

## **Funding for Impact**

In March 2006 I undertook a four week study tour to the United Kingdom and Europe at the suggestion of the Trustees of The R E Ross Trust. In October 2005 when the Trustees made their suggestion, I had just completed five years as Executive Officer of the Ross Trust.

### **Why did I choose to visit Trusts and Foundations in the United Kingdom and Europe and not elsewhere, particularly the USA?**

1. The size of Trusts and Foundations in the UK and Europe are more comparable to those in Australia than the USA where they are generally very large and often global in their reach (although there are some very large and global European Foundations).
2. The role of governments in the UK, Europe and Canada are more comparable to those in Australia and consequently the issues facing and the activities engaged in by Trusts and Foundations tend to be more comparable to those in Australia. In the USA, Trusts and Foundations often fill the gap left by governments and provide the services that governments in Australia, UK and Europe provide.
3. I have attended two Conferences of the European Foundation Centre (in Berlin and Lisbon) and found the matters of interest to European and British Foundations to be very similar to those of Australian Foundations, for example, poverty, public education, refugees and asylum seekers.
4. The laws affecting charities in Canada are similar to those in Australia and the work of some Foundations is innovative but spreading four weeks across Canada as well as the UK and Europe would have reduced the potential depth of my visits.

### **Why did I choose to visit the particular Trusts and Foundations in the United Kingdom and Europe I included in the study tour?**

The study tour visits I made were arranged to explore some matters of particular interest to the Ross Trust; they were not intended to be and did not constitute a comprehensive survey of the work of all charitable Trusts and Foundations in the United Kingdom and Europe.

I was familiar with the work of a number of European and British Foundations and had decided on a number I wished to visit. However, I also wanted to have the advice of people with far more knowledge than my own.

Being privileged to know Dr Rien van Gendt, Executive Director of the Van Leer Group Foundation and formerly Executive Director of the Bernard Van Leer Foundation and Steven Burkeman, a consultant in philanthropy and former CEO of the Joseph Rowntree Charitable Trust, I asked them to assist me. Knowing the main matters of interest I wished to explore, both Rien and Steven were generous in their assistance. While Steven concentrated on Foundations in the UK and Rien on those in Europe, a number of their suggestions were the same – which was very reassuring.

### **What were the main matters of interest I wished to explore?**

I wished to:

1. explore the experiences of other Trusts and Foundations with multi-year granting;
2. explore the experiences of other Trusts and Foundations in respect of selecting major projects and monitoring outcomes; and
3. determine whether any data included in grant applications or generated by projects are collected and contributed to social indicator data collections which are in the public domain.

Other matters of interest which I was interested in exploring in less depth included:

4. networking with like Trusts and Foundations;
5. frequency and type of trustee grant meetings;
6. dissemination of findings to interested parties; and
7. administration costs.

### **Why did I want to explore these matters?**

One of the priorities that the Ross Trustees gave me when I started work with the Trust in October 2000, was to undertake a comprehensive review of the Trust's granting strategy and Guidelines. The new strategy which the Trustees approved in March 2001 included a commitment to undertake some major projects which the Ross Trust would initiate and to which grants would be made each year for two to three years. The first major projects were to be:

- ≈ an emergency relief and material aid program which involved collaborating with seven agencies to target unmet need and to guarantee each agency a fixed grant amount each year for three years; and
- ≈ one or two chosen on the basis of an "early intervention" theme, with a tentative total grant allocation of \$400,000 each year for three years.

Over the next three years, the positive experience with the development and implementation of those major projects led to an expansion in their number and scope and to a utilisation of major project methods, such as multi-year granting, in making grants in response to unsolicited grant applications. Some major projects were categorised as special rather than major because we expected them to continue into the future as long as an annual review confirmed that objectives were being met.

The comprehensive review we undertook of the Trust's granting strategy in May 2005, confirmed the value of the Trust's general approach and led to the addition of new major project areas. It also highlighted our growing awareness that the positive effects achieved by organisations using Ross Trust grants could be multiplied by engaging in more collaborative and longer term relationships with community organisations.

