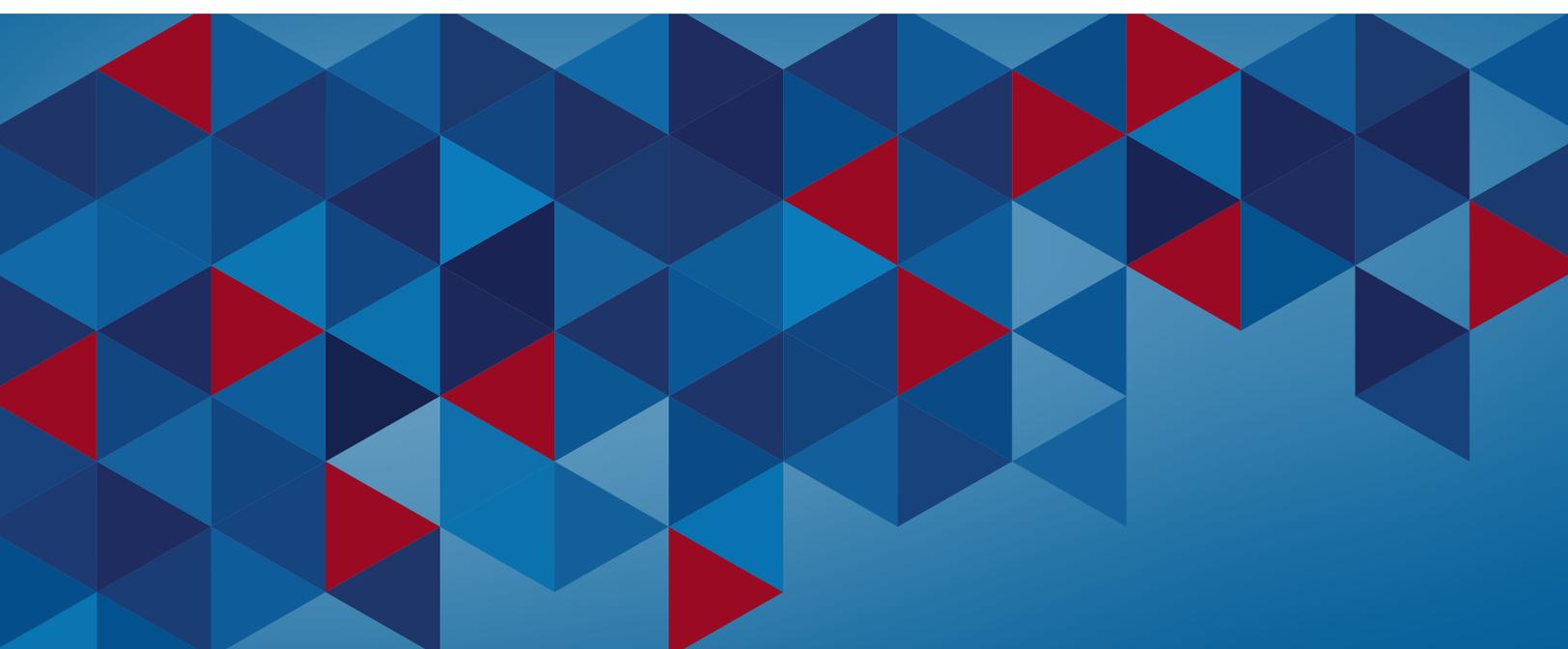


# Foundation Exits

A Survey of Foundations and Nonprofits

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AT GRAND VALLEY STATE UNIVERSITY



## Dorothy A. Johnson Center for Philanthropy

Established in 1992, the Dorothy A. Johnson Center for Philanthropy is an academic center within the College of Community and Public Service at Grand Valley State University. We conduct research, provide professional and organizational development, and create and share tools for nonprofits, foundations, and others seeking to transform their communities for the public good.

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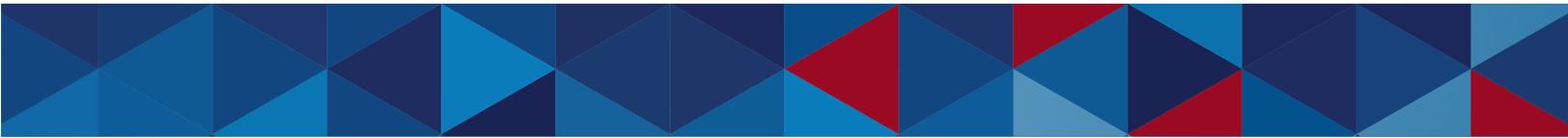
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# Foundation Exits:

## A Survey of Foundations and Nonprofits

### EXECUTIVE SUMMARY

Since the late 1990s, two significant trends in institutionalized philanthropy have altered the ways foundations in the U.S. work with grantees:

1. A growing share of new foundations are now **spend-down**, or **limited-life, foundations** with a defined endpoint for their operations.
2. More foundations are engaging in “strategic philanthropy,” an approach that targets giving to achieve specific desired outcomes. With this shift, many perpetual foundations began funding **time-limited strategic initiatives**.

While foundations use a variety of strategies to manage their exits, there is no “one size fits all” approach, according to available guidance.

Little is known about the success of exit processes and how exits affect the long-term sustainability of grantees, a field, and the broader community. To start filling these gaps, the Dorothy A. Johnson Center for Philanthropy collaborated with Independent Sector (IS) to design and administer a survey to better understand practices in ending funding relationships from both the funders’ and grantees’ perspectives.

### The Survey

Online surveys were conducted May 31–June 18, 2018 via an email link. The survey was sent to the 407 IS members who were identified as foundations or nonprofits. The overall response rate was 10.6%.

**The largest foundation in the U.S. — the Bill and Melinda Gates Foundation — is a limited-life foundation and is set to close 20 years after the deaths of its trustees.**

#### FOUNDATIONS

**134**  
invited



**17**  
completed



**15**  
had exited  
a funding  
relationship

#### NONPROFITS

**273**  
invited



**26**  
completed



**18**  
had a funding  
loss due to a  
foundation exit  
or a change in  
strategy

## Key Findings and Conclusions

The nature of the survey (one organization's members) and the small sample size limit the generalizability of the findings.

However, we can draw some high-level conclusions about the exit experience, including:

- Nonprofit and foundation staff **experienced the exit process differently**.
- When foundations gave **general operating support**, specifically as a final grant, nonprofits found it difficult to replace this funding.
- **Most foundations did not report using feedback from grantees** to adapt their exiting process, which may be contributing to the lack of clarity and communication that grantees experience.
- While most surveyed nonprofits (70%) said that they did not view any one foundation's funding as critical, **many (80%) still experienced a change in programming** as a result of a foundation's exit.
- As **many foundations adjusted staffing** in an effort to meet the demands of the exit process, nonprofits experienced difficulties with consistent communications.
- Foundations that removed funding because of changes in strategy or because they closed **rated higher in grantee perceptions** than foundations that exited funding for other reasons.

## Recommendations

Considerations for funders when exiting:

- **Clearly and repeatedly communicate to all stakeholders** the reasons for exiting and the process moving forward.
- **Consider pairing general operating support with other capacity-building efforts** to improve organizational sustainability.
- **Include the grantee** in developing the exiting process and their feedback as it unfolds.
- **Carefully manage foundation staff changes** when exiting bodies of work, specifically staff working with grantees in order to maintain consistency.



