

The Baring Foundation

The Effective Foundation - A Literature Review

David Cutler

The Baring Foundation

The Baring Foundation was set up in 1969. Its purpose is to improve the quality of life of people suffering disadvantage and discrimination. It aims to achieve this through making grants to strengthen voluntary organisations which serve disadvantaged people and by bringing added value to this process. This includes by placing a high value on learning.

By 2009 the Foundation has given almost £100 million. Its current three grants programmes aim to strengthen the voluntary sector's independence from government, support arts organisations working with refugees and build the capacity of International NGOs in assisting NGOs and community based organisations in sub-Saharan Africa working on migration. Three smaller Special Initiatives support parents with learning difficulties and their children, give awards for intercultural dialogue at the grassroots level and explore the role of the non-environmental third sector in responding to climate change.

www.baringfoundation.org.uk

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Foreword

In the dark days of recession, the quest for 'effectiveness' cannot be more important. When foundations are facing the future with uncertain income and increased demand from beneficiaries it is incumbent on us to take stock and reflect.

David Cutler's literature review is timely. It pulls together landmark contributions to philanthropic literature on both sides of the Atlantic and includes new European entrants, counter-balancing Anglo-Saxon dominance.

How to make best use of all the assets foundations enjoy is implicit in much of the work reviewed. Highly practical, it signposts trustees and directors of foundations to sources of knowledge on how to be most effective within their mission, to achieve impact and how to choose the most appropriate methodology to tackle a problem.

Independent foundations have a unique role to play in a plural society. Relatively unconstrained by the absence of a profit motive, political imperatives or fundraising necessities, foundations have a responsibility to maximise their independence for the public good. In the gloom of the downturn this review illuminates, shining light on some of the best and most creative ways of 'making more of your money'.

Clare Thomas MBE

Chair of the Association of Charitable Foundations

Summary

Through the lens of the effectiveness of foundations in achieving maximum impact, recent work by a number of authors in Europe and the USA is reviewed.

These include Helmut Anheier, Matthew Bishop and Michael Green, Jed Emerson, Joel Fleishman, Diana Leat, Joel Orosz, Michael Porter and Mark Kramer and Julia Unwin. Common themes emerge around the importance of the following factors:

- An absence of constraints
- Leading to freedom of manoeuvre
- But with some limiting factors
- Problem diagnosis and theory of change
- Developing solutions
- Alignment of resources to the solution
- Convening and brokerage
- Endurance
- Evaluation and dissemination
- Sustainability and replicability.

Finally additional organisational resources are signposted.

Introduction

This paper is an expanded version of one presented by the author in 2008 to the trustees of the Baring Foundation as part of their strategy review. This initial exercise indicated the lack of a published synopsis of recent writing by leading commentators on how foundations can maximise their impact.

This current paper is limited in its scope. It does not address the enormous literature on organisational effectiveness that would be the basis of any MBA. It does not even attempt the narrower subject of the voluntary sector. Nor is it an academic piece but hopefully one that will be of use to the trustees and directors of foundations when considering how to shape the future of their organisations at a moment when most are thinking hard about how they can do less with more.

'Effective' here is defined as achieving the ends which a foundation has set for itself. (Though, given the freedom of foundations generally to create their mission, this also implies the ability of a foundation to set itself worthwhile, meaningful goals). Much of what follows could be defined as 'strategic philanthropy' that is creating significant, perhaps societal changes. This is because most of the literature examines this issue. But this is not necessarily the case and some of the material examines other less ambitious approaches by foundations.

Foundations are hard to define, given that internationally they have a wide range of structures and purposes. In the literature reviewed here foundations are legal entities with the purpose to benefit society or some section of it by the use of private financial resources, usually an endowment. These resources are normally given as a transfer of funds, often to voluntary organisations.

Literature Review

Although **Julia Unwin's** report *The Grantmaking Tango: issues for funders* (2004, Baring Foundation) looks broadly at the effectiveness of funding rather than just that of foundations, it was largely born out of her great experience in advising trusts. It has been highly influential among British foundations, as well as indeed in Government.