What we needed to know therefore, was how could we improve what we were doing and possibly take it to another level of effectiveness. It seemed to me that the study tour offered to me by the Trustees was an ideal opportunity to explore these matters with others who had already taken those steps.

I should perhaps emphasize at this point that everything that the Ross Trust has done has been within its legal limits as set by both the benefactor's will and the Trustees Act 1958. The Trustees and I are very mindful of their legal obligations and have no intention of going beyond what is allowable.

### **Which Foundations did I visit?**

I selected from Rien's, Steven's and my own list to include, for example, Foundations varying in size from small to very large; Foundations focussing on a range of geographic areas from smaller within a country to own country plus international; Foundations old and new; Foundations which accepted unsolicited applications and those which did not. However, each Foundation had experience with one or more of the matters in which I was interested.

My final program included four Foundations in northern England, four in London and five in four European countries. I also visited The Global Foundation and WHO in Geneva but I am not covering my visits to those organisations in this presentation.

<b>United Kingdom</b>	<b>Europe</b>
Allen Lane Foundation: York, England	Bernard Van Leer Foundation: The Hague, The Netherlands
Baring Foundation: London, England	Van Leer Group Foundation: Amstelveen, The Netherlands
City Parochial Foundation: London, England	Bertelsmann Foundation: Gütersloh, Germany
Esmée Fairbairn Foundation: London, England	Compagnia di San Paolo: Turin, Italy
Joseph Rowntree Charitable Trust: York, England	King Boudewijn Foundation: Brussels, Belgium
Millfield House Foundation: Newcastle, England	
Northern Rock Foundation: Newcastle, England	
Nuffield Foundation: London, England	

### **With whom did I meet?**

I met mainly with CEOs but in some cases with some of their staff also and with some of their colleagues from other Foundations. Our discussions ranged not only over the matters I wished to explore and of which they had been advised in advance but matters such as the history of their Foundation and its development, their approaches to planning and current developments. The discussion of current developments showed that all Foundations, no matter their age or mode of operation, regularly reviewed their operations with a view to improving their effectiveness.

### **What did I learn?**

My report is a very brief summary of the key findings of my study tour; it sets out the observations I made from my discussions and associated reading. I am assuming that you have all read the report and I am not going to go through it. Instead, I want to share with you what the Ross Trust has done with my findings and to leave time for discussion of the issues referred to by Philanthropy Australia. Just to remind you, PA indicated that there would be an opportunity to discuss:

- ≈ The importance of being clear about the impact you are seeking.
- ≈ The influence of your desired impacts on the chosen structure and processes of your foundation.
- ≈ The role of strategic operational reviews.
- ≈ Funding for the 'long-haul'.
- ≈ Investing in the capacity of the not-for-profit sector.
- ≈ The difference between "administration" and "value-adding" work.

### **What did I propose to the Ross Trust as a result of my study tour?**

In May 2006, having completed my report, I indicated to the Ross Trustees what my proposals to them might cover. The order in which I put them does reflect the order of importance I placed on them. Giving such an indication made it easier for the Trustees to give me some directions as to what they were prepared to consider and discuss further.

The **first** possible proposal was that the main principle underlying or guiding income disbursement decisions made by the Ross Trustees should be based on the impacts that Trustees want the Ross Trust to have in achieving benefit for the community. I said that when desired impact becomes the guiding factor, other decisions that have to be made about which particular purposes and which organisations should receive grant funds become clearer if not easier.

The **second** possible proposal was that we needed:

- ≈ to clarify the difference between the grants the Ross Trust was giving in response to unsolicited applications and the grants it was giving towards what the Ross Trust currently calls Major and Special Projects; and
- ≈ to simplify these into two categories. For example, The Nuffield Foundation uses two categories – “Grants”, made under the headings “Social Policy”, “Beyond the UK” and “New talent”, and “Initiatives”, with current headings of “Education”, “Nuffield Council on Bioethics” and “Adolescent Mental Health”. The City Parochial Foundation uses three categories – “Open Programme” for unsolicited grants in “five priority areas”, “Special Initiatives” and “Research”.

