The Grantmaking Tango:

Issues for Funders

JULIA UNWIN

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BY JULIA UNWIN

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60 London Wall, London EC2M 5TQ

Tel: 020 7767 1348 • Fax: 020 7767 7121

E-mail: baring.foundation@uk.ing.com
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Julia Unwin

Julia Unwin has worked in the voluntary sector, local and central government and in the private sector, and has a long track record in promoting and developing the public interest in social policy. She was a Charity Commissioner from 1998 to April 2003. She served on the Board of the Housing Corporation for over ten years, and was the Chair of the Investment Committee there. She is a member of the Committee of Reference for Friends Provident and a Board member of the National Consumer Council. She is also an independent Board member of the Department of Trade and Industry, and a member of the Audit Committee there.

In a freelance capacity she has been an adviser to wide range of grant making trusts and to companies and has researched and published on the funding of the voluntary sector. She was a consultant to HM Treasury on the development of a number of recent funds targeted at the voluntary sector.

Julia Unwin is the Deputy Chair of the Food Standards Agency.

The views expressed in this book are the author's own and do not necessarily express those of Abbey Charitable Trust, the Baring Foundation, Bridge House Trust, Lloyds TSB Foundation or the Joseph Rowntree Foundation.

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Foreword

The Trustees of the Baring Foundation have been fortunate to have Julia Unwin as an adviser for almost twelve years, initially on our programme of grants to voluntary organisations in Greater London and since 1996 on our voluntary sector grants policy more generally.

We have benefited greatly from her wisdom and are delighted now to be co-sponsoring *The Grant Making Tango* together with Bridge House Trust, Joseph Rowntree Foundation and Lloyds TSB Foundations. In it Julia Unwin has drawn on her wide experience to set out her thoughts on the issues which current funders of the voluntary sector need to take into account.

The professionalism of many grant-giving trusts and foundations has increased greatly over recent years, more so than their ability to meet the financial need for grants from an ever-more hungry voluntary sector. This had led to a concentration on new techniques for assessing applications and on measuring the impact of grants once made, coupled with the use of a new terminology, some of it imported from private sector business. Julia Unwin's study covers these developments in the United States as well as in the United Kingdom, in both of which countries applicants – certainly among the larger voluntary and not-for-profit organisations – have responded with growing sophistication to the perceived requirements of funders.

Julia Unwin points out the potential shortcomings of an excessive reliance on complex procedures, both at the application stage and in attempts to evaluate in a mechanistic way improvements in performance arising from the use of grants. Ultimately, a good relationship between funders and funded organisations needs to be based on trust and mutual respect between the individuals involved on each side. Any attempt on the part of a grant-giver to “play God”, as a former Director of the Baring Foundation put it, is likely to be counterproductive; a funder may make it possible for something interesting or innovative to happen, but credit for the achievement must go to the front-line organisation which carries it out.

One other section of the study which I believe deserves particular attention is the chapter on collaboration between grant-makers. No one funder can claim a monopoly of wisdom and much can be gained by a pooling of resources in assessment and evaluation or in a number of other ways. Anything that can be done to reduce the burdens imposed on applicants through the processes followed by funders will bring an immediate benefit in human and financial terms; collaboration should have that effect, provided always that there is a clear understanding of its purpose among all parties concerned.

I commend *The Grant Making Tango* to all concerned with funding the voluntary sector whether as trustees or members of management teams. I believe it will be found equally valuable by those who require an introduction to the subject and by others more familiar with the activity who would welcome the encouragement to re-examine their present approach in the light of basic principles. Those on the other side of the table as applicants could also derive benefit from reading it, if only to dispel some of the mystique which has developed around what should be relatively open and straightforward.

N.H. Baring, Chairman, The Baring Foundation, June 2004

Summary

We live in a funding economy. Across a whole range of public policy, activity is supported, encouraged and funded – it is less and less directly managed. Many organisations are now trying to deliver their objectives through independent organisations. In turn, there is a growing sector dependent on grants, with little or no income of its own. Funders and funded alike are engaged in a complex dance in which the agenda of those wishing to make grants is reconciled with the agenda of those applying for them. This reconciliation is rarely straightforward, and is challenging to both sides. High quality grant-making is an attempt to make that relationship a productive one for both parties.

The funding and grant making economy is a curious one. It operates differently from many other economies, is subject to different influences and has a different impact. Yet it is the economy which shapes the voluntary and community sector, and influences how they operate. It is also the economy on which many policy aspirations currently rely. This book considers the ways in which grant making and funding operate, analysing the different approaches taken and the impact of these approaches.

This book is about good grant making. It is based on three assumptions:

- That a strong civil society will contain the means to enable organisations to grow and develop independently and that funding systems need to support and not frustrate this development.
- That those making grants, whether as their core activity or as a means of delivering some of their objectives, have an interest in doing this effectively.
- That the nature of the relationship between the funder and the funded body will have an impact on the effectiveness of both organisations.

It is also based on the recognition that for both parties the current arrangements are unsatisfactory:

- Funded organisations, and their advocates, believe that the current arrangements are time consuming and prevent the healthy development of the voluntary sector.
- Funders wish to understand the nature of the impact they have and find the tools available both frustrating and inappropriate.

This book is based on the relationship between two distinct dimensions. It seeks to distinguish between:

- Intended impacts
- Funding styles

Intended impacts

Three different intended impacts are identified within the book. The first of these is the **maintenance of services and activities**. Despite all the talk about innovation and change, a significant proportion of all funding is designed to maintain activity at current levels, in the same style or expand it. A core philanthropic intent, this approach involves finding interventions and responses that work and backing them. What does this approach mean? What are the drawbacks and what are the benefits of such an approach? What funding style suits this desired impact?

A second approach is designed to **build organisations**. Institution building, as it is called in the United States, or building capacity is the avowed objective of some grant making trusts, and is a substantial part of the portfolio of many others. In desiring this impact, how do these funders operate? Are there styles of funding that are more suitable to building capacity? And what are the tests of effectiveness for this approach?

The third identified objective is **systems change**. Some funding is explicitly designed to influence the way in which government and others with influence in policy systems operate. This intent is achieved through funding research, as well as through funding exemplar projects. If this is the intent of the funding organisation, how is the funding structured?

Each of these funding intents is found in grant making trusts and statutory funders across the UK. The portfolio of funding that most operate will embrace each of these intents, and indeed some individual grants will seek to achieve all three of these objectives. However, as this book will show, the styles of funding adopted are frequently more suitable for different objectives, and the applicant organisation, as well as the funder, needs to know which objective is being met.

Funding styles

The book describes three different funding styles, and argues that these are all found in both the statutory and charitable sectors:

- **Giving**
- **Shopping**
- **Investing**

Just as individuals manage their own finances through a mixture of giving, shopping and investing, so most funders apply a mixture of these approaches. In contrast with the management of individual finances, however, there is often confusion about the style adopted, and the recipients of these styles may not be conscious of the way in which they have been funded. While the use of language imported from other sectors, particularly the use of investment terminology, has often served to obscure more than to illuminate, this book argues that the different styles of funding need understanding in order to be useful.

Using these themes as a framework, the book examines a number of different issues currently facing the grant-making economy. As well as describing the impact of funding mechanisms and a number of fictionalised case study organisations, it also looks at the:

- Ethics of grant-making
- The different ways of ascribing and calculating added value
- The contrasting experiences of funders and applicants
- The pressures on the funding environment.

It is designed to contribute to the debate about good grant-making and funding, and to do so in a way that simplifies and illuminates a world that is too often shrouded in mystery and complexity.

Chapter 1

The impact of the funding economy

Summary

This chapter seeks to describe the impact of the funding economy on different types of organisation. Four case study organisations are considered with a view to demonstrating the different impacts of the various funding streams and the ways in which voluntary organisations and their arrangements vary. The descriptions reflect the sort of financial assessment any funder will need to use in considering a proposal from a grant applicant. In order to be usefully illustrative the examples are simplified, but they are all drawn from real organisations.

Features of the funding environment

Funding for activities and achievements

For a wide range of reasons funders have focused increasingly on the activities delivered by voluntary organisations rather than their overall purpose. With some notable exceptions the majority of those prepared to support voluntary organisations wish to tie their funding to particular pieces of work, increasingly with fairly defined results. This has led to the development of funding bodies with fairly tight criteria about the desired impact of their funding.

Multi-lateral funding

Many public sector funders have rejected the bi-lateral approach to funding decisions, preferring to work with a group of other funders in setting strategic objectives, and then assessing the extent to which a particular organisation should be funded. While this is most striking in the regeneration field, where Local Strategic Partnerships control significant flows of funding, it can also be seen in the matched funding arrangements of some of the Lottery distributors. This in turn has an impact on charitable and corporate donors who may be encouraged to tie their funding to particular other objectives.

Funding for fixed terms

It is still unusual for any funders supporting voluntary organisations to commit themselves to a particular contribution for more than three years. The exception to this rule has been some of the funding available from government for regeneration.

How do these features influence the economy?

These three themes play a major part in providing the distinctive features of this economy. Some of these features are now so familiar that they are sometimes not even recognised as distinctive, but they merit some examination.

1. There is no commonly understood and recognised trajectory of growth for voluntary organisations. In the commercial environment, a small number of small businesses will grow and, at the point at which they require capital investment, they will launch an "Initial Public Offering". Compared to the business model, it is hard to identify the point at which a small organisation becomes ready for such a moment, or indeed what the terms will be at the point at which it wishes to grow. There is no definable moment when it turns to funders and, in return for ceding control, seeks investment. Instead, whether it stays small or grows, it will have a cyclical and perpetual relationship with its funders. If a typical small business growth plan starts with the owners' capital, supplemented with loans, moves on to venture capital, and is then floated on the market of institutional investors at the IPO, the voluntary organisation growth pattern is likely to be more sporadic, harder to define, and rarely if ever is it possible to identify funders fit for any particular stage in the organisation's life cycle.

2. Many voluntary organisations will be in a constant cycle of negotiating grant arrangements. While some may be able to focus the bulk of their fundraising activity on donations in one form or another and events, for many the relationship with the key funding bodies has become a regular and consistent part of their operation, and, crucially, management of these relationships is an important part of the skill set of chief executives. Even those organisations which are supported largely by individual public donations will need to engage with grant making organisations from time to time to supplement the income they generate from the public.

3. In order to receive funding the organisations need to be highly responsive to the requirements and preferences of funders. While in some cases this can be seen as developing a properly market responsive sector, there are dangers for organisations which seek to adjust their mission, and their beneficiaries needs, to meet the requirements of funders.

4. The demands and expectations of funders in this type of economy are not always clear to applicants. While some funders may wish to play an active part in the development of organisations, others will wish to keep their distance, and will certainly not wish to assume responsibility for the long-term viability and effectiveness of the organisation.

5. Voluntary organisations need to grow in order to generate sufficient funds to meet their overheads. This built in driver for growth may work against their other objectives which might be better helped by their staying small. While there are experiments in resource sharing and attempts to reduce the overhead through sharing services, they are currently at the margins of activity. Without these the only ways in which organisations are able to generate sufficient income to fund the overheads of the organisation is by increasing the activity base of the organisation. For those organisations that need to stay local, or for other reasons consider their mission is best served by staying small, this can be problematic.

6. Equally, funders and regulators comment on the weakness of the sector in compliance terms. Some funded organisations fail to meet the most basic reporting requirements established by funders, and many voluntary organisations find the burden of regulation excessive. In this they are no different from small businesses, facing a complex regulatory burden, as well as the requirements of funders, without the capacity to respond.

These features of the economy of the funding environment are illustrated by the following fictionalised case studies.