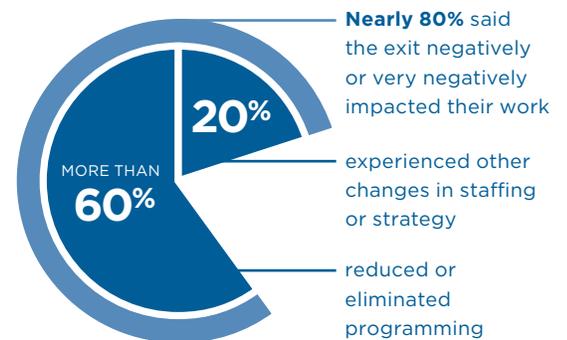
When asked about exit process steps, funders most frequently reported (64%) that they supported building grantee capacity during the process. However, this was the least frequently selected option by grantees (6%).



**Nearly 50% of funders** indicated that their foundations used feedback regarding grantee needs and priorities throughout the exit process. **Only 20% of grantees** shared the sentiment.

**None of the funders** interviewed stated that their foundation used grantee feedback throughout the exit process to guide decision-making.

## Nonprofits, Following an Exit:



**Nearly 70% of funders** shared that they **shifted staff** from other program areas to meet the needs of the exit process

## INTRODUCTION

Since the late 1990s, there have been two significant changes in institutionalized philanthropy in the United States that have altered the way foundations work with nonprofit organizations.

The first change was a significant shift toward creating foundations that have a defined endpoint. While U.S. philanthropy has long been dominated by independent perpetual-life foundations with large endowments, such as Ford, Rockefeller, Kellogg, and Carnegie, limited-life, or spend-down foundations have gained popularity. According to one estimate, about 19% of family foundations established between 2010 and 2014 plan to spend down their endowments, compared to only 3% of those created before 1970 (Boris, De Vita, & Gaddy, 2015). The largest foundation in the U.S., the Bill and Melinda Gates Foundation, is a limited-life foundation and is set to close 20 years after the death of its donors. Bill Gates, Warren Buffett, and others have urged a number of individuals and foundations to consider giving away their assets during their lifetime or in their will.

The second major change in institutionalized philanthropy has been the shift to strategic philanthropy. Strategic philanthropy involves foundations taking a proactive role in identifying the outcomes they seek to achieve and designing their giving to achieve those outcomes. With this strategy shift, many perpetual foundations began funding time-limited strategic initiatives.

While there are a number of unique factors influencing a foundation's decision to spend down or exit from a field, initiative, or funding relationship, there are also some commonalities. The decision to exit is influenced by both internal and external circumstances, ranging from donor intent to strengthening outcomes (Loh & Buteau, 2017; Markham & Wolf Ditkoff, 2013; Ostrower, 2009, 2011; Petrovich, 2011; Renz & Wolcheck, 2009; Waleson, 2010).

### Deciding to Exit

For most limited-life foundations, the spend-down decision is made by the founders and their families based on considerations such as a founder's disdain for perpetuity, a family's uncertainty about the future, and/or a family's concern over mission or priority shifts over generations (Loh & Buteau, 2017; Ostrower, 2009, 2011). For foundations that make the decision to spend down later in their life, a decline in financial resources may be the deciding factor (Loh & Buteau).

For perpetual foundations, the board of trustees is responsible for making the decision to exit a field, initiative, or funding relationship. This decision is influenced by timing and context (Colombo, 2016; Gienapp, Reisman, Shorr, & Arbretton, 2017; Kibbe, 2017; Perez, 2017), such as a shift in organization priorities, the winding down of influential opportunities (Gienapp, et al.; Kibbe), or a change in leadership. A decline in financial resources (Petrovich, 2011) may also play a precipitating role.

Both limited-life foundations and perpetual foundations often cite the desire to have a lasting impact now rather than later as a core reason behind their exiting decisions (Kibbe, 2017; Loh & Buteau, 2017; Markham & Wolf Ditkoff, 2013; Ostrower, 2011). Some foundations are internally motivated, and find satisfaction in seeing change happen while the funders are alive (Loh & Buteau; Ostrower; Waleson, 2010). Other foundations act out of external motivation, and believe they can make the greatest impact in a concentrated amount of time using specific, targeted tactics (Colombo, 2016; Ostrower).

## The Exit Process

When working on time-bound initiatives, both limited-life and perpetual foundations share similar exiting strategies. A review of the literature (Colombo, 2016; Firth, 2012; Kibbe, 2017; Loh & Buteau, 2017; Mackinnon & Jaffe, 2007; Ostrower, 2011; Oechsli & La Piana, 2014; Petrovich, 2011; Renz & Wolcheck, 2009; Yu, Jhavar, & Berman, 2017) points to various exit tactics including but not limited to:

- Using a theory of change or logic model to guide the exit process,
- Convening partner organizations and peer foundations to assist with field and/or nonprofit sustainability,
- Investing in nonprofit capacity building and fundraising,
- Setting ambitious programmatic goals,
- Conducting pre-initiative and post-initiative evaluations,
- Clearly communicating to foundation staff and nonprofits about the exit process,
- Paying attention to how to retain staff and keep up staff morale, and
- Changing overall grantmaking strategy and/or providing final grants (from step-down to transition to endowment grants).

While foundations undertake a variety of strategies to manage their exits, many have learned through the process that there is no “one size fits all” approach (Colombo, 2016; Kibbe, 2017). Perpetual foundations sometimes seek to maintain relationships after their own funding ends by finding new funders for an initiative or working with nonprofits on new projects (Colombo, 2016; Mackinnon & Jaffe, 2007; Ostrower, 2011).

Along with exit tactics, many challenges involved with exiting have been well-documented, from both the limited-life and perpetual foundation perspectives (Gienapp et al., 2017; Kibbe, 2017; Knox & Quirk, 2017; Ostrower, 2009, 2011; Petrovich, 2011; Yu et al., 2017). Some of these documented challenges include:

- Dealing with an unhealthy nonprofit–foundation dependency (especially for field-based foundations);
- Explaining to nonprofits why the foundation is exiting;
- Building nonprofit fundraising capacity and attracting additional external funding;
- Maintaining quality relationships and open, direct communication with nonprofits and staff;
- Managing uncertainty and ambiguity internally with staff and externally with nonprofits;
- Being underprepared for a nonprofit’s negative feelings toward exiting;
- Having difficulty following best-practice advice around exits (such as early planning and open communication);
- Underestimating the pace of exit initiatives or field changes; and
- Evaluating long-term goals but ignoring short-term ones, which often provided better indication of initiative success.

Despite available advice about exit tactics and challenges, little is known about the success of exit processes and how exits affect the long-term sustainability of nonprofits, a field, and the broader community. An understanding seems to be emerging around what a responsible and respectful exit looks like, but there is little research regarding the efficacy of exiting tactics (Loh & Buteau, 2017; Mackinnon & Jaffe, 2007; Petrovich, 2011). Few foundations engage in retrospective evaluation after an exit, making it difficult to know if they have achieved success with their strategies (Kibbe, 2017). Furthermore, most of the available exit-focused literature is written from a foundation's standpoint and comes primarily from the perspective of a limited-life foundation. Additional research is needed to better understand exits from the nonprofit perspective and field, initiative, and funding-relationship exits.

To begin filling some of these gaps, the Dorothy A. Johnson Center for Philanthropy at Grand Valley State University collaborated with Independent Sector (IS) to design and administer a survey to better understand practices in ending funding relationships from both foundations' and nonprofits' perspectives.

