

Accelerating a Shift Toward Full Cost

A Report on Philanthropy
California and Nonprofit Finance
Fund's Full Cost Project for
Funders and Nonprofits across
the Golden State

November 2018





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Accelerating a Shift Toward Full Cost

A Report on Philanthropy California's Full Cost Project for Funders and Nonprofits across the Golden State

Executive Summary

Background

The Full Cost Project, an initiative of Philanthropy California (a collaboration of Northern California Grantmakers, San Diego Grantmakers, and Southern California Grantmakers) in partnership with the Nonprofit Finance Fund, seeks to help funders and nonprofits better understand the actual costs to run effective organizations, and how to communicate openly and honestly around those funding needs. This is accomplished by training both funders and nonprofits on how to measure the full cost of achieving outcomes, as well as training them on how to have the difficult conversations of what it actually takes to make a culture shift toward full cost.

As one of many sector-wide initiatives to increase the visibility of the need for philanthropic funding practices that fully support nonprofit organizations, the Full Cost Project demonstrates how this approach is gaining momentum. Funded by the California Community Foundation, First 5 LA, The James Irvine Foundation, The William and Flora Hewlett Foundation, The David and Lucile Packard Foundation, The Parker Foundation, and The Weingart Foundation, the initiative aims to involve more foundation partners in the culture change essential to alter funding practices field-wide.

Philanthropy California contracted with Harder+Company Community Research to conduct an evaluation of the phase two of the Full Cost Project with the goals of learning how nonprofit executives and funders/program officers developed their understanding, knowledge, and practice toward adopting a full cost approach and recognizing what further resources are necessary to assist their change in practice. The evaluation used interview and survey data to address the following learning areas: 1) relevance and applicability of the full cost approach, 2) increase in awareness, knowledge, and skills, 3) adopting the full cost approach and barriers to implementation, 4) the value of the full cost approach.

We recently completed the second phase of the Full Cost Project, providing training opportunities for funders, trustees, and nonprofit executives to understand how the full cost approach is crucial for nonprofits to fulfill their missions, generate great outcomes, and become more resilient. This executive summary highlights key results and insights about the significance of a full cost approach and the lessons learned from funders and nonprofits to shift their cultural mindset and practices.

“I know firsthand how agencies often shortchange their costs in order to appear more desirable to potential funders. I know now that this ultimately hurts agencies and I believe more discussions regarding full costs need to occur....”

–Funder

Key Takeaways and Findings

The Full Cost Project uncovered the inherent power dynamics between funders and grantees and the importance of honest financial conversations to break down barriers |

Participants appreciated that the workshops brought funders and nonprofits together to engage in conversations about full costs, and provided a space to learn from each other's perspectives and explore ways to promote more open financial conversations. The trainings also pushed participants to critically examine power dynamics between funder and grantee. While it can be intimidating to have transparent conversations about financial realities, the trainings helped break down some of these obstacles and empowered participants to become more aware of the value of adopting a full cost approach.

By exploring power imbalances between nonprofits and funders, the trainings helped participants recognize the challenges nonprofits face |

Most funders agreed that they were more aware of the barriers nonprofits confront when communicating full cost needs to funders. Funders also shared that the full cost approach was able to provide a clear framework and justification for how to better assess the ever-changing needs of nonprofits to help them support nonprofit sustainability and impact.

Participants gained practical skills and knowledge to apply full cost concepts |

Nearly all nonprofits reported that after the trainings they know how to explain their full cost needs to at least one of their funders and have better tools to communicate their organization's budget to funders. Similarly, funders appreciated the technical knowledge and skills gained from the trainings. They reported greater awareness and knowledge of the full cost of running a nonprofit organization and the types of questions to ask nonprofits regarding their full cost needs.

The Full Cost Project supported positive shifts between funder and grantee

interactions but power imbalances still restrict transparent conversations | Most funders who interact with grantees have discussed (or are planning to discuss) grant requests and costs differently following the training. Likewise, most nonprofits have discussed (or are planning to discuss) more of their full cost needs with at least one funder. In addition, over half of funders responding to the survey shared that they have created (or are planning to create) the conditions for grantees to discuss full costs, encourage a grantee to budget a surplus, and encourage a grantee to think about their full costs. However, communication barriers still exist between funders and nonprofits. Some nonprofits continue to feel it is not practical or appropriate to discuss their full cost needs with their funder, which may be due to the existing power imbalance between the sectors and the perceived risk in divulging their full costs.

Several funders are revisiting how to apply a full cost approach to their grant practices, but restrictive funding structures make it difficult to fully adopt |

Compared to nonprofits, funders are a little less likely to feel ready to shift their organizational mindset and support a full cost approach. In terms of how they are applying new practices, most funders plan to review (or already have reviewed) grant making practices and policies that can be improved with the full cost approach. However, many funders reported that revising or developing new internal grant making practices and policies to better align with the full cost approach is not practical or applicable for their organization. Some funders reported that they were unable to fully adopt this approach due to their existing funding structure, which lacks flexibility.

“...Somehow we must find a meaningful and long-term way to change the mindset of funders to embrace this shift.”

–Nonprofit executive

Concluding Remarks and Recommendations

Overall, the Full Cost Project training experience benefitted funders and grantees and enabled them to develop a deeper appreciation of the full cost approach. Along with this knowledge, they learned useful skills and tools to begin applying full cost within their organizations. However, while we are seeing incremental shifts in mindsets and practice, several barriers remain that hinder nonprofits and funders from fully adopting this approach. Particularly, both funders and nonprofits recognize the cultural shift that is required to address the power dynamics between the two sectors, which make it difficult for nonprofits to have open financial conversations with their funders. The following offers some practical steps for nonprofits and funders to consider as they begin to shift their practices toward a full cost approach.

- **Address power dynamics with funders/nonprofit executives** | There's an inherent power differential between funders and nonprofit executives, where funders yield significant decision-making power over the decisions and terms of funding. While nonprofit executives have the responsibility to share with their funders the full cost of programs, the onus of starting the conversation rests on the funders.
- **Start a conversation about full cost internally and externally** | Recognizing that full cost is an emerging concept and that its implementation is a best practice within philanthropy and the nonprofit sector, it is necessary for funders and nonprofit executives to continue the conversation within their organizations and with their peers about the value of full cost.
- **Access resources to train staff about full cost** | Many nonprofits and funders were able to use what they learned in the trainings and share back to their organizations. Continuous learning is key to supporting adoption of this approach. Philanthropy California provides access to [online resources](#) to support this process.
- **Adopt full cost principles and practices even within the constraints of your organization** | While organizations operate within unique operational and financial constraints, this doesn't mean the full cost principles and practices cannot be adopted. It is *not* the goal of the Full Cost Project to get every funder or nonprofit to adopt all the practices immediately, but rather to adopt and *adapt* the practices that make sense within their organizational contexts.
- **Empower staff to question existing practices that are detrimental to the success of nonprofits** | Staff at all levels can participate in improving policies and procedures that can amplify nonprofit impact. From individual employees to leadership members, there needs to be an intentional mindset shift that everyone can play a role in making a difference.

Introduction

Background

Foundations have a huge opportunity to increase the impact of their grants by funding what it *really* takes to achieve outcomes. Nonprofits have a role to play in achieving this change as well. Unfortunately, foundations and nonprofits have grown accustomed to a cycle of practices that are currently undercutting their efforts to achieve social change by shortchanging the organizations doing the work on the ground. Specifically, both funders and nonprofits traditionally misunderstand what it actually costs to run effective organizations that achieve their intended goals, and how to communicate openly and effectively around those funding needs.

The Full Cost Project, an initiative of Philanthropy California (a collaboration of Northern California Grantmakers, San Diego Grantmakers, and Southern California Grantmakers) in partnership with Nonprofit Finance Fund (NFF), aims to address these challenges. This is done by training both funders and nonprofits on how to measure the full cost of achieving outcomes (skills building), as well as training them on how to have the difficult conversations of what it actually takes to make change (culture change within the sector).

NFF recently released their 2018 State of the Nonprofit Sector survey results². Nearly 3,400 leaders responded from a wide array of nonprofits across 50 states. Sixty-two percent noted that financial sustainability is a top challenge, and 57% mentioned that full cost funding is also a major obstacle. Fifty-nine percent reported that they cannot employ enough people to meet the demand for their work. Eighty-six percent indicated the demand for their services keeps rising, and 57% reported that they cannot meet the demand. Given the need for nonprofit services, especially at this time in our country's history, it is time to meet these needs with grants and partnerships that provide nonprofits with what they need to do their work well.

Philanthropy California recently completed the second phase of the Full Cost Project, providing training opportunities for funders and their trustees, as well as nonprofit executives, to understand how the full cost approach is necessary for nonprofits to deliver on their missions, produce great outcomes, and become more resilient³. Over the course of a year, NFF provided ten trainings to three regional sites: San Diego, the San Francisco Bay Area, and Los Angeles. The majority of these workshops were structured for nonprofits and funders to learn together as peers and engage in honest and constructive dialogue. This project expects to build the skills and knowledge of nonprofit leaders to account for and request full cost, and of philanthropic leaders to understand and fund full cost. The primary learning goal of Philanthropy California has been to evaluate how the different partners involved in this project, particularly funders, begin to shift their cultural mindset and practices as they consider adopting the full cost approach.

