INTRO: [00:00:04]
You're listening to the Fund the People podcast. I'm your host, Rusty Stahl. Each episode, we serve up nutritious, delicious alternatives to the nonprofit starvation cycle. We're the only show focused 100% on investing in America's nonprofit workforce. So whether you work in social justice, social service or something else, we've got something for you. The guests and ideas you'll get access to here will help you to drive equity, effectiveness and endurance, in the social sector. So let's get cooking.

RUSTY
Welcome to the Fund The People podcast everybody and welcome to the 4th installment of our special special series Smashing the Overhead Myth Once and for All. In this episode, you'll learn how foundations can build the internal will to acknowledge their shortcomings and make needed internal reforms to better serve their grantees and their communities.

Before we get started, we are still in the midst of our spring appeal fundraising effort. So, I want to invite you personally to visit fundthepeople.org, click on the featured link and make a donation of 25, 50 or 100 bucks to support this important fundraising effort. You'll be supporting this ad free podcast and all the other work we do as the only organization 100% committed to increasing investment in America's nonprofit workforce. Our thought leadership influence and advocacy research and education efforts all drive this goal and I hope you'll join our amazing community of financial supporters. Thank you for your consideration.

Today, I have the pleasure to speak with a leader of one of America's major foundations. It's a pleasure in part because this foundation has just increased the amount of money in their grants for “indirect costs” from 15 to 29%. It's one of the highest rates we know about. My guest helped to steward this and other operational reforms into existence and I'm pleased to introduce him to you now. Kenneth Jones is Chief Operating Officer of the John D. and Catherine T. MacArthur Foundation, an influential national and global grant maker. He also serves as Chief Equity Officer for the foundation. He brings to these roles previous experience elsewhere in philanthropy, nonprofit and business institutions. So, welcome to the show Ken Jones.

(music)

I'm really happy to have you here Ken Jones from the MacArthur Foundation, joining us on the Fund The people podcast. Thank you for making time to be here.

KEN: [00:03:11]
Thanks for having me.

RUSTY: It's a pleasure. Now, Ken, I know your title is COO but also embedded in your role is Chief Equity Officer and I'm curious if you could share a little bit with our audience about what that part of your role is all about.

KEN: [00:03:26]
Sure, Rusty. First, I would say, I think it's important that the president felt like elevating it to my role and reporting directly to the president, it showed the importance of this role to the foundation. So, in a nutshell, the goal of being the Chief Equity Officer is to ensure that all 194 employees of MacArthur feel as if they're being treated fairly. So we spent a fair amount of time to determine where they were in the past hurt, or past discrimination at the foundation and then addressing that. A second part was to make sure that key things that may impact our staff are being addressed if necessary. So, looking at policies for one, or looking to make sure that folks have access to pay that's equitable, which I believe for what we've seen seem to be fair. We want to ensure that folks have equal opportunity to promotional opportunities. We want to make sure as well that folks have access to being part of the work groups and the like where they can get visibility. So really make it a part of the fabric of who we are.

The last thing I would share, Rusty, we don't have targets and someone would say, why don't you have targets? And the rationale is actually pretty simple. We want to make sure that we make improvements every year. If you have a target and you make the target then you think you're done. Well you're not done because it's a cultural change that we're proposing, right? Saying that each year we want to get better at what we're doing and what's been interesting, not just us as members of MacArthur, we are also engaging our board as part of the process. So, they're all in like we are in terms of process. I’ve been in this role for 9 months and really having somebody in this role really showed the rest of the staff that we are taking this seriously.

So that's probably some of the key things and I'll be busy doing this for the foreseeable future. But I think it is good work, I really believe it is. I think I want folks to say when they come to MacArthur, they would treat me fairly, have great opportunities because of who I am, what I am or how I am and if you do that we'll be successful.

RUSTY: You know, that's wonderful and so important and I think on our show here at Fund The People, we tend to focus on the nonprofits and equity in nonprofits, but certainly in my previous life at Emerging Practitioners in Philanthropy we were very concerned about and I spent a lot of time thinking about creating spaces for people in foundations that are equitable, welcoming, hospitable and fair. So that's terrific that you're working, taking a leadership role on those issues there.

KEN: Yeah and I'll share a quote that someone shared with me on how I look at it and is from a colleague who actually works for a corporation in West Coast and they know I like music (so I'll give you that backdrop) so they said D of diversity is that you get invited to the party, E which is equity suggest that they play songs that you like, but I, inclusion means you also get to select some of the songs. And when we talk about it that way, that's what DEI is all about, the importance of you being there, but you being part of the solution, your voices count, people hear you. Many times diversity means you're there but you're not present. And you want to make sure that folks are there and present.

RUSTY: [00:06:24]
Tell us about what has animated your nonprofit and philanthropic career.

KEN: Well Rusty, real good question. I will start by saying the first half of my career I worked in corporate America, where I actually had a chance to work for major organizations including the Ford Motor Company, I worked at Pfizer, I worked at Prudential and halfway through my career I actually had the opportunity initially to work at Johns Hopkins University for a group called Jhpiego, back in 2003. And I became CFO about 20 years ago and what was interesting, and I'll start there first, is you had a chance to actually see the work itself. And most times when you work on the administrative side of the shop you don't see the work and I actually had a chance to visit many countries. So I actually visited East and South Africa, I went to Southeast Asia, I have actually been to Ukraine, for example. And to see the work and see the impact to the people that you were serving was so instrumental. So it's really interesting, many times and my african friends, I've been in more countries in Africa than most of my friends from Africa because I actually visited 25 countries, and I got to see the uniqueness and the experience, but more importantly, how you impacted people's lives and that part to me was so, it was so transformative to me to see that.

