

## **Investing in effectiveness**

### ***Dimensions of Effectiveness***

I recently attended the Council on Foundations Conference in San Diego, the first COF conference that I have attended since 1990, at that time the focus of the conference was on best practice in grant making. Since then there has been significant international development in the understanding of “best practice” in this area and this conference focussed on issues of leadership and effectiveness of funding.

Foundations play a major role in American society, funding where government does not, has never and never will fund. Total foundation giving in the US has grown to an estimated US\$29 billion in 2001. However, a number of speakers at the Council on Foundations Conference were raising the question: *What difference have we made?*

The scale of philanthropy in the US is hard to grasp. The largest US Foundation is the Bill and Melinda Gates Foundation with an asset base of US\$1,182,826,639. However philanthropic funds are expected to provide funds for basic health, educational and social services in the US in addition to endowing universities and research institutes and financing the artistic and cultural sectors the conservation movement and “think tanks” and lobby groups for the left and the right.

### **Foundation Effectiveness**

Throughout the conference it became clear that effective governance is increasingly being seen as a part of a larger issue, foundation effectiveness. American foundations no longer see themselves as “lone rangers” riding out into the community dispensing dollars and wisdom but as partners in developing civil society through their pool of “social venture capital”.

Bruce Siever from Stanford University lead the CEOs in a dynamic discussion on the role of philanthropy and challenged us to engage intellectually with our subject and keep up to date with current social science theory and research. He posed this question: “What is the collective impact of philanthropy on society?”

For every individual funder this raises the question. What is the impact of your grants on society? The ASB Trusts, like nearly all of our counterparts worldwide, would be hard pressed to answer this question beyond providing a list of total of grants allocated in a given time period and some kind of breakdown in graphs and pie-charts showing where the funding has gone.

Funders are in a highly scrutinised position in society but generally have a lack of systems for evaluation and feedback. The now notorious “hip-hop grants” being a case in point. There are fundamental difficulties in assessing the impact of the funders’ dollar on social problems. What are the measurable outcomes from such investment?

## **Governance and Leadership**

*Boards govern, but that is not all they do!*

### ***Changes and Challenges***

In post-Enron America, governance has become a major issue. The foundation sector is coming under increasing scrutiny from the public, grant seekers, the media and lawmakers as the clear inadequacies in corporate America's processes emerge. Given the strong links between success in corporate America and the establishment of family and corporate foundations, and the overlapping personnel in both sectors, such flow through is inevitable.

Corporate governance reforms and a high degree of scrutiny of foundation practices in the news media have prompted a re-thinking in many US foundations resulting in a higher degree of transparency and accountability.

Three categories of change were identified in a study carried out by the Centre for Effective Philanthropy<sup>2</sup>:

- Changing committee structures or adding audit committees
- Requiring board review or CEO or CFO sign-off on tax returns.
- Adopting new policies, especially concerning conflicts of interest

Alan Pardini, a Consultant who specialises in foundation governance outlined what he saw as the responsibilities of a board. In his presentation he noted that the obligations of board service are considerable and that they are now seen to extend well beyond the basic obligation to attend a meeting or join a committee<sup>3</sup>.

According to Pardini Board members must take fiduciary responsibility for and ensure effective functioning of the organisation by:

1. Adopting a Mission
2. Selecting a CEO
3. Providing financial oversight of the organisation
4. Ensuring that their organisation has adequate resources to carry out its mission. Resources include both financial resources and human resources - numbers and intellectual capacity
5. Addressing issues of integrity and accountability such as ethics and conflict of interest
6. Organisational planning: adopting a strategic plan and annual operating plan. Reviewing strategic plan annually
7. Board performance. Taking responsibility for the evaluation of the performance of the board as a whole and of individual board members and for the recruitment and orientation of new board members
8. The public standing of the organisation. Board members must act as Ambassadors, enhancing the standing of the organisation

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<sup>1</sup> BoardSource: Governance. Board Member Special Issue.