Organisation A is an inner city settlement working as a community centre. It was established in the nineteenth century by one of the Oxford Colleges, and owns a dilapidated Victorian building in a very mixed part of the city. The building is a part of the original endowment which also provided a cash endowment currently worth several million. This endowment is held in a variety of financial instruments, as well as being invested in some commercial property in the area.

- The organisation earns 15% of its annual running costs by letting office and meeting space to community based organisations.
- The interest from the capital held by the charity brings in a further 10% of its income. The organisation receives a grant for its running costs from the local authority, but this is constantly under review and the authority has said that the grant is now on a decreasing taper.
- Specifically the local authority would like the grant to contribute to no more than 7% of the organisation's income in two years' time. Currently it contributes 15%.
- The centre is in the middle of a major regeneration project and it has a funding agreement through the Local Strategic Partnership to provide childcare and employment training. This funding agreement commits the organisation to delivering highly specified and demanding outputs, and in order to meet these targets, the organisation has increased its expenditure by 25%. However the funding agreement meets 35% of current expenditure and is drawn up for five years, subject to satisfactory meeting of targets.
- The remaining 25% of the expenditure of the organisation is funded by small grants from at least 10 different grant-making trusts for specific pieces of work.

This organisation has a number of inbuilt vulnerabilities. It is obviously subject to stock market variations, and will therefore experience change in the same way as many much larger endowed charities. It owns a building which, while clearly an asset on the balance sheet, also presents itself as an expensive liability. While able to grow considerably because of a large funding agreement, this is time limited and requires the organisation to provide particular services in a tightly specified form. It has however contributed significantly to the overall costs of the organisation. The grant income for the organisation, which meets 25% of its costs, is drawn from a large number of sources, and this is expensive for the organisation to manage. The different sources of income are highly dependent upon each other. Any fall in the donations made by the grant making trusts, or in the income generated from letting space, will almost certainly impact on the large programme of regeneration activities funded by the Local Strategic Partnership. Furthermore, the withdrawal of the local authority from funding will reduce the administrative capacity of the organisation and this will almost certainly affect the way in which the various grant making trusts view it.

Summary of issues

Even well designed funding packages meeting a proportion of the overhead costs are inter-dependent on other sources of funding. Attracting small sums of money is expensive for the applicant organisation. The management and leadership of organisations like this need to be able to develop organisations and then reduce them in size. This will happen independent of a conventional, organisational life cycle. It is likely to happen without much reference to changing patterns of need. The finances of a multi funded organisation of this sort are subject to a huge range of pressures, including stock market fluctuations, property values, the health of the local sector in being able to pay rent, as well as the decisions made by various funders.

Organisation B is a group of parents of children with a particular rather rare debilitating condition. There are only 1,500 cases of the condition known in the UK and there are 600 members of this group. They exist to support each other and to lobby for better diagnosis and medical support, and some of them are interested in putting pressure on research bodies to identify a cure.

In the early days of the group the work was largely done by the chairman and his wife, and they paid for the postage and printing. The son of a friend of theirs set up a website which is much visited but is now beginning to look rather dated. A hospital in London offers them free meeting space, but other than that their costs have all been met from their own resources. The two consultants who specialise in the illness are very keen to see them develop, and regularly refer more parents to them, but are unable to assist in the development.

- Grant making trusts might be willing and able to support them in producing individual pieces of work, for example publications or updating the website.
- The membership might be willing and able to support them for a time in running costs, but this is likely to diminish over time.
- They recognise that they could expand their service but have no means of doing so. They are encouraged by other smaller self-help groups of a similar type to work together, share costs and jointly approach funders. Some of them are worried that, in doing this, they will break the links with the very specialist medical personnel and, more worryingly, the members who believe their needs are always being subsumed into the needs of other larger groups.

Summary of issues

For some organisations, funding for individual pieces of work is not difficult to find. However, they encounter pressure to amalgamate in order to grow, even though such amalgamation may risk member support. Many organisations encounter a real difficulty in becoming more established, and in this sense they have a great deal in common with small businesses. Unlike small businesses, however, there is no recognised moment when change in scale can be acknowledged. If this were a business it would have a strategic choice to make between selling and growing. For a small group like this it seems to be the choice between merging (in one form or another), continuing private struggle or closure and decline. This choice may be obscured by receipt of a one off grant, but that is unlikely to have an impact on its long-term viability.

Organisation C is specialist think tank. It was originally established by a group of three grant making trusts concerned about the quality of education and training, and its mission is to try and improve educational standards in the UK. For the first five years it received its main funding from the three trusts on receipt of a work plan itemising costs and activities. The funding has been tapered since year 3 and is intended to finish in year 5.

The organisation has successfully secured contract funding work for a number of local authorities over the years, and this has enabled them to employ two full time consultants, but the pricing of these contracts has always only covered the salary costs of the individuals, and not made a contribution to the overheads.

The organisation has developed a high media profile. Its Director is in frequent demand to appear on television to talk about education, and it is readily able to secure contracts for specific pieces of work. However, a busy Director and high media profile, while essential to secure contracts, is also rather expensive. The inclusion of this overhead makes them rather expensive contractors, and most local authority purchasers are unwilling to contribute towards the costs of a busy press office and Director's staff support, when they really want to purchase some bespoke consultancy.

A number of private companies are prepared to contribute to the core costs, but are anxious to ensure that they get a high media profile for their contribution, and more specifically would like to be exposed to Ministers and Council leaders as well.

Summary of issues

Start up funding is a great blessing, but it requires management from the first moment. If this does not happen it can simply obscure the cost of providing activities, and these can be hard to increase later. Organisations need to demonstrate that their promotional and other overhead costs are in proportion to their activities, which are in turn aligned to their purposes, but this can be difficult – or impossible – at a time when they are either changing their funding pattern or changing direction in some other way. If funding bodies wish to taper their funding, they also need to have confidence in the strength and reliability of exit strategies and, specifically, to have the capacity to notice if such strategies are unravelling half way through the funding programme.

Organisation D provides a mix of social welfare services for older people in two counties. It has received long-term grants from both the councils in which it operates, and these traditionally met the overhead and general running costs of the work. This funding was supplemented by an active programme of community fund raising, a number of legacies each year and special project funding both from local and national grant making trusts and through Joint Financing arrangements. Six years ago both councils – and their partner health authorities – decided to change the basis of the funding and put the funding on a contractual basis. One of the counties was also keen to develop a market in this sort of provision, and actually encouraged a national specialist housing association to compete for some of the contracts. The other county was much less worried about competition but drove down the contract unit price quite significantly.

The energy of some new trustees and a charismatic and ambitious new chief executive mean that this organisation has a profile that is far bigger than the activities of the organisation suggest. The Chair sits on a number of government task forces and, along with the chief executive, is a powerful national and international advocate for better treatment for older people. A number of grants have been received to help them develop this work, and the high profile means that their innovative work is a frequent subject of study by visitors from other countries.

The organisation now faces a problem in balancing it activities. Its major task of service provision is funded by local purchasers, although the price paid varies between the two counties, and the higher paying authority is threatening to reduce its unit payments. In order to respond to the competition, the organisation is having to devise new methods of demonstrating value, and has had to invest quite heavily in quality assurance systems, tailored to the needs to the elderly clientele. At the same time, the costs of compliance with new legislation are threatening the organisation, and it has already been challenged for failing to implement new health and safety guidelines. European Union The Working Time Directive has also significantly affected its wage bill, but both its major purchasers believe these new costs can be covered by the existing contract.

The purchasers are concerned that the profile of the organisation is detracting from service delivery. They think that some of the new initiatives – such as a vegan meals and catering service – are just gimmicks to attract funds and press interest, and dispute figures that suggest it is popular with local residents. Local councillors are particularly worried that the campaigning work of the organisation draws public attention to local deficiencies which they are largely unable to address.

Summary of issues

Contract funding will only ever cover the costs that the purchaser thinks should be met. Operation within a market at least allows for some shared definitions of price to be agreed, whereas monopoly suppliers will come under even greater pressure. For some organisations there is a tension between meeting the specifications of a service contract and developing the advocacy and profile raising work.

Issues for the funding environment

An analysis of the funding environment cannot only be based on fictionalised case studies, but they are designed to illuminate some of the assessment and planning choices facing grant making trusts and other funders as well as applicant organisations.

There are pressures on both parties that together shape the environment.

Briefly:

- Most funding for voluntary organisations comes from organisations that have an interest in the activity of the organisation and not the survival of the organisation itself. In general they will have an interest in supporting and paying for the costs of those activities but will find it hard to justify – even if they wished to do so – meeting the costs of the other parts of the funded body. This creates the tension about core and project costs that is explored elsewhere.

- For many voluntary organisations – both the service delivery organisation and the think tank in these examples – the search for profile has become a core part of their fund raising and income generation strategy. In order to grow and survive they need to have a profile that is expensive to develop and maintain. Yet many of their purchasers will not see contribution to this sort of marketing overhead, however it is presented, as a suitable application of funds.

- Voluntary organisations do have a life cycle and will require different types of funding at different times. It is not, however, part of the culture of either the voluntary sector or the grant making world to be too explicit about this. This means that the same funding systems are sometimes applied to organisations, regardless of where they sit in the cycle.

Chapter 2

What type of funder?

Summary

It is important for grant making organisations to know what sort of funder they are, and how they intend to operate. The sort of funder they wish to be will be almost entirely determined by their original motivation for funding. This will in turn affect the way in which they design their grant-making programme.

This chapter argues that there are a number of steps in designing any grant programme, and that these can be used to help grant-making organisations structure their activity. Equally, they can be used by grant-making bodies, already operating a programme, to review the decisions made and analyse their particular role.

This chapter suggests that in designing an approach to grant-making, funders need to:

1. **Understand their motivation as funders**
2. **Know what impact they desire**
3. **Determine which style of operation suits them best**
4. **Consider four variables:**
   – criteria and assessment,
   – focus,
   – transaction costs
   – allocation of risk and return to funder.

Taken together, these four steps provide a framework for deciding on the design of funding programmes.

Step One: why fund?

Most organisations do not have the making of grants as their sole objective, and indeed for the majority grant making is actually a choice. Even the large, endowed grant-making trusts which pursue their objectives solely through grant-making do so as a matter of choice. They could pursue those same objectives through running activities themselves, either as policy think tanks, research institutions or through the direct delivery of services. For most government agencies the funding of external agencies is only one means of delivering their objectives, and could, all other things being equal, be done differently. For most of the organisations that do give funding to voluntary organisations the adoption of grant-making and funding as a means of securing objectives has been a gradual process, with approaches and methodology refined over time.

Organisations wishing to meet their objectives through grant-making do so for some of the following reasons:

- They believe that front line services need to be delivered close to the beneficiaries.
- They believe that voluntary and community organisations add value in very particular ways.
- They want to test out new ideas in different environments.
- They believe the skills to deliver the service occur outside the funding body.
- They consider it a form of antennae or intelligence.
- They consider it part of their charitable objectives to develop the capacity of particular communities.

Each of these is a valid reason for making grants. Equally, each needs rigorous analysis, and most importantly each motivation will result in different sorts of grant-making behaviour. Grants made from muddled motivations frequently result in poor quality grant-making and a failure to meet objectives.

For example, grant-making organisations that wish to develop capacity will frequently fund activities, despite all the evidence that community development is as much about processes as it is about activity, let alone concrete outcomes. Equally, funding bodies that wish to test new approaches frequently forget both to evaluate against their original objectives and, more seriously, fail to share the original hypothesis with the funded organisation. Grant-making organisations that use their grants to "keep in touch" – the grant aid as antennae approach – are frequently disappointed at the way in which their rather specific criteria limit the range of applications they receive.

These motivations have a direct impact on the ways in which funding programme are designed.