And then leaving there I actually had a chance to work at the Annie E. Casey Foundation (CFO) in Baltimore, and I worked there for 11 years. So, I was 5 years at Jhpiego, which is part of Hopkins, and then 11 years at Annie E. Casey and while it was domestic, just the ability to see the implications of two generations of families that are being treated fairly and the opportunity to make a difference whether it's education, whether it's the housing quality, whether it was in policing and so forth… Recognizing these are issues that impact our communities and then being an organization that felt they could take risks.

Because what happens when you're working in the philanthropic sector is you can take a risk that I couldn't take in Corporate America and that part was so instrumental to really engaging what I enjoyed. And then most recently, I've been blessed to be at MacArthur now going on four years. Initially as their CFO and most recently as the chief operations officer and the chief equity officer. And look at the work that we do at MacArthur is so transformative both on the local, national and international perspective. It just resonates with me and what I've discovered, Rusty, is I found my niche. I've been doing work for about 20 years and I enjoy it. And the key thing is you have intelligent people, you have great work and you have a great environment and when I leave work at the end of the day, I can tell myself did I make a difference? In a small way I can say yes, so that's what's really been instrumental to me being in this field.

RUSTY: I'm curious to hear from you what led you, was there a moment or an event or a thinking that moved you from corporate to nonprofit?

KEN: Well I think cover was made for me. I think of many times, and you'll laugh when I say this, both of us in philanthropy when we left undergrad or graduate school didn’t say: by the way I want to work in philanthropy. It's not something that's spoken about. So I think it evolves over time. So I think when I first left graduate school, you get this mindset of maybe work for a good corporate job, make a decent salary and so forth. So I did a fair amount of that but as I got older and more senior in my career, it became evident that I wanted to do something where I felt a direct correlation to the work and philanthropy provided that opportunity. Secondly, I think, is the fact that it really has embraced diversity in a manner that even surpasses what I see in Corporate America. Because also in Corporate America, the argument was always that we have to do it because of the business model, versus doing it because it's the right thing to do. And thirdly, just the access to being a part of affinity groups for example and the like, I've been on several boards, and just the discussions that we talked about are so integral to what we're doing, that just resonated with me.

So, I guess to answer the question, Rusty, in the short term or short words: the work in philanthropy defines who I am as a person. So it resonated with me, so it became a natural fit.

RUSTY: [00:10:30]
That's great. And can you just say a little bit more about the group that was affiliated with Johns Hopkins, just so people if they're interested in what that group is and does. Can you say the name again?

KEN: Sure, and actually I'll tell you a joke about this. Well, the name of the group it’s called Jhpiego. So it’s spelled J H P I E G O. There’s a video where they have comedians mispronouncing the name and it's made a lot of money fundraising. And the reason why they call it Jhpiego is because the name stands for the Johns Hopkins Programs for the International Education of Gynecology and Obstetrics. So you can imagine the length of the name…

RUSTY: It’s a long name.

KEN: Yeah, exactly. And so what they ended up doing, the name really talks about things that they were doing in marginalized parts of the world, so a lot of work related to HIV and AIDS, a lot of work related to cancer, a lot of work related to malaria, a lot of health issues that impacted those communities which are low resource. And their affiliate Johns Hopkins, they've been around for about 40 or 50 years. I was actually their second CFO in that organization, and that was working with the second president, who's still working there. Her name's Leslie Mancuso, doing some phenomenal work and I enjoyed the experience there, really seeing parts of the globe. What I would tell folks is that when you work for an NGO you're not going to Paris, London or Rome. You go to Maputo Mozambique , you're going to Harare Zimbabwe, you're going to parts of the world where access to basic things like water or food could be difficult to obtain, and recognize that even $10 can make a difference to these folks and they're so grateful for small things. And that changes your perspective as a person when you see that.

RUSTY: Yeah. So it sounds like that's a very grounding experience. Both eye-opening and grounding experience.

KEN: [00:12:54]
Oh definitely definitely,

RUSTY: Thank you for sharing that. And now you've, you know, really moved into this stratosphere of organized philanthropy. We were happy to have, I guess your successor, the CFO or the vice president of financing grants management at Annie E. Casey on the show. So, wonderful to have that pairing here and now you're at the MacArthur Foundation and can you, for those who may not know much about the foundation, they might have heard the name and a few things about it, but can you give us you know a brief intro to the foundation itself?

KEN: Sure, the MacArthur Foundation was founded in 1978 by John MacArthur who was an insurer, very frugal with his funding and basically upon his retirement he gave a billion dollars to really start the foundation. And basically he had a lot of focus work there. So if we fast forward to where we are today, we support organizations over 50 countries, we took grant making just about everywhere in the US. In terms of where we focus our work, we focus our work in Chicago because this is our home base, so you take care of the work we do in our hometown. There's some international offices in India and Nigeria. In the past, we've had offices in Mexico, Russia and China, for example. MacArthur is one of the largest foundations in terms of asset size, currently we're at about 8.1 billion dollars. And our annual giving is a little over 200 million a year. We have about 194 employees, the bulk of which live in Chicago and we actually have remaining staff as mentioned before in India and Nigeria.

So we are going to talk about the bodies of work that we're involved in. We have what we call big bets, and big bets is basically defined as bodies of work that we'll do for a period of time and normally a period of about 10 years and so the work we've been involved with which supports transformative change first and foremost, it's about reducing over-incarceration by changing the way Americans think about and uses jails, right? There's alternatives to jailing and we want to really address that.

Second, and what's really impacting us right now is mitigating the long term threat of climate change and we're seeing climate change is here. And by supporting efforts for the US, for example, and in China to curb greenhouse gas emissions because what we recognize is that it has to happen globally for us to have effect over time. We're seeing glaciers melting in certain parts of the world, we're seeing temperature changes, tornadoes that were hitting parts of the country that we hadn't seen before. So we recognize the importance of addressing that work.