<sup>2</sup> Foundation Governance: the CEO Viewpoint, The Foundation Governance Project. The Centre for Effective Philanthropy, 2004

<sup>3</sup> Foundation Governance: The Real Stuff. Alan Pardini, Principal, Community Planning and Research, LLC, California League of Community Foundations

9. Programmes and Services: determining which programmes are consistent with the organisational mission, ensuring that evaluation occurs both in-house and externally
10. Providing support to and assessing the performance of the CEO.

### ***Effectiveness and Focus***

Effective foundations are seen to be those where members of the board are:

- Actively representing the Foundation to the public
- Actively involved in assessing the foundation's overall performance
- Meeting more frequently and spending more time on foundation business outside of scheduled board meetings
- Substantially involved in: assessing the foundation's social impact; contributing sector specific expertise and developing the foundation's strategy.

There are more than a million non-profit boards in the US. Many are seen as not reaching their potential because of poor leadership. There is widespread perception that boards must "re-awaken energy and focus it on the mission of the organisation"<sup>4</sup> by:

- Encouraging board members to tell each other what motivates them to serve
- Educating board members about the organisation and their responsibilities
- Holding the board accountable for its own performance and conduct a candid board assessment
- Compelling the board to continually plan for the future and focus on results
- Infusing board meetings with more meaning
- Seeking diversity among board members and moving non-performers off the board
- Nurturing the next generation of leadership
- Developing a synergistic board-CEO relationship
- Considering alternative models for governance such as ad hoc working groups, investigating policy-governance models that prescribe a disciplined board that focus on policy means and ends and delegates more to the Chief Executive Officer

As foundation governance comes under scrutiny, so to does the degree to which foundations evaluate both the effectiveness of their funding and the effectiveness of their own performance.

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<sup>4</sup> Paul Connolly, TCC Group

## **Evaluation & Effectiveness**

### ***Foundation Effectiveness***

*“Issues of effectiveness have taken on an intensified resonance as the spotlight on foundations has grown much brighter”<sup>5</sup>*

*Performance assessment for foundations is critically important as a tool for learning and improvement, and exceedingly difficult”<sup>6</sup>*

Philanthropy word-wide is using a number of new terms all of which essentially encapsulate a new approach to grantmaking: the desire to achieve the maximum positive social impact from their grantmaking:

*Creative Philanthropy, Strategic Philanthropy, Focussed Philanthropy, Collaborative Philanthropy.....*all of these terms are being adopted by foundations as they strive to become more effective themselves and also at the same time to strengthen the capacity of the recipients of their funding, in order to enhance the funders own effectiveness.

The conclusion from research carried out by the Urban Institute<sup>7</sup> concluded that “foundations have failed to institutionalise a process to establish standards of effectiveness and regularly assess themselves in relation to those standards”. Foundation boards have failed to apply the fundamental business management practices and tools that they are so familiar with in their working lives.

The leaders of the more progressive foundations are now convinced that better performance assessment will lead to greater effectiveness and in turn to positive social outcomes for the people they serve.

It is generally agreed that it is both difficult and costly to directly measure the social benefits of grants. Foundations are beginning to experiment with “indirect indicators” and to enter into a greater degree of dialogue with other funders in order to learn and compare different ways of operating.

A Board would be seen to be failing in its fiduciary duty if it failed to monitor its investment performance and it is relatively easy to obtain or develop tools that allow for a portfolio monitoring. The challenge for the twenty first century is to develop tools and convince foundation boards of the equal importance of monitoring the performance of their social investment portfolio.

### ***Current Assessment Practices***

Currently overall foundation performance assessment relies on three areas:

- Financial performance
- Operational/administrative measures
- Grant and programme evaluation

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<sup>5</sup> Foundation Effectiveness: A Report on a meeting of Foundation CEOs, Senior Executives and Trustees. The Center for Effective Philanthropy 2003

<sup>6</sup> Assessing Foundation Performance: Current Practices, Future Possibilities. The Center for Effective Philanthropy, 2002.