Step Two: Analysis of impact desired

Grant-making trusts desire different sorts of impact. They may embrace these within one programme of funding but, at the risk of generalising, they will tend to achieve different impacts. In broad terms it is possible to identify some significant differences in the nature of the impact required. These different requirements have a profound influence on the nature and design of the funding programmes.

Funding for activity or services

There are forms of funding which are essentially designed to ensure that something happens. This might be the payment of the costs of a piece of research or publication, or purchase of a service. Whatever the style adopted, the intention of the funding is to make sure that something is done. Funding of this sort is unlikely to be overly concerned about the organisation through which the service or activity is delivered. While clearly in the interests of probity and good governance the funder will wish to be assured that the organisation is a going concern, there is unlikely to be an interest in the organisation's long term future and development.

Funding for capacity, or to build organisations

There are forms of funding that are concerned far more with the development of organisations. In the United States such funding is known as "institution building", and for this sort of funding the objectives are likely to be more managerial focusing on the strengthening of the organisations that are funded, with a keen eye on their business development. In many senses this is a very managerial style of funding.

Funding for system change

There are forms of funding that are more clearly focused on seeking to change the system in which the voluntary sector works. Funding for system change may come in a number of different forms, but it will be focused on the impact that the recipient organisation can make in the wider environment, and not only the value delivered to beneficiaries. This is a more political sort of funding.

Step Three: Design of funding programmes

Any funder devising a funding programme needs to make a series of critical decisions. The impact of these decisions together forms the architecture of the grant-making programme, and critically influences both the sorts of grants made and the relationships established.

There are a number of different typologies of grant-making. One that helps to inform the design of the grant making considers the motivation of the funder. Grant makers can be:

- **Reactive** – responsive to applications and interested in supporting the best proposals that are presented to them.
- **Interventionist** – wishing to have an impact on a particular issue or area, frequently with a plan of intent.
- **Compensatory** – wishing to make good deficiencies especially where there has been little funding in the past

Inevitably these different motivations overlap and contradict each other. As with all typologies in this field they are not neat and tidy. But they do draw attention to the different strands of grant making and, when associated with the different impacts desired, they provide a useful framework for analysis.

The majority of funding done by grant-making trusts is reactive, and for most this is right in that it allows the funder to be responsive to need and ensures that the identification of need is located within the voluntary and community sector. Reactive grant-making enables ideas and proposals to come from the field. Some have targeted a portion of their funds on particular issues or localities where they wish to bring about change while others have sought to apply their funds either where others have withdrawn their support, or where particular gaps in civil society exist.

Statutory organisations will frequently be more interventionist, planning the development of a particular field of activity. They may wish to use funding to stimulate a market of provision, and in doing so may decide to build capacity at the same time as paying for delivery.

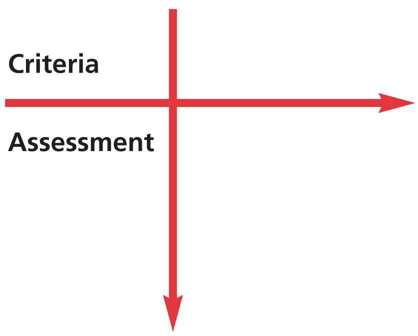
Illustration of the framework in practice through examples.

	Reactive	Interventionist	Compensatory
Funding for delivery	Support for the continuing costs of a drug rehabilitation centre	Funding to enable a drug rehabilitation centre to change its model of care	Funding for drug rehabilitation in an area where the services have previously been lacking
Funding for capacity	Organisational development support to enable an existing high performing organisation to grow	Funding to enable three drug support agencies to merge after the funder concluded that this was the only way to develop a strong organisation	Grant to help develop a new organisation where none existed
Funding for systems change	Support for lobbying by the agency to ensure a change in government policy	Funding for a commission of inquiry, instituted by the funder, to investigate new treatment options and seek to get them as part of the NHS Pan	Research into prevalence of the problem in a particular locality where local statutory funders had withdrawn in order to get them to change their minds

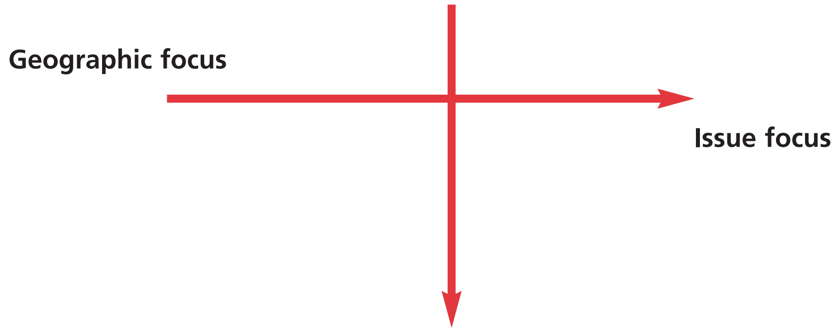
This analysis of styles of operation and different desired impacts provides one part of the architecture of any funding programme. In addition to this there is also a set of variables which determines the way in which the grant-making programme needs to be designed.

Step Four: Four variables in grant making

a) In order to allocate funding, all funders need to operate along two axes. One of these is about criteria and the other about assessment. Generally speaking, organisations with very broad criteria then need to invest heavily in the assessment to ensure that the funds go to the right place. Organisations with tightly defined criteria run the risk of cutting off interesting applications, but, while needing more specialist resources to judge applications, are likely have a more straightforward assessment task. The notion of these two axes is important in determining both the allocation of costs and the skills needed in assessment of proposals.



b) Another key variable is scope. A funder that operates in one locality can more readily accept applications across a range of issues, whereas one that is operating nationally may need to narrow the issues on which it is interested.



c) The third set of variables is about the transaction and risk costs and where they lie. Very broad criteria demand a great deal of work from applicants that may not result in a grant. This places a burden of risk on the applicant, and at the same time demands high costs from the funder. The risk borne by the applicant is essentially the risk of devoting time and effort to an application without receiving a grant. The costs for the funder lie in the work of assessing the application. For more tightly defined programmes the risk accepted by the applicant is less and the nature of the funder's assessment will be different.

d) The fourth and final set of variables is about the nature of return to the funder. These can be briefly described as:

- Impact on the agenda
- Lessons learned
- Closeness to recipients.

Funders will structure their grant making differently depending on the return expected.

Type of return sought	Methods to be used
Impact on the agenda	• Development of a portfolio of projects • Choice of areas of benefit informed by wider agenda • Investment in monitoring and review • Close strategic partnerships with chosen organisation
Learning lessons	• Significant investment in monitoring and evaluation • External scrutiny of process • Focus on fairness and equality of access to funding
Closeness to community and voluntary sector	• Focus on assessment of individual applications • Acceptance of reputational risk • Very wide application and assessment criteria

These four sets of variables do provide a structure for analysing the operation of different sorts of funders, or at least their very different programmes.

The case studies below are illustrative of the nature of the funder, or programme, that is created through these steps.

For example, **Funder A** has been very successful in achieving closeness to the sector – and this has provided it with a significant element of its mandate. It has done this in a way that few funders have achieved, and this provides it with a constituency of support that is important. It has had very wide criteria and had invested heavily in assessment capacity, as well as engaging a wide group of people in the evaluation of applications. It also provides it with an important database of information about the sector and the priorities within it. However, applying the template, it has had less discernible impact on areas of public policy and has struggled to learn lessons from its funding experience.

Funder A:

- funds because it wishes to support the sector
- supports services and activities
- is likely to be largely reactive
- identifies the return in its closeness to recipients.

Funder B has run a very tightly focused programme for a number of years. It has expressed itself willing to meet particular specified costs, under tightly prescribed published guidelines, and has done so across the country. Its assessment is largely computerised, and assumes a high level of professional input from applicants. It has developed a clear portfolio of projects and can identify outcomes from its funding easily.

Funder B:

- has an impact on the agenda for a very specific area of policy
- has an interest in the development of organisations
- is geographically broad, but very focused on an issue
- applies narrow criteria and therefore fairly automated assessment.

Funder C has targeted one geographic area, and makes its funds available to small and emerging organisations in that area. It recognises that many of them will not have the funds with which to meet any application costs, and therefore keeps these to a minimum, sometimes paying for consultants to enable organisations to apply for funds. It is seeking to develop the voluntary sector in that geographic area, and imposes few constraints on the sort of activities it will support.

Funder C:

- is geographically focused
- concentrates on learning lessons
- invests in sensitive local assessment

Conclusion

Funding bodies will more normally run a number of different programmes, and each programme may operate differently. However, in structuring a new programme a funder will have to consider these different determinants, and will almost certainly identify costs and benefits from each.

The design of the funding programme by any funding organisation will have profound implications for the sort of funding made available, and this in turn will have a significant impact on the organisations it supports. Clarity about the sort of funding on offer, by an organisation or within any one programme, is an important part of the design of any system of funding. Without this, decisions will be confused and the programme will be unsatisfactory both to applicants and to grant makers.

Chapter 3

Funding intents – what is your funding designed to do?

Summary

Any funder, whether a grant-making trust or statutory purchasing body, has intentions for their funding. They wish to make an impact in one way or another. Three funding intents have been identified here. Each is worthwhile, each has its advocates and each brings distinctive benefits and drawbacks. In order to mitigate the disadvantages and maximise the benefits, each intent needs to be managed rather differently. This chapter suggests that, depending on the desired intent, the funder will need to adopt rather different mechanisms to achieve their objective. If these mechanisms are not adopted the intent is not achieved, and the benefits to both recipient and funder are not maximised.

Intended impacts

Three different funding intents have been identified:

- The maintenance of activities and services
- Building institutions
- Changing systems

The maintenance of services and activities – or keeping good things going.

Despite all the talk about innovation and change, a significant proportion of all funding is designed to maintain activity at current levels or to expand it. A core philanthropic intent, this approach involves finding interventions and responses that work and backing them.

Funders pursuing this intended impact will typically wish to search for evidence of impact. They will wish to be assured that their funding is targeted at the most effective and best established interventions, and will be more reluctant to take risks. They may well be prepared to commit funding for a longer period of time. Their prime motivation, however, is to ensure that good work continues.

This approach has considerable strengths. It enables a grant-making trust to identify a direct return on its investment, and specifically gives assurance to decision makers that funding is being used appropriately. For some of the largest funders in the UK the maintenance of activity that has been proven to work is hugely prized. It allows for the development of a wide range of interest, with the security of knowing that worthwhile activity is supported.

For the applicant also, this funding intent can be very significant. Work of proven value can be supported, without constant re-invention and endless redefinition. The pressure on voluntary organisations to innovate and develop has led many to hope for precisely this sort of consistent funding – backing "what works". Furthermore, funding with this intent can be offered for a longer period, and this can allow some organisations to survive.

However, there are drawbacks to this funding intent. Funding bodies that intend to keep good things going frequently express a degree of certainty about the evidence. In the voluntary sector, particularly in the newer and more challenging areas, this evidence base is sometimes either lacking or flawed. There is a danger, therefore, that funders with the intent of funding in order to keep things going will be limited in their capacity to take on new and different work. Equally funders with this primary intent may find it much more difficult to determine impact. While they can have the confidence that they are not taking unnecessary risks, they will find it more difficult to track change and attribute outcomes. It is noticeable that many funders with a wish to "keep services and activities going" have been drawn to develop quite tightly specified patterns of funding in order to provide reassurance about the nature and degree of impact.