The kernel of *The Grantmaking Tango* is a call for funders to be more self reflective about what they want to achieve. The importance of this lies in that the 'funding economy' for the third sector (the quantity, but more significantly the types of finance available as the net result of funding decisions by all funders) shapes to a large extent the way in which the third sector is able to operate.

Three different intended impacts of funding are identified as:

- The maintenance of services and activities;
- Building organisations, also called capacity building;
- Systems change, which is described as influencing policy makers.

Foundations display all three intentions or combinations of these, but it is suggested are often unclear about their intentions and even when they are clear they often do not then marry this to the appropriate style of funding. These are described as:

- Giving;
- Shopping;
- Investing.

It should be noted that these are not precise terms and they are not fully defined in the report. They are more like metaphors drawn from every day experience. Nor are they really simple terms, for instance there is a large sociological literature about the nature of giving, however they give the appearance of being straightforward.

This is the core of Unwin's analysis, but further categories of funding are then added:

- Reactive – responsive to the best applications;
- Interventionist – wishing to have a planned impact on an issue or area;
- Compensatory – making good deficiencies.

Another set of variables is also given:

- Broad criteria for applications tends to lead to high assessment costs (and vice versa);
- Geographical focus versus issue focus;
- Where the transaction costs and risk costs lie (the applicant or the funder, to varying degrees);
- The nature of the return for the funder, viz: impact on the agenda; lessons learned; or closeness to recipients.

Regarding all these four sets of categories it is critical to observe that they are often not mutually exclusive. Usually they interact in complex ways and a funder may want in a single project to be working on a number of them to differing degrees. This then does not allow a very direct way in which to use the categories.

So for instance it might appear:

- Giving = maintenance of services;
- Shopping = systems change;
- Investing = building organisations.

But it would be equally possible to say that 'giving' unrestricted funds to competently run organisations can build them up and that 'investing' in strategic campaigning organisations can result in systems change.

In the context of the effectiveness of foundations, an important chapter is the one on 'added value'. Different types cited include: attracting additional funding; pro bono consultancy and advice; networking with other voluntary organisations; enhanced reputation for the grantee and lessons gleaned from a grants programme that may contribute to policy influence.

The *Grantmaking Tango* goes on to look in more detail at how funders can become better as givers, shoppers, and investors. Throughout a rich selection of case studies is used both regarding operational charities and funders, mostly UK foundations. A conclusion of the book is to argue that funding has tended to be for quite short term periods and increasingly for projects rather than for core or running costs. This has detrimentally affected the development of the voluntary sector, in many cases making it less effective than it otherwise could have been. The report also has overarching chapters on grant appraisal, measuring impact, collaboration and an interesting final chapter on the etiquette and ethics of funding.

A more recent contribution on the importance of investment has come from Margaret Bolton and Meg Abdy in *Foundations for Organisational Development: Practice in the UK and USA* (2007, Baring Foundation). This was followed in by *The Charities Aid Foundation Grant Programme: learning from capacity building and lessons for other funders* by Chris Cornforth, Jill Mordaunt, Mike Aiken and Shirley Otto (2008, OU Business School).

In *Creative Philanthropy* (2006, Routledge), **Helmut Anheier** and **Diana Leat** like others remark on the unique attributes of foundations but decide that they are generally failing to achieve their potential due to using a limited palette of models and approaches. They view foundations as having developed through three phases: charity, scientific, and new scientific, and now need to evolve into a fourth phase of 'creative philanthropy' that uses elements of these three and goes beyond them. They state that the role of foundations is redistributing wealth to the poor, promoting innovation, social change and pluralism, while preserving traditions and cultures.

Having defined the process of innovation, the authors state that, 'Creativity is making new combinations, seeing new links between existing elements, making up new mixes and so on.' Citing Charles Landry they go on to state seven characteristics of a creative milieu. It is then claimed that even among creative foundations, few manage to innovate successfully, that is by diffusing innovation (rather begging the question why they are not then seeking 'Innovative Philanthropy', if this is preferable).