The Full Cost Project is one of many sector-wide initiatives to increase the visibility of the need for funding practices that support the sustainability and impact of the nonprofit organizations that foundations support. These conversations are gaining traction. Funded by the California Community Foundation, First 5 LA, The James Irvine Foundation, The William and Flora Hewlett Foundation, The David and Lucile Packard

Why Full Cost?

“As the sector moves toward outcomes-based measurement, we have to move away from compliance measures like overhead ratios and restricted budgets... Organizations must be flexible and make a healthy investment of funds and staff capacity in the systems that allow organizations to track their impact over time. *Outcomes-driven* decision-making requires organizations to pivot and shift quickly as the environment around them moves or as new information becomes available; *compliance-driven* decision-making requires adherence to rigid rules, even in the face of changing needs. The two are incompatible.”¹

Full Cost funding is compatible with an outcomes-orientation because it provides nonprofits with the needed flexibility, accounting for day-to-day expenses (i.e., program and overhead expenses) plus short-term and long-term needs (e.g., working capital, reserves, fixed asset additions, debt principal repayment).

“I know firsthand how agencies often shortchange their costs in order to appear more desirable to potential funders. I know now that this ultimately hurts agencies and I believe more discussions regarding full costs need to occur simultaneously in the nonprofit community.”

–Funder

¹ Knowlton, C. Why Funding Overhead Is Not the Real Issue: The Case to Cover Full Costs. (January, 2016) *Nonprofit Quarterly*. Retrieved from <https://nonprofitquarterly.org/2018/09/12/why-funding-overhead-is-not-the-real-issue-the-case-to-cover-full-costs/>

² Nonprofit Finance Fund State of the Nonprofit Sector Survey. Retrieved from <https://nff.org/learn/survey>

³ See Appendix A for complete training components and participation.

Foundation, The Parker Foundation, and The Weingart Foundation, the initiative aims to engage more foundation partners in the culture change necessary to shift funding practices field-wide.

About the Evaluation

Harder+Company Community Research was contracted to conduct an evaluation of the Full Cost Project with the goals of understanding how nonprofit executives and funders/program officers/trustees developed their understanding, knowledge, and practice toward adopting a full cost approach and identifying what additional resources and technical assistance are needed to support their shift in practice. The evaluation used interview and survey data to address the following learning areas: 1) relevance and applicability of the full cost approach, 2) increase in awareness, knowledge, and skills, 3) adopting the full cost approach and barriers to implementation, 4) the value of the full cost approach. Detailed descriptions of evaluation questions and methods are in Appendix B.

About this Report

This final report is intended to highlight the ways the Full Cost Project impacted participants' knowledge, practice, and overall understanding about the value of a full cost approach. These findings will help inform Philanthropy California and key partners' efforts in supporting nonprofits, funders, donors, and trustees adopt/adapt a full cost approach. This report synthesizes key data gathered from surveys⁴ and interviews with training participants and is organized in the following way: 1) understanding the value of the full cost approach 2) applying the full cost approach, 3) recommendations for adopting a full cost approach, and 4) conclusion.

⁴ The body of this report will highlight key survey findings. Appendix C will include full survey findings.

Understanding the value of the full cost approach

Full Cost Phase Two participants walked away from the trainings with greater awareness of the value of adopting a full cost approach, the inherent power dynamics between funders and grantees, and useful concepts and tools to implement a full cost approach. The following summary provides key findings on what attendees learned from their participation in the Full Cost trainings across the three regions⁵.

The Full Cost Project explored power dynamics and the importance of honest financial conversations.

Participants appreciated that the workshops brought funders and nonprofits together to engage in conversations about full costs. Both funders and nonprofits understand how difficult and intimidating it can be to have honest and transparent conversations about financial realities. The trainings helped break down some of these barriers by providing the space to learn more from each other's perspectives and explore ways to communicate more effectively. Nonprofit participants shared that in addition to providing a framework, concepts, and tools to build budgets, the trainings provided the "ammunition" to be honest in grant requests and budgets. One funder felt that learning the perspective of nonprofits was valuable because "it helped me to better understand how to approach certain questions... in such a way that it would be a common language." Similarly, one nonprofit executive said they gained "a better understanding of how funders are thinking about their philanthropy so that we could speak the same language or address some of their concerns."

The trainings also pushed participants to critically examine power dynamics between funder and grantee, with one funder reflecting, "We can be good funders all day long...but unless grantees are empowered to ask for what they need, it's sort of like is the onus on us as funders to tell the grantee?" Another funder stated firmly, "I think it starts often with the funder opening the conversation. It's a vulnerable place to be in [for grantees], and the balance of power sits with the funder."

The Full Cost Project increased funder awareness of nonprofit challenges, and how the full cost approach can support nonprofit sustainability and impact.

By examining power imbalances between nonprofits and funders, the trainings helped participants recognize the challenges nonprofits face. In particular, most funders (98%) agreed that they were more aware of the barriers nonprofits face when communicating full cost needs to funders. Furthermore, funders shared that the full cost approach was able to provide a clear framework and justification for how to holistically assess the changing needs of nonprofits to help them succeed. One funder noted, "I have used the deck, I have the terminology, but it also served as a confirmation that real full cost is a way for both funders and organizations to achieve results together." Some funders also recognized that nonprofits who build their capacity to implement a full cost approach are better equipped to withstand future funding challenges because they have a clear

"The biggest takeaway as a funder was greater empathy and understanding of the challenges nonprofits face to make ends meet...I thought I knew that but I really didn't. I am far less judgmental now about why even the large grants we make are not addressing these challenges."

–Funder

"As a model [full cost] is so critical...part of the reason why we haven't been able to bridge the gap between funders, donors, and grantees is that they're in totally different camps...and there's the power dynamic. To be able to have both sets of folks in the room on a common purpose was great."

–Funder

⁵ Due to the scope of this evaluation, we did not evaluate how dosage or type of training attended impacted learning and application of Full Cost practices. The findings are mostly descriptive and triangulated across the two data sources to provide high-level findings and evidence sufficient for Philanthropy California to inform their strategic direction for supporting the full cost approach.

understanding of their financial situation, and can articulate their long-term goals to attract additional funding.

Participants gained knowledge and skills to apply full cost concepts.

In addition to gaining greater awareness about the value-add of a full cost approach, participants learned practical skills and knowledge.

Nonprofits. Nearly all nonprofits reported that after the trainings they know how to explain their full cost needs to at least one of their funders (95% agreement), and have better tools to communicate their organization's budget to funders/program officers (92% agreement). A good majority also reported learning how to calculate the full costs of their organization and the difference between buy/revenue grants versus build/capital grants⁶ (see Exhibit 1). One nonprofit executive shared that they learned "how to deconstruct what is needed to really ask for the true cost of the work that we're doing, and kind of making the case for it." Another responded how helpful it was that the trainings went deep into unpacking working capital versus reserves.

Exhibit 1. Skills and Knowledge Gained by Nonprofits



95% know how to explain their full cost needs to at least one of their funders.



92% have better tools to help communicate their organization's budget to funders/program officers.



86% know when their organization needs a buy/revenue grant versus a build/capital grant from their funder.



84% learned to calculate the full cost of their organization.

Funders. Similarly, funders appreciated the technical knowledge and skills gained. They reported greater awareness and knowledge of the full cost of running a nonprofit organization (98% agreement) and the types of questions to ask nonprofits regarding their full cost needs (97% agreement). However, not all reported a greater understanding of how to match funding type to organizational need (20% disagreement) (see Exhibit 2). During interviews, some funders explained gaining a deeper understanding about nonprofit balance sheets and financial health, the value of operating reserves, and the build versus buy concept. One funder described having a "very rich discussion about reserves...not in the generic reserves sense but deeper discussion about what is the

⁶ Buy versus build refers to distinguishing grants meant to fund the ongoing work of the organizations from grants meant to help an organization grow, expand, or reposition itself.

difference between working capital and reserves. Is it a single reserve or have they actually done some kind of segmentation in thinking about the capital they need to have on hand?”

Exhibit 2. Knowledge and Awareness Gained by Funders about Supporting Nonprofits



98% have a greater understanding of the full cost of running a nonprofit organization.



98% are aware of the barriers nonprofits face when communicating full cost needs to funders.



88% know the types of questions to ask nonprofits regarding full cost needs.



80% have a greater understanding of how to match funding type (buy/revenue grant versus build/capital grant) to organizational need.

Despite greater confidence discussing full cost, barriers continue to exist.

Survey findings show that most participants felt more comfortable discussing full cost needs with other funders and grantees following the trainings. This increased confidence was also expressed during interviews with nonprofits. One nonprofit participant shared, “I think what that framework does by being so comprehensive and compelling is it gives me confidence to talk about finance and fundraising within our organization in new ways, and ask board members and donors, and of course of ourselves, to do more or work differently with funding, and to be accountable to those decisions.”

However, while nonprofits felt more empowered and understood the need to have transparent conversations with funders, they also recognized that barriers still exist. For example, one nonprofit participant noted the concept of budgeting to a surplus as continuing to be a challenge. They stated, “That’s something that is really uncomfortable for nonprofits because we feel like we shouldn’t be asking for more than we need, and so we have to reevaluate what our needs really are, which are usually greater than how we represent them in funding proposals.” Another nonprofit executive felt that lack of universal buy-in from funders prevents having honest conversations about full costs: “Some funders are getting a better understanding on full cost, but most of funders are still very restrict[ive] and only want to fund the ‘traditional’ direct program expenses. We are not at a place that we could turn down a grant opportunity.”

93%

of funders feel more comfortable asking at least one of their grantees about their organization’s full cost.