You can well imagine that if we really focus on reducing nuclear threats by eliminating and stopping production of nuclear weapons materially worldwide. As we think about Ukraine right now, thankfully they're not using nuclear weapons in the situation happening between Russia and the Ukraine, because no one wins in a nuclear race, quite frankly.

[00:15:46]
We're going to create significantly more capital to the social sector, really impacting the sector that could really utilize it. And then interesting enough, and I was fascinated by this when I came to MacArthur, that they want to promote accountability, transparency and good governance in Nigeria, because Nigeria has been known for having some anti-corruption efforts and the ability to help a country rather that's known to have some correction to really change that paradigm will show for example to take risks on things other organizations wouldn't even touch.

Now, we also have what we call endurance commitments, and these are programs that we will do for a longer period of time. It doesn't have an ending date because we feel it is important, and the first one that's the Chicago commitment again because we're based in Chicago and we want to recognize things that are impacting this city. For example, violence prevention being one, supporting the arts and culture and really community development because we feel if we can hit those three parts of the stool so to speak, we could really impact the city in a positive way.
We actually have a program that we call JAM and JAM stands for Journalism and Media and we want to strengthen America's democracy by informing, engaging and activating Americans through deep investments in independent journalism and media.

I want to close, Rusty, with a couple other things that we do. A couple special award programs and special projects. One that's really phenomenal is the MacArthur Fellows Program and so each year, about 24 to 26 folks, all throughout the US… And first I should share, they have no idea that they're being nominated. It could be anything from a dancer, to a physicist, to writer. If you think about Lin-Manuel Miranda, for example, who appeared in Hamilton, he was a recipient of the fellows award. So each year in September, we are now up to any 24 to 26 recipients, and over five years each one gets a restricted amount of $800,000 over that five-year period to do what they see fit. Because we recognized the influence of their work.

What we've done recently, we started this new program. It started probably a little bit after I started, called 100&Change and 100&Change is that we give one organization $100 million over 5 years to make a transformative change, to make real progress on the critical problem at the time. The first one, well actually I'll share the second one because I really appreciate this, it feels important: homelessness in the US. You can go to any major city in this country and you'll see homeless people and you'd think a country with 330 million people, supposed to be the richest country in the world and you see homelessness. So we're trying to address that in a way that can make a difference.

And then lastly, a by-product of that was a program called Lever for change which is a competition where organizations will go after a campaign and the winner organization will win the sum of money based on that particular program. So we've done a lot of creative things at the MacArthur Foundation that I'm happy to share with you.

RUSTY: [00:19:30]
Wow. Well, thank you and thank you for sharing all of that. I think those are obviously some really major globe changing issues that the foundation is involved with and tackling, from climate change, to nuclear war, to our nuclear arms, to homelessness and other issues. We'll talk more about it as we go. But I think a lot of folks are familiar with the MacArthur Fellowship, known as the Genius Awards but it is interesting that you all have added in these Big Bets on organizations as well as individuals that you were referring to there at the end. So, I think there's so much to dig into in terms of the substance of what the foundation's working on. It's a little hard to pivot from that, but we're going to try and to talk about not what you're funding in terms of the issues, but how you're funding. And obviously, that is so important, all right? Like, how we fund I think often is even more important than what we fund in the end. And what's great since you've come from this NGO background before joining the philanthropic grant-making world, you can hopefully talk about what it's like on both sides.

So we're going to talk, and this episode is part of a series that we are calling Smashing the Overhead Myth Once and for All, so I think we're going to talk about that and from your point of view, both on the receiving end of money and on the giving side, can you share what you see indirect costs as at the foundation and from the NGO perspective and what have been the challenges in covering indirect costs when you receive project grants from funders as a non-profit person?

KEN: [00:21:23]
Sure, so maybe I'll start Rusty with my experience working at an NGO. And now I will mention what was unique about Jhpiego, it was an NGO affiliated with a university, I think the only other place that has that is Columbia University which effectively has an NGO affiliated to the university. And the reason why I wanted to start with that is the fact that when you work at the university or NGO, you have what they call a NICRA, right? And a NICRA is a negotiated indirect cost rate agreement, so there's an opportunity that we had when I was at Jhpiego to negotiate regularly with a cognizant agency. So when I was working at Jhpiego, we received a fair amount of funding from USAID. So we would have a discussion saying to do this work, we need this much indirect dollars to support the work. And the reason why that was important, we wanted to make sure that if we went after a proposal, we actually had the infrastructure dollars to support this. Because if we didn't, then you were eating some of the programmatic dollars to get the work done or else you won't be able to prove the effects of your work, because one key

component is your evaluation, I can say I've done the work but I need to show what I've done. Well, that's a cost to doing that as well that many times wasn't necessarily recognized.

So, as you write that question, what was one of the interesting things when I first worked for an NGO? I won't mention the foundations, but I remember getting indirect fees between 5 and 10% and what's challenging work in the NGO, you need dollars to sustain yourself because you have limited funding. But at the same time you're going through this challenge with 5 to 10%, how can you get the work done and support my infrastructure at the same time. So it's just a balancing act that you went through where you said if I don't take the dollars, I won't have funding to support my staff that are funded by the dollars that are given by these programs.

The second key factor was the fact that a lot of times when you get funding from a USAID or CDC or…, I mean there's a whole litany of government agencies, after there's a major proposal, there may be peer reviewed before that no one becomes available. So what do you do in the interim period to cover your general operating support while you're waiting for a grant that you may or may not win, right? Because that's the thing, it's a competitive bidding process. So whether it's a cooperative agreement, a grant or a contract, you have to spend your operating dollars, you go after the bid that you may or may not win.