Those funders who see maintenance of service or activity as their major intent are usually, but not exclusively, funders with a relatively high volume method of operation. They are comfortable with receiving a number of competing applications, and will typically seek to build relationships with a wide range of organisations. While the impact of their funding may be absolutely crucial for the organisations they support, they will tend to operate in a fairly distant manner. This is in part because it is hard for funding bodies that wish to maintain activity ever to extricate themselves. These are the funders who will need to develop firm guidelines for ceasing to fund. They will be concerned that their programme is "silting up" and will find it more difficult to negotiate an end to any particular piece of funding. Maintaining a degree of distance from the recipients may serve to make both the decision to fund, and the decision to cease funding, rather easier. Traditionally, in the pre-contract era, a great many local authority and central government grants were designed to keep activity going, and this was useful to the recipients. In a fixed budget, however, it has contributed to a funding market that is difficult to enter, and this has been frustrating for new and emerging organisations.

A second identified approach is designed to **build organisations**. Institution building, as it is called in the United States, or building capacity is the avowed objective of some grant-making trusts, and is a substantial part of the portfolio of many others.

Funders decide to support organisational strength and capacity because they believe that building robust organisations within civil society is the best way of delivering their mission. They will tend to have an analysis of the voluntary sector that is rooted in a concern about managerial capacity and weight, and a value system that perceives strong institutions as the best model for social intervention. Funders who choose to focus on institution building will tend to do this through relationships with a relatively limited group of organisations, perhaps those of a particular size or type, or those concerned with a particular field. Their interventions will be focused on leaving stronger organisations, and impact will be measured through organisational change and development indicators.

For the recipients of this funding there are both advantages and disadvantages. Voluntary organisations will usually recognise their own need for development and growth, and will welcome the efforts of any funder committed to enabling this to happen. In particular they may recognise that funding programmes designed to build organisations allow for activity which is frequently difficult to fund elsewhere. It is rare for appeals to the general public to highlight the need for organisational development, and yet for many voluntary organisations this is a major funding need. On the other hand, voluntary organisations supported in this way by funders may feel that they are risking their independence. They may be concerned that an external organisation is making judgements about their development and direction in ways that are inappropriate. They may particularly struggle with the nature of the diagnosis that can sometimes stem from different cultural assumptions. The dissonance that can arise in these circumstances can obviate some of the major benefits of this sort of funding.

Funders concerned with building institutions will need to know a great deal about the organisations they fund, their processes, governance and strategic direction. It is unlikely that funders in "shopping mode" will be overly concerned about institution building. Indeed the process of shopping is designed to pay for services to be run, not to meet the costs of organisational and business development.

One New York based foundation, the Edna McConnell Clark Foundation[1], has particularly focused on this approach. Using many of the classic tools of the venture capitalist, recently adopted for venture philanthropy, the Foundation consciously adopted strategies that strengthened individual organisations and helped build the fields in which they practised. Instead of trying to change entire systems the Foundation decided to focus on building the capacity and organisational effectiveness of grantee organisations – to concentrate on "the nuts-and-bolts labour of organizational development and field building". Beginning with a pilot effort in 2000, the Foundation began moving toward what evolved into an entirely new strategy – initially called Institution and Field Building (IFB). By combining the best tools and processes from both the for-profit and non-profit sectors, the new approach sought to build strong organisations. By purposefully limiting its grant making to a single area – youth development – the Foundation hoped to improve its chances of making a difference in a nascent field.

The Foundation has developed a particular formula for achieving this work, both using its own resource and contracting out particular aspects. The Foundation offers the kind of support that is hard to come by from most funding sources. This ranges from support for business planning to large, multi-year grants to strengthen operations and undertake evaluation of what Nancy Roob, the Foundation's vice president and director of Institution and Field Building, calls the "institutional glue." Internally, the IFB approach has developed into a five-step investment process for identifying and supporting such organisations:

Sourcing and Reconnaissance The Foundation begins by scanning communities for successful youth-serving organisations that meet a predetermined set of criteria. The Foundation consults youth development experts, foundation colleagues and local groups to help it identify organisations with effective programmes, outstanding leadership and an interest in expanding.

Due Diligence The Foundation examines possible grantees, studying their programs, leadership and management, financial strength, operations, and internal performance measurement systems. Determining compatibility and fit between the

[1] Neil E. Carson, *Trusting in Change*, The Edna McConnell Clark Foundation.

Foundation and potential grantees is also crucial. If due diligence produces a positive result, the Foundation makes an initial grant to the organisation, the purpose of which is to defray the costs associated with business planning.

Business Planning The plan, which is developed over several months by the grantee, outside planning specialists and Foundation staff, sets out specific organisational growth objectives and the steps the organisation will take to achieve its goals, and establishes how it will track and measure results over the next several years.

Investment Structuring The final business plan serves as the basis for structuring a substantial multi-year grant to support the organisation's development and growth. The Foundation and grantee use the milestones developed during business planning to designate performance goals and measures that the organisation intends to meet annually and to which it will be held accountable.

Performance Tracking Once a grantee begins to implement its business plan, the Foundation monitors progress, provides consultation and helps to address either unexpected developments or new opportunities that might arise. In addition to helping each grantee to develop the capacity to evaluate its programmes, the Foundation assists grantees in developing the means to assess their work and to make ongoing improvements in their operations.

Getting to this stage has required the Foundation to remake itself from the bottom up. The transformation began when the Foundation embraced a new theory of change that laid out the following proposition:

By making substantial grants to strengthen the overall operating capacity of outstanding organisations with effective programmes, strong leadership, and a commitment to growth, the Foundation would ultimately help create better outcomes for young people in low-income communities. Subsequently, the theory reasoned, as these organisations expanded their reach and demonstrated their success, new funders would join this work, and effective models could be replicated elsewhere.

This Edna McConnell Clark approach illustrates some of the challenges facing funders that are committed to strengthening organisations. They will need to invest in high-level assessment skills, combining the ability to diagnose organisational problems with the capacity to see positive directions and developments. They will need to develop means of measuring change and tracking the nature of that change. Finally, they will need to be assured that the direction of change is sustainable. Funders with this sort of intent will typically focus on a smaller range of organisations, selecting carefully those with which they wish to have this sort of association. Like the venture capitalists they will be extremely interested in the performance and development of key individuals, frequently associating the success of the funded organisation with the abilities of the individual.

In London one highly specialist small funder, the London Housing Foundation, committed itself to improving the management capacity and strategic skills of the part of the voluntary sector concerned with homelessness. By funding a high-level management development programme for the leaders of this particular sector, and running summer schools and master classes for the homelessness sector, the Foundation was able to build stronger organisations and was identified with the success of those organisations.

Typically, this approach is adopted by funders who wish to influence or develop a particular part of the sector. They may have a focus on the leadership of the sector, or the need for particular types of organisational development. In order to achieve this funding intent they will usually become quite close to the organisations they are funding, taking more responsibility for their long term development and health.

Funders that are focused on institutional change or capacity building remain in the minority. While many grant-making trusts make a contribution in this direction, only a few have specifically determined this as an avowed intent. If more funding organisations identify the objective of organisational growth and development there may be a problem for the recipient. Organisational development is a notoriously delicate ecology, and the risk of confusion with too many different interventions is great.

Some funders with a desire to build organisations have invested in the infrastructure of the voluntary sector. This may have been through funding the growth of second tier organisations, such as councils for voluntary service, or through seeking to develop communication networks to aid replication[2]. If it is difficult to measure the growing capacity of organisations, measuring the impact of the infrastructure is even more complex[3]. Yet the development of the voluntary sector does require support for the "overhead" of the sector, and for many funders, both statutory and charitable, one route to institution building is through support for the second tier. This is a central plank of the Active Community Directorate of the Home Office initiative in supporting the development of this second tier.

The third identified objective is **systems change**. Some funding is explicitly designed to influence the way in which government and others with influence in policy systems operate.

Funders who intend systems change may do this by funding research. Equally, they may do so by running a wide ranging grants programme, but doing so in a way that learns from experience. Frequently funders who wish to bring about systems change will publish synopses of their work. They will be engaged in learning lessons from the activity they have supported, and will do so in ways which can then be used to influence. In effect funders with this intent gather data from the organisations they fund. This might be the experience of poverty on which their funding recipients report. Or it might be the development of new interventions that can become exemplars of good practice.

For the organisations supported by funders with this intent there is, of course, the gratification of realising that the isolated experience of one grant recipient can be aggregated with others to achieve real change. Given that the objective of most voluntary organisations is to achieve some social change this is obviously important. However,

[2] Diana Leat (2003), *Replicating Successful Voluntary Sector Profits*, ACF.
[3] Lucy Ball & Julia Unwin (1998), *Funding the Infrastructure*, The Baring Foundation.

influence is hard to calibrate, and there is a real tension between those funding bodies that seek to use their funding to influence systems change and grant recipients who believe that they too have a mission to deliver change. There can always be tension between funder and funded, and this frequently focuses on the question of ownership and control. When the intention of the funder is to exert influence and achieve impact, however, this tension can be much worse. There are voluntary organisations that for their own future development need to demonstrate the extent to which they have had a direct impact on the policy agenda. If the credit for this influence is claimed by the funder this can be problematic.

When independent grant making trusts focus on funding for systems change they have some very specific advantages. As independent organisations, with no obligations beyond their legal ones, they are able to adopt a stance of absolute neutrality. They can therefore provide a place to convene, and have frequently over the decades demonstrated their ability to influence the agenda precisely because of their independence from both politics and the marketplace. While frequently viewed simply as funders, the particular role played by many of the independent grant making trusts in stimulating activity, publishing findings and providing a platform for interests and issues, has been of considerable influence in the UK.

Joseph Rowntree Foundation

The Joseph Rowntree Foundation is one of the largest independent social policy research and development charities in the UK. It supports a wide programme of research and development projects in housing, social care and social policy.

The Foundation also carries out practical innovative projects in housing and care through the Joseph Rowntree Housing Trust. It seeks to ensure that these and the findings from the research programme are helpful in the development of better policies and practices across the UK. In this sense it uses its funds both to provide services and to influence systems change. In the words of its founder it exists to " … to search out the under-lying causes of weakness or evil in the community, rather than of remedying their more superficial manifestations".

Funding organisations with a focus on social or systems change will need to invest heavily in gathering information from recipients, managing this learning and then disseminating it. They will almost certainly need to focus their grant making through themes or programmes in order to develop sufficient evidence to have the desired impact. Grant holders will also need to provide more information, and will need to be prepared to do so in a way which is compatible with the information gathering of the funder. The funder who wishes to advocate requires a platform for influence, and this may involve it in the development of a programme of publications, conferences or in other ways a more public face than other funding bodies.

In terms of the relationship with funded bodies, funders intent on systems change will frequently need to negotiate carefully with their grant recipients so that influence can be maximised. This is difficult because the relationship of funder and applicant is so unequal. Failure to do so, however, can result in tension about responsibility and this is frequently expressed in tensions about profile and brand. Funded bodies may believe that their experience, and hence their message, is so unique that only they can promote it. They may also believe that they have a sound business requirement to be closely associated with the outcome of their work. While normally welcoming the engagement of a funder in promoting the work, they will resist approaches that seem to absorb them into a wider portfolio of policy concerns, and may wish to assert their independence and particular stance.

Funding with several intents

Each of these funding intents is found in grant making trusts and statutory funders across the UK. The portfolio of funding that most operate will embrace each of these intents, and indeed some individual grants will seek to achieve all three of these objectives. The styles of funding adopted are frequently more suitable for different objectives and the applicant organisation, as well as the funder, needs to know which objective is being met.

Summary of funding intents

Intent	Requirement	Risk
Keeping good things going	• Assessment between different organisations • Understanding of evidence base	• Difficult to exit • Challenge to select
Institution building	• Systematic approach to measuring impact • Investment in organisational development	• Complexity of voluntary sector organisations • Interface with other funders
Systems change	• Investment in knowledge management, research and policy development. • Creation of platforms for influence – publishing, conferences, inquiries.	• Confusion of role between funder and grant recipient

Chapter 4

What type of funded organisations? Or do funders get the voluntary organisations they deserve?