94%

of nonprofits feel more comfortable having open dialogue about their organization’s full cost with at least one of their funders.

“Some funders are getting a better understanding of full cost, but most of the funders are still very restrictive and only want to fund the traditional direct program expenses.”

– Nonprofit

Applying the full cost approach

Full Cost training participants were able to directly apply what they learned from the trainings and are beginning to engage in honest conversations with funders and nonprofits, yet recognize the existing power imbalances and structures within the nonprofit and funding (public and private) sectors that still need to be addressed. Participants also shared incremental shifts in organizational practices that are already occurring. Nonprofit executives are learning to budget to a surplus⁷ and make more realistic budget requests in grant proposals, while funders are revisiting their internal grantmaking practices and identifying how they can provide more flexibility to support grantees.

Nonprofits and funders shared full cost concepts and tools with their organizations to increase knowledge and capacity.

Full Cost training participants were able to directly apply what they learned from the trainings by sharing back material and initiating their own trainings within their organizations.

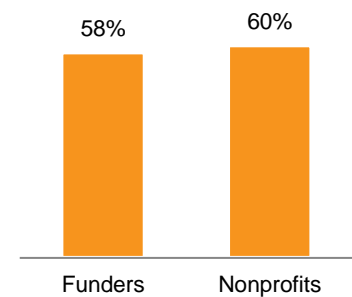
Funders. Over half of funders (58%) reported taking what they learned at the trainings back to their organizations. The trainings provided useful information and tools that made it easy for participants to share back with colleagues, other funders, program officers, and board members. One funder explained, “It has given me some really useful language and framing to bring to our members and our grants committee when we’re looking at training for participating in our own grants process, but also with our executive committee, our executive branch committee”. Other foundation executives have shared the slides and graphics used during the Full Cost trainings to educate their program officers. One funder shared, “The workshop gave me some really kind of practical approachable terms... They even have some examples that I’ve used”. Another funder mentioned incorporating the training material for his internal training and regularly uses terms like ‘unfunded expense’ with program staff and grantees.

Nonprofits. Over half of nonprofits (60%) reported taking what they learned at the trainings back to their organizations. Several nonprofits (18%) were also planning to share back what they learned to their organizations in the future. One nonprofit executive mentioned how the training came at a good time as they were building a new board within their organization. This interviewee described their organization’s process of adopting the full cost approach as “We’re still digesting it. We’re [going to] have a board retreat for the end of the summer, early fall. At that retreat, we’ll spend more time with it, on digging in, and that’s sort of the homework that the board members have now.”

“Our organization has recently put together a reserves policy that’s probably driven a little from what I learned, like having our reserve policy, our operational fund, and capital fund...A lot of that, the Full Cost Project has framed some of my thinking.”

–Nonprofit executive

Over half of funders and nonprofits (respectively) were able to take what they learned from the trainings back to their organizations.

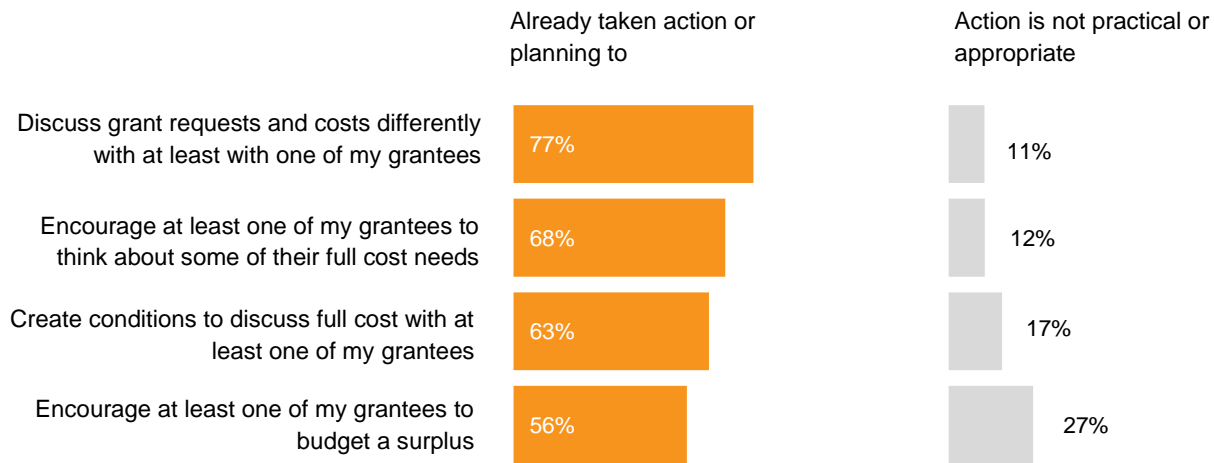


⁷ When revenue exceeds expenses on the income statement, it creates a surplus. This surplus is used to meet full cost needs on the balance sheet, such as building reserves or paying down debt. Therefore, “budgeting to a surplus” is the practical mechanism through which most full cost needs are met.

The Full Cost Project supported positive shifts between funder and grantee interactions but power imbalances still restrict honest conversations.

Funders. According to the survey data, 77% of funders who interact with grantees have discussed (or are planning to discuss) grant requests and costs differently following the training. In addition, over half of funders responding to the survey shared that they have created (or are planning to create) the conditions for grantees to discuss full costs, encourage a grantee to budget a surplus, and encourage a grantee to think about their full costs (see Exhibit 3). However, over a quarter (27%) reported it is not practical to encourage their grantees to budget a surplus. One funder interviewee further elaborated, “It is not practical to start with a full cost approach when first we need to get to an accurate indirect rate.”

Exhibit 3. Funder Interactions with Grantees Following Training*



**Percentages are not shown for those who indicated “Already doing this action prior.”*

Nonprofits. Some nonprofits are also beginning to interact differently with funders. Sixty-nine percent of nonprofits were able to (or plan to) discuss more of their full cost needs with at least one funder. While there is still a good majority of nonprofits who have yet to discuss full cost needs with funders, those that *have* describe the funders as having “buy-in” and are “increasingly comfortable talking about the realities of the costs involved in running an organization.” One nonprofit executive described using the materials they received from the trainings on general operating support and working capital as they communicate with funders.

Exhibit 4. Nonprofit Interactions and Actions Following Training *



*Percentages are not shown for those who indicated "Already doing this action prior."

Communication barriers. Many nonprofits remain hesitant about having open conversations regarding their organization's financial needs with funders. Survey findings show that 25% of nonprofits feel it is not practical or appropriate to discuss their full cost needs with their funder, which may be due to the existing **power imbalance** and the perceived risk in divulging their full costs. As one nonprofit executive shared:

Not all grantees want to have this level of discussion. There needs to be education on both sides to ensure nonprofits are comfortable with this level of candor. It's hard to reprogram leaders who are used to living in scarcity and not being encouraged to be forthright with funders about what they really need.

Similarly, another executive stated:

I think the biggest challenge is still a cultural one. I can completely understand why nonprofits are reluctant to disclose the full cost...I'm still not totally convinced that being really honest about this won't hurt their chances with picky funders.

Additionally, nonprofits are aware that while many funders are beginning to embrace this approach, others are not, "It's challenging for nonprofits because they receive mixed messages from the funding world. Many funders are not on board with this model".

“One big challenge is the risk of losing our funding if we request full cost and the grantor says no, and the previous year’s grant becomes a zero. Somehow we must find a meaningful and long-term way to change the mindset of funders to embrace this shift.”
–Nonprofit executive

Many nonprofits are beginning to adopt and adapt full cost to their budgeting practices.

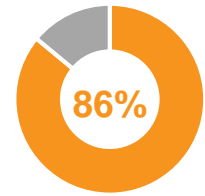
Overall, nonprofits feel ready to embrace the full cost approach. Most are shifting their organizational mindsets (86% agreement) and are ready to shift their organizational practices to support a full cost approach (79% agreement). Since the training, nonprofits are beginning to apply key concepts, including reviewing their budgeting practices or strategic goals (43%) and identifying grant writing or fundraising practices that can be improved with the full cost approach (44%). One nonprofit shared, “In our grant proposals, we’ve been including more expenses for staffing and other costs that we may not have in the past. Trying to be more realistic about our expenses on grant proposals. Trying to be more aware of costs and expenses that we may not have included in the past in our proposals.”

Barriers to implementation. While many nonprofits feel ready to embrace the full cost approach, others are still struggling with how to practically adopt this approach. About a fifth reported that revising grant writing or fundraising (21%) or organizational budget or strategic goals (20%) using the full cost approach was not practical or applicable for their organization. Some mention capacity as an issue: “It is challenging for us to consider a full cost approach to the future that would include building additional reserves, especially at a time when we are working even to maintain our existing levels of income.”

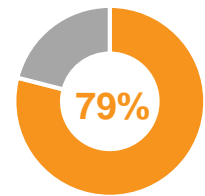
Other nonprofits recognize that while they may not be fully adopting this approach just yet, they are beginning to apply some of the full cost “philosophy” by actively thinking more about the implications of certain organizational budgeting decisions. One nonprofit described learning to ask new questions during decision-making such as, ‘What does it really cost to add an employee?’ “If we add an employee, then we’ll also need to add some more equipment, if we increase our ability to serve more people, then we’re gonna have to rent some more space to serve those people. I think really realistically thinking about how we budget, that’s the one biggest thing I’ve implemented so far.”

Several funders are revisiting how to apply full cost to their grant practices, but restrictive funding structures make it difficult to fully adopt.