The second factor is, are you a prime or are you a sub? Well, if you're a prime contractor, you determine the amount of dollars for everyone else. If you’re sub, the prime will determine how much you receive, even after you win the proposal. So all these nuances, the ability to have some alternative funding sources became really critical for most folks in the NGO community. So that's why I had a great appreciation, because I remember the challenge of figuring out how we would do things. And I can share this with you Rusty, I used to have a document saying if we don't have funding available, I have to have a lay-off plan. Well, why is that problematic? Because I'm going to lay off people that are critical staff I may need to go after another proposal. So there's always the pressure to have enough funding to keep yourself sustainable, to keep personnel and then to work in the specific countries that were part of your strategy, in the case of Jhpiego.

So that's why I can relate to them because I had to live that experience for five years, trying to balance things, and then I'll add the impact of working at a university where a certain percent of the dollars reallocate to university as well. So that was funds I don't have, because I'm being simply supported by the university for several of their infrastructure costs. So I contribute towards that. So those are all the nuances that took place there.

So now being on the flip side as you mentioned, I think the key thing and some of this work started before I got hit with recognizing what would be a dollar or percentage rather that would be necessary by an organization, a grantee, to be healthy and sustainable. And what transpired was a fair amount of research that took place to look at organizations that were operating and sustaining themselves effectively, to maintain their operations, maintain the ability to remain diversified, which is particularly important, and not to be dependent on one funding source. Because if you are a good grantee, you don't have what I call concentration risks. Which means that if one organization tends to leave, you aren't able to survive. You must have enough diversity in your portfolio that folks work eventually in funding, but you should be able to continue to thrive even if other funding sources go away because you have to continually fundraise and diversify.

RUSTY: [00:26:02]
All right, what was that term there, concentration, can you say that again?

KEN: [00:26:07]
Yeah, I call it concentration risk, and basically what I'm saying is that if you get most of your dollars for one funding source and that funding source goes away, there's a risk that you won't be able to survive. So, for example, let's say 50% of your dollars came from one funding source and, you know, at the end of two years it will no longer fund you. That mens you have to find enough organizations to make up that difference that you may lose.

RUSTY: Right, so the opposite of diversified is concentrated when you're over-reliant on one or two sources.

KEN: [00:26:39]
Exactly. Because you really want to have a mixture. So, for example, even in the NGO community that's why even though initially there was funding from cognizant agencies like USAID and CDC, they recognize we have to diversify, so they're looking at high net worth individuals, they're looking at foundations, they would look outside the US, because if you didn't, and let's use a great example, if it takes a while for funding to come from one of those agencies, then what do you do in the meantime?

RUSTY: [00:27:06]
Right, there's a time lag issue, there's the fact that it's costly to get the grant and to evaluate the grant, there's the fact that you have these indirect costs that no one wants to cover. So, there's at least four or five issues compounding on each other.

KEN: [00:27:20]
Yeah, there's a myriad of things. So, because I lived it that's why, and myself as well as my colleagues at MacArthur, we were sympathetic to figuring out what would work.

RUSTY: Right. So you know, I'm curious to hear, we're going to talk about what your indirect cost policy is now at MacArthur. And so first, just walk us through briefly, what is the current indirect cost policy, how does it work and what does it provide to grantee partners.

KEN: [00:27:50]
Right now, the foundation has recognized the rate of 29% and the historic percent just prior to that was 15. So it is pretty much close to double. It was really a byproduct of an analysis that took place over a period of years and started with five large private foundations. They were MacArthur, Ford, Hewlett Packard and Open Society. I think there was a recognition and

collective saying that we have to figure out how we can address our grantees. And in the case of MacArthur they did a fair amount of due diligence looking at thousands of high-performing grantees, look into 990s to determine what would be a percentage that can keep them sustainable…

RUSTY: [00:28:35]
Right and the 1990s are that form that nonprofits have to submit to the IRS.

KEN: [00:28:40]
Exactly, is like the tax report, right? That's probably the best way of phrasing it, right? And while all five organizations worked together, each organization took a different approach in terms of the percentage they were recognized and so forth. But all of them increased from their prior rates in recognition that a higher percentage probably warranted. So I can't speak for the other four organizations, but what I can say is, there was a recognition that the current approach wasn't working for our grantees. Basically, this process started probably several years ago, even though we implemented it as of 2020 to really do the due diligence that was required to ensure that we could make things happen. And there's a term that I had learned when I got here, they call it the starvation cycle, and what they meant by that was that you give me a low percentage, I'm struggling to survive even though technically you gave me money to do the work. So we want to make sure that what they call the starvation cycle no longer exists. So, an organization receiving funding could take care of the programmatic work but also have enough dollars for the infrastructural components which are equally important.

RUSTY: [00:29:46]
Right, I mean, you laid it out without that phrase, but the fact that you had that layoffs plan ready to go, right there there's the starvation cycle, even with grants you might still have to lay off.

KEN: [00:30:00]
I remember a great example, when I was working at Jhpiego, there was a time when we wanted to keep our presence in Kenya and there was not a USAID proposal coming up for two years. Luckily we had enough general operating support dollars to maintain the operation otherwise we would have had to shut it down. So that's why you also need general operating support, which I'll speak to a little bit later, but you need to have a combination.