Summary

This chapter concerns itself with the ways in which the management task facing voluntary organisations is shaped by the current funding arrangements. It describes some of the pressures on voluntary organisations, refers to the different stages of the voluntary organisation's life cycle, and makes recommendations for ways in which voluntary organisations need to adapt.

It recognises that funding arrangements are a primary, although not sole, influence in the development of a voluntary organisation, and will have a major impact on the behaviour and performance of the organisation.

It concludes that the current shape and behaviour of the voluntary sector, can be attributed to the ways in which funding has been made available.

There are two key themes in all the funding mechanisms and structures considered in this book. The funding available to voluntary organisations is:

- Available only for a limited period and frequently fixed at the start.
- Increasingly focused on projects or definable pieces of work

What are the implications for voluntary organisations of these two major drivers? What happens to voluntary organisations that receive their external funding in this way? How do organisations respond managerially in this climate?

Implications of time limited funding

The first big funding driver in nearly all the systems is the existence of time limits. The three-year grant has become a firm part of the culture of grant-making, and is used by nearly all the grant-making trusts and by the lottery distributing bodies.

Clearly it has advantages for funders. In summary, funders choose to time limit their grants to voluntary organisations because:

- Within a limited pot of funding it allows for new activities and organisations to be supported
- It provides a natural break point to review progress
- And therefore allows the funder to extricate themselves without incurring criticism.

This means that those voluntary organisations that are to a large extent dependent on grants, as opposed to funds generated internally or earned in other ways, need to manage their financing and activities to accommodate this funding.

In practice voluntary organisations managing short-term funds will adopt one or more of the following strategies:

- Short term planning – the planning horizon for the organisation is limited by the funding available.
- Constant re-invention – leaders of voluntary organisations become engaged in a process of constant re-invention, dressing up old activities as new initiatives and re-badging existing pieces of work.
- Mission drift – organisations forget what their real role and function is and start to be determined in their strategies by the funding that is available.

Each of these three is an intelligent response to a funding environment that releases funds in a variety of ways for fixed terms. In many ways voluntary organisations in this position resemble businesses with multiple short term and changeable customers. These businesses will work to develop loyalty among their customers, perhaps rewarding commitment. They will concentrate on knowing their customers well, wanting to understand their hopes and aspirations. They will use all their resource to try to attract custom and will be intensely market and customer focused.

However, voluntary organisations do have other stakeholders, and need to balance their needs and wishes. If an organisation is too closely focused on the needs of the funders, perhaps to the detriment of its service users, its donors and the wider public, it may rightly be accused of losing touch with its mission. If it also adjusts too eagerly to the differing expectations of funders it may find it hard to focus on core objectives. Perhaps more critically the mission of most voluntary organisations themselves is not to increase sales of a particular item, but rather to bring about a particular sort of change. The sorts of social goals for which voluntary organisations are established rarely have short-term horizons.

The process of re-badging and re-launching is, moreover, an expensive one. The costs of new work, which is not genuine innovation, is found in the costs of publicity and marketing, as well as the time spent by managers and governing bodies overseeing such change. The costs are also experienced very practically in the excessive start up and recruitment costs of new pieces of work. New projects with fixed term funding take time to establish, incur recruitment costs and staff members faced with the end of funding for a particular piece of work are liable to spend the final third year seeking either alternative work or replacement funding, rather than achieving the objectives of the funding. All of this reduces the capacity of the organisation to manage properly its activities, and to learn lessons from the work supported.

The strategies adopted to cope with time limited funding reflect in many ways those used to deal with the problem of meeting core costs. They test the ingenuity and imagination of the managers of the voluntary sector, and introduce some accounting and performance rigour. But at the same time they run the risk of distorting the direction of the organisation, and crucially may make it less responsive to the needs of other stakeholders.

Implications of limits to core costs

An earlier study[4] argued that there are six sets of core costs that form the component parts of the cost structures of voluntary organisations.

- compliance – with regulatory and funding bodies
- income generation
- the support services
- responding to consultation
- governance, representation and user engagement
- innovation and quality

This section looks at each of these in turn, to consider the implications for organisations of a situation in which these costs are not available. While all the costs are essential, there is clearly a hierarchy. All those interviewed for the earlier study accepted that the mandatory activities such as compliance would take precedence over innovation and quality. They also recognised that this created longer-term problems for their organisations. This chapter argues that:

- While all these costs are necessary, voluntary organisations are likely to concentrate on those where the penalty for failing to meet them is both greatest and most immediate.
- This places voluntary organisations in a position of risk.
- Failure to meet the costs in any of these areas can damage the voluntary organisation's capacity to carry out its mission.
- That, critically, this in turn jeopardises the sort of constructive partnership that many funders argue they wish to have with the voluntary sector.

Compliance

Voluntary organisations operate within a complex and occasionally overlapping regulatory framework. Typically a medium sized voluntary organisation may have to report to the Charity Commission, a group of funders with different demands, and at least one specific regulator concerned with care, legal advice or education. Voluntary organisations which choose to diversify their activities will face a wider array of reporting requirements, and will also be juggling a number of different funding streams.

> ***"We want to expand but whenever we do so the costs of reporting what we do just seem to grow"***

Compliance with the regulators' and insurers' requirements costs money. Sometimes these costs are met through the voluntary effort of trustees, who are thus prevented from doing other work. On other occasions these become part of the task of the paid staff, or are met through fees paid to professional advisers. The costs of compliance are usually met – largely because the penalties for failing are seen as both immediate and significant. These costs are both unavoidable and mandatory. If they are not met in some way by the organisation, the entire mission of the charity can be jeopardised, thus causing problems for the funder and other stakeholders.

[4] Julia Unwin (1999), *Who Pays the Core Costs?*, ACEVO.

Income generation

Raising money is almost always an expensive exercise. The costs of fund-raising are often disproportionately high at particular periods of an organisation's life, and may well not be recovered within very limited time scales. The report of the Better Regulation Task Force[5] drew attention to a number of aspects of government funding that gave rise to additional costs within voluntary organisations. These include the monitoring and accounting requirements of central government funders, and the "complexity and inconsistency of application procedures". These issues are raised about other funders – and could equally well be the subject of analysis. For the purposes of this book it is enough to say that the costs of fund-raising, particularly from a very diverse field of supporters, are considerable, and these core costs are unavoidable for voluntary organisations that wish to grow.

In many voluntary organisations these costs are met by the chief executive or some other member of staff simply taking on the role. This in turn reduces the time and capacity available for other work. The costs of income generation are essential transaction costs that voluntary organisations do not believe they can avoid. The associated costs – of reporting on funds received – are also essential, although the relatively poor performance by some voluntary organisations in reporting terms (as reported by some funders) is evidence that the full costs of income generation were not being met.

> ***"As soon as we think we have enough money to run the organisation, we have to start looking for some more. I know that we are not approaching all the people we should, but we simply can't afford to do so"***

An additional aspect of the costs of income generation is the cost of short-term funding. The convention that funding is only available for three years, at the most, involves voluntary organisations in a constant search for replacement funding. The transaction costs of moving from one funder to another are, in effect, met by the voluntary organisation.

Support services

These are defined as the costs related to support staff, premises and equipment. Voluntary organisations have traditionally economised in this area, keeping office costs as low as possible, and this continues to be the approach adopted. However, there is some evidence that this may not always be the best – or most cost effective – strategy. In a quality conscious environment, with competition for good staff, as well as high public expectations about appearance, some voluntary organisations believe that attempts to pare the costs of the support services were in themselves counter productive. Furthermore there is anecdotal evidence that short-term savings in this area, particularly with regard to the costs of IT, can be damaging to a charity's longer-term ambitions and ability to deliver.

> ***"How can we say that we run a high quality service, and treat our service users well, when they have to come to these grotty premises and the phone is often not answered?"***

[1] Better Regulation Task Force, (July 1998), *Access to Government Funding for the Voluntary Sector.*

Responding to consultation

The advent of a more inclusive style of government has been largely welcomed by the voluntary sector. Many voluntary organisations believe that influencing government policy is an intrinsic part of their role, and have responded enthusiastically to invitations to comment on proposals, join task forces and so on. And yet this activity has its costs.

> ***"I'm beginning to wonder if I should send in an invoice for consultancy each time I reply to a consultation document."***

For most voluntary organisations failure to engage in consultation is damaging both to the profile of their own organisation, and to the issue on which they are experts. If they are unable to take part the price can be high, as they sacrifice the potential to influence. On the other hand there is a concern, particularly in small organisations, that the costs of taking part are prohibitive. These costs are not ones that they consider can be passed on to funders in any manageable way.

There may be occasions on which those who wish to hear the views of voluntary organisations are willing and able to pay for this time. There are examples[6] for instance, of local authorities paying voluntary organisations to facilitate the engagement of people with learning difficulties in strategic consultation. These are, however, in the minority, and most voluntary organisations absorb these costs and consider that they take risks whenever they are unable to respond. For some organisations a sensible response has been much greater use of the networks of organisations, but even then they argue that the development of a response, even cost effectively on behalf of a group of agencies, is still a drain on scarce resources.

Governance, representation and user engagement

For many voluntary organisations there is a growing recognition of the importance of involving those they exist to serve. For some, such as the representative infrastructure bodies, this is, and always has been, a part of their main business, but nevertheless a costly part. For others, the move to a point somewhere on a spectrum of user engagement is also a costly activity, although essential if the mission of the organisation is to be achieved.

Some of these costs may be practical ones of travel and subsistence, interpreting and other support. Others will be the development costs that organisations need to incur if they are to support others to get involved in management.

Equally, the support of any system of governance has costs associated with it. Many voluntary organisations admit privately to skimping on these costs, and yet most recognise that the price is paid later in governance systems that are not fit for purpose and insufficiently robust to deal with the difficulties of strategic planning facing voluntary organisations today.

Innovation and quality

Voluntary organisations are engaged in dealing with some of the most intractable and complex social issues of our time and this is one of the sector's traditional strengths. To do this they need to use every ounce of creativity and skill. Yet many believe that the funds available to them prevent them from fully exploring new approaches to their work and from concentrating the necessary time on ensuring their activities are of as high a standard as possible. If this is the case, and if these are the costs that are "saved", the penalty will be paid in the longer term both by the voluntary sector and by those who need such services.

> ***"I know that we ought to be thinking of new solutions, and trying to understand our service better. I simply don't have the time to do that properly."***

The costs of quality and innovation include monitoring and evaluation, as well as research and high quality management. There are funders who have expressed concern at the standard of applications arising from the sector. It may be that insufficient attention to these costs is, in itself, resulting in a shortfall in the quality of proposals coming to funders.

How do voluntary organisations respond?

The next section of this chapter considers the different managerial responses adopted by voluntary organisations to the funding environment, before going on to suggest some of the ways in which voluntary organisations will need to adapt their own behaviour to meet some of the funders' concerns. Managers of voluntary organisations are creative in devising ways of continuing to develop, but these ways of developing are enormously time-consuming and seen by many as a diversion from their main purposes. There needs to be a value judgement about the extent to which some of the strategies adopted do improve the operation and management of the organisations concerned.

There are four main survival strategies available. None of these are mutually exclusive, and many voluntary organisations use all four strategies in various combinations.

1. Cost recovery

The first could be described as the **"overheads" strategy**, or full cost recovery. Organisations pursuing this approach are assiduous in allocating costs to activities, and ensuring, as far as possible that the price they charge for any activity meets the **real costs** of delivering it. Organisations pursuing this approach develop a cost-centred approach to their work, charging out all the core costs of running the organisation to the individual projects. Most voluntary organisations have worked hard to develop this approach, and it has the great strength of transparency. It makes the financial structure of the organisation easy to understand and – in theory at least – helps funders to assure themselves about value for money. It also concentrates attention on the appropriate balance between the overhead costs and the activities run, and several of those taking part in the focus group emphasised the need for voluntary organisations to grow in a justified way, with overhead costs only increasing in proportion to actual activities.