Compared to nonprofits, funders are less likely to feel ready to shift their organizational mindset (71% agreement) and practices (63% agreement) to support a full cost approach. In terms of how they are applying new practices, 56% of funders plan to review (or already have reviewed) grant making practices and policies that can be improved with the full cost approach as a result of the training. Additionally, 47% of funders plan to revise or develop (or already have revised or developed) new internal grant making practices and policies to align with the full cost approach (see Exhibit 5). One funder explained how their president was in full support of the full cost approach and their foundation conducted a landscape scan of other funders and their indirect cost caps. This funder shared how they are “internally examining our practices to see how we can change the way we approach our grantmaking and indirect cost rates.” Another foundation executive director described how her team is now using a more analytical financial lens when examining nonprofits’ budgets and overall financial health: “We’re looking at longer-term, larger grants to have confidence in the financial structure of the organization, but also to justify those amounts by showing what the organization itself has done to promote its own financial health.”



of nonprofits are shifting their organizational mindset to support a full cost approach.



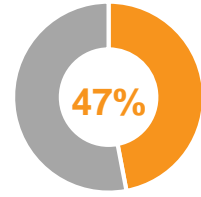
of nonprofits are ready to shift organizational practices to support a full cost approach.

“We have implemented a practice of allowing all grantees to access 10% of their annual awards as an advance. This was done to address the working capital needs of our nonprofit partners.”

“It is challenging for us to consider a full cost approach to the future that would include building additional reserves, especially at a time when we are working even to maintain our existing levels of incomes.”
–Nonprofit executive

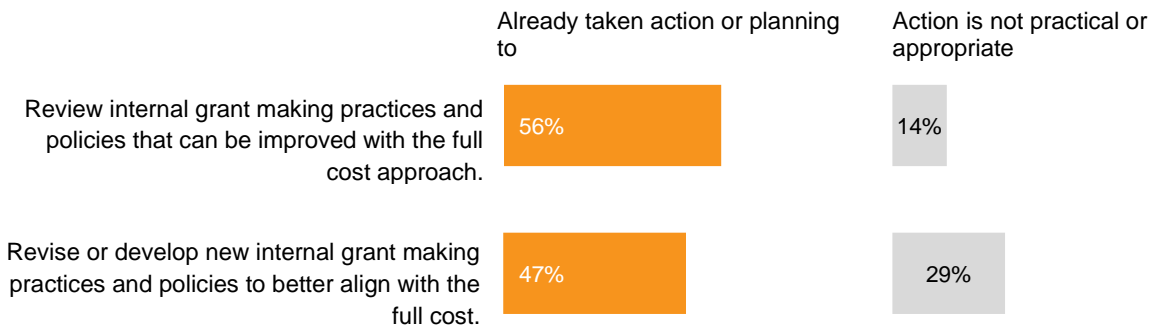
Another successful adoption story was shared by a city funder who attended the workshop just as a request for proposal (RFP) went out and decided to try immediately to incorporate an element of the full cost approach. Because the city makes very large, long-term grants that often represent a significant portion of grantees' budgets and are slow to process, the participant's agency created a new expedited process to get grantees a 10% advance to support immediate operating needs while maintaining momentum until the main grant money starts flowing. The same funder is also part of citywide coordinated conversation considering different approaches toward administrative or indirect costs. The group is exploring several strategies, including a "full cost option" that would positively impact every nonprofit grant made by the city for the next decade.

Barriers to implementation. Over a quarter (29%) of funders reported that revising or developing new internal grant making practices and policies to better align with the full cost approach is not practical or applicable for their organization. Some funders expressed having a "disjointed approach to full costs" and are unable to adopt this approach due to their funding structure. One funder explained that because a vast majority of their grants are public funds for mandated programs, there is no support at the state or federal level for this type of funding structure. Another funder explained that if they wanted to do flexible funding, they would have to find ways to fund reserves and "learning capital" within their capacity building portfolio.



of funders plan to (or have) revise or develop new grant making practices and policies to align with the full cost approach.

Exhibit 5. Funding practices (or planned actions) following training *



**Percentages are not shown for those who indicated "Already doing this action prior."*

Recommendations for adopting the full cost approach

Accelerating Forward: Practical Steps for Adopting Full Cost

Overall, funders and nonprofits benefited from the Full Cost Project training experience. They developed a deeper understanding and appreciation of the full cost approach, and learned useful skills and tools to begin applying it within their organizations. However, while we are seeing incremental shifts in mindsets and practice, several barriers remain that hinder nonprofits and funders from adopting this approach. Particularly, both funders and nonprofits recognize the cultural shift that is required to address the power dynamics, which make it difficult for nonprofits to have open and honest conversations with their funders. While funders are starting to shift their mindsets and practices to support this approach, they are also struggling with how to incorporate new practices and policies under their restrictive funding structures. The following highlights some practical steps for nonprofits and funders to consider as they begin to shift their practices toward a full cost approach.

“Real lasting change will come from a combination of meaningful shifts in technical and cultural practices.”

–Nonprofit Finance Fund

Address power dynamics with funders/nonprofit executives

There’s an inherent power differential between funders and nonprofit executives, where funders yield significant decision-making power over the terms of funding (such as what to fund and how funds are distributed). This power differential could pose, and often does pose, significant barriers to nonprofit operations, especially if funding does not match the needs of grantees. Because of this power differential, grantees might be hesitant to voice their financial concerns without fear of being penalized by their funders.

While nonprofit executives have the responsibility to candidly share with their funders the full cost of programs, the onus of starting the conversation rests on the funders. It is essential that funders create a safe environment to have honest dialogue with their grantees about full cost. Some participants recommended that identifying “vocal champions” to advocate for full cost and convening funders and nonprofits to learn from each other’s successes and challenges, and to openly discuss power dynamics, will break down implicit and explicit barriers to supporting the full costs of nonprofits.

Start a conversation about full cost internally and externally

As one participant urged, “We have to keep the conversation going.” Recognizing that full cost is an emerging concept and that its implementation is a best practice within philanthropy and the nonprofit sector, it is imperative for funders and nonprofit executives to discuss internally (i.e., within their organizations) and externally (i.e., with their peers and across sectors) about the value of full cost. For both sectors to move toward successful adoption and implementation of full cost, there needs to be a critical mass within the funding and nonprofit communities that is actively discussing, debating, advocating and deploying full cost principles and practices. Ultimately, both sides need to see this as a partnership, in which candid conversations and openness about the cost of operation is imperative if the partnership is going to work.

Access resources to train staff about full cost

Many nonprofits and funders were able to use what they learned and share back to their organizations. If the full cost approach is something you are considering taking on, consider the following to support learning and adoption:

- Access online resources and tools to support continuous learning. [Here is a link to resources on the Full Cost Project Website.](#)
- Provide learning spaces for your staff and your grantee partners that allow deep engagement and discussion for issues related to power dynamics (culture shift) as well as the technical aspects of adopting a full cost approach.
- Participate in diverse modes for learning (in-person trainings, refreshers, webinars) through the offerings provided by Philanthropy California and/or NFF as available.

Adopt full cost principles and practices even within the constraints of your organization

The goal of the Full Cost Project is not to get every funder or nonprofit to adopt all the practices immediately, but rather to adopt and *adapt* the practices that make sense within their organizational contexts. While each organization operates within unique operational and financial constraints, this doesn't mean the full cost principles and practices cannot be adopted. Certain funders (e.g., government funders) operate in a highly restrictive environment yet still are able to adapt this approach. As one funder shared, "There are funders out there like us that do project funding, and what I've had to do [is] take the tools and figure out how to adapt them in our [restrictive] funding context." Government funders can also work with their grantees on having a conversation about allocating permissible costs in their budgets.

Empower staff to question existing practices that are detrimental to the success of nonprofits.

Staff at all levels can take an active role in improving policies and procedures that can enhance nonprofit impact. First, employees need to adopt a mindset (individual agency) that they can make a difference. Whether they work in the accounting department, interface with funders/nonprofits, implement specific programs or projects, serve on the board, or oversee an organization, each person needs to believe that they have a voice and that their voice can make a difference to existing operational procedures, practices, and relationships. Second, leadership needs to create a safe and open work environment so employees can present ideas that could improve existing operations.

Conclusion

Philanthropic and nonprofit leaders see the value and benefit of adopting the full cost approach and are beginning to incorporate some key concepts and tools into their practices. The most critical take-away from this evaluation is to “keep the conversation going” in order to raise awareness and build momentum in adopting a full cost approach more broadly. The following list provides ways funders and nonprofits can engage in these crucial conversations within and across their organizations.

Funders

- Discuss internally how funding strategies can adopt a full cost approach.
- Discuss with your peers in philanthropy how they have adopted such an approach and identify what worked and didn't work.
- Discuss with your grantees whether your funding is meeting their short- and long-term needs.

Nonprofits:

- Discuss internally the full cost of nonprofit operations. The only way to have a candid conversation with funders is if you understand what it takes to do your work.
- Set priorities for your full cost needs, and create a long-term plan to meet these needs over time.
- Discuss with your funders about the cost to operate a program/organization. While the onus of starting the conversation is on the funder, nonprofit executives can also start this conversation.

Appendix A: Full Cost Phase II Project Components and Participation

Ten workshops were delivered across the state from summer 2017 to spring 2018. Workshops ranged in length from 90 minutes to two full days, with groups as small as 12 to as large as 80. One-day and two-day long workshops were structured for nonprofits and funders to learn together as peers and engage in honest and constructive dialogue. Ninety-minute and two-hour workshops were designed for funder-only audiences to set a high-level understanding of full cost concepts and the sector context.