## RESULTS

This section discusses the survey and follow-up interview results. Two surveys were developed, one for foundations and one for nonprofits. Survey links were sent by email to 407 IS members: 134 foundations and 273 nonprofits. Of the 407 members, 56 (13.7%) started the survey and 43 (10.6%) completed the survey. Twenty-two participants indicated they would participate in a follow-up survey, although only six did. Participants who indicated they would be interested in completing an interview were contacted up to four times to request an interview.

### Survey Respondent Characteristics

#### Foundations

The foundation survey was sent by email to 134 IS foundation members. In total, 23 foundations started the survey after clicking the emailed link, for a 17% response rate. Of those who started the survey, 17 (12.7% of the total number contacted) completed the survey, for a 74% completion rate. IS staff indicated the response rate for this survey was much higher than the rate for previous surveys of this membership group.

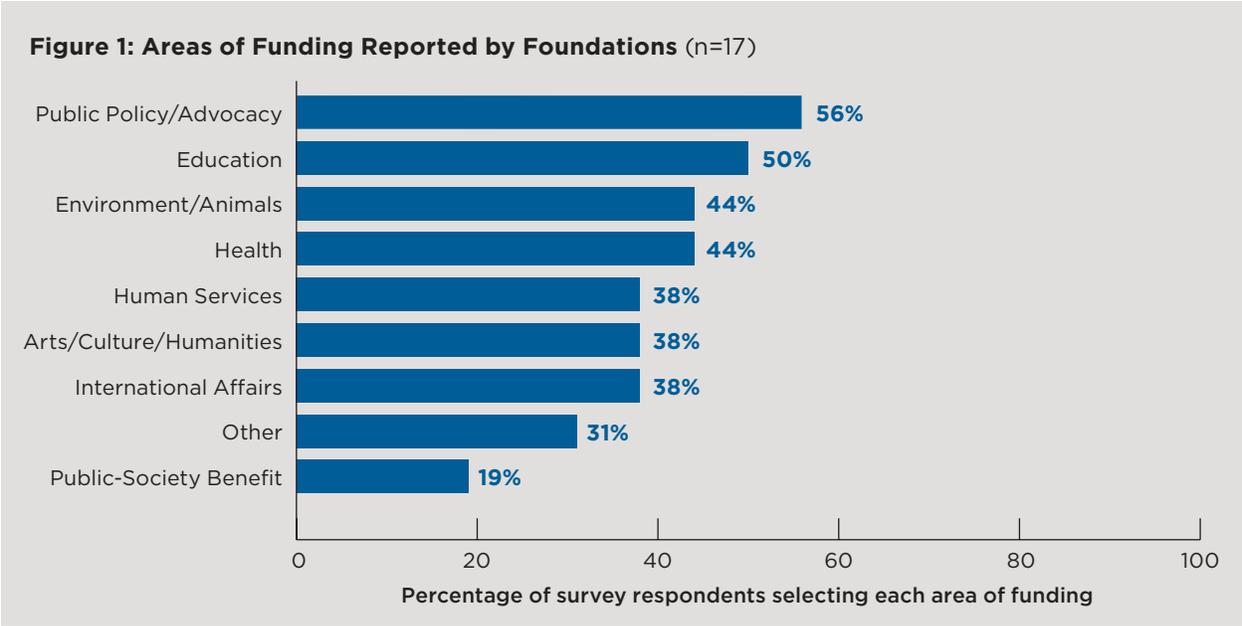
Of the 17 respondents, one was a perpetual foundation that had not exited any work; 15 were perpetual foundations that had exited a body of work, but continued grantmaking in other areas; and one, a community foundation, indicated "other" because it did not feel that either category applied. Respondents indicated that, while their foundation continues, various funding sources are perpetual and others are limited life.

Participants indicated that they exited work most frequently due to changes in the foundation's financial situation, leadership, or funding priorities. Changes to the environmental (including political) situations and the outlook for strategy success were other reasons given for exiting funding relationships.

Participants indicated that they exited work most frequently due to changes in the foundation's **financial situation, leadership, or funding priorities.**

Foundations that participated in this survey were located in eight states and the District of Columbia. Most (60%) of the participating foundations had a national focus. Nearly half (47%) were independent foundations and slightly fewer (41%) were family foundations. The remainder of the participants were corporate and private operating foundations.

Many participating foundations funded more than one area; most provided funding in public policy and advocacy funding areas, with nearly as many in education. (See Figure 1.) Other responses included “inclusive entrepreneurship”; “impact investing”; “capacity building”; “strengthening democracy” and “democracy”; “economic development”; and “cybersecurity.” Most (69%) had assets totaling over \$250 million and a typical grant size between \$50,000 and \$500,000.



**Nonprofits**

Of the 273 survey invitations sent by email to IS nonprofit members, 33 started the survey after clicking the initial link, for a response rate of 12%. Of those, 26 (9.5% of the total number contacted) completed the 15-minute survey, for a 79% completion rate. Over 70% reported that they experienced funding loss because of a change in strategy or foundation closure. Four had a funding relationship end for other reasons, one did not have a foundation end funding with their organization, and the others were unsure why the funding partnership ended.

Participating nonprofit organizations were located in 14 states and the District of Columbia. Sixty-eight percent of the organizations had national service areas.

Nearly a third of the organizations had a budget between \$2.1 million and \$5 million. Nearly all (96%) of participant organizations received foundation grants and nearly half (48%) received more than 10 foundation grants in a year to support their budgets.

## Interview Participant Characteristics

Researchers interviewed six survey participants: four foundation staff and two nonprofit organization staff. One foundation was a limited-life grantmaker and three were perpetual. The average foundation grant for participant grantmakers was between \$250,000 and \$500,000 and funded education or arts/culture. The two nonprofits had assets of less than \$5 million.

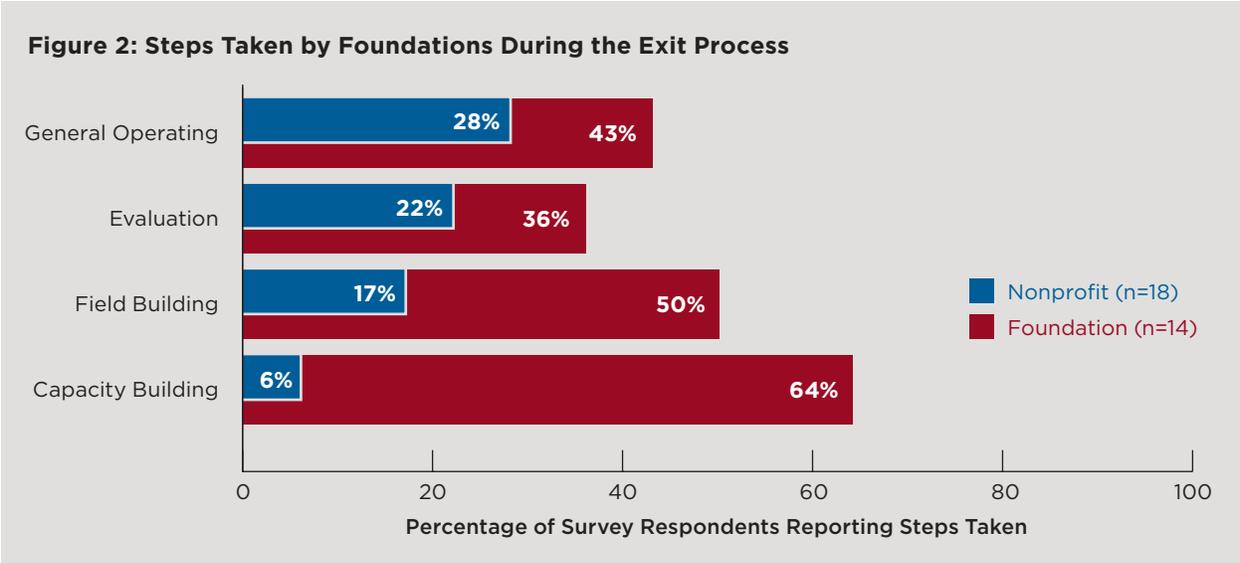
## Findings

Most of the surveyed foundations (15) exited a funding relationship in the past. Five of those exits were prompted by dynamic circumstances such as revisions in the foundation’s funding priorities, transitioning environmental (including political) situations related to funding priorities, a shift in the foundation’s leadership, or changes in the foundation’s financial situation.