RUSTY: [00:30:22]
Right and that makes sense as well. So, multiple income from different sources and multiple types of funding in a mix. I hadn't thought of that combination, but that does make sense. So you went from 15 to 29% almost doubling the indirect cost rate in MacArthur Foundation grants. One of the things you said to me that stuck with me when we spoke in preparation for this, was that it did take time, that it was not an overnight change. And so there was a process of as you said due diligence, but also maybe of mind changing or figuring things out: how do you handle this, we see the problem, what are we going to do about it, what's the right fit for us? So can you talk at all about sort of what that looked like and how many years are we talking about from the beginning of the inklings of this process to until it changed in 2020? And, I know you weren't

necessarily there that whole time, you've only been there four years, which is what, 2019 you got there or so?

KEN: That's correct.

RUSTY: Okay. One of the reasons we wanted to have you on and your colleagues from Ford and Casey, you've been part of this process to help other funders think about what does it take to make these shifts. So can you speak about what it took to make this shift there?

KEN: [00:31:46]
Sure, I think, first and foremost you have to have a discussion with your program officers to really explain why you are making that change. And the reason why that's important is the fact they may believe that by going from, in our case 15 to 29%, that 14% would be programmatic dollars that they no longer have. So the first question becomes, are you increasing my budget by 14%? Well, the goal is not to increase the budget but really being astute to how you spend your budget dollars effectively. So I think once we got past that first hurdle, the program officers understood what needed to take place and recognized the value of taking this approach. So I think part of it is really internally understanding why it's important. And I think what was particularly critical is they recognized that if we don't provide infrastructural dollars for these grantees even though you provide programmatic dollars, they may not be as effective. So I think that's phase number one.

Phase number two is recognizing the fact that this should be part of your toolbox of things you can do to support an organization. So for example, while we're providing this, that doesn't mean there aren't other avenues to support our grantees and their ability to do their work effectively.

And phase three was the fact that I think as we got there, you can see the satisfaction of our grantees recognizing that they didn't feel the stress, the concern rather, of thinking okay, how am I going to cover my infrastructure costs? So they could really focus more on the work versus worrying about covering computers, staff, brick-and-mortar, wherever the costs would happen to be that would be picked under indirect. And most importantly, and I thought about this, they also didn't have to have the same discussion that they would probably have to have with the grantmakers saying, by the way, I appreciate the grant but I can't cover all my costs. Hopefully that's minimized them having to worry about that conversation and focusing more on the work and those results.

RUSTY: [00:33:51]
Right. It's so hard to be in that position of wanting to be appreciative and make sure you get the money, but also do that negotiation and offering feedback which is sometimes welcome, but not always welcome at foundations, at least in my experience of fundraising. It can be awkward, you know: we want the money, we're appreciative and help make it a healthier grant for us. Yeah, so relieving some of that stress and fears is terrific. And it's a huge step, doubling the amount, it's just huge.

You know, it's really interesting in the statement, the preamble about this policy, on the MacArthur website, it says and you indicated the 990s forms earlier, the research you all had commissioned looked at 130,000 IRS forms 990 at US based nonprofits “and the study sought to establish a benchmark for the foundation's grant-making, by understanding the indirect cost rates of financially healthy organizations. Study found that the minimum indirect cost rate associated with financially healthy organizations in the data set is 29%”. So I wanted to ask you this 29% seem like it's kind of the minimum needed at least based on that data set. So will the rate of 29% stay the same over time? Do you plan to revisit that and to make sure it's the right amount?

KEN: [00:35:19]
That's a great question and great timing. I think initially when we started this process we thought 29% would be a baseline, the start, and we’re actually in the process of engaging a consultant to examine the financial health of active grantees this year and I think once we get past that process we'll get some new insights that may be informative in terms of a next step. So we may stay at 29, we may go up, but we wanted to at least do this for the first few years to see how that would play out. And so far, at least from what I've heard from my programmatic colleagues, our grantees have been happy with that. Now, let’s be honest, if we give more money they won't complain about this percentage. But we think as a starting point that we got to a percentage that would be appreciated by our grantees. I believe, and don't quote me on this, I think the 29% may be one of the highest amongst foundations as well.

RUSTY: [00:36:12]
Yeah, I think you're probably right.

KEN: [00:36:14]
So we recognized that we were very assertive in the 29%, and plus the fact, there’s more than this 29% that we provide for many of our grantees that may not be part of the percentage, but will and can support the needs of a grantee as well. So I think that, again going back to my earlier comment, is part of the toolbox of things we can do to support our grantees that we really need to do the work that we think is important.

RUSTY: [00:36:40]
Okay, so this question wasn't in my prepared list, so I hope you'll bear with me and see if it makes sense. So one of the things when we talked with folks at the Ford Foundation earlier in this series, and we talked with Rodney Christopher from BDL who worked on that whole initiative, Real Cost Real Change learning process, we talked about the choices that funders have to make when they're increasing their rate: do they add money to a program officers budget, so are they adding money on top of a what a grant amount used to be; are they taking a portion, let's say you're making a $100,000 grant to a group and you're renewing with the new policy from 15 to now 29%, are you adding that 14% on top of the 100 thousand or are you saying, okay, now we're making less of that hundred thousand available for program and we're expanding the amount that's for indirect costs; or are you making less grants so that you can have more money? So, sort of those choices that they laid out for me and that almost seemed

like how do we slice the pie we've got to work with. And the Ford folks kind of said you know, program officers were nervous about that at the beginning and eventually after a couple years it kind of became normalized to the point where people weren't scared about that and they figured it out. And I was curious how that's kind of played out there.

KEN: [00:38:08]
I think a couple things. I'm sure there was some nervousness at first going from 15 to 29%. I'm gonna have to explain this in a slightly different way Rusty, if I may. I think, first and foremost, we try to maintain the budgets at the same level, but in addition there were other ways that grantees were receiving funding. For example, we increase the number of grantees that get general operating support. So they use it as they see fit, right? So they didn't have the 29% rate requirement, but I would suggest most grantees would love to have that general operating support without having to report back to it and so forth.