A total of 292 funders or nonprofits attended at least one Full Cost training. SCG had the most attendees ($n=130$), followed by NCG ($n=112$) then SDG ($n=50$). Those who attended a Full Cost training were sent the online survey to complete.

	NCG	SCG	SDG	Total
Nonprofit	34	73	20	127
Funder	65	43	16	124
Both Nonprofit and Funder*	12	12	13	37
Unknown	1	2	1	4
Total	112	130	50	292

* such as United Way or a Community Foundation

“ The handouts...provided me with a solid foundation to really talk about how indirect cost and general operating, and the whole range of things that typically are unrestricted, are so vital to the organization, and especially to goals in the future, that I include that in basically every conversation I'm having with them [funders].”

–Nonprofit executive

Appendix B: Evaluation Methods and Limitations

Evaluation Questions

Learning Domain	Evaluation Questions
Relevance and applicability of full cost	<ul style="list-style-type: none"> How relevant and applicable is the full cost approach?
Awareness, knowledge, and skills	<ul style="list-style-type: none"> To what extent have participants gained awareness and knowledge of the full cost approach? What skills did they learn and how confident are they applying them? Which communication strategies are most useful in implementing a full cost approach?
Implementing full cost and barriers	<ul style="list-style-type: none"> What new skills or tools do participants intend to/ have applied? What are the barriers to applying them? How are participants communicating the full cost approach to funders, grantees, and trustees?
Value of full cost approach and future support	<ul style="list-style-type: none"> What is the value-add of the full cost approach for the nonprofit sector, funders, and trustees? What is needed to support the paradigm shift required to apply the full cost approach within the nonprofit sector? What other support is needed for funders, nonprofits, and trustees to effectively adopt and institutionalize a full cost approach?

Methods

Two key methods were utilized to examine the four learning domains: online survey and interviews. The **online survey** was administered May of 2018 to all attendees of the Full Cost trainings across the three regions (San Diego/SDG, Los Angeles/SCG, and San Francisco/NCG). Across all three regions, surveys were sent to 267 training participants, 129 participants completed the survey, for a response rate of 48%⁸. One-on-one **telephone interviews** were conducted in July 2018 with 12 training participants. Harder+Company worked with partners from Philanthropy California and Nonprofit Finance Fund to identify 12 participants across the three regions who would be able to provide in-depth information about the training experience. The individuals who were interviewed were mostly Funders (50%), the remaining were either Nonprofit or Funder (25%) or nonprofits executives. Moreover, the interviewees represented all three regions (five NCG, four SCG, and 3 SDG). Most of the interviewees attended one (n=6) or two (n=5) workshops/trainings. For those who attended two workshops, many attended the One-day workshop: Unpacking Full Cost and the Two-Day workshop: Asking for and Funding Full Costs. Overall, a wide range of training participants were interviewed.

⁸ See Appendix B for full participant profile and data book for survey findings.

Limitations: Missing Survey Data

All survey questions were screened to determine the extent of missing data. A total of 145 Full Cost attendees responded to the survey and 129 respondents were used for the final analysis. Respondents were excluded from the analysis if they did not answer more than half of the survey. In the final sample, on average, respondents skipped two questions and most ($n=50$; 39%) answered all of the questions. There was some variation by role in the extent that people skipped questions. Nonprofits and funders, on average, skipped two questions, while those who were both nonprofit and funders skipped four questions, which may suggest that not all survey items were applicable to funders and nonprofits.

Appendix C: Full Cost Survey Data Book

Survey Highlights

Relevance/Applicability (Exhibit 8)

- Nearly all of the training participants reported that the full cost concepts were practical and applicable to their work (98% agreement) and the skills and tools learned can be applied to their work (92% agreement).

Awareness/Knowledge/Skills (Exhibits 9 and 10)

- **Nonprofits:** Nearly all nonprofits reported that they know how to explain their full cost needs to at least one of their funders (95% agreement), along with better tools to communicate their organization's budget to funders/program officers (92% agreement).
- **Funders:** Nearly all funders reported high ability in their awareness and knowledge around the full cost of running a nonprofit organization (98% agreement), barriers nonprofits face when communicating their full cost needs to funders (98% agreement), and the types of questions to ask nonprofits regarding their full cost needs (97% agreement). However, not all funders reported a greater understanding of how to match funding type to organizational need (20% disagreement).

Efficacy and Readiness (Exhibit 11)

- Approximately one quarter of training participants felt that their organization was not ready to shift their organizational mindset (22%) or their practice (28%) to support a full cost approach.
- Funders reported that they felt more comfortable asking their grantees about their organization's full cost (93% agreement). Nonprofits also reported feeling comfortable having conversations about their organization's full cost with their funders (94% agreement).

Continuum of Change (Exhibits 12 through 19)

- **Funders:** Following the Full Cost training, over half of the participants have shared the full cost approach with others in their organization (58%). Over a third plan to review grant making practices and policies that can be improved with the full cost approach (36%) or review or develop new internal grant making practices and policies to align with the full cost (34%). However, about a quarter (29%) reported that revising or developing new internal grant making practices and policies to better align with the full cost approach is not practical or applicable for their organization.
- **Funders who interact with grantees:** Following the Full Cost training, 40% of funders who interact with grantees were able to discuss grant requests and costs differently. However, over a quarter (27%) reported it is not practical to encourage their grantees to budget a surplus.

- **Nonprofits:** Following the Full Cost training, over half of participants (60%) were able to share the full cost approach with others in their organization, with an additional 22% planning to do so in the future. Nonprofits have also reviewed budgeting practices or strategic goals (43%) or grant writing or fundraising practices that can be improved with the full cost approach (44%). However, about a fifth of nonprofits reported that revising grant writing or fundraising (21%) or organizational budget or strategic goals (20%) using the full cost approach was not practical or applicable for their organization.
- **For nonprofits who interact with grantmakers:** There were mixed results from nonprofit participants in terms of what actions they have taken or will take in using the full cost approach. For example, 44% reported that they plan to explain how their organization plans to intentionally use surpluses to their funders, while 38% reported that this action is not practical or appropriate. Almost half decided not to pursue a grant opportunity because it would not adequately pay for the imposed requirements (47%).

Survey Data

Introduction Questions

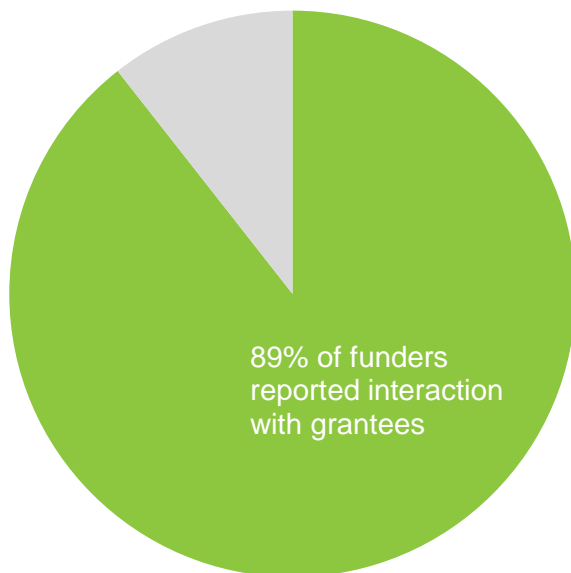
Exhibit 1. Please select the stakeholder group that best represents you within the context of the Full Cost training (n=129)

Stakeholder Group	%
Funder	47%
Nonprofit	33%
Both Nonprofit and Funder, such as United Way or a Community Foundation	19%

Exhibit 2. Please select your role within your stakeholder group (n=129)

Role	%
Board member or trustee	16%
Leadership staff	58%
Other	26%

Exhibit 3. Nearly all funders reported that they directly interact with potential grantees in their role (n=85)



Nearly all nonprofits reported that they directly interact with grantmakers in their role (n=66).