The **third** possible proposal was that we should increase the extent of the “value added” work of the Ross Trust and to make clear the type and extent of that work. Although we were already engaged in value added work, we should increase the extent of that work in order to improve the capacity of the Ross Trust to have an effective impact. I said that if the work of the Trust was reoriented using desired impacts as the guiding principle, we would be able to show clearly what minimum valued added work is required and what additional value added work would be desirable; thus giving us greater information as a basis for deciding strategic directions for the Trust. Clearly, the amount of value added work undertaken has a significant influence on the number and profile of staff required.

### **What was the response of the Ross Trustees to my possible proposals?**

The Trustees were very interested to discuss these matters further. They decided that I should develop my possible proposals in more detail and that we would devote a day to their discussion. The Ross Trust Planning Day was held on 17 October. We were very fortunate in having Tony Mackay, Executive Director of the Incorporated Association of Registered Teachers of Victoria and Director of the Centre for Strategic Educational Thinking (among his many roles), both facilitate our discussions and provide an external perspective of the work of the Ross Trust. All staff of the Ross Trust and Mary Pearce, who recently has been assisting the Ross Trust in undertaking its grant application research, joined the Trustees in the morning while in the afternoon the Trustees and I discussed the implications for the future.

The results of our Planning Day will be implemented in coming months but I can say that the Trust’s work will be based in future on the impacts chosen by the Trustees and the Trust will increase the extent of its value added work.

### **What might an impact-driven, value added approach to a Foundation’s work look like?**

In the report of my study tour I mention two books which I think are immensely valuable for anyone working in the area of philanthropy. The books are:

- ≈ *Grantmaking Tango: Issues for Funders*, by Julia Unwin and published by the Baring Foundation in London (and available for downloading from that Foundation’s web site); and
- ≈ *Foundations Creating Impact in a Globalised World*, by Luc Tayart de Borms, Managing Director of the King Boudewijn Foundation in Brussels, and published by John Wiley and Sons.

Both books provide some very useful insights into impact-driven and value added approaches.

In her *Grantmaking Tango*, Julia Unwin proposes two dimensions to discuss the behaviour of “funders” – “Intended impacts” and “Funding styles”. She uses the term impact to identify three different types of intention or desired effect: namely

- ≈ maintenance of services and activities;
- ≈ organisation building (also called capacity or institution building); and
- ≈ systems change.

In his *Foundations Creating Impact in a Globalised World*, Luc Tayart de Borms devotes a chapter to “The impact-driven foundation”. He argues that “Today, given their privileged position, society expects much more of foundations” than making modest improvements through grants; that “A foundation’s drive to create value must be validated by identifiable impact..”; that “Impact driven foundations deploy a wide range of methodologies to realise their objectives .. A strategic mix of these tools is critical if they are to succeed.” The methodologies or tools that Luc shows in an interesting graphic are:

- ≈ Grants: Providing assistance to people or NGOs;
- ≈ Policy/programme development: Designing what works;
- ≈ Strategic communications;
- ≈ Research: Finding and organising relevant facts and figures;
- ≈ Citizen mobilisation: Connecting issues and citizen to create political pressure;
- ≈ Partnerships: Organising stakeholders; and
- ≈ Advocacy: Making the case directly to the decision-makers.

For the Ross Trust, as a charitable trust, creation of “political pressure” is outside its legal charter but all the other tools could be employed.

*Globalised World* also has an extensive discussion about various approaches which can and are being used by foundations to create value. He argues that “If the mandate of a foundation is to solve, or even help to solve, complex social problems, it is essential to reach beyond the grant-making or operational mode into the role of convenor. In this way, the stakeholders as well as the wider community become engaged and the foundation’s real value-added ends up falling somewhere between the territory of catalyst and capacity builder.”

In their article, “Philanthropy’s New Agenda: Creating Value”, first published in the *Harvard Business Review* 1999, Michael E. Porter and Mark R. Kramer argue that “Satisfied with doing good, too few foundations work strategically to do better.” and “Foundations create value when their activities generate social benefits that go beyond the mere purchasing power of their grants.”