The heart of the book is nine extended case studies of foundations in the UK and the USA which are practising creative philanthropy. From these the following characteristics are posited:

- Demonstrating a strong commitment to mission;
- Demonstrating a culture of self criticism;
- Engaging in regular reviews;
- Constantly searching for ways of doing even better;
- Always mindful of changing environments;
- Aware of paucity of resources and limitations of roles;
- Role to stimulate constructive change and conversation;
- Awareness of the worth of knowledge and reputation as well as money;
- A sophisticated and flexible theory of change;

- Recognising the power of rich networks;
- Seeing planning as a work in progress;
- Valuing the power of 'show and tell';
- Moving from demonstration to implementation;
- Moving beyond evaluation to risky learning.

The book has chapters on managing and practicing creative philanthropy. It includes sets of 'do's and don'ts' regarding: developing a culture of creativity; exploring problem areas; solving problems and generating ideas; evaluating and refining ideas and implementation and evaluation.

Diana Leat has written extensively on philanthropy, for instance *Foundations and Policy Involvement: Creating Options* (2005, Joseph Rowntree Foundation) and *A Discussion Paper on Risk and Good Grantmaking* (2005, Big Lottery Fund). In *Replicating Successful Voluntary Projects* (2003, Association of Charitable Foundations) she looked at the process of transmitting and scaling up work, a key interest for many foundations with a success on their books. This discussion has been developed by Geoff Mulgan, Director of the Young Foundation in *Social Innovation; what it is, why it matters and how it can be accelerated* (2007, Young Foundation) and *In and Out of Sync, the challenge of growing social innovations* (2007, National Endowment for Science, Technology and the Arts).

More recently, Leat has continued this line of thinking in *Just Change: Strategies for Increasing Philanthropic Impact* (2007, Association of Charitable Foundations) commissioned by six UK grantmakers. It is suggested that UK foundations have traditionally confined themselves to service provision (though exceptions are easy to cite) and this role is more and more limited given the ratio of state provision to foundation funding and the long term nature of some problems.

Although the report states that it is concerned simply with 'achieving long term systemic impact beyond grantees' it would be fair to say, as the title hints that it is interested in 'progressive philanthropy' or 'social justice' and its examples are exclusively chosen from this realm. This point is worth making as long term systemic change should not be seen as synonymous with centre-left causes. Some progressive foundations in the USA feel that a small group of their peers were highly successful in terms of strategic philanthropy in paving the way for George W. Bush as President.

Leat concludes that her longer case studies and shorter vignettes (all but two drawn from the UK) as well as the broader literature, highlight a series of recurring themes in how foundations succeed in this type of work. She identifies 16 factors. A number of these relate to communications strategy: telling human stories; focus on the message not the messenger; presenting clear and simple messages with 'easy/ smart' answers; disseminating and tailoring communications to audience needs. Others demand a style of approach: flexibility; reframing and relating to other agendas; focusing on the positive and constructive; passion (articulated values); persistence; clarity about strategic goals: creating an evidence base; focus on outcomes; building legitimacy, anticipating obstacles and recruiting champions; going to where power lies.

To some extent these are then further rehearsed in a series of suggestions for practice. However additionally foundations are asked, in effect, to develop a theory of change for what they are seeking to change and to be willing to take on a leadership role. Again it is recognised that foundations have a number of resources in addition to money, especially reputation, which helps to generate a power to convene and the ability to take a long term view.

British authors **Matthew Bishop** and **Michael Green** in their book *Philanthrocapitalism* (2008, ABC Books) are interested rather implicitly in the effectiveness of foundations. Their sub title, '*How the Rich can save the World and why we should let them*' gives their real target. But largely through interviews with leading philanthropists mostly in the USA, with Bill Gates as the principal example, they have a number of observations to make about the new generation.

They tend to want to spend their money within their life time (unlike Carnegie, Rowntree and Ford) and tightly define the approach taken; using the business models which they know and which have made them so wealthy. There will be an interest in metrics and intolerance to their avoidance. Some will be challenging to NGO Chief Executives and occasionally want a place on the board. ('Venture philanthropy' used to be associated with the latter but has become a looser concept). Investment approaches often want to systemically tackle and solve a problem (for instance New York Mayor Bloomberg's desire to eradicate smoking) though the tendency of American philanthropists to cut their teeth on tackling their own school system may show them how intractable problems can be. They may well prefer market solutions such as micro-credit or the projects of social entrepreneurs. The richest philanthropists exist in a world where it is easy to lift the phone to Prime Ministers and occasionally to attempt to change government policy or lever in funds and this gives them a power beyond their cash – 'hyperagency.' This can be at least as true of celebrity philanthropists such as Bono or Angelina Jolie.