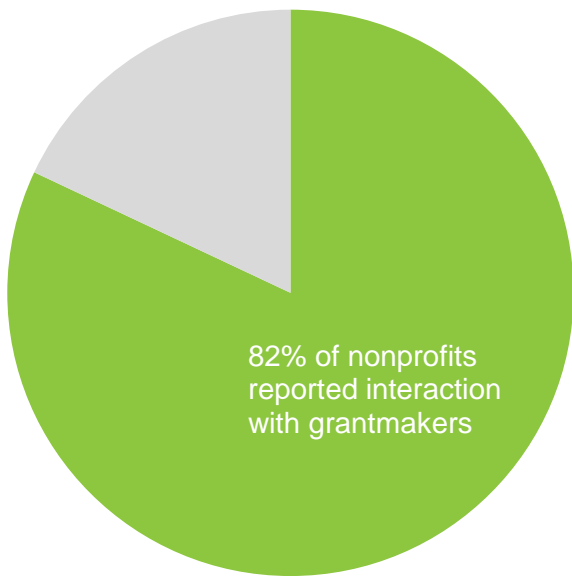
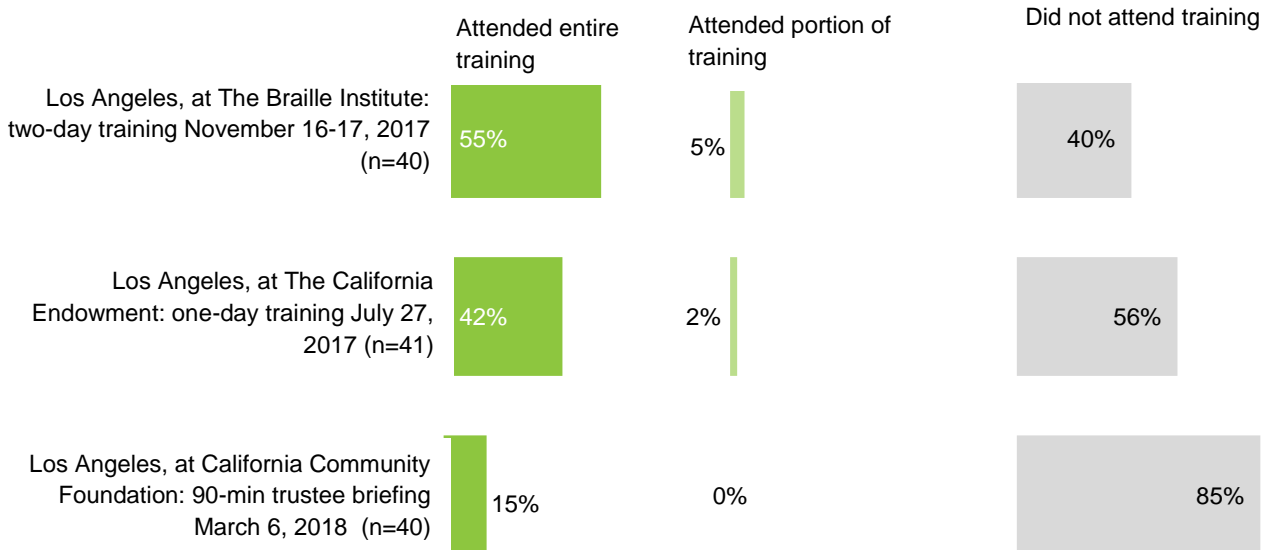


Exhibit 4. Region in which survey respondent came from (n=129)

Region	n
NCG	55
SCG	40
SDG	34

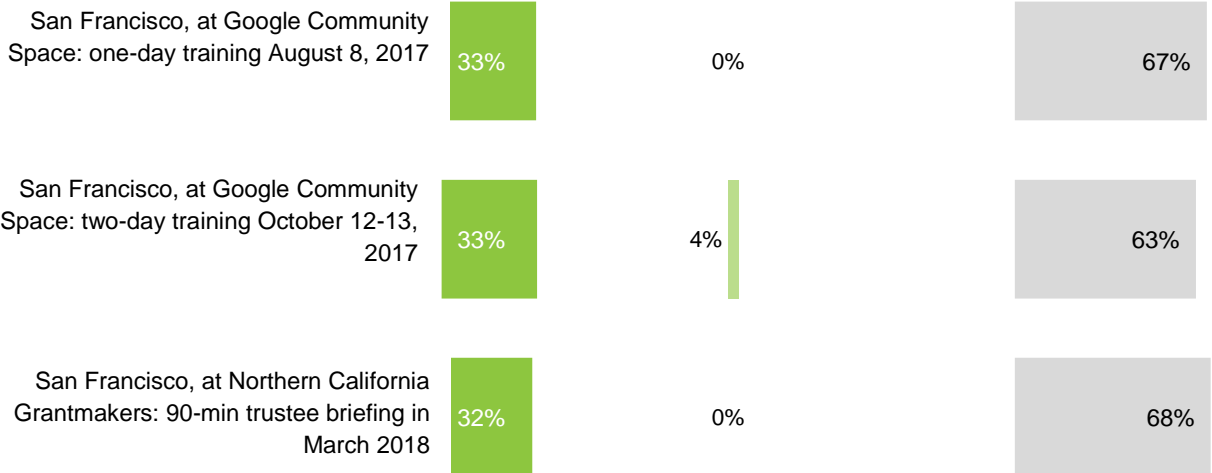
Exhibit 5. Respondents attended the following trainings by region...

Los Angeles trainings (n=41)

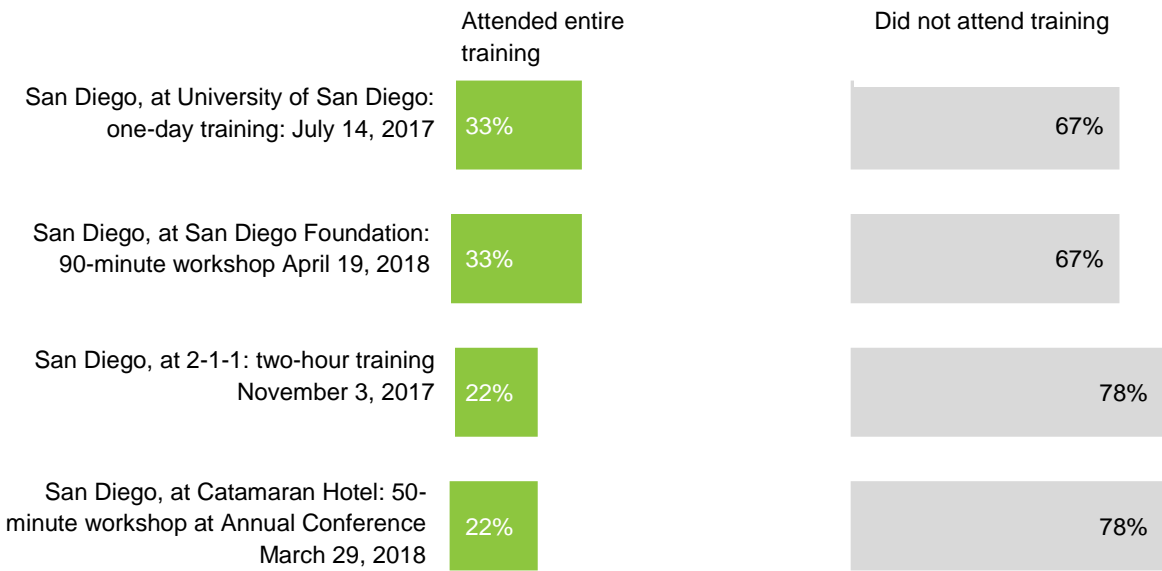


San Francisco trainings (n=57):



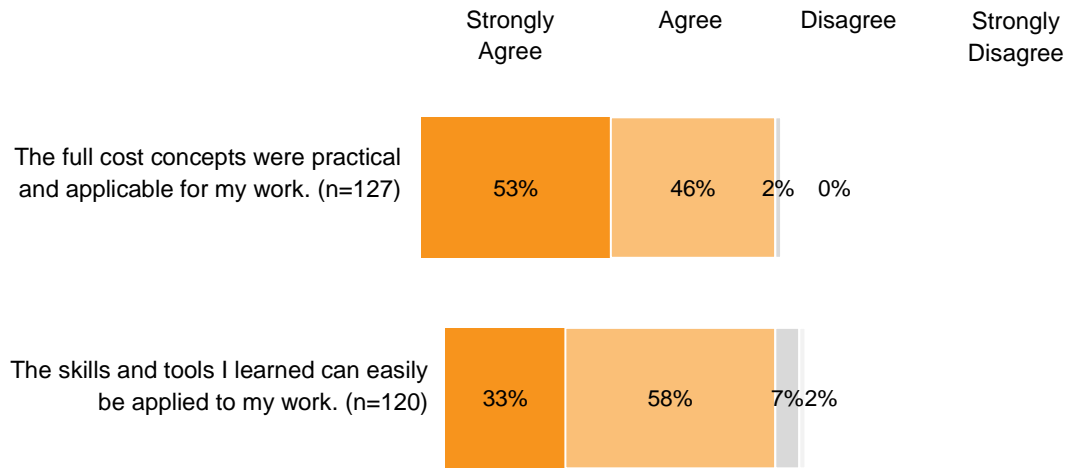


San Diego trainings (n=36):



Relevance/Applicability

Exhibit 6. Funders and nonprofits found the Full Cost training relevant and applicable to their work.



Awareness/Knowledge/Skills

Exhibit 7. Those who work in nonprofits agreed to the following statements...