They argue that there are four ways in which foundations can create value and that “Each successive approach leverages a foundation’s special assets – resources, expertise, independence and time horizon – more than the preceding one, as the focus of activity shifts from the individual recipient to the overall social sector.” Their four ways are:

1. *Selecting the best grantee: Each dollar will earn a higher social return than a dollar given by a less knowledgeable donor.*
2. *Signalling other funders: By attracting other donors, a foundation effectively improves the return on a larger pool of philanthropic resources.*
3. *Improving the performance of grant recipients: Helping a grantee to improve its own capabilities increases its overall effectiveness as an organisation and thus improves the return on all the money it spends.*
4. *Advancing the state of knowledge and practice. Such agenda-setting work makes every dollar spent in the field – by philanthropists, government, and other organisations – more productive.*

They also argue that the resources of foundations are “Scattered across too many fields ... across staffs spread too thin ... across too many small grants.”

In *Grantmaking Tango*, Ms Unwin devotes a chapter to “enhancing the value of a grant” and distinguishes between the value added by the grantor and the value added by the grant recipient.

One of the main arguments of *Grantmaking Tango* is that "it is important for grant-making organisations to know what sort of funder they are and how they intend to operate". Ms Unwin describes three funding styles that she calls:

- "Giving": giving or granting funds which are not tied to specific outcomes;
- "Shopping": granting funds for specific pieces of work; and
- "Investing": providing grant funds and other forms of active support to achieve long term outcomes.

Ms Unwin also argues that in designing an approach to grant-making and in reviewing their operations, funders need to:

1. understand their motivations;
2. know what impacts they desire;
3. determine which style of operation suits them best; and
4. when making decisions about impacts and style of operation, consider the four variables of granting criteria, focus, transaction and risk costs of both grantor and organisations, and the return desired by the grantor.

I think that these four points provide a useful framework with one modification. I prefer to use the term impact more like M Tayart does, that is, to refer to the specific subject area. Thus, in a discussion of the Ross Trust, for example, I would use the term "impact" in two ways:

- ≈ Impact as a subject area; and
- ≈ Impact as a type as proposed by Ms Unwin: just to repeat, her impact types are (1) maintenance of services and activities; (2) organisation building; and (3) systems change.

### **But what does all this mean in practice?**

To consider the possible implications of the Ross Trust moving to an impact-driven, value-added approach, we examined what we do currently using the framework derived from Ms Unwin's four points but modified to include the two meanings of "impact".

You might be interested in seeing some of what we did. As background, currently the Ross Trust Guidelines say that the Trust:

- ≈ considers unsolicited applications for grants from eligible organisations in Victoria in the areas of aged care, arts and cultural activities, environmental needs and problems, small grants for smaller community organisations, and social disadvantage, needs and problems;
- ≈ initiates and supports Major and Special projects; and
- ≈ gives priority to projects which are designed to develop, test and implement creative solutions to persistent, difficult *social* and *environmental* needs and problems – innovation is welcomed; and requests for small grants to enable smaller community organisations to begin or continue to make a positive difference in their communities.

I am going to use environmental needs and problems and social disadvantage, needs and problems as examples.

### **Environmental needs and problems**

#### **1. Motivation:**

Respect the wishes of the benefactor.

#### **2. Ross Trust desired subject Impact:**

##### **2.1. Indigenous flora and fauna is protected and preserved.**

#### **3. Ross Trust desired type Impacts:**

- 3.1. **Delivery:** help organisations in their activities to protect and preserve indigenous flora and fauna; and

3.2. **Organisations:** help organisations increase their capacity to protect and preserve indigenous flora and fauna.

#### 4. **Ross Trust's style of operation:**

4.1. **Responsive** in that accepts unsolicited applications for grants; and

4.2. **Interventionist** in that actively engages with certain organisations seeking to expand the extent and/or retard the loss of protection and preservation. **The question we asked ourselves here was does the Trust engage actively enough and with enough organisations, including other philanthropic entities?**

#### 5. **Ross Trust's choice of decision-making variables:**

5.1. **Criteria:** narrow in that proposals must show the biological/botanical argument; evidence that the proposed actions will protect and preserve; plans for continuing land management; and contribution to broader landscape scale approach. Proposals for land purchase must demonstrate that land is high conservation value.