### Steps to Exit

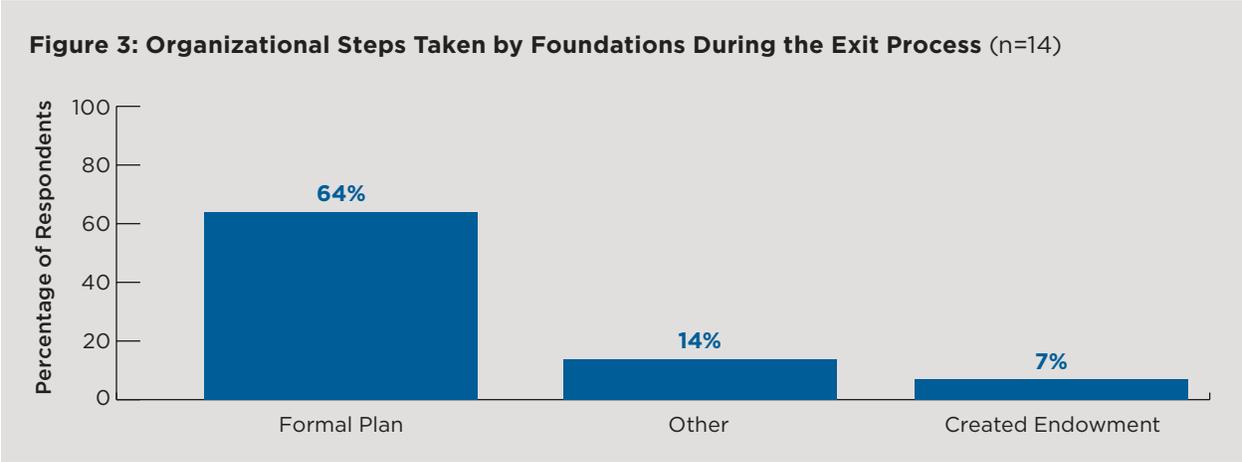
While foundation and nonprofit participants each indicated that foundations took steps during the exit process to prepare the field or nonprofits for loss of funding, the steps taken by foundations and experienced by nonprofits differed. (See Figure 2.) Foundations reported more frequently than nonprofits that foundations took specific steps during the exit process. This was further supported by the nonprofit interview participants, who shared that their foundations did not take steps to end the funding relationship. Instead, it was perceived that foundations left the nonprofits with no support after the original grant ended.

While foundation and nonprofit participants each indicated that foundations took steps during the exit process to prepare the field or nonprofits for loss of funding, the **steps taken by foundations and experienced by nonprofits differed.**



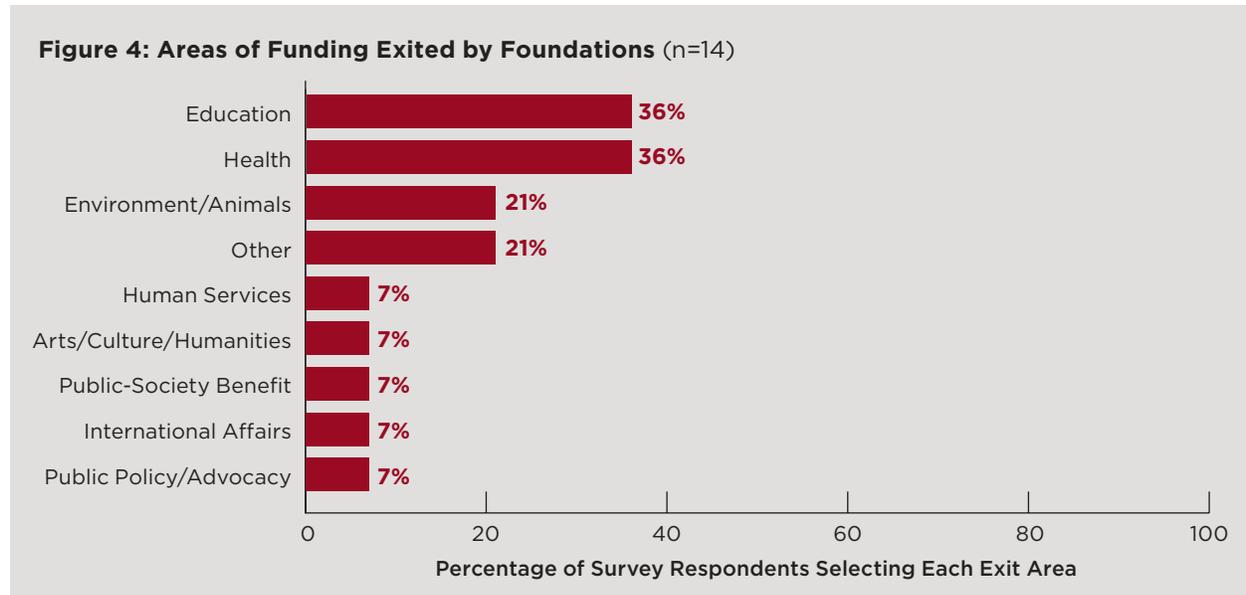
Foundations most frequently (64%) indicated that during the exit process they supported building the capacity of organizations, while this was the least frequently (6%) selected option by nonprofit participants. Two foundations shared that they worked to build capacity using general operating support, offering more flexibility. One nonprofit staff member shared a frustration with the use of general operating support when a foundation exits, because they find it very difficult to replace that funding once the foundation exits. While it was a valuable resource at the time, they did not find it to be useful in building the organization’s capacity.

Organizationally, 64% of the foundations had a formal plan for the exit process. (See Figure 3.) Only 7% of those surveyed created endowments as they were exiting a body of work. While a few foundations (14%) did not note any steps taken during the exit process, a higher percentage (25%) of nonprofits indicated the foundations they worked with did not take any steps. Researchers also found this discrepancy in follow-up interviews — all of the foundations reported that they provided an exit plan, but none of the nonprofits reported that they knew about an exit plan. This could indicate a lack of clarity in communication about the foundations’ activities during the exiting process.