RUSTY: [00:38:44]
That’s right, yep.

KEN: [00:38:48]
The second, we actually have what we call X-Grants, which are expedited small grants programs. It requires less work, they get the money quickly to do the work, it's a smaller dollar amount so again, an easier way of conducting things. We have endowment grants that again were flexible. So what we did was, if I put into two buckets, you had the 29% bucket and then you have a separate bucket of other opportunities for grantees that really supported their work. So, I think by having a myriad of options for grantees, we didn't see as much concern from the grantee perspective, we didn't hear apart from my program offices as well, because they recognized there were times that general operating support would probably be the best methodology. Why is that important? Well first, from a grantee perspective you don’t have to report a general operating support grant the same way you have to report a grant where you have to show deliverables. Second, it is an easier process, so we made it simpler. And I think for a grantee, part of it is the percentage but part of it is due process as well. So if you can do those two things that work well, it makes it easier also for the program officer, who has to report out how these programs are doing.

RUSTY: [00:39:59]
Right, it's easier for both sides.

KEN: [00:40:02]
Exactly. So I think the ability to do both has probably been an effective strategy that we've been implementing.

RUSTY: Awesome. Yeah, that's great. Thanks for sharing those other buckets, right? Other than the restricted program, that's fabulous. I mean MacArthur is a big foundation giving up big dollars. So having those smaller amounts in this speedier fashion, the X, what did you call them expedited grants…

KEN: [00:40:26]
Yeah. expedited grants or what we call X-Grants.

RUSTY: [00:40:29]
X-Grants, it sounds very hip. Okay, so those are kind of the exceptions to this policy that kind of expands the ease of use on both sides of the desk. That's great. So, as I mentioned earlier, this episode is part of our series on smashing the overhead myth. Why do you think the overhead myth, the idea that these indirect costs are negative, that the more indirect costs or infrastructure or staff costs that a nonprofit has you know, the less efficient or effective it is? That myth has been so persistent for so long among funders. Why do you think that is and what can we do to change minds?

KEN: [00:41:08]
I think one of the things I believe happens is that many times people use a corporate mindset for nonprofits. So, for example, when I worked in Corporate America a rate of 15% seemed to be normal, but it's a different type of work that's being conducted, right? So you actually have in the case of, in my opinion, a nonprofit a service sector type goal, for profit is a manufacturing or production type role. And I don't think you can use the same percentage for two different sectors that are completely different.

The second factor is because it’s the service sector, your biggest service is your people, right. Because that what makes the work takes place in a nonprofit. They don't have widgets that they're producing, it's really the folks that really create the work and implement the projects that you're trying to do. And when you work in a corporation you could create more widgets if you need to get your percentages down, you don't have the same kind of nuance in the nonprofit environment. So I think that's one of the critical things. Because I remember when I used to work in Corporate America, we actually had low rates because of production, you can increase your production volume. So I think the first thing is for folks to recognize that there are things that are specific to each sector that should be different and you can't use the same percentage for every sector because it's not equally applicable. So I think that's the critical thing.

The second piece, which was starting to see more of, is that nonprofits have to feel comfortable telling the grantee what they need to get the job done. And no, it's not always easy, but the more the grantors hear about it the more they will recognize that maybe we have to do something different. They're fortunate, the fact that there have been five or now some more foundations taking that approach. But the ability to recognize that we should not be the exceptions, right? MacArthur and the other organizations should not be the exception, that has to resonate on why that makes sense. So what was interesting is some of the organizations that receive funding from MacArthur have used it as a tool to tell other grantors: by the way MacArthur has given us 29% to get the work done. They recognize the value, hopefully you will recognize it as well. So hopefully, hopefully by us being a leader in this field, it would cascade to other like-minded grantors to recognize that their current percentage may not be applicable to getting the work done.

RUSTY: [00:43:38]
I sure hope so. I think you're right, it's a leadership move. And that's one of the reasons I think it's been great to have, you know, MacArthur, Ford, Annie E. Casey on this podcast talking about this, because the nonprofits who are listening can take this information to their funders and to their boards and say, look, look what major funders are doing and this is what we need to be talking about with our funders as well. Yeah, that's great, thank you for that.

Now, you did mention, when we chatted in preparation for this, that not everyone at MacArthur agreed that a new indirect cost policy was needed. So three years in, it sounds like from what you've said that program staff are feeling okay about it. But I'm curious, sort of what do you hear about the new cost policy from both internal stakeholders as well as from grantees?

KEN: [00:44:34]
Yeah, I think one of the things we recognized and we had to do it over again, you probably need to invest more time on our program officers to really build knowledge on why it was important. There was a lot of work internally amongst a smaller group of really cascading it and really messaging it more effectively. I think we were with them more than on the front end. Now having said that, being into this process for three years, I haven't heard folks mention any issues with this, I think it has become the fabric of how we operate now. And the thing we recognize is when something is new and then tested, there will be some angst, that's just human nature, quite candidly. Because there was concern about the ability to get the work done, which I understand if I was the program officer, but I think three years into this process they are getting their work done, they're seeing that's possible.

And then recognizing that they have to find a balance between a budget and how the grantee can respond in kind. So, I think it's actually building, I hope, stronger relationships between our grantee community and us as a grantor and I believe it is, but I think it's a process. It's a cultural change if you think about it, right? When you double your indirect rate from 15 to 29% it wasn't a marginal change but really it was appropriate. And so, in a way, if I can use the term, we took the Band-Aid off quickly versus doing it in incremental steps. We could've gone from 15 to 20, then 20 to 25. But we felt it was important to really message what we heard from our analysis, that 29 made sense.