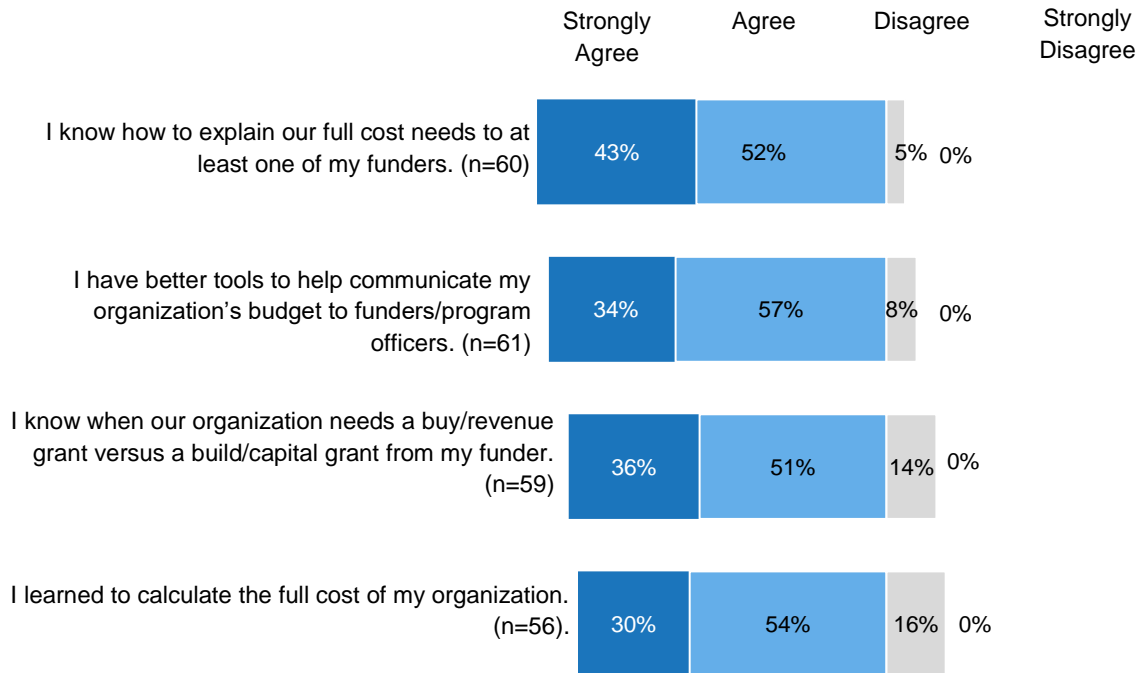
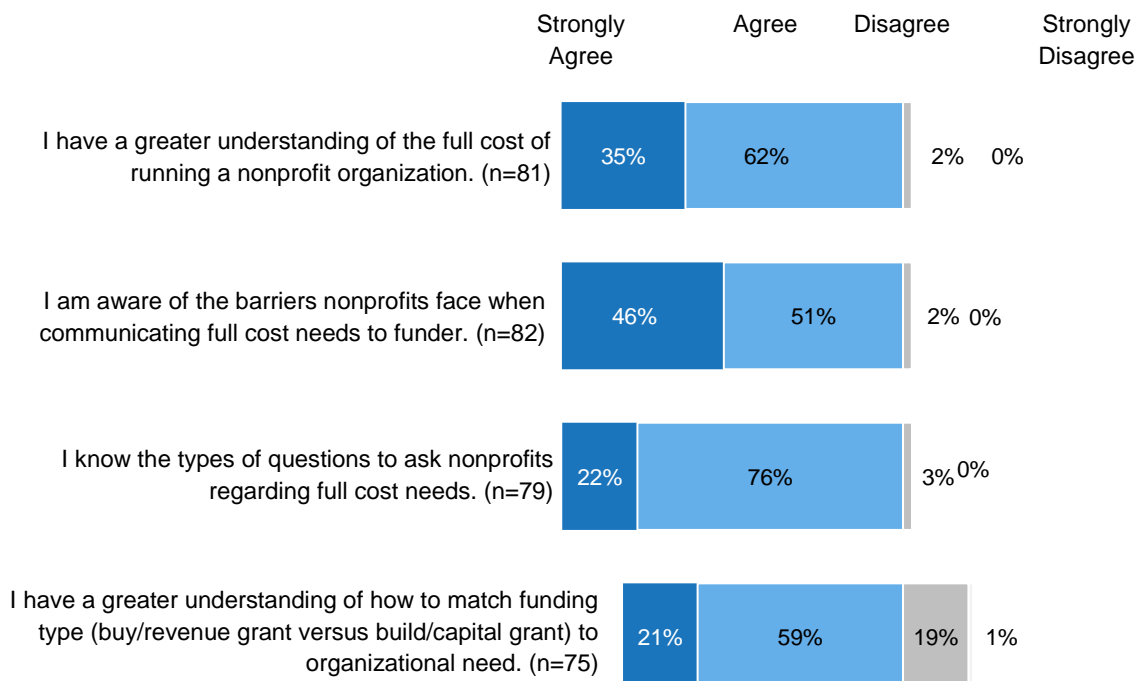


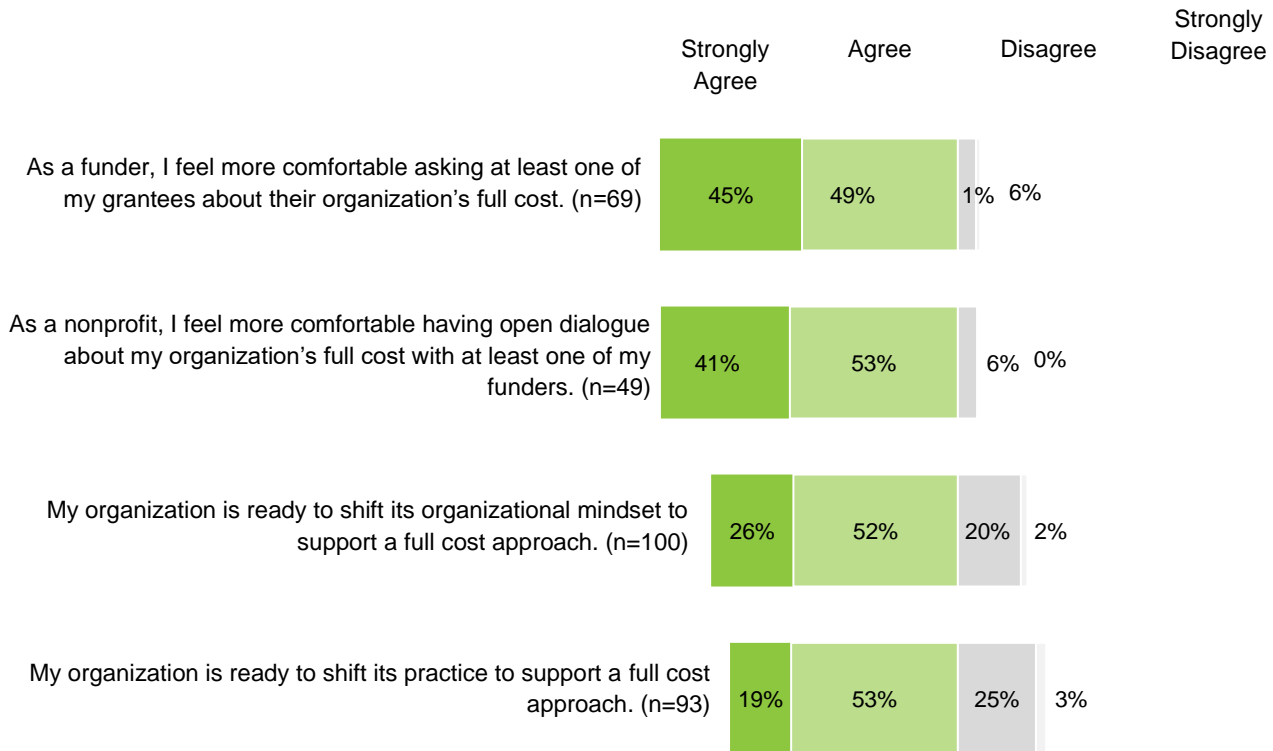
Exhibit 8. Those who work as funders agreed to the following statements...



Implementing Full Cost: Intent/Action: Part 1

Efficacy and Readiness

Exhibit 9. Over half of nonprofits and funders reported that their organization is ready to shift their mindset to a full cost approach.



Implementing Full Cost/Intent/Action: Part 2

Continuum of Change

Exhibit 10. From the Full Cost training, funders were able to take action on the following for their internal organization practices...

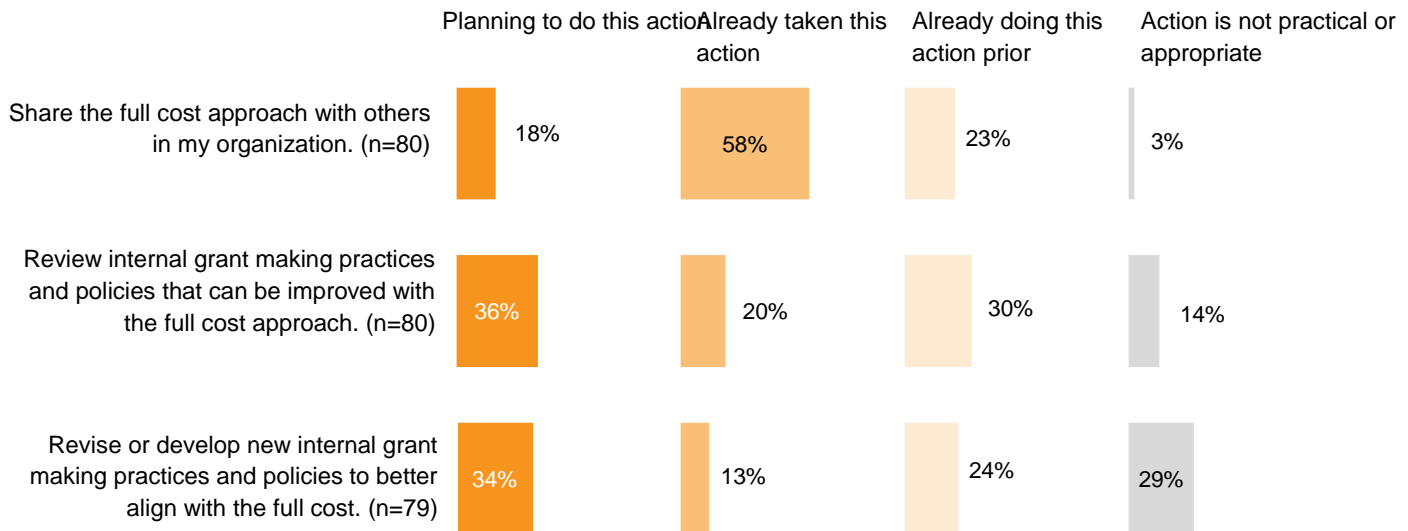


Exhibit 11. From the Full Cost training, funders who interact with grantees were able to take action on the following...