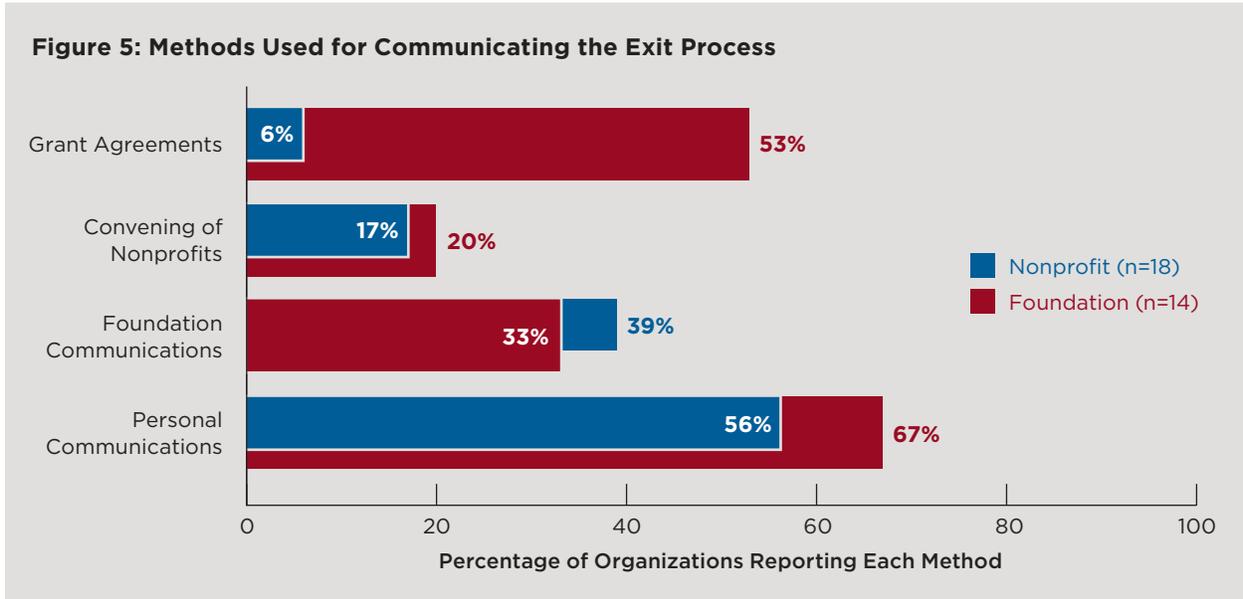
## Types of Grants Exited

The most frequently exited funding areas were the same as the most frequently funded areas noted in Figure 1, except for public policy. (See Figure 4.) Foundations discontinued funding in education and health areas most frequently, followed by environment/animals and the “other” category. The “other” responses included “geographic exit[s].”



Though participants indicated the typical grant size was between \$50,000 and \$500,000, the typical final grant made to organizations during the exiting process was on the higher end of that scale. Half of the foundations indicated that the final grant award was between \$250,000 and \$500,000.

There was an average of four years between the date the foundation decided to exit a body of work and the date of the last awarded grant for that work, with a minimum of nine months and a maximum of 10 years. Although foundations most frequently indicated that they notified nonprofits two to three years in advance of the funding exit, nonprofits were more likely to indicate the foundation provided “one year or less” of notice. Interviews supported this finding: Both nonprofits reported that they received less than three months’ notice, while three of the four foundations interviewed reported telling nonprofits at least one year in advance. Foundations and nonprofits indicated that this notice was typically given personally, through a visit or phone call. (See Figure 5.) While 53% of foundations indicated that communication about the exit was written into the grant agreement, only 6% of nonprofits agreed.



The two nonprofit organizations reported different outcomes as a result of the funding loss. One nonprofit reported no negative effects from the loss in funding, but the other nonprofit said their organization faced many negative impacts. For the second organization, the grant made up a significant portion of their budget, and they had the impression from the foundation that they would continue to receive funding for multiple years. After eight to nine years of consistent funding and with less than three months' notice, the foundation told the nonprofit that funding would no longer be available in future grant cycles. This forced the nonprofit to make changes in staffing, programs, and goals, and to reallocate resources and start emergency fundraising. The interview participant stated, "The fallout from losing this grant probably actually cost us more than we actually received."

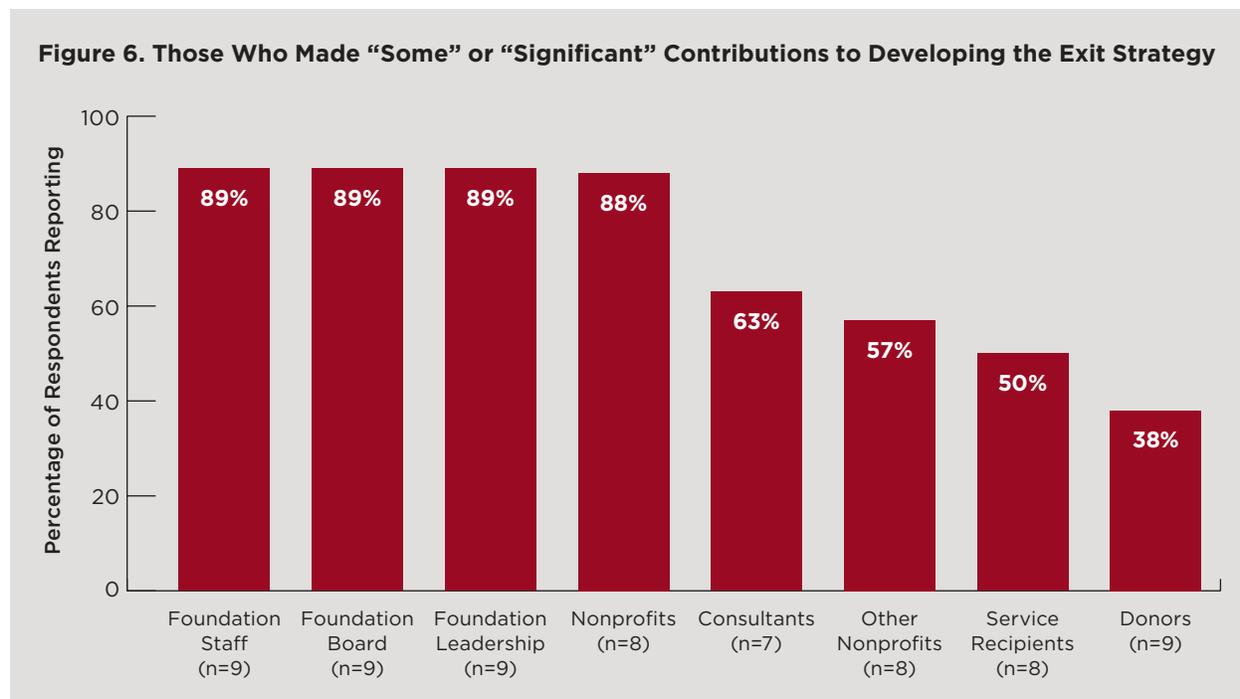
While there are examples of ending funding with little or no notice, most foundation surveys indicated using multi year grants as part of their exit. Further, half of the foundations that made multi year grants used a step-down grant process (grants that decreased in size by year). However, only one of the four foundations interviewed provided step-down funding, and the others made grants equal in size to the original.

Nearly 90% of foundations indicated nonprofits were funded for four or more years prior to exiting from the line of work. Conversely, less than 20% of nonprofits surveyed reported receiving funding for four or more years of final funding. Additionally, while foundation participants indicated that approximately 65% of the nonprofits that lost funding were able to receive other funding from the foundation, fewer than 25% of nonprofits reported that experience.

## Developed a Formal Exit Plan

Over half (64%) of foundation participants shared that the foundation developed a formal plan for exiting their body of work. All foundation participants indicated at least two groups made some or significant contributions to the exit plan; foundation staff, leadership, and board were most frequently listed as contributors. (See Figure 6.) Nearly 90% of foundation participants who reported that their foundation had an exit plan indicated that nonprofits had made some or significant contributions. On the other hand, none of the nonprofits surveyed indicated that foundations included their organizations in the exit-planning process. The interviews supported this discrepancy. Although the four interviewed foundations shared that nonprofits had an impact on the exit process, none of the foundations used nonprofit feedback to change the exit process. The only conversation the foundations indicated having with nonprofits about the process was when the nonprofits were informed about the process. So, while the foundations see nonprofits as contributing to the exit process, it is unclear how this happens.

