeding, you'll want to carefully consider the advantages as well as the potential drawbacks.

PROS

1 Reducing conflict

Board members don't always share the same convictions, political ideology, or priorities. And when the foundation's board comprises family members, these divisions may be sharp enough to imperil productivity and cause hurt feelings. Giving everyone his or her own funds to distribute can help keep the peace and preserve collective decision-making by providing an "escape valve" for dissent.

2 Fosters enthusiasm and engagement

Allowing individuals to support organizations of personal interest is an obvious way to keep them committed to the foundation.

3 Incubates new programs and projects

These individual "side projects" can serve as philanthropic laboratories, testing out organizations and projects outside of the foundation's typical areas of focus.

4 Expands the foundation's geographic footprint

Dispersed family members can make grants where they reside, making participation more relevant for them while bringing the foundation's work to a much broader constituency. Having a broader footprint can also lead to new and useful partnerships in other areas of the country.

5 Provides rapid response capability

Because discretionary grants don't need to wait for unanimous board approval, the foundation can respond quickly to urgent situations.

6 Provides a training ground

Discretionary grantmaking gives incoming members some valuable hands-on experience and training.

7 Rewards service

In lieu of compensation, some foundations give board members agency over their own pool of funds.

57% OF FOUNDATION SOURCE CLIENTS SURVEYED PROVIDE DISCRETIONARY FUNDS FOR MEMBERS. /

CONS

1 Diverts focus and resources from common mission

If foundation members are primarily focused on their own grantmaking, they may not be able to devote sufficient attention to the foundation's core mission. Also, if too many funds are siphoned off for individual expenditures, the remainder might not be sufficient to achieve the foundation's primary mission.

2 Confuses nonprofits and the public

If the foundation makes numerous grants that don't align with its publicly stated purpose, expect some confusion—as well as a lot of proposals that fall outside the foundation's mission.

3 Lacks accountability and could diminish impact

Because discretionary grants are often made without full board approval, it's difficult to ensure that the foundation's funds are being used consistently with its mission.

4 Might deter personal giving

If the foundation's funds are used for individual charitable endeavors, board members might be less inclined to give out of their own pockets.

5 Increases compliance risk

When individuals are given control of grant funds, the opportunity for inadvertent self-dealing increases. For example, a board member might be tempted to grant to an organization that offers free tickets to a popular show. Without the scrutiny of the entire board, board members may stray into questionable legal territory, thereby exposing themselves and the entire foundation to potential violations.

6 Avoids necessary conflict

Discretionary grantmaking enables board members to sidestep conflict while denying them the opportunity of working things out together. For many foundations, conflict is a necessary and productive part of finding common ground. Avoiding conflict does nothing to resolve disagreements, which might fester while they're ignored.

37% OF FOUNDATIONS ALLOCATE 5% OR LESS OF THEIR BUDGET TO DISCRETIONARY GRANTMAKING. /



Respondents told us that discretionary grantmaking typically accounts for less than a quarter of the foundation's grantmaking funds. **29% said it accounts for 10%-25%.** However, **15% said their foundations allocate 100% of their budgets to discretionary grantmaking.**

A Balanced Approach /

If your foundation is interested in pursuing discretionary grantmaking, you'll probably want to put limits around it. For example, your foundation could decide to make almost all of your grants collectively but allocate some funds for discretionary grantmaking by individual members. Here are some other ways to make sure discretionary grantmaking is an added attraction to your foundation and not a distracting sideshow:

1 Develop a policy

Articulate your foundation's reasons for pursuing discretionary grantmaking, and draft policies around how these grants are made. What percentage of the grant budget will be allocated to discretionary grants? Are there any prohibited issues or geographic restrictions for these grants? What is the approval process?

2 Keep your mission paramount

To prevent discretionary projects from distracting from the foundation's core focus, ask foundation members to agree on one ground rule: Discretionary grants should be consistent with the foundation's mission.

3 Make matching grants

Want to ensure that individuals spend the foundation's funds as carefully as they'd spend their own money? Instead of giving each member foundation funds to disburse, use your discretionary fund to match each member's individual, personal gifts.

4 Reward personal commitment

To avoid having discretionary funds displace personal giving, consider a policy of awarding this type of funding to board members who give up their personal time to serve as volunteers.

Discretionary funding therefore becomes a recognition of personal commitment instead of its surrogate.

5 Make it a limited-time offer

How will you know whether your discretionary funds have been a success or failure? Rather than making a permanent commitment to discretionary funding, give it a trial run and assess its impact. Decide upfront whether the trial period will be one, two, or three years, and determine how you'll measure its impact.

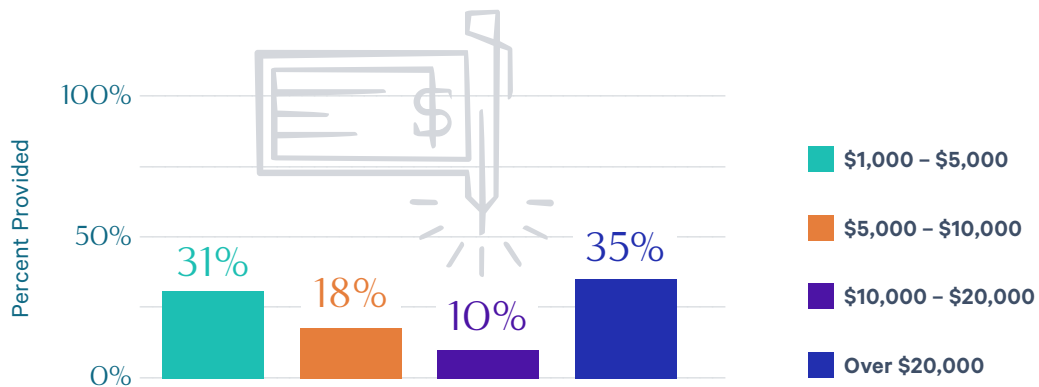
6 Put "guardrails" around grantmaking

If you're contemplating instituting discretionary giving, consider engaging Foundation Source. Our online technology enables individual members of the foundation to grant from any internet-enabled device in any locale. Once an individual reaches their allotted discretionary amount, the system prohibits further grantmaking. And because the system can be configured to the needs of your foundation, designated individuals can be provided with viewing rights, providing complete transparency. As part of our comprehensive outsourced services, we alert members when we spot potential conflict-of-interest and self-dealing issues with pending grants, helping to prevent compliance violations before they occur.

Although discretionary grantmaking isn't necessarily the right choice for every foundation, with careful planning and thoughtful implementation, it can provide numerous benefits.

35% OF OUR CLIENTS PROVIDE \$20K PER INDIVIDUAL.

When asked how much they provide (or will provide) to each individual, here is how respondents replied:



ABOUT FOUNDATION SOURCE

Foundation Source empowers people and companies to create a better world through philanthropy. We make giving easier for more than 2,000 foundations with innovative technology backed by philanthropic expertise.

HAVE A QUESTION?

Call 800.839.0054 or send us an email at info@foundationsource.com.

www.foundationsource.com

©2022 Foundation Source Philanthropic Services Inc.
All rights reserved. v0922

The information provided in this document is for general information purposes only, and does not constitute legal, tax or investment advice.