This well written book is enlivened by a fascinating cast of characters including Warren Buffet, Bill Clinton, Mo Ibrahim, Christopher Hohn and Jamie Cooper-Hohn, Pierre Omidyar, Jeff Skoll and George Soros. However many readers would have preferred the book to end before its final chapter imagining many of these people celebrating their achievements on a space station in 2025.

Luc Tayart de Borms is the Managing Director of the King Baudouin Foundation in Belgium and has also been very active in the European Foundations' Centre. Both experiences have highly influenced his 2004 book, *Foundations: Creating Impact in a Globalised World* (2005, Wiley). Although many of the practice examples he uses are from the work of the highly influential King Baudouin, from a British perspective it is interesting to learn about the work here of a number of less well known but inventive European Foundations. (There are an estimated 200,000 foundations in Europe). The author correctly notes that much of the literature on foundations is Anglo-Saxon and wishes to counter balance this.

De Borms asks why foundations? What is their special role and how do they justify their tax advantages to society? He sees their greatest advantage as being an ability to act as a 'convenor', operating between operational charities with vested interests, government and where relevant the private sector. To be effective as a foundation for de Borms is to use this ability combined with an understanding of context – both a specific policy terrain but also the different traditions of voluntary sector provision that are evident in Europe (Anglo-Saxon/Rhine/Latin and Scandinavian models are suggested).

Another advantage of the modern foundation is its ability to cross geographical borders. Generally de Borms advocates that foundations engage with the forces of globalisation – global issues require global solutions. Specifically, *Foundations* strongly supports the attempt to create a European statute to govern legal relationships with foundations, especially regarding taxation. In addition the usefulness of a new Foundation exclusively devoted to European issues is considered. Another European issue considered is whether there should be a general payout rate for foundations, akin to the legal minimum of 5% set in USA.

The other boundary *Foundations* challenges is an internal one; the methodological toolbox employed by grant givers. It cites the usefulness of funding research, campaigning and engaging with the media, an opinion shared by most of the authors reviewed in this paper. 'Impact-driven philanthropy' occupies one of the chapters of the book and is really concerned with so-called strategic philanthropy. To gain maximum leverage with their modest financial resources, foundations need to be flexible in their approach, forging alliances with other stakeholders and not being shy in directly addressing government.

The legitimacy and accountability of foundations is of concern to many and de Borms argues that this is best met by a serious and sophisticated approach to evaluation, using a variety of quantitative and qualitative methods, publishing the results openly.

Helmut Anheier is a prolific contributor to the study of civil society in general and philanthropy and the role of foundations in particular. His most recent contribution is editing *The Politics of Foundations* with Siobhan Daly (2008, Routledge). Some of his thinking is well described in two presentations that he made to the European Summer Academy of the European Foundation's Centre in 2007 (www.efc.be). In *Foundation Management: Common Challenges* after describing core management activities he relates this to the special position of foundations. He concludes information in the voluntary sector is not as available or analysed as in the public and private sectors because of weak signals and incentives. So foundation management is about creating value for a stated mission in a weak signal – weak incentives situation. This leads to the strategic trade-offs described by Orosz below. In *Economic Efficiency versus Creative Philanthropy*, Anheier succinctly states his argument for the comparative advantage of foundations. This is that foundations should confine themselves to doing what they do better than other types of organisation, while realising their limitations. He defines this as creative philanthropy ('the unique capacity of foundations to spot innovative solutions to problems, to jump-start and then help sustain the innovation process, and to help disseminate and implement results') which brings about pluralism and increases the problem solving capacity of society. This type of philanthropy (as opposed to previous models) operates most effectively in situations of high complexity (or high uncertainty) and dynamism. This approach values the role of foundations as entrepreneurs, risk-takers and absorbers, mediators or brokers and as institution or coalition builders.