**Nearly 90%** of foundation participants who reported that their foundation had an exit plan indicated that nonprofits had made some or significant contributions. On the other hand, **none** of the nonprofits surveyed indicated that foundations included their organizations in the exit-planning process.



## Focused on Building Capacity of Nonprofit Organizations

While a majority of surveyed foundations (64%) indicated that the exit focused on building the capacity of its nonprofits, only one surveyed nonprofit (6%) indicated the same. While grantmakers indicated providing more than one type of support to organizations with a focus on fundraising support, the nonprofit reported receiving only evaluation technical assistance.

Five surveyed foundations indicated assisting nonprofits in finding new funding outside of the foundation throughout the exit process. Of those five, four personally introduced them to other foundations, four recommended other foundations for the nonprofits to approach, two recommended a government source of funding, and one helped identify opportunities for earned income. Likewise, two of the four interviewed foundations reported connecting nonprofits to additional funding. Both of those foundations made the comment that finding additional funding was difficult and was not always successful. Neither of the two nonprofits reported receiving assistance in finding new funding, but one nonprofit mentioned that replacing funding is one of the most important steps a foundation can take during the exit process.

All surveyed foundations agreed or strongly agreed that the capacity-building services provided by the foundation prepared the nonprofits for the end of the funding. Participants indicated that early and constant contact with nonprofits throughout the process helped assure them that the capacity building was successfully implemented. Others shared that nonprofits were able to develop and implement plans and secure additional funding throughout the exit, leading to a successful transition. None of the nonprofit participants responded to this question, as most did not receive capacity building from their foundations when they exited.

### Engaged in Field-Building Work

Six foundations indicated they did field-building work during the exit process and six nonprofit participants were grantees of foundations that engaged in field-building work. Foundations and nonprofits both indicated this work included holding convenings, funding other network-building activities, and funding publications and other communication efforts. The foundations also indicated that they established or added to a body of research in the field.

All foundations that indicated that they engaged in field-building work during the exit of their funding agreed or strongly agreed that the foundation made sufficient progress in building the field. Conversely, all nonprofit participants who worked with foundations that engaged in field-building work stated that they disagreed or strongly disagreed that the foundation made sufficient progress. Further, 60% of nonprofits shared that the foundation exit negatively or very negatively impacted the field in which they do work. Nonprofit participants indicated that the shortened funding timeline and funding to ineffective partner organizations led to insufficient progress in field building.

All foundations that indicated that they engaged in field-building work during the exit of their funding **agreed or strongly agreed** that the foundation made sufficient progress in building the field. Conversely, all nonprofit participants who worked with foundations that engaged in field-building work stated that they **disagreed or strongly disagreed** that the foundation made sufficient progress.

## **General Operating Grants**

Six surveyed foundations made, and four nonprofit organizations received, general operating grants or other flexible final grants. Two of the foundations stated that they made grants during the exit process that differed from their regular grantmaking and decreased over time or were endowed. Nonprofit participants shared that losing access to general operating support was very difficult for their organizations when funding ended. Two of the four interviewed foundations provided general operating support during the exit process. One foundation's interviewed staff members said of exit grants, "If the nonprofit was not receiving a general operating grant, then the foundation may switch to it for the last grant so they have more flexibility." Other foundation staff, who were empathetic to the challenges nonprofits face, echoed this sentiment. Multiple foundations mentioned that general operating support was the hardest to replace. The nonprofit participants agreed that losing the general operating support from a foundation that ended a funding relationship was detrimental to their organization.

## **Evaluated the Exit Process**

Only one of the four interviewed foundations conducted evaluations with nonprofits after the exit process, though most agreed this is an area for improvement. One of the nonprofits voiced concern about evaluation after the exit process, saying it is useful only if foundations are willing to listen to the feedback. Conversely, one of the foundation staff interviewed said that they feel that they do not get honest feedback from the nonprofits, because the nonprofits fear the potential repercussions for future funding.

Many survey participants noted the importance of evaluation. Five foundations indicated they used evaluation as a step in their exit strategy, and four nonprofits indicated involvement in foundation evaluation of the exit strategy. Three of the foundations stated they evaluated the conditions and recommendations for the field while others evaluated the foundation's decision-making and implementation. Only one foundation of the five started the evaluation process during planning while two began during the implementation of the exit process and one started immediately (within a year) after the exit process. Four foundations and three nonprofits indicated that their foundation planned to stay in contact with the nonprofits, for evaluation purposes, for an average of two years after the final grant ended.

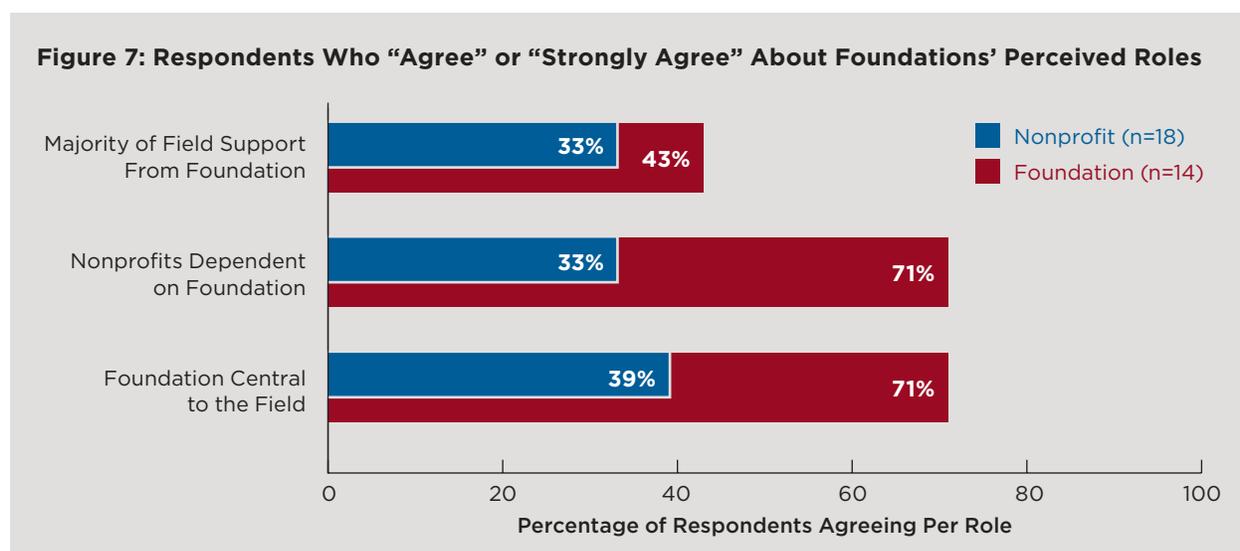
Four foundations shared lessons learned about the exit process externally by publishing articles, reports, and blogs and presenting at conferences or in meetings. An additional four foundations planned to share their lessons learned about the issue area externally by publishing an article, writing blogs, creating a legacy website, or presenting at public events.

## Perceptions

### Foundation Dependency

There were disparities between nonprofits' and foundations' perceptions of nonprofits' and the field's dependency on foundations. For example, 71% of foundations agreed or strongly agreed that prior to exiting, their nonprofits were dependent on the foundation, while only a third of nonprofits indicated the same. (See Figure 7.) Similarly, 71% of foundations stated they agreed or strongly agreed that they were central to the field prior to exiting while slightly less than 40% of nonprofits indicated similar opinions. A third of nonprofit respondents and under half of the grantmakers shared that the foundations that were exiting work constituted the majority of support in the field they exited.