[6] Office for Public Management (1996), *From Margin to Mainstream*.

For several organisations this strategy is extremely effective in financing growth as well as in covering incurred costs. One major charity routinely prices its services at 110% of real cost in order to continue to be able to finance innovation and growth.

> ***"Why should you have overhead costs if you are not running enough activities to justify them?"***

On the other hand, some argued that this approach artificially encourages the creation of "projects" simply for the overhead income generated, and that it thus has a perverse impact on the overall health and direction of the charity.

Once established, a system of full cost recovery is not difficult to manage, but the process of moving towards it is in itself expensive and requires investment. However, the complexity of the approach increases with the size of the organisation and the number and variety of projects it is engaged in, which suggests that it would be relatively easy for smaller organisations to move to this system.

Finally, and perhaps most significantly, this is the strategy that requires as much change and recognition by the funder as by the applicant. The strategy assumes that a properly costed project or activity will receive funding. Without this agreement the approach becomes an interesting way of budgeting, but not a means of developing a funding strategy for the long term. The HM Treasury review of the funding of the voluntary sector[7] specifically concluded that "full cost recovery" should be a part of all public sector procurement of services from the voluntary sector. By this means, it was argued, voluntary organisations would receive the full costs of providing services. The obstacles to achieving this are significant, and there is widespread scepticism about the likely implementation of this recommendation, but the recommendation is a very important one. It offers a clear strategic direction which would enable funders and purchasers both to fund particular pieces of work, and to do so in a way that enabled voluntary organisations to survive and to grow.

2. Cost diversion

The second strategy commonly adopted involves an imaginative approach to managing core costs by the constant – and repeated – conversion of them into projects.

> ***"Re-labelling the reception desk and calling it an information service, breaking the policy department into a series of research projects"***

This strategy requires a creative mind and compliant funders, and it is the one most commonly described by managers in the voluntary sector. It involves the appearance of innovation, even without a great deal of change, and is – in another form – the motivation behind re-launches of organisations.

It has its strengths as an approach. It concentrates the attention of managers and trustees on the component parts of the business, and can have the effect of bringing innovation to parts of organisations that are frequently overlooked. It can work well in organisations

[7] *The role of the Voluntary Sector in Service Delivery* HM Treasury May 2002.

who are able to focus clearly on activities and who can live with some of the insecurity that inevitably accompanies this approach.

However, there are disadvantages. Essentially this strategy distorts the price charged for all other activities, because it allows genuine projects to be funded at below the real price, and this may create long-term problems of sustainability. More significantly, however, it is not a permanent solution and requires continued imagination and restructuring, as well as continued acceptance from funders, and this may not, in the long term, be in the best interests of the charity.

3. Cost donation

The third strategy is the pursuit of voluntary income, including grants from grant-making trusts but also involving the development of "friends" schemes, investment in direct mail, the chase for legacies and so on. As part of a diversified income, most voluntary organisations will wish to have some element of voluntary income, and indeed in a climate where much of the funding is for particular services this voluntary income gives trustees some of their strategic independence and needs to be protected jealously.

This method is increasingly being pursued by some of the smaller voluntary organisations, and there needs to be some concern about the viability of this approach.

Firstly there are real concerns about the number of people giving overall. NCVO research[8] suggests that the amount that the British public give to charity has increased in the last year to £7.3 billion, but nevertheless the number of givers has fallen over the long term. Related data[9] suggests that future trends may be even more worrying once the relative rates of giving are disaggregated by age. In other words, younger households are giving proportionately less.

Second, this strategy is only available to some sorts of voluntary organisations and will favour particular causes above others. Linked with this is the very significant investment required to generate and maintain rising levels of voluntary income. This is possible for some organisations. The Refugee Council, for example, has consciously invested in fund-raising activity, but this is a long-term investment. Similarly Homeless Link through Homeless Direct has been able to recruit a secondee from the private sector to enable the development of a new approach to funding.

Third, and of critical importance, the strategy may inadvertently represent a challenge to the levels of public support for charities. If members of the public, giving voluntarily, are alerted to the fact that their contributions are actually meeting overhead costs, however desirable, while institutional funders support front line work, this may affect their view of voluntary organisations. The assumption that voluntary donations, covenanted income and legacies can meet the shortfall in funding from established funders of the sector exposes the sector to considerable risk.

But the most significant implication of this strategy for the wider funding environment is that it artificially constrains prices, breaking the connection between cost and price, and so interfering with the operation of the market in the long term.

[8] The UK Voluntary Sector Almanac 2004.
[9] Banks and Tanner in Dimensions of the Voluntary Sector (1997) CAF.

4. Cost reduction

The fourth strategy identified is a conscious attempt to drive down core costs. While many voluntary organisations interviewed believed that this process had gone as far as was possible, many others acknowledged that more could be done. However, it was recognised that simply reducing costs might in itself be a false economy and that, paradoxically, an environment that made core costs more difficult to fund might simply result in less well-managed voluntary organisations. A more planned approach to cost reduction is being considered by some, and initiatives such as the Cost Reduction Partnership, common services, buildings or shared purchasing, are all ways in which central costs might be reduced without necessarily impairing either quality or independence. Some organisations reported on other means of reducing – or more accurately transferring – costs, largely through accepting secondments from government or from the corporate sector.

Cost reduction as a strategy is probably not a short-term response, and it may require investment to make it possible.

The following table describes the strategies deployed and tries to analyse them.

Cost	Recovery	Cost Diversion	Cost Donation	Cost Reduction
Strategies available	The overheads strategy *"Understand the costs of providing a bed in Manchester"*	The creation of projects strategy "Call the policy department a series of projects"	The unrestricted income strategy *"We must find some untied sources of funding – why don't we have lots of donors?"*	The reduction of costs strategy *"We will just have to cost less"*
Methods used	Careful unit costing, with attention to cost centre budgeting and accounting; complex cross charging	Re-creation of pieces of work, previously seen as "core business", as projects.	Investment in voluntary fund-raising	Resource sharing, search for efficiency savings, purchasing buildings to reduce long-term rent costs, mergers
Types of organisation using them	Those delivering a more or less definable service	Those that have already developed a larger core than can be funded through the projects	Those with objectives that can be identified, those that can identify an audience with access to funds	Able to resource share
Strengths of these strategies	Exposes all costs to rigorous analysis	Concentrates management attention on the component parts of the business	Values of voluntary income, and creation of supportive networks	Over time reduce costs, and so reduce search for core income

Continued overleaf

Cost	Recovery	Cost Diversion	Cost Donation	Cost Reduction
Weaknesses of these strategies	Transaction costs	Transaction costs	Limited access	Time lag before reductions show; limits to the extent to which costs can be reduced
Risks	Funders do not accept the calculation.	Project funding is insufficient; core mission is hard to sustain	Investment to start this approach can be high – if the costs are not met the approach simply adds to the costs of the organisation	That over zealous approaches to this strategy damage the ability of the organisation to achieve its mission

Each proposed strategy is worth investigating by voluntary organisations, and most are pursuing a combination of them. None of them will eliminate the core costs to be met by a voluntary organisation, and all have their own costs as well as benefits. The pursuit of at least three of the four strategies (cost recovery, cost reduction and cost donation) requires significant investment at the beginning and will not, in itself, result in reduced overall costs in the short term.

Implications for different types of organisation

Voluntary organisations come in all shapes and sizes. While this chapter has argued that they are shaped by the funding environment, and also by their responses to that environment, their internal funding structures also influences the management and development of them. Voluntary organisations have different financial structures, and these require some analysis to determine the ways in which organisations are shaped by their funding environment. A study of financial governance in charities[10] suggested two funding structures for voluntary organisations, and makes the point that these will influence the financial machinery employed.

Voluntary organisations as self-financing businesses

These organisations are essentially "self-financing" in that they generate all the income needed to support their activities from the sale of their *charitable* products or services or at least sufficient to maintain their current level of activity. Donations and grants sought will be in order to expand activity, but the main activity generates funds – either through fees or through grants – in a way that justifies calling them "not-for-profit businesses". Many voluntary organisations fall into this category, although the imperative of growth means that – just like commercial businesses – they may be seeking grants as a form of venture capital to enable them to develop services to meet new needs. The search for a purchaser for these services, and then the costing of such services to ensure that the price charged covers the real costs, will be a major preoccupation for these voluntary organisations.

There is additionally a group of organisations that are able to generate income from their endowments or their reserves, and so similarly are able to finance their activities internally.

[10] Trevor Gambling and Rowan Jones (1977), *The Financial Governance of Charities*, CAF.

Voluntary organisations as budget-financing organisations

Many other voluntary organisations do not – argue Gambling and Jones – have such a clear link between their charitable expenditure and the income needed to finance it. They have to undertake specific "fund-raising activity" and budget their operations within their expected income from appeals, grants, trading income, voluntary donations and so on. As such they operate more like public sector organisations in which the budget making process is actually a request for funding.

Of course most voluntary organisations are in practice a mixture of both. They may, as many arts organisations do, earn a significant portion of their funds through their charitable activities, but are also required to raise funds either for specific pieces of work or to make good planned shortfalls in income. However, the two models can be used to analyse and understand the activities of these organisations, and this in turn illustrates the ways in which funding decisions influence their development.

Three kinds of organisation are considered here, although it needs to be recognised at the outset that very many voluntary organisations are actually hybrid – combining advocacy, service delivery and membership. However, for the purposes of financial analysis and in particular for considering the ways in which they allocate and meet core costs, it may be helpful to break them into their constituent parts.

Membership organisations – those for which a primary activity is supporting and helping the membership of other organisations or individuals. The support of the membership is therefore a central business objective.

Service-providing organisations – those that deliver a service directly to beneficiaries.

Advocacy and campaigning organisations – those that exist to press for social policy change.

The way in which individual voluntary organisations negotiate their funding problems will be, in part, determined by the relationship they have to their funding (whether they are self-or budget-financed) and the functions they are providing. It will also critically be determined by the stage the organisation has reached in its life cycle. Three stages can be identified that have a particular influence on the nature of the funding available. Management theorists identify a complex life cycle for voluntary organisations and note that stages are rarely followed sequentially, with many organisations failing to have time to consolidate their many developments. There are no shared models to describe the different stages, but it is clear that different funding types might be needed at different stages of life. Thus for example, a new organisation, operating around a founder's kitchen table, might be looking for very different forms of funding from a mature and well-developed organisation planning expansion into a whole new area. This chapter identifies three distinct periods of growth, each of which will require different approaches to funding:

- Development stage
- Consolidation stage
- Growth stage

These stages are used only as descriptions of the dominant theme for any voluntary organisation at any one time, rather than as attempts to provide a fixed framework for development.

Implications for funders

This book has described the three modes of grant making as giving, shopping and investing. The different modes will have a different impact on the organisations receiving the funds. At the development stage of its life, a voluntary organisation may well require investment, and a funder focused on building the organisation. At the consolidation stage it may well be providing a service which the funder is "shopping" for, and when it makes its next step in growth it may well require a gift to enable this to happen. Funders that understand the life cycle of the organisations they are supporting will be in a better position to target their funds effectively, and to do so in a way that builds managerial strength and capacity, rather than weakens it.