Michael Porter and **Mark Kramer's** paper *Philanthropy's New Agenda: Creating Value* (1999, Harvard Business Review) has been seminal important. It noted the boom in American foundations, doubling in number and increasing in asset value tenfold in a decade but questioned whether they were producing the results that should be expected from such wealth. An important point for them was the high level of tax benefit enjoyed by foundations along with the administrative overheads of the foundation and the costs they impose on grantees in terms of reporting which then needs to be justified.

The authors suggest that foundations create value in three ways each perhaps ten times as important as the last (this mathematical description of leveraging is unsupported):

- 1). Selecting the best grantees;
- 2). Signalling to other funders;
- 3). Improving the performance of grant recipients;
- 4). Advancing the state of knowledge and practice, for instance through funding research.

These four methods are seen as mutually reinforcing in practice and cumulative. The authors then go on to criticise foundations for a lack of strategy in comparison to business and define the key principles of strategy thus:

- The goal is superior performance in a chosen arena (in comparison to any other type of organisation trying to undertake this work);
- Strategy depends on choosing unique positioning (not being all things to all people);
- It rests on unique activities (aligning the style of operation and resources to the mission), and;
- Every positioning requires trade-offs (foregoing other fields and opportunities).

Looking at the limited data of how American foundations perform against all these criteria, the authors conclude that resources are too thinly scattered across too many fields with overworked grant officers merely feeding a grant making machine with recommendations. The lack of programme evaluation by foundations comes in for particularly heavy criticism.

Mark Kramer founded the Center for Effective Philanthropy (see Further Organisational Resources below). In 2007 CEP published *Beyond the Rhetoric; Foundation Strategy*. This was based on interviews with the Chief Executive and a Programme Officer in 22 large US foundations. It concluded that although everyone agreed on the importance of using a strategy few used one in their daily work that met CEP's particular definition of focusing on external context and providing a hypothesised causal connection between the use of the foundation's resources and the achievement of its goals. The paper defines the interviewees as occupying four positions on a continuum for non-strategic to strategic and label these as: charitable bankers; perpetual adjusters; partial strategists and total strategists. More recently *More Than Money: making a difference with assistance beyond the grant* (2009, CEP) suggests that as far as grantees are concerned the only 'added value' activities by foundations that make a difference are filed focused activities, trying to build knowledge and practice, or a comprehensive set of activities to strengthen and organisation. So for instance general management advice or the development of performance measures on their own did not help.

The most important recent contribution to the canon from America has been **Joel Fleishman's** *the Foundation; a Great American Secret – how private wealth is changing the world* (2007, BBS). Fleishman, a distinguished academic, has also served as the President of Atlantic Philanthropies. His main contention revealed in his title is that American foundations have done too little to broadcast their achievements, a view that might surprise a British audience but has resonated in America. More relevant to this paper is the author's meticulous examination, drawn from a large number of case studies and interviews, as to how foundations can achieve the greatest impact.

Like others, Fleishman is clear that foundations have a unique comparative advantage. Undistracted either by the need to make a profit or the daily cares and expediencies of running an operational charity, a foundation can single-mindedly pursue its mandate with all the assets at its disposal.

In pursuing its goal, a foundation can employ one or more strategies and numerous tactics:

- Creating and disseminating knowledge. Examples are given here of founding institutions to undertake research, to build public awareness, to promote specific reforms or to solve a specific problem. A new field of scholarly research can be created or an old one maintained.
- Building Human Capital. This can be achieved through different forms of scholarship or bursary from undergraduate to adult leadership development.
- Public Policy Advocacy. Here some of the approaches include supporting an existing advocacy initiative or starting a new one.
- Changing Public Attitudes.
- Changing the Law.

Examples of tactics that cross these strategic lines include: creating a high status commission; offering an award or prize; building a model through a pilot programme, financing litigation, building institutions, building physical plant, entering into partnerships either with other funders or with other voluntary organisations, capacity building and engaging with the media.