5.2. **Focus:** geographically narrow – Victoria only; and narrow in terms of issues - protection and preservation of indigenous flora and fauna;

5.3. **Transaction and Risk costs:** Both are relatively high for organisations which submit unsolicited applications which do not propose land purchase. **The question we asked ourselves here was does the Ross Trust need to be clearer in its Guidelines about what it will and will not give grants for?** Low for those organisations with which the Ross Trust engages actively, particularly for land purchase.

5.4. **Return desired:** The Ross Trust wants habitat for at-risk and endangered species of flora and fauna and high conservation value land to be protected and preserved.

### **Social disadvantage, needs and problems**

#### 1. **Motivation**

The relief of poverty is one of the four heads of charity. The Ross Trust wants to distribute its income to those who need it most.

#### 2. **Ross Trust desired subject Impact:**

2.4. **Social and economic outcomes for the most disadvantaged and vulnerable people in Victoria are improved.**

#### 3. **Ross Trust's desired type Impacts:**

3.1. **Delivery:** help organisations to continue to deliver individual activities, services and programs for the most disadvantaged and vulnerable people in Victoria. **Currently, the Ross Trust defined these by implication in the Guidelines as those who experience social disadvantage, needs and problems such as abuse, complex needs of high-risk groups, disability, family breakdown, homelessness, mental health, poverty, and substance abuse; and those who live in very small rural communities. The question we asked ourselves here was should the Ross Trust identify which circumstances it regards as its highest priorities, review these from time to time and change them as appropriate to reduce the number of applications likely to be unsuccessful and to make it easier for Trustees to make decisions?**

3.2. **Organisations:** **At present the Ross Trust has only one grant category specifically directed to supporting organisations as such which are working for disadvantaged and vulnerable people (as compared with supporting them to do specific things) and that is "Small grants for smaller community organisations". Ross Trust grants which are specifically supporting organisational capacity are the grants to organisations such as Ganbina and Somebody's Daughter Theatre which are supported by large, multi-year grants as Ross Trust Major Projects. The question we asked ourselves here was should the Ross Trust make it clearer that it is willing to give grants to support the building of capacity of not-for-profit organisations?**

3.3. **Change systems:** At present the Ross Trust does not specify that it will grant funds for projects designed to change systems of service delivery for disadvantaged and vulnerable people. Clearly it will not support political activity but we asked ourselves whether we should accept unsolicited applications for system change or continue to restrict these to our Major Projects.

#### 4. Ross Trust's style of operation

- 4.1. **Responsive:** grant applications are accepted and guidelines for applicants are detailed and easily available.
- 4.2. **Interventionist:** the Ross Trust initiates projects, activities and engagement with organisations.
- 4.3. **Compensatory:** the Ross Trust chooses some areas of high community need where little is being done and/or what is being done is relatively ineffective in its impact and/or the extent of its impact.

#### 5. Ross Trust's choice of decision-making variables:

- 5.1. **Criteria:** broad for applicants as many areas of interest are identified and the content required in applications is defined broadly by headings.
- 5.2. **Focus:** geographically narrow – Victoria; but broad in terms of issues.
- 5.3. **Transaction and Risk costs:**
  - 5.3.1. **Unsolicited applications:** Relatively high transaction costs for applicants and the Ross Trust because of breadth of criteria and issues. History shows that there is a relatively low risk of failure for applications (one in four fails to gain any grant). Moderate risk for the Ross Trust as applicants are not always known and assessment (grant research) is made “on-the-papers” with telephone discussions with applicants and as necessary referees, informed others and other Trusts and Foundations; and reference made to published documents and web sites.
  - 5.3.2. **Ross Trust-initiated projects:** Relatively high transaction costs for organisations engaged with the Trust in these types of projects and for the Trust. Low to high risks for organisations and the Trust depending on the type of activity.
- 5.4. **Return desired:** The Ross Trust wants:
  - needed activities and services provided to the most disadvantaged and vulnerable people in Victoria;
  - existing organisations to be strengthened in their capacity to provide needed activities and services, including into new areas (both geographic and type);
  - new organisations to be established successfully to meet new needs (or in new geographic areas) or to do things in more effective ways than existing organisations;
  - organisations to collaborate to enhance their effectiveness; and
  - changes to be made in systems of delivering activities and services which improve their effectiveness.