Conclusion

The shape and development of both the voluntary sector and the individual organisations within it are influenced by the ways in which funding is made available. This has created organisations that are frequently difficult to manage, and find the route to growth challenging. Faced with this environment voluntary organisations adopt mismanagement responses that do not necessarily serve the needs of the organisations, or further its mission. A tension between business development and charity mission may be inevitable, but in the current environment this chapter has argued, the impact of this tension is distorting and does not help voluntary organisations play their full part.

Chapter 5

Appraisal and Assessment – art or science?

Summary

The selection of organisations for funding is one of the critical steps taken by any funder. While designing a programme, analysing the approach to be taken and managing external relationships are all important, funding programmes stand or fall on the strength of their assessment of applications. It is also the assessment relationship that to a considerable extent affects the relationship between the funder and the funded. This chapter considers the different ways in which this can be done, points to some of the risks in each approach and suggests some principles for determining how this should be done.

Background

Funders of all sorts have a large casework element. However they structure themselves, the core of their activity involves deciding whether or not to award funds to a particular organisation. As in all the activity of funders there is a wide spectrum of behaviour determining how this is done. Put simply the wider the criteria adopted by the funder, the more effort will need to be placed on the assessment of applications as they arrive. Funders that decide on extremely narrow criteria can be assured that the applications they need to consider will, if eligible at all, be seriously considered for funding. These organisations may then submit proposals to peer review, or ask for appraisals in other ways, but their choices will have been circumscribed by the criteria originally set. Other funders, perhaps especially those that wish to work on a broad screen, are more likely to have rather wide criteria at least for eligibility, and will then find themselves having to make judgements between applications which, superficially at least, look much the same.

Different approaches

Diana Leat in her important summary of the approaches to assessment used by 50 major charitable foundations[11] describes in some detail the different approaches adopted. While some foundations invest heavily in their own grants officer staff to make assessments, and frequently guide them with detailed instructions, others use external assessors or panels of advisers. Others still engage trustees in selecting from a range of organisations that come and personally present their work.

The Holy Grail of the perfect assessment approach is, however, impossible to reach. Many experienced funders believe in instinct. They argue that too many protocols suffocate common sense. Others argue for a more professional approach, while admitting in private that you can "spot a good application by smell". In contrast, the National Lottery Charities Board, in its early days, sought to remove the discriminatory elements of too much discretion by a transparent and structured approach to appraisal, borrowing from the financial services industry's approach to appraising businesses for investment.

[11] Diana Leat (1998), *Faith Hope and Information*, Joseph Rowntree Foundation.

The heart of appraisal

Any assessment of any application has only two core questions at its heart.

- Is this organisation one that we wish to support?
- Is the proposal sensible?

Subsidiary questions to these only illuminate the analysis and might include:

- What is the market in which this organisation is operating?
- Does it have a reasonable chance of success?
- Is it credible?
- Does it seem to be operating in the right way?
- How is it viewed by its peers?
- Is the methodology proven and established or is it experimental?
- Are the people involved capable of delivering the proposed programme of work?

These questions are deceptively simple. They unlock a mixture of expectations, hopes and prejudices, and will be answered differently depending on the person asking them.

Are these questions right? Are there other ways of looking at them? What is the role of risk in making judgements? And whose risk is being considered? Are they based on correct assumptions?

The core questions

The core questions in any assessment are designed to provide the sort of information that enables the funder to make an informed choice. They provide the background that enables the funder to decide whether or not the desired impact is likely to happen. They give a sense of the market in which the organisation is operating, and sometimes they can even point to the factors that make success more or less likely. But in the truly challenging problems that many voluntary organisations are seeking to address they cannot give guarantees. They are in any event profoundly coloured by the power relationship between the assessors and the applicant. The applicant will wish to persuade the assessor that funding will automatically result in a certain social good, while the assessor will wish to protect the funder's resource from unmanaged risk.

Whose judgement?

Any assessment or appraisal whether done on paper or in person, relies on the judgement of the individual making the first assessment, and to a considerable extent on the chemistry between them and the organisation under review. Human beings bring their own perceptions of issues and of people to bear on the way in which they review proposals. For some grant-making trusts, historically at any rate, these judgements were made by a trustee working on behalf of their colleagues. To a certain extent they could be said to be applying their own collective judgment to the issues ahead of them. Over the last 15 years, this approach has increasingly been distanced from the trustees themselves and funders of all sorts, expect the very smallest, employ grant officers or freelance assessors to assist them in this work. Does this bring a greater degree of objectivity and professionalism into the process? Or does it simply import a new set of preconceptions?

Discrimination or judgement?

The experience of organisations new to the funding dance is salutary in this context. In 2002 the Joseph Rowntree Foundation published a study[12] that surveyed 200 black and minority ethnic groups and observed that many respondents believed that they were excluded from the process of bidding for funding. The BME Sustainability project, reporting in January 2003[13], was if anything more challenging, arguing that the lack of established personal contacts presents a real barrier to black organisations seeking to enter the funding market. Furthermore respondents to this research survey commented that, despite the expressed intentions of some funders, their structures and processes, as well as their own attitudes, prevented the funding reaching the black community organisations.

This experience is shared by those without a track record of experience and specifically by those entering new areas of work. The development of a group of organisations responding to the crisis of AIDS in the early 1980s took some funders by surprise and there was undoubtedly a concern about the way in which judgement could be applied to organisations which could not be assessed by the tried and tested models. One motivation for the establishment of the National Aids Trust was to establish an intermediary through which some funding bodies could channel their support. Similarly the concerns expressed by English grant-making trusts at the challenges of funding community organisations in Northern Ireland provided some of the impetus for the establishment of the Northern Ireland Voluntary Trust.

But the creation of funded intermediaries is not a catch-all solution. Funders wish to have direct relationships with the organisations they fund and are therefore constantly seeking new ways of making sound and reliable judgements about capability, uncoloured by prejudice or ignorance.

Mechanical information gathering or trusting to instinct?

One response to the undoubtedly risky approach that relies on instinct and chemistry has been the introduction of more mechanical and systematic approaches to assessment. Pioneered particularly by the National Lottery Charities Board at its inception in 1995, this approach has real benefits for high volume funders. It enables the use of information technology to capture reams of information, and offers preliminary sifting, especially on grounds of eligibility. It has the great attraction of being capable of use by less experienced staff and, theoretically at least, it should be able to offer a logical and transparent approach to selection. In aiming for both consistency and local sensitivity the Community Fund has had to combine the more mechanical approach with the skills and judgements of officers, who then make the final recommendation to lay members. The "scoring" system provides a numerical and verifiable approach to assessment, but as Diana Leat[14] pointed out, the assessors themselves frequently recognised that "gut feelings, intuition, feel, atmosphere and intangibles were also important".

The detailed approach adopted by the Community Fund and issued to all assessors is a publicly available document[15], and describes in painstaking detail the steps required to make a recommendation.

[12] Joseph Rowntree Foundation (2001), *The role and future development of black and minority ethnic organisations*.
[13] Instutute of Philanthropy (January 2003), *Finding the Funds*.
[14] ibid
[15] Community Fund (May 2002), Grant Assessment Manual.

Other funders have concluded that the complexity of the issue, and of the organisations, requires a more discursive and iterative approach, in which some of these uncertainties can be captured and described. In doing so they are open to the charge that their judgements are hard to understand and not capable of outside scrutiny. On the other hand, as any experienced funder will say, some of the most successful grant decisions have been made on the basis of "hunch", and some of the disasters avoided have been guided in just the same way.

Creativity in grant making

There is another aspect to the tension between instinct and protocols. Some really good grant decisions are essentially creative ones. They combine the work of the applicant organisations with the funds available, and the resultant alchemy depends on creativity as well as scientific method. A recent practice paper from the US Improving Philanthropy project[16] describes some of the features of creative grant making. In this paper Brousseau argues that creativity in grant-making is demonstrated by foundations and their officers which have:

- A motivating belief in their core values and what they are doing
- Cognitive skills that enabled them to manage the dynamics between information, people and money
- High level interpersonal competence
- An ability to cross boundaries and mix worlds
- A sense of journey.

This licence for creativity is found in the grant-making bodies with the clearest sense of purpose and vision, in which the overall strategic direction and sense of values are sufficiently well developed to allow creativity to play its part.

Approaches to grant decisions

In large part the way in which any funder manages the approach to appraisal and assessment will depend on the nature of the decision. Diana Leat[17] identified four types of grant maker in this context:

- Risk takers
- Rationalists
- Resource providers
- Realists

Decision makers that know which type of funder they are will find it easier to determine the ways in which they take advice from their assessors. Equally, funders will have different approaches to assessment depending on the funding mode they are using. Funders consciously adopting an investment approach will focus much more on the strengths and capacity of the organisation, whereas the shopping funder will wish to consider the viability or otherwise of the particular project ahead of them.

[16] Ruth Brousseau (2004), *Experienced Grant Makers at Work – when creativity comes into play,* The Foundation Center.
[17] ibid

The life cycle of the applicant

Assessment decisions and approaches are informed in large part by the life cycle of the organisation. Clearly the stage in an organisation's life when funding is sought will colour the expectations of the assessor, and will inform the way in which the appraisal is conducted. The UK funding environment has, until recently, made little use of terms like:

- Start up funding
- Transitional support
- Growth funding.

Clearly these different types of funding will require a different form of assessment and appraisal. The concern about balancing objectivity and subjectivity in order to ensure fairness is in part designed to prevent the assessment process from becoming an insuperable barrier to entry for new organisations.

Alternative approaches

Funders will balance the approach they take, in part guided by the volume of applications they are dealing with, but also by the level of external scrutiny they face. For funding organisations that wish to really make a difference, however, there are at least three different ways in which they can approach this issue. These methods are:

- Working through intermediaries
- Scanning the horizon
- Due diligence approaches

These can be used separately or in combination, and will frequently support the assessment model already used by the funder.

Funding through intermediaries

As has been described earlier, for some issues or localities, funders have historically chosen to work through intermediary organisations. In doing so they have shared with the intermediary the difficult task of judgement. In some cases they have also delegated the decision making as well. So the support given by many grant making trusts to the National Aids Trust, the Mental Health Foundation and some regional community foundations has built the strength of those organisations, as well as buying their assistance in appraisal and assessment. In these instances decision-making and indeed fund management was passed to the intermediary which then offered a clear and field specific approach to grant management.

However, there are other ways of working through intermediaries. Many funders rely on the advice of the infrastructure organisations in the voluntary sector[18] and increasingly some are resourced to do just that. While this can be difficult for the infrastructure organisation, it does enable the funder to at least have the assurance that their judgements are compatible with thinking in the field. Of course it runs the risk of excluding the new and innovative, and possibly more challenging approach. It also runs the risk of asking the intermediary body to combine dispassionate assessment with advocacy for a field of effort, and this needs to be recognised and managed.

[18] Lucy Ball & Julia Unwin (1998), *Funding the Infrastructure*, The Baring Foundation.

An alternative approach is provided by Charis[19], a new company that offers a full grant management service for funders of all sorts. First started with the objective of helping utilities companies with their charitable giving, it has the potential to provide an assessment and appraisal function for a wider range of funding bodies.

Any approach to intermediaries does not solve the dilemma of appraisal processes. It simply enables the funding body to specify the parameters of such assessment and to delegate some of the responsibility. It is also not uncontroversial in its approach. Another paper from the Improving Philanthropy Project[20] explores some of the challenges of working through intermediaries, and specifically addresses the complex issue of trust that has been so central to this discussion of assessment and appraisal. In this paper the authors argue that trust lies at the heart of all approaches to appraisal, and that the generation of shared trust is needed if funders are to work effectively through intermediaries.

Scanning the horizon

An important part of any assessment process is the understanding of the wider environment. Although assessment is essentially casework, the context in which this casework is done is vitally important. Some funders still now routinely commission "scoping" papers to ensure that before entering into any particular field of endeavour the decision makers are aware of the range of activity, the challenges to this sort of activity and the realism, or otherwise, of expectations.