After acknowledging the difficulties in assessing impact, Fleishman goes on to look in depth at a dozen highly interesting examples of major initiatives from American foundations. These range from the Rockefeller Foundation's support of the Green Revolution to the creation of Sesame Street, from the creation of the Grameen Bank in Bangladesh and its espousal of micro-finance to George Soros' promotion of democracy in Eastern Europe. Some commentators have argued that some of the developments in the 12 case studies would have been better never begun, but it would be impossible to assert plausibly that they have not affected the lives of millions.

These case studies are then used to suggest a step by step approach to achieving high impact.

Step one: defining, documenting and diagnosing the problem.

Step two: identifying key factors that impede a solution.

Step three: formulating a problem solving strategy. Here a series of key questions are suggested

- '1). Have we identified and precisely defined the problem we intend to solve?*
- 2). How ripe is the problem for being solved or significantly improved today or in the near future? If not, can an initiative hasten the ripening?*
- 3). Have we developed a plausible strategy or mix of strategies appropriate to the size and complexity of the problem?*
- 4). Is the problem of a size and character that make it appropriate for a foundation with our size and mission, culture, resources and risk profile? Can we manage the risk? Can we afford what it will take to solve the problem? If not can we attract sufficient supporting funds from other foundations or other sources?*
- 5). How long will it take for the problem to be solved? Is our foundation prepared to commit itself to a consistent effort over that period of time?*
- 6). What parts of the solution can we implement alone? What parts will require the efforts of other organisations, such as foundations or grant receiving organisations?*
- 7). How will we know if we are making appropriate progress all along the way?'*

Step four: selecting tactics (using the menu of options already suggested by Fleishman).

Step five: drafting an implementation plan.

The following characteristics are given of high impact programmes:

- Focus;
- Alignment;
- Due diligence about the problem and solution, including prospective grantees;
- Intelligent talent selection.

In addition effective foundations tend to display entrepreneurial risk-taking, opportunistic thinking (not sticking rigidly to the plan no matter how the problem changes or what new solutions present themselves) but balanced by long term thinking and commitment.

Perhaps even more interesting than his dozen high impact programmes is Fleishman's unusual inclusion of failed initiatives. Given the relative unaccountability of foundations these tend to rarely see daylight. Often these factors are the inverse of successful strategies. In each case there will have been a weakest link in the approach on which it broke. This could be the lack of a guiding strategy, a mismatch between the problem and the solution or the lack of a credible logic model.

Other examples of stumbling blocks include: weak grantee commitment; lack of relevant grant experience; incompatible grantee partners; failure to include relevant stakeholders; failure to specify desired outcomes; relying on inadequate leadership or fragmented leadership and uncertain collaboration; as well as inadequate market research and unanticipated consequences.

Fleishman concludes his empirical examination of what makes for an effective foundation by defining their three essential attributes as: discipline; boundaries; and persistence. Limits imposed by the founder or settler are generally considered an advantage and must be created by the board where these are absent.

These conclusions were reinforced in *Money Well Spent: A Strategic Guide to Smart Philanthropy* by Paul Brest and Hal Harvey (2008, Bloomberg Press). The authors argue for careful analysis of problems, consideration of alternative solutions where necessary and give examples of failures as well as successes.

Joel Orosz's book *Effective Foundation Management: 14 Challenges of Philanthropic Leadership and How to Outfox them* (2007, AltaMira Press) is partly summarised in a speech he delivered in 2002, *Poorly Understood Challenges and Trade-offs of Managing Private Foundations*. Here he described the seven challenges in foundations in brief as 'managers inexperienced in foundation work are asked to deliver great results from organisations staffed by people who are untrained in the work, have little in common, face few external pressures for improvement, receive scant constructive feedback, subscribe to no common standards of performance, have sceptical boards and significant internal cleavages.'

The trade-offs are described as:

- High overheads versus low overheads – it is hard to add much value to a grant or a programme and retain low overheads;
- Strategic planning versus flexibility – an individual tends to be good at one or the other;
- Broad versus deep – in terms of subject matter;
- Community based versus experts – they often don't agree;
- High uncertainty versus high certainty – CEOs that turn in mediocre results tend to keep their jobs;
- High profile versus low profile – foundations only want a high profile when things go right;
- Entrepreneurs versus managed teams – the latter tend to be better at focused results but can lack flair.