RUSTY: [00:46:13]
Great. You listen to the science.

KEN: Yeah, exactly.

RUSTY: You follow the data that you were seeing. You didn't downplay that. That's great. Okay, I'm glad to hear you talk about the culture change though, and it sounds like, hopefully, this is something that makes program officers happy, angry (...) And so, you know, and given the crisis or crises that so many nonprofits have been facing in recent years, including the wide-ranging impact of the pandemic on nonprofit people and workplaces, I'm curious if there are other ways you all are supporting the financial and human health of grantee organizations.

KEN: [00:46:57]
To comment on that, I think we try to find ways that transcended how we could support our grantees. So if I could share some examples, if I may, I think first of all, identify ways for example, if they need to have a shared back-office function, and that's helpful because if you have a shared back office function, you can mitigate some of the costs of that role.

RUSTY: That's true.

KEN: At the time we provided free legal support, right? Pro-bono support on issues that may impact their work. We provide training opportunities where it makes sense to do so. We've done a lot of technical assistance, right? TA as we call it, to really ensure that we make things easier. We looked at ways to streamline the grant process, so it requires less time for a grantee to apply, versus it being a cumbersome approach and really gave us an opportunity to ask ourselves the information that we're getting, do we need everything that we asked for? We should get what we need, to answer that question.

Obviously we do multi-year grants so that way, once they get the grant proposal, they know for a period of years to actually have funding because timing may impact what year those dollars get expended, but they know that they have the dollars. So we don't do annual grant submissions, which could be problematic because now they have to go through this cycle every year. I could well imagine what it would take. I know how it would be for me when I was on the other side to think I have to do this again, you know, you spent three months to get it done, next thing you know, you're 9 months into a program and guess what? You're doing this again. So hopefully, we will minimize the pain to folks.

And then I think we've worked a lot, even with some of the work in our sustaining, enduring programs rather, to really support the work that we do for journalism and media in Chicago. So we actually have a relationship with the Chicago Community that's very well-respected. So we integrate our people with the work and by doing that, it provides opportunities there. And then most recently, I know there's been some discussions and it's still working in progress, in my opinion, to find a common application format, not dissimilar to what you're seeing in universities. And so, when we're successful and I hope that we are, a grantee doesn't have to have a different format for every different organization that they are receiving funding from. It may not be perfect but maybe if 80% of it would be standardized…

RUSTY: Right, I guess good enough.

KEN: [00:49:32]
Think about the amount of work you can minimize for the organization if they didn't have to worry about the old saying "when you work with one foundation, you work with one foundation" right? Which is an adage that I've heard since I've been in the sector, but we can make it easier

for our grantees to just fill out the documentation versus worrying about the MacArthur format versus another format. That's just something else that we can do? And I think quite honestly, Rusty, I think the pandemic was a learning opportunity for many foundations. To the MacArthur on saying, okay, we have a covid environment, we're trying to keep these organizations operational at a time where funding may have been laxed at many organizations, there's enough stress on the system, let's not add a stressor to this. And I think we learned a lot of things that potentially could be implemented as we get to a post covid environment. So I think there are learnings there.

RUSTY: [00:50:28]
I think a lot of people are hoping that some of those changes stay, because it became clear that (and it should have been obvious) if foundations want to change these things they can change them pretty quickly. Because it's not like government and they don't have to get reelected, they don't have a profit motive and competition, right? Foundations are, you know, mostly independent, so they can make these shifts. Most of the bureaucracy is voluntary bureaucracy, not based on regulation or other things. So I think, yeah, that's a great point that these changes can be done and sustained if there's the political will to do so. I think the common application, boy, is like a dream, but I have never seen it really. I know there are efforts out there and I've seen them come and go, so I'll be curious to see if that sticks. Like you said, it may be a work in progress.

KEN: [00:51:24]
Yeah, I'm hoping, it was probably about 18 years ago when I was working in the NGO sector, We would try and work at it from the other end, and we got some traction. But that's much as out for the flight, because we recognize, if we can get a common platform it would make our lives easier and there was some traction, but I'm hoping with the nuances and new thinking that maybe this will become a reality at least in some way shape or form.

RUSTY: [00:51:52]
Right, well it's important that individual foundations are doing things like those expedited grants at least. I mean, that cuts down on the individual foundation application work. If everybody was doing that, maybe we wouldn't need a common application. But anyway, now we're going down a little bit of a rabbit hole. So let me get back to my questions because I want to get to those. So, you know, here at Fund The People where we do this podcast, but we also do other programming to try to influence philanthropic community and nonprofit community to invest more and better in the nonprofit workforce, in the organizations that are funded or that folks are managing. So, I wanted to just talk for a moment with you about the thinking about kind of individual leaders and organizational development. And often I feel like there's this strand of thinking and funding that's about leadership development, which is very individualistic and then there's this strand about capacity building and organizational development, which is very obviously organizational. And the two are like ships passing in the night and we don't talk about leadership development or people development and organizational development as one thing, when in reality, as you said earlier, it's the folks who do the work that make organizations come alive.

So, I wanted to ask you based on my limited understanding of MacArthur and the MacArthur Fellowship we talked about earlier known as The Genius Awards, you know, the foundation clearly believes in the powerful role of individuals in making social change, but you do also obviously fund and care about organizations. So, would you be open, would the foundation do you think be open to blending those two beliefs? Use the grants that you have to invest in the support systems needed by the people who power the organizations that you support. What would help you all to do that kind of talent investing and what might hold you back from doing that type of talent investing?