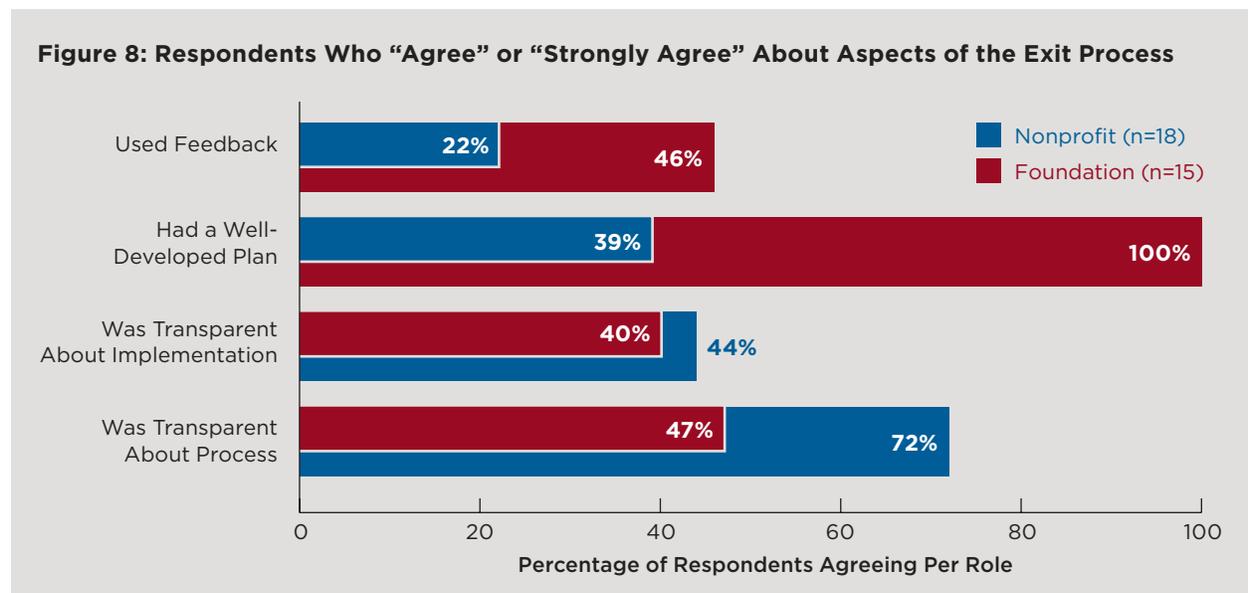
**71%** of foundations agreed or strongly agreed that prior to exiting, their nonprofits were dependent on the foundation, while **only a third** of nonprofits indicated the same. Similarly, **71%** of foundations stated they agreed or strongly agreed that they were central to the field prior to exiting while slightly **less than 40%** of nonprofits indicated similar opinions.



Even though nearly 70% of nonprofits said they strongly disagreed or disagreed that they were dependent on the foundation, nearly 80% of those nonprofits experienced changes in either their programming or their organization after losing funding. Over 60% reduced or eliminated programming and another 20% experienced other changes including reducing staff and adapting funding strategies. Finally, nearly 80% of nonprofits shared that the foundation exit negatively or very negatively impacted their organization, their program, and/or their project. Therefore, it is unclear whether nonprofits of foundations that were exiting their work were dependent on the grantmaking. While nonprofits stated they were not, it is apparent that programming changed because of the removed funding.

Nonprofit interviews found similar results. For example, one nonprofit reported the exit did not have a negative impact on the organization, while the other nonprofit reported that the exit very negatively affected work toward their mission. On this point, a foundation staff member mentioned that the impact of the exit was dependent on the size of the nonprofit, with smaller nonprofits faring worse than the larger nonprofits. The interview data solidified this point because the smaller nonprofit faced more negative impacts than the larger nonprofit.

Surveyed foundations and nonprofits had different experiences with the exiting process. While nearly three-quarters of nonprofits generally agreed or strongly agreed that the foundation was transparent about the exit process, fewer than half of foundation participants agreed. (See Figure 8.) Interestingly, nonprofit and foundation participants had similar percentages of respondents who agreed or strongly agreed that the foundations were transparent about their implementations of the exit process. While nearly 40% of nonprofit participants agreed or strongly agreed that the foundation had a well-developed plan, all the foundation participants shared this mindset.



In the follow-up interviews, all four foundations reported that they were transparent during the exit process. One of the foundation staff members said they “never understood why people would not be transparent. It keeps you clear of a lot of problems if you are just transparent.” Although both of the nonprofits reported that the foundations were transparent about their reason for exiting, they both identified areas in which their foundations could have improved when they shifted strategy. The first suggested area for improvement was to increase clarity about the new strategy while the second called for increased transparency around the process.

When comparing survey data to interview data, it was clear that including nonprofit feedback in the exit process is not a priority for foundations. While nearly 50% of foundations indicated that they used feedback regarding nonprofit needs and priorities throughout the exit process, only 20% of nonprofits shared the same sentiment. None of the foundations interviewed stated that they used nonprofit feedback throughout the exiting process to guide decision-making.

All foundations that completed the survey indicated that the exit plan successfully prepared the foundation to exit the body of work. However, many participants used the existence of the formal exit process as the sole reason for stating that the exit was successful. Most shared the importance of communication and limiting surprises. Although nearly 40% of respondents shared that their foundation evaluated the exit process, none of these foundation participants indicated they used evaluative findings to support their statements.

While **nearly 50%** of foundations indicated that they used feedback regarding nonprofit needs and priorities throughout the exit process, **only 20%** of nonprofits shared the same sentiment.