<sup>7</sup> Foundation Effectiveness, definitions and challenges. Francie Ostrower, the Urban Institute, Center on Nonprofits and Philanthropy 2004.

*Financial performance:* as discussed above, is one area of foundation performance where staff and trustees alike have traditionally taken the evaluation of performance seriously and have ensured that sufficient resources are allocated in terms of time, money and intellectual capital to complete the task.

*Operational/administrative measures:* these are measures related to operating costs, levels of remuneration to staff and trustees and can be relatively easily quantified and compared with others. The Community Trusts in New Zealand are already leading the philanthropic sector in New Zealand in the way that we collect, analyse and share operational information. The ASB Trust can clearly bench mark ourselves against our peers.

American Foundations are now being urged to move beyond the admonition: *Do the good work and let it speak for itself.*

*Grant and programme evaluation* attempts to assess social impact of funding and is considerably more difficult than monitoring either financial or operational performance but can be carried out at a number of levels:

- Process monitoring: monitoring outputs
- Outcome evaluation, at a project level
- Outcome evaluation, at community level

There is a growing pool of literature on philanthropic effectiveness and evaluation. What is clear, however, is that foundations cannot evaluate their work until they know what they want to achieve.

A number of US Foundations such as the Robert Wood Johnson Foundation have developed Scorecards, based on the business sector model of a "Balanced Scorecard". The Robert Wood Johnson Foundation Scorecard includes four dimensions - program, service, impact and staff. They are informed by a variety of evaluation, research and data including:<sup>8</sup>

- Annual confidential grantee surveys that provide information on key aspects of service
- Surveys of rejected applicants that provide information on their assessment of the foundation's communication materials and application processes
- Surveys of private and public decision makers help the foundation understand the context for pursuing its strategies and gauge its reputation in the fields it wishes to advance
- Public opinion surveys that give information on priorities for the public and test the effectiveness of public awareness efforts
- Surveys of foundation employees, conducted every other year, allow management and the board to hear staff perceptions of how well the foundation is meeting its core commitments
- Information from journals helps the foundation understand the reach of its research and evaluation

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<sup>8</sup> Assessing Foundation Performance: Current Practices, Future Possibilities. The Center for Effective Philanthropy 2002

- Data from the foundation's data base provides information on foundation-grantee relationships
- Data from the foundation's data base provides information on where and how the foundation is investing funds
- Other administrative data provides information related to the foundation's internal operations

The Robert Woods Johnson Foundation recognises that measuring impact in programme areas is the most challenging part of this assessment effort.

## **Summary**

*Improved performance comes from clarity of focus, a sound and well-researched strategy, and the perseverance to stick with a program or a grantee long enough to achieve an impact. Mark Porter<sup>9</sup>*

Insights from the conference that may assist boards in thinking about foundation effectiveness:

- Foundations depend on grantees to achieve the outcomes they seek. Therefore, foundations need to understand how their actions affect grantees and how best to support their success
- Grantees have very reasonable expectations of foundations. They want a foundation to be clear, consistent, and fair in communicating its goals – yet these simple practices are often lacking
- Improved performance comes from clarity of focus, a sound well researched strategy and the perseverance to stick with a program area or a grantee long enough to achieve an impact. Grantees see foundations as more effective when program officers have solid understanding of the fields they are funding. This means that foundations must have strong external focus with a deep knowledge and engagement in the fields they choose to fund.
- Governance matters. More effective foundations engage their boards not only with their investment strategy but with the foundation's strategy and evaluation of its social impact
- Foundations must gather as much objective performance data as possible, whether from their grantees, communities, or other stakeholders, in order to understand and continuously improve performance

## **Conclusion**

A number of New Zealand Trusts have carried out an evaluation of their own effectiveness. In 2004 both Trust Waikato and the J R McKenzie Trust commissioned independent researchers to ask the “hard” question “how well are we doing?”