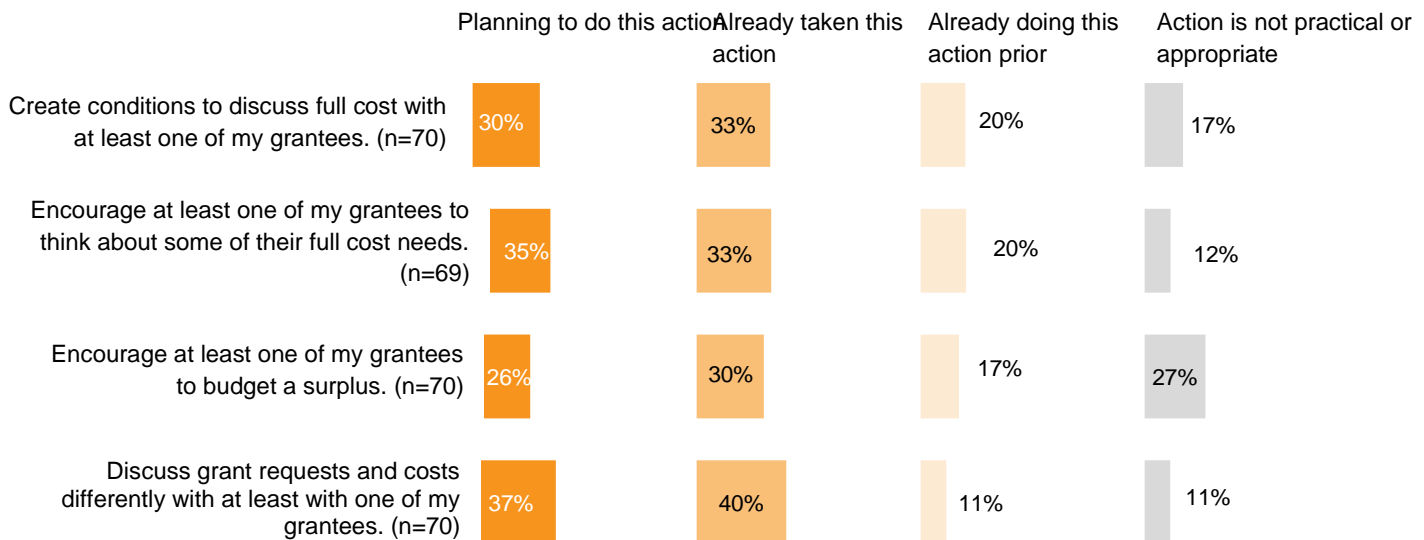


Exhibit 12. From the Full Cost training, nonprofits were able to take action on the following for their internal organization practices...

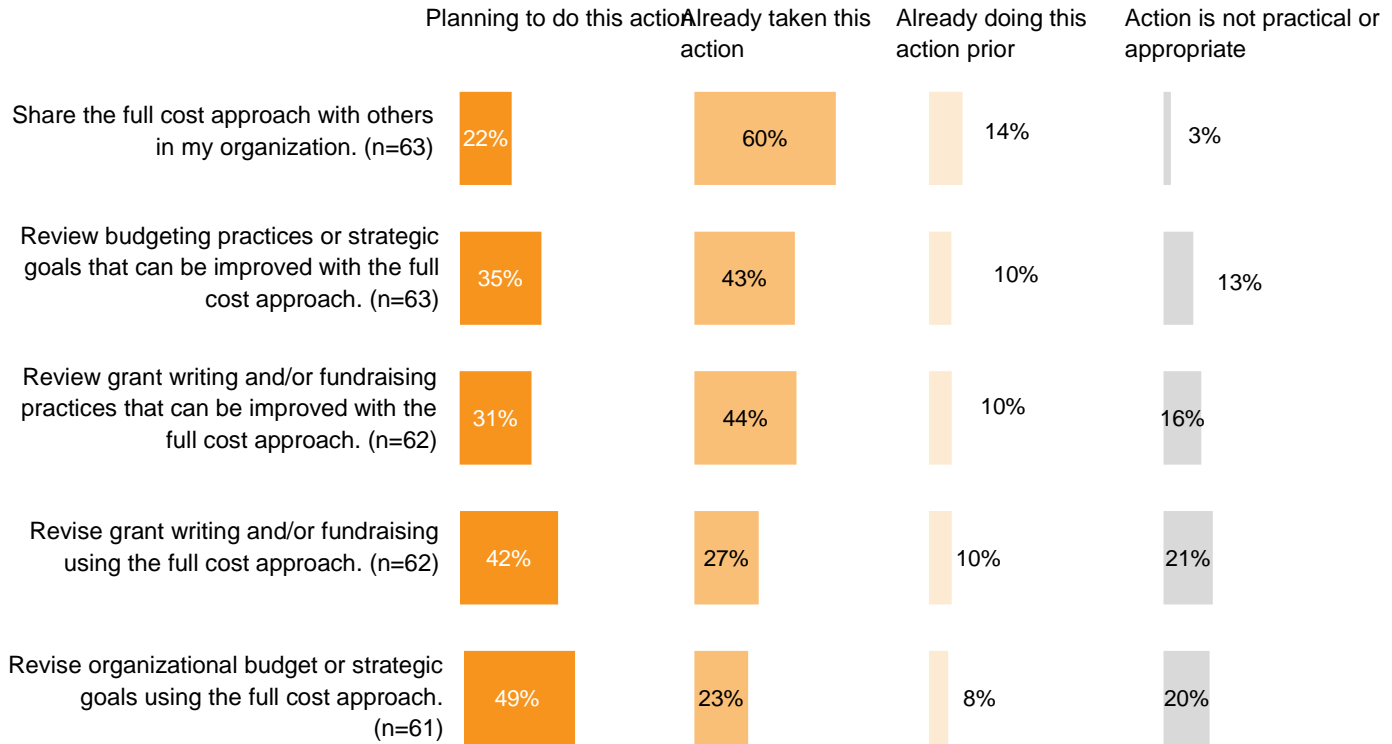
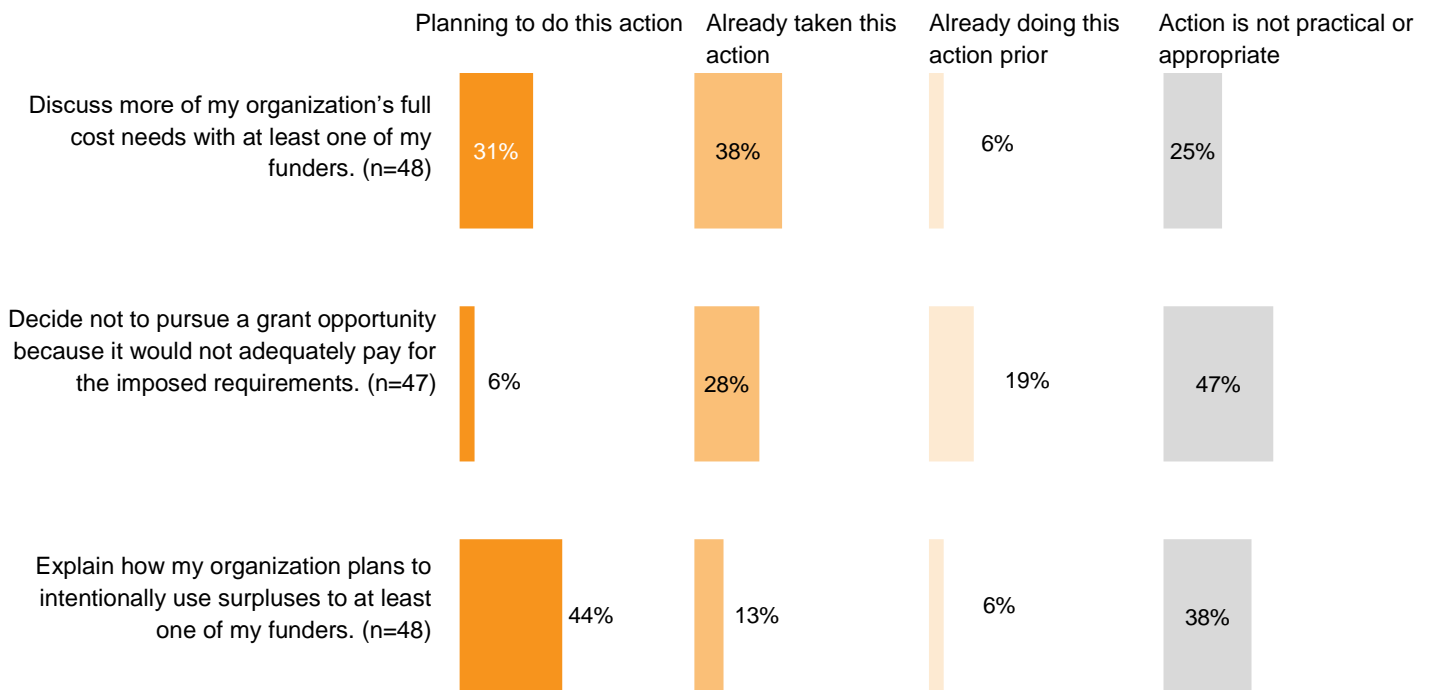


Exhibit 13. From the Full Cost training, nonprofits who interact with grantmakers were able to take action on the following for their internal organization practices...



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