KEN: [00:54:15]
Well, Rusty, nothing holds us back because we actually do some of that. We do recognize that there is synergy between organization and leadership. So we believe in both and if I could provide a couple of examples. So we try to support individuality in our grantee partner organization. So we have been doing that and this can happen in various ways. It could be a grantee convening as an example, where we bring folks together to share ideas and network among common goals or communications and leadership training for individuals. And I want to give a couple examples from some of our enduring commitments which may hopefully answer your question. In JAM, which is our journalism and media group, we actually have a lot of new organizations and new young leaders, so we're making a grant to allow those grant leaders to go through a Rockwood Leadership Institute Training.

RUSTY: [00:54:56]
Right, I love Rockwood. I'm an alum myself.

KEN: [00:54:59]
There’s a new generation of talent, let's help them on the front end. In our Chicago commitment, one of our strategies to advance diverse leaders whose influence for informed and improve decision-making around the city, and I mentioned we have a new mayor, for example in the city of Chicago, but he's got great people working with him, how can we support that? So we've made a number of grants to support local leadership programs that our grantees and others can access. We have initiated a $2 million program in partnership with our Chicago neighbor, another foundation called the Field Foundation that’s led by Mr. Ash in what we call the Leaders for a New Chicago program. So, a lot of key things you see, we work with other foundations, we don't believe in being an island by ourselves.

RUSTY: [00:55:42]
The Field Foundation is a very well respected institution.

KEN: [00:55:48]
Exactly. I actually had a chance to spend some time with the president at a conference I was attending, so we actually had a chance to talk. This is for nonprofit leaders through a nomination process, and can receive a no-strings-attached $50,000 individual award and $25,000 for their organization. Awardees can use this money to support their work, their reflection or professional

development expenses, so we found some way. So this is some antidote in there are many more, but I felt I would give some examples. We feel so important that leaders get the support they need to be successful.

RUSTY: [00:56:22]
Yeah, thank you for identifying those. I definitely didn't know about them. So I'm glad I asked. Those are wonderful and I'd love to put up links to some of those programs so folks can learn more from our show notes page for this episode. If we can get those links from your team. And you know, we'd love to come in and share the Fun The People Framework some time with you and MacArthur folks about how we see talent investing and talent justice, the role of investing in intersectional racial equity in grantee organizations as key to, you know, effectiveness and equity and endurance in our sector. Because we're trying to actually shift a little bit from kind of the leadership development that happens to a large extent outside of organizations to more thinking about issues of professional development: salary, benefits, you know, workplace culture, all of those kinds of nuts and bolts things that help people stay in their jobs, make jobs attractive to come work in nonprofits and help support people to do their best work. So anyway, now I'm on my soapbox but I'd love to share more about that with you all at some point when I get back to Chicago. As we come to a close here, I wanted to ask you where folks can learn more about MacArthur Foundation and in particular the changes you've made to the indirect cost rate and some of the other changes you've made.

KEN: [00:57:53]
The beauty of the MacArthur Foundation, I think is true for most foundations, go right to our website, right? We are open source, so actually there's a section called About Us which actually talks about our indirect cost rate and our cost policy. The website is pretty straightforward www.macfound.org and you'll find numerous bits of information there. We try to, we actually there's a process called Glass Pockets, right? Which means that you are very visible with your information and we are an organization that believes in that as well.

RUSTY: [00:58:29]
Yes, yes, wonderful, that's from Candid right? The Candid Glass Pockets. Yeah, I've heard about that. That's great. Well, Ken, thank you so much for again, coming on and allowing me to pester you with questions and…

KEN: [00:58:47]
It was my pleasure Rusty, my pleasure as well.

RUSTY: [00:58:49]
And it's great to connect with you and learn more about your career and your thinking and your leadership at the MacArthur Foundation. So, thank you very much.

KEN: [00:58:59]
Yeah, I want to close by thanking all my colleagues at the MacArthur Foundation because this is not an individual effort, it is a group effort, right? And at the end of the day, we all have to be all

in with this process for this to work and because, we've been successful because folks have been all in, so I want to thank all my 194 colleagues at MacArthur, whether they're in Chicago, India or Nigeria, for really resonating with this work as well.

RUSTY: [00:59:24]
Beautiful. Good acknowledgement of everyone involved and I thank them as well because there was a whole team active in preparing for this episode, so I appreciate the folks who helped out. Thank you for being part of the Fund The People podcast and our special series Smashing the Overhead Myth Once and for All. Thanks Ken.

KEN: [00:59:44]
Thank you and have a great day.

FINAL EPISODE CLOSING: [00:59:45]
Thanks to Ken Jones and the team at MacArthur Foundation for taking the time to tell their story. This is the final installment of our special series Smashing the Overhead Myth Once and for All which has run throughout Season 4 of the Fund The People podcast. You can find all four installments and a lot of other great episodes from this season on our website fundthepeople.org, click on Podcast in the main menu.

Thanks to all our guests from the Ford Foundation, the Annie E. Casey Foundation and the MacArthur Foundation for being part of our special smashing series. Big extra special thanks to Rodney Christopher from BDO for being our first guest on the series, framing the issues and brokering introductions to the other guests. Rodney's expertise and leadership in the field is remarkable and we appreciate him for sharing it with our listeners.

As we wrap up the season today, I want to thank our podcast team: Erin Giunta is our producer, Johnny Taylor of Beacon AV Lab records the show, and Carla Páez and Juan Manuel Acosta are our editors. Thanks to the Bar Foundation and the Kresge Foundation for generous support that makes this podcast and all the work we do at Fund The People possible. Finally, thanks to you, our listeners, for being part of this show and thanks for all you do in the world. This is the final episode of season 4 of the Fund The People podcast. We'll be back in Fall 2023 with season 5 of the show. I look forward to speaking with you then and I hope you have a great summer.

OUTRO:
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