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<sup>9</sup> Foundation Effectiveness: A Report on a meeting of Foundation CEOs, Senior Executives and Trustees, 2003

The J R McKenzie Trust has a four page summary of its strategic review on their website<sup>10</sup> and Trust Waikato has issued a 50 page report entitled, “The impact and effectiveness of Waikato funding organisations”.

The J R McKenzie project was essentially an internal review where staff and trustees reflected on focus and grant making practice. The review provided a sense of strategic direction, an awareness of policies that needed to change.

In an interesting innovative move the J R McKenzie Trust are now offering grants to smaller grant makers to assist with self evaluation<sup>11</sup>

The Trust Waikato project compared Trust Waikato with other funders in the region. The research has provided some fascinating information about funders and recipients in the Waikato and some of the grant seekers comments were most pertinent:

- All not for profits are under funded and voluntary work is not valued by the funders
- More knowledge about voluntary organisations would help the funding organisations
- Small communities find it hard to access information of funding agencies
- Not enough of the funders fund for wages which is the most important requirement. It leads to lack of job security and lots of stress

The researcher concluded that “in most cases Trust Waikato’s performance is good or better than the other funders”.<sup>12</sup>

Philanthropy New Zealand is proposing to establish a national network for members who have an interest in evaluation and measuring the impact of funding. It is intended that those PNZ members who would like to be part of such a network can be linked with an electronic listserv, co-ordinated by Robyn Scott, which will allow them to share international best practice, resources, problems and ideas by e-mail within the group.

The group may meet from time to time to hear from experts working in the area, and to share good practice. Philanthropy New Zealand will be able to support this network with relevant resources, both national and international. Philanthropy New Zealand looks forward to working with you all on this.

Jennifer M Gill  
CEO ASB Trusts  
Chair Philanthropy New Zealand

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<sup>10</sup> Strategic review of a grant making body: lessons for review planner and participants.  
[www.jrmckenzie.org.nz](http://www.jrmckenzie.org.nz)

<sup>11</sup> J R McKenzie Trust, How are you doing? [www.jrmckenzie.org.nz](http://www.jrmckenzie.org.nz)

<sup>12</sup> Barnes, J “The impact and effectiveness of Waikato Funding Organisations. A report prepared for Trust Waikato, University of Waikato, 2004.

## **Appendix one**

### **List of selected US organisations.**

#### **Not for profit:**

- Grantmakers for Effective Organizations  
[www.geofunders.org](http://www.geofunders.org)
- The Centre for Effective Philanthropy [www.effectivephilanthropy.org](http://www.effectivephilanthropy.org)
- Grantcraft (Practical Wisdom for Grantmakers)  
[www.grantcraft.org](http://www.grantcraft.org)
- The Foundation Centre [www.fdncenter.org](http://www.fdncenter.org)
- Grant Managers Network [www.gmnetwork.org](http://www.gmnetwork.org)
- BoardSource  
[www.boardsource.org](http://www.boardsource.org)
- Guidestar [www.guidestar.org](http://www.guidestar.org)
- The Communications Network [www.comnetwork.org](http://www.comnetwork.org)
- Independent Sector [www.IndependentSector.org](http://www.IndependentSector.org)

#### **For-profit:**

- Foundation Source [www.foundationsource.com](http://www.foundationsource.com)
- Access Philanthropy  
[www.accessphilanthropy.com](http://www.accessphilanthropy.com)

#### **Universities and research institutes:**

- The Centre for Nonprofits and Philanthropy, The Urban Institute
- The Kennedy School and the Hauser Centre for non-profit organisations, Harvard University
- The Yale Program on Nonprofit Organisations
- Stanford University Graduate School of Business
- The Dorothy A Johnson Centre for Philanthropy and non profit leadership, Grand Valley State University
- Aspen Institute :Nonprofit Sector and Philanthropy Program
- Georgetown University: The H Waldemar A Nelson Chair in Philanthropy