Jed Emerson has written widely on what he describes as 'blended value'. This approach deliberately crosses the divide between types of investor, investment style and the organisation invested in. It states that organisations simultaneously create social, economic and environmental value and that the effective investor, whether individual or institutional, should look at all these components and seek a blend. The key areas

within which investors are seeking to work are seen as: corporate social responsibility; social enterprise; social investing; strategic philanthropy; and sustainable development. Four cross-cutting issues are then identified for action: the challenge of capitalisation; measurement and metrics as they relate to Non-profits and Corporate Social Responsibility; organisational capacity and the regulatory, policy and tax environment. This argument is explained in *Blended Map – Executive Summary* (2004, www.blendedvalue.org).

Perhaps it is ironic, then, that while Emerson is arguing for a holistic approach to investment, he has become best known for just one part of this among foundations. He probably has only himself to blame as he came up with a particularly memorable metaphor. Foundations, he argued, were fixated on looking at how they spent the 5% they gave annually to good causes, rather than concerning themselves with what good could be done with the 95% they invested through their endowment. This was, he said, like looking at a horse and only seeing the manure.

The subject of the use of endowed investments is bedevilled by terminology, but is generally divided into programme related investments and mission related investments or mission connected investments. Two recent contributions to this debate in the UK are *Foundations and Social Investment* by Margaret Bolton (2005, Esmée Fairbairn Foundation) and *Mission Possible: Emerging Opportunities for Mission Connected Investment* by Sargon Nissan and Margaret Bolton (2008, New Economics Foundation).

Conclusion

There are a number of significant areas where the literature has less to say that might be helpful: the role of trustees and their relationship to the Chief Executive and other staff; relationships with beneficiaries; and most importantly the current Holy Grail of the assessment of impact. Also the literature disproportionately draws on work in the USA and UK.

However it is striking that there is a high degree of consensus throughout the literature under review as to the special situation of foundations and the most effective way they can operate. This can be summarised as:

- 1). **An absence of constraints...** Lacking the profit motive of the market, the voter accountability of governments and the fundraising, operational and beneficiary demands of other parts of the voluntary sector, foundations are unusually free to chose and focus on their mission.
- 2). **Leading to freedom of manoeuvre...** Although foundations often constrain themselves to quite traditional forms of grant-making, part of their advantage is a freedom to chose the most effective approach to tackle a problem. Foundations are well placed to take and absorb risks that other organisations would need to eschew.
- 3). **But with some limiting factors.** Even in the USA, foundations can only command a fraction of the wealth and resources of government, the private and voluntary sectors and so should chose to act in the space they can best influence. Also the limited accountability of foundations and the fields that they usually operate in lead to problems with gathering reliable performance feedback. This leads to a need to strongly focus.
- 4). **Problem diagnosis and theory of change.** Often foundations jump into giving a grant in a new area without a thorough analysis of the causes, shape and size of an issue. In particular it is useful to develop a theory of change giving a causal chain between the resources a foundation is employing to create a solution and the problem to be tackled. The obstacles to change should be thought through.

5). **Developing solutions.** Different forms of funding lend themselves broadly to different interventions and their impact, particularly on the health of voluntary organisations, need to be considered. Specific types of intervention may be able to create a greater or more strategic impact, for instance advocacy for policy change. The greatest impact may be achieved through advancing the state of knowledge and practice in a field. Foundations need to capitalise on their potential flexibility here by the intelligent selection of appropriate methods.

6). **Alignment of resources to the solution.** This includes not only finances, that is both different styles of grantmaking and other financial instruments, such as loans as well as the use to which an endowment is put, but also all human resources, staff and trustees. This may require organisational change on the part of the foundation, or alternatively it may constrain a solution to a form that the foundation can realistically handle.