### Staffing

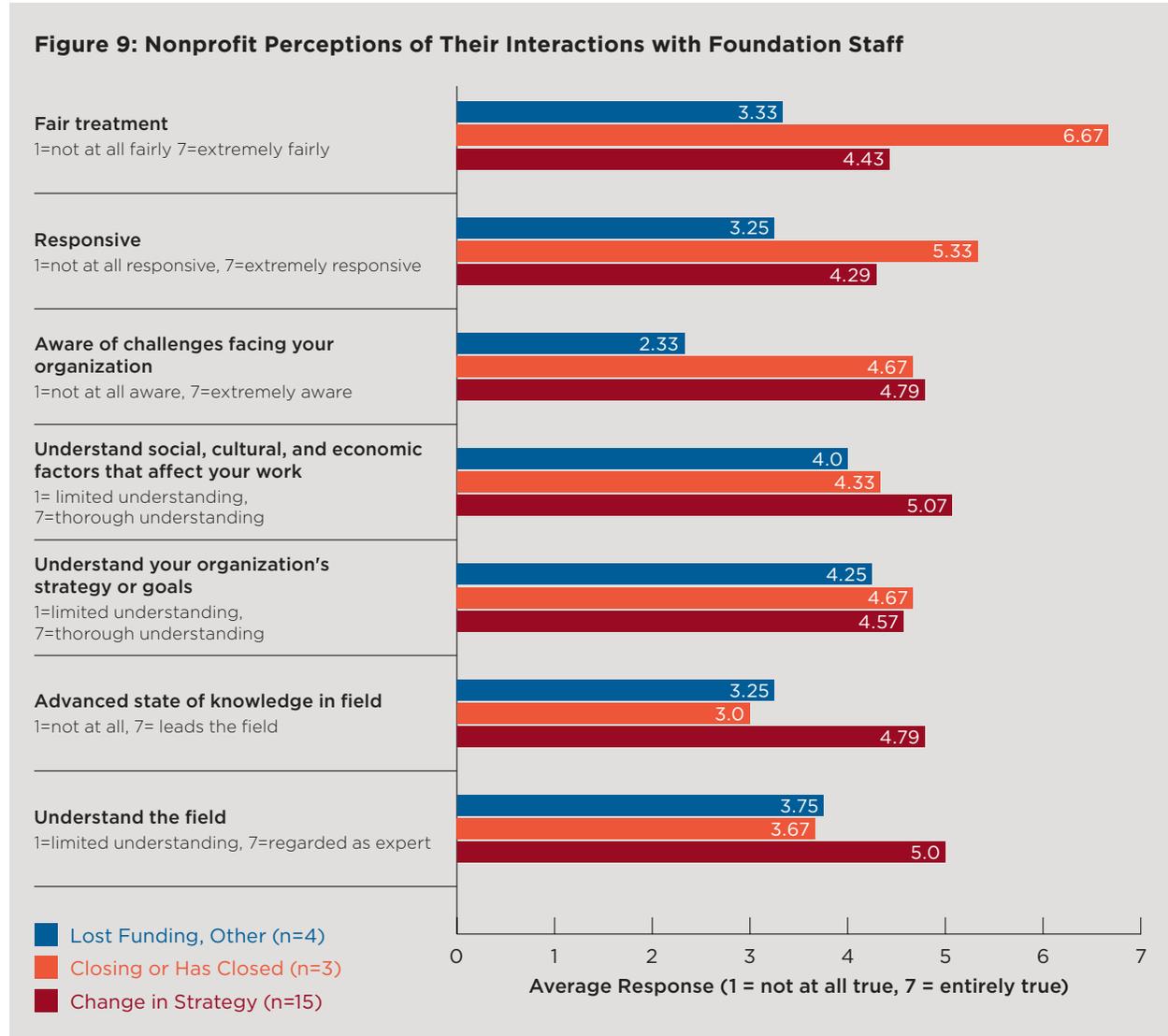
Nearly 70% of surveyed foundations shared that they shifted staff to other program areas to meet the needs of the exit process. Likewise, more than 50% of the nonprofits indicated a change in foundation program staff during the exiting process. Many nonprofits shared that this change created confusion because it led to constantly changing messages, inconsistent direction, and a lack of clarity about the partnership.

These findings were supported by the foundation interviews. Two of the four foundations shared that changes in program staff throughout the exit processes did change how the process was handled for nonprofits. While those interviewed stated that they provided training and direction for program staff, they acknowledged that different program staff used different methods to communicate the process.

Questions regarding nonprofit perceptions of their interactions with foundation staff were taken from the Center for Effective Philanthropy's Grantee Nonprofit Perception Report<sup>®</sup> Applicant Perception Report (Bolduc & Moline Benoit, 2016), prepared for the Rockefeller Brothers Fund. Responses highlighted disparities between nonprofits that lost funding due to foundation closure, changes in strategy, or other reasons. (See Figure 9.) Nonprofits that lost funding from foundations that either changed strategy or closed rated foundations more positively than those that lost funding due to other reasons when asked about:

1. Receiving fair treatment;
3. Being responsive;
4. Being aware of challenges in organizations;
5. Understanding social, cultural, and economic factors; and
6. Understanding the organizational strategy and goals.

However, when asked about the foundation’s understanding and advancing the field, nonprofits rated those foundations that exited due to a change in strategy scored higher than the other two groups.



## CONCLUSIONS AND RECOMMENDATIONS

This study used a convenience sample drawn from the IS member list. Because the sample size is a small convenience sample, it did not allow for inferential statistical analysis. Conclusions from this work were therefore limited. Further, because this is a convenience sample, the organizations interviewed may be extreme examples of both nonprofits' and foundations' experiences. Foundations with staff who have spent time thinking through the exit process may be more willing to participate in an interview than would those at foundations that have put no thought into exit plans. Similarly, nonprofits that had a negative experience in the exit process may be more eager to share their responses than would organizations that did not have negative experiences. Further, it was not possible to match nonprofit responses with the foundations exiting funding, which limits a true comparison between the two groups. Future work should include larger sample sizes and pair nonprofit and foundation responses.

Even with limitations, high-level conclusions can be drawn about the sample used for this work. These include:

1. Surveyed nonprofits and foundations experienced the exit process differently. Nonprofits and foundations shared different responses both on the types of activities performed and progress toward achieving those activities. Perhaps this is best understood by the disparities and low ratings around transparency.
2. When foundations gave general operating support, specifically as a final grant, nonprofits found it difficult to replace this funding.
3. While some surveyed foundations indicated that they used evaluation in their exit process, they did not use evaluation findings to discuss the progress of that work.
4. Most foundations did not report using feedback from nonprofits to adapt their exit plan, which may be contributing to the lack of clarity and communication that nonprofits experience.
5. While most surveyed nonprofits said that they did not view a foundation's funding as critical to their work, many still experienced a change in programming as a result of that foundation's exit.
6. As many foundations adjusted staffing in an effort to meet the demands of the exit process, these staffing changes proved difficult for nonprofits and may, in the long run, have led to less efficient use of exit-related funding.
7. Foundations that changed funding due to changes in strategy rated higher on many of the nonprofit perception questions than did foundations exiting for other reasons.

It is recommended that the following be considered when deciding to exit a body of work:

1. Clearly communicate to all stakeholders the reasons for exiting and the process moving forward. If the foundation is continuing work, funding in other areas should be differentiated from the exited area of work and clearly articulated.
2. While general operating support is a useful tool to build capacity, it can be difficult to replace once a foundation has exited. Consider pairing general operating support with other capacity-building efforts to improve organizational sustainability.
3. Include the nonprofit's voice in developing the exiting process. Provide both formal (evaluation) and informal (conversation) opportunities for nonprofits and other partners to give feedback on the exiting process.
4. Reduce foundation staff changes when exiting bodies of work, specifically staff working with nonprofits. When this is unavoidable, provide clear communication internally to maintain consistency for the nonprofits.

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## **APPENDIX // METHODOLOGY**

To address the gaps in the literature, two surveys were designed, administered, and analyzed. The first survey was given to foundation staff to determine common practices of exiting funding because of a change in strategy or due to foundation closure. The second survey was administered to nonprofit organization staff with the goal of describing the nonprofit experience of foundation exiting practices and strategies. After the completion and analysis of the surveys, researchers interviewed both the foundation and nonprofit staff who completed the original surveys and indicated they would be interested in completing an interview. The goal of the interviews was to delve deeper into what funders and grantees experienced during the exit process.

### **Survey Development**

The researchers conducted a literature review and collaborated with leaders in the field to develop both surveys. Once the questions were drafted, staff members from Independent Sector, S.D. Bechtel, Jr. Foundation, and ORSImpact provided input. The final surveys contained seven sub-surveys. At the end of all surveys was a request for contact information from those willing to participate in follow-up interviews concerning this topic.

### **Interview Development**

Researchers contacted participants for follow-up interviews. Researchers developed interview questions based on the survey findings and aimed at clarifying survey results.

The survey protocols were reviewed and approved by the Institutional Review Board at Grand Valley State University.

### **Sample**

The survey was distributed to all members of Independent Sector, a national nonprofit membership organization that includes both nonprofit organizations and grantmakers. Survey administration began on May 31, 2018, and continued until June 18, 2018.