7). **Convening and brokerage.** Part of a foundation's resource is its reputation, which may well be high. This allows a foundation to both convene divergent, perhaps conflicting actors in a space which they find neutral but comfortable and to broker new alliances. Foundations are able to cross many types of boundary, not only geographic and communal, but professional and sectoral.

8). **Endurance.** Foundations, at least endowed ones, are uniquely able to continue to tackle a problem over decades should they chose to do so.

9). **Evaluation and dissemination.** Foundations both tend to financially neglect evaluation, but also operate in environments where it can be technically difficult. This is especially true at the programme level. Successful foundations treat the knowledge that they glean through their work as an asset and both disseminate it and use it to improve their own performance. Advancing knowledge and practice is highly likely to magnify impact.

10). **Sustainability and replicability.** Foundations can effect the sustainability of the solution that they are pursuing through changing the policy environment or law, through changing the funding environment and by support for voluntary organisations to be strong, resilient bodies.

Finally, much of this will seem obvious to many people involved in foundations. So the question must follow why these approaches are so rarely used systematically and rigorously?

Further Organisational Resources

Alliance ('the magazine for philanthropy and social investment worldwide'). As well as giving news, *Alliance* acts as a forum for practitioners for the exchange of ideas and experience. It is published quarterly and its electronic archive gives access to 15,000 past items. www.alliancemagazine.org

Association of Charitable Foundation is the UK-wide support body for foundations and trusts of all kinds with over 300 members. In addition to providing continuing professional development training, it convenes a number of interest groups, provides published guidance largely recently on technical matters and represents the common interest of foundations to government, regulators and the media. www.acf.org.uk

Cass Business School in London established the world's first academic course in grantmaking which has an option of an MSc in grantmaking, philanthropy and social investment. www.cass.city.ac.uk In addition Cass is a lead partner in the new **Centre for Charitable Giving and Philanthropy** initiated by four funders. It brings together the expertise of the National Council for Voluntary Organisations and research teams in five universities. The relationship of the Centre to foundation effectiveness will become clearer as it begins its work.

The Center for Effective Philanthropy (CEP). A Not for Profit organisation headquartered in Boston established in 2001. It focuses on the production of comparative data on funders to enable improved performance. CEP is best known for its Grantee Perception Reports and these surveys are now available in the UK. CEP has around ten other publications and ongoing research on a range of topics. www.effectivephilanthropy.org

Grantcraft, based in the USA has drawn on the experience of many dozens of grant makers to produce a series of thematic guides on issues relevant to most funders such as providing long term support or managing the ending of a grant. In addition it provides a series of case studies on topics such as funding work on HIV / AIDS and holds regular training events. www.grantcraft.org

Grantmakers for Effective Organisations (GEO) has 1700 individual members representing 350 organisations and as such is a collation intent on building effective NGOs as the outcome of funding. It got going in 2002 and is based in Washington DC. It has four priority areas of research; the change agent project; learning for results; leadership development; and generating general operating support (core costs in old money) and each has a number of associated publications. www.geofunders.org

New Philanthropy Capital was set up by a group of financiers in London when they realised that there was nowhere they could go for independent advice on charitable giving. It was registered as a charity in 2002 and has 30 staff. As well as advising individual philanthropists it provides consultancy services for foundations. NPC has a particular interest in the measurement of results. It has published a large number of reports both about charitable sectors and the infrastructure for effective funding.

An example is its 2007 publication *Going Global: a review of international development funding by UK trusts and foundations*. www.philanthropycapital.org

Theory of Change. This framework for examining and tackling problems is increasingly employed by leading foundations in the USA. It can be broken down into five steps:

- Identifying long term goals and the assumptions behind them;
- 'Backwards mapping' to connect the preconditions or requirements for that goal;
- Identifying the interventions that an initiative will perform;
- Developing indicators to measure outcomes;
- Writing a narrative to explain the logic of your initiative.

Many examples of how to use this approach and be found at www.theoryofchange.org

The Young Foundation. The Young Foundation in east London began life as the Institute of Community Studies initiated by the serial social entrepreneur, Michael Young. Since its relaunch in 2005 it has concentrated on social innovation and has published extensively on replication, growth and dissemination. www.youngfoundation.org.uk

The Baring Foundation

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