An article in an Australian newsletter[21] specifically recommends that good grant-making should "look before you leap" and offers a range of ways in which intelligent and informed grant-making can learn from the field before making funding judgements. The suggestions include:

- Making connections, not just collecting data
- Introducing practitioners into the thinking at an early stage
- Gathering the best minds together
- Taking part in discussions in the field
- Gathering diverse viewpoints

These approaches can help the funder to find their way through the inevitably complicated and contradictory information that any field of interest generates. However, funders need to recognise that even the process of horizon scanning will raise expectations in the field and will therefore have an influence on the nature of the applications received.

There is a real danger that assessment can tend towards the conservative, supporting approaches that have worked before and therefore shunning innovative approaches. This may be mitigated by a creative approach to horizon scanning which provides the funder with the full picture of the field into which they wish to contribute funds. The pioneering work of New Philanthropy Capital[22] in offering this service for individual donors illustrates the power of horizon scanning to enable accurate and reliable assessments to be made.

[19] www.charisgrants.com
[20] Peter Szanton (2003), *Towards More Effective Use of Intermediaries*, The Foundation Center.
[21] Ellen Arrick and Felicia Khan (2003), *Look before you leap*, Best Practice Grant Making Quarterly Edition 3.
[22] www.philanthropycapital.org

Due diligence

The third alternative route to helping assessment is to borrow from the commercial sector and see the approach as one concerned with "due diligence". This is designed to protect both parties, and enables the funder to combine the factual information that is gathered in any assessment with the more subjective judgements made by any investor. In many ways the adoption of the terminology of the investment sector has had the effect of focusing attention on the content of appraisal. "Due diligence" implies a systematic survey of the work of the organisation under review, considering its key risks, its strengths and weaknesses and enabling a rounded picture of the organisation to be developed.

The Impetus Trust which is pioneering the development of "venture philanthropy" in this country describes its due diligence approach in the following way[23]:

If we establish mutually that there is a good fit between us, and our Investment Committee agrees, then we would want to delve into much more detail. For example, in order to commit long term funding we would want to:

- *review and work with you to agree a business plan*
- *assess and evaluate your future objectives*
- *carry out a detailed assessment of the charity, its market, its risk profile and its prospects*
- *meet and get comfortable with the senior management and trustees.*
- *identify the specific areas where Impetus would initially contribute*
- *develop the funding schedule to support this plan*
- *agree the performance indicators to be monitored*
- *prepare a funding Memorandum of Understanding*

This approach and others like it acknowledge the subjectivity involved in any such process, but also seek for mutuality and a shared understanding of the approach to be taken. They can be seen as an n extension of more traditional approaches to assessment, and in many senses the approach simply formalises the methods already used.

Conclusion

Assessment of proposals is both art and science. In order to protect the funder from unacceptable levels of risk, both the data collection and the subjective judgement need to be combined. There are additional tools that can be used, and a clear understanding of what the funder wishes to achieve is obviously important in ensuring that this crucial part of the funding process is managed correctly. Modern funders are particularly and rightly anxious to ensure that their funding is open and accessible to all parts of the community. Indeed they know that they simply cannot achieve many of their objectives without this openness. The role of the assessment process in erecting unacceptable barriers to new and emerging groups, or to minority organisations of any sort, needs to be acknowledged in the development of any new approach to assessment and appraisal.

[23] www.impetus.org.uk

Chapter 6

Becoming better givers

Summary

In identifying the three modes in which funding bodies operate – giving, shopping, investing – it is easy for the giving mode to be dismissed as the easy, and maybe less effective, mode of activity. It is the way in which the bulk of support to the voluntary sector is provided by grant-making trusts, by the public and still by many public bodies. This chapter considers what giving in this way means, analyses the benefits it has for the recipients and suggests ways in which this approach can be re-evaluated in particular for the benefits it brings to the funding body.

Background

The philanthropic impulse lies behind almost all individual giving and the establishment of most charitable organisations. At its heart is a desire to do good by offering money, and the vehicle most commonly adopted is a voluntary organisation. For almost all voluntary organisations the biggest obstacle to achieving their mission is described as the lack of money. While commentators will persist in arguing that funding is not the only obstacle and that for many voluntary organisations limits to capacity include their skill, positioning and model of intervention, it is nevertheless the case that in the UK the chronic issue for most leaders of most voluntary organisations is first and foremost a lack of funds.

Yet in a climate increasingly concerned about accountability, and in ensuring value for money, it has become fashionable for funding organisations to operate in ways that diminish the importance and validity of their giving role. Frequently dismissed as simply "gift giving" there is a danger that this critical function of most funding bodies is treated as a rather embarrassing adjunct, rather than a crucial part of the spectrum of support that ensures voluntary organisations thrive.

What do voluntary organisations need?

Most voluntary organisations operate with a diverse funding base.

The case studies in Chapter 1 provided an illustration of the diversity of funding used by many medium sized and small organisations. They are used in this to explore the uses to which "gifts" are put.

Organisation A is an inner city settlement working as a community centre. It was established in the nineteenth century by one of the Oxford Colleges, and owns a dilapidated Victorian building in a very mixed part of the city. The building is a part of the original endowment which also provided a cash endowment currently worth several million. This endowment is held in a variety of financial instruments, as well as being invested in some commercial property in the area. This organisation earns a significant proportion of its own income, and has funding relationships with a number of organisations which are "shopping". It also receives 25% of its income each year from ten grant making trusts making comparatively small grants. These grants are pivotal in enabling it to make effective use of the other funding available.

Organisation B is a group of parents of children with a particular rather rare debilitating condition. There are only 1,500 cases of the condition known in the UK and there are 600 members of this group. They exist to support each other and to lobby for better diagnosis and medical support, and some of them are interested in putting pressure on research bodies to identify a cure.

While most of the funds of this organisation will come from membership fess, and payments for specific pieces of work, a grant offered as a gift might provide the organisation with the time to plan its future growth and development.

Organisation C is specialist think tank. It was originally established by a group of grant making trusts concerned about the quality of education and training, and its mission is to try and improve educational standards in the UK. For the first five years it received its main funding from the three trusts on receipt of a work plan itemising costs and activities. The funding has been tapered since year 3 and is intended to finish in year 5.

The analysis of this case study suggested that the lack of any donated funds, as nearly all the income was earned through commissioned work, restricted the flexibility of the organisation. The availability of some donated funds would provide this organisation with a platform for growth.

Organisation D provides a mix of social welfare services for older people in two counties. It has received long-term grants from both the councils in which it operates, and these traditionally met the overhead and general running costs of the work.

This case study described the way in which donated income could enable an organisation to grow and develop a different sort of profile, and therefore different sort of influence.

In effect the donated part of the income for each of these fictional case studies influences both the funds that can be earned from the sale of charitable goods and services, and the income that can be generated from fund raising events. It also influences the use that is made of income from investment. The donated money is therefore pivotal in ensuring the shape and scale of the business.

The funding picture might be even more varied. It might include funds invested in the organisation, as well as a range of different contractual or earning relationships. If, however, the donated slice becomes very small the funded organisation will face a number of distinct dilemmas. It will need to:

- Finance all its overhead costs through its earned income. This will work effectively when its purchasers meet the full costs of services and activities, but if and when they fail to do so the core of the organisation will be jeopardised.
- Do all its planning and thinking in time paid for by organisations with a clear view about the outcome.

- Devote a great deal of its time to managing relationships with the different funders it is dealing with.
- Be very conscious of its vulnerability to minor changes in market behaviour and liable to be over-balanced by significant changes.

For some voluntary organisations the gifted part of their funding income will come from the general public. They will be the beneficiaries of flag days or community fund raising or long term legacy income. For these organisations their flexibility is determined by the ease with which they can approach the public for money.

For many other organisations this route is a much less successful one. Either because of their size, location, or subject matter they are not beneficiaries of individual donations. However successful they are as social businesses, selling their services to statutory bodies and developing productive investment relationships with funders that wish them to succeed, their strategic capacity for manoeuvre will be limited.

For these organisations the donation of funds, untied to specific outcomes, can make all the difference between healthy survival and failure. It can provide that precious "headroom" for the managers of the organisation, enabling them to experiment with new approaches, construct the right relationships and plan for their future. It can also help trustees to recognise that they have some strategic control over their work, and do not only need to respond to the requirements and interests of external organisations.

Specifically it can have a crucial role at particular stages of the life cycle of an organisation. "Start up" funds for new organisations are sometimes described as an investment, and frequently this is an accurate description of the impact of those funds. But the beginning of an organisation can also be supported through a gift that enables the new governing body to make its own decision, articulate its own vision and then approach others for funding in a more confident manner. Equally, there is often a moment of crisis for voluntary organisations when they change the scope of their activity, by moving, for example, from a local to a national basis for operation. A gift from a funder can provide the flexibility of management that can make the difference between success and failure.

What does good giving look like?

For funders too there can be real benefits in giving, without too close a focus on the use to which the funds are put. A response to an appeal for funds, subject to proper due diligence to check the standing of the organisation, can be a contribution to the direction of the organisation. It can in that way be a serious vote of confidence in the organisation and its own mission and direction. Its impact can be judged, not necessarily through tracking the impact of a single contribution of money, but by tracking the development of the organisation as a whole.

If good giving can be enabling to the funded organisation, it can also liberate the funder from some of the anxieties that beset the funding environment. Good giving requires an assessment framework that judges the organisation for probity and capacity. It does not, however, need to invest overly in evaluation, except in keeping in touch with the recipient organisation. Good giving can also enable a foundation to explore a new area of activity, providing a framework for a new sort of relationship without necessarily having to establish accountability controls at the start of the relationship.

Gift giving can build or cement a relationship. In an operating environment that is, inevitably, driven at least as much by networks of influence and relationships, as it is by data and scientific evidence, this can provide the funding body with invaluable contacts and intelligence.

Finally good giving can be a useful way in which a funder can signal interest in a particular field and support for the direction of development.

Can giving ever be strategic?

Much of the revolt against simply giving has been instigated by a desire to see funds having an impact greater than the sums of money expended. Frequently described as "strategic funding" this approach assumes that the leverage produced by funding is one of ways in which grant making organisations are strategic. Proponents of this approach also describe the impact that particular types of funding decision can have as strategic, either because it changes the direction of an organisation or the field in which it is operating.

By these two definitions the giving of grant making bodies is undoubtedly capable of being described as strategic, the key distinction being that the strategic effect is experienced by the recipient organisation more than by the funder. Thus for example, a donation of general support to an organisation will alter the funded organisation's relationship with its purchasers. It may make it more assertive, and will certainly allow it more independence from them. This form of leverage may well put it in a stronger position to negotiate other funds. It may also have a marked impact on the future of the organisation, providing it with the "equity" so desired by the proponents of the investment model. What it will not do, however, is furnish the funder with a clear sense of "return" and for this reason it is more difficult for those funders which wish to demonstrate their own impact, as opposed to the impact of their beneficiaries.

In the United States this sort of giving is frequently described as "general operating support", and in many ways it equates to the notion of core funding as used in the UK. Writing in the Stanford Social Innovation Review Paul Brest[24] describes the ways in which open-handed gifts of this sort can make a difference by supporting the autonomy of the recipient organisation and enabling it to respond more flexibly to the many pressures it faces. Arguing that if this sort of support is negotiated between the funder and the recipient its effect can be more long lasting than other highly specified inputs, he tries to look at the world of strategic philanthropy not from the point of view of the funder, but from that of the operating organisation.

Accounting for gifts

Almost by definition good gift giving requires no return. Polite acknowledgement may be the best that can be expected. But also like all gift giving, it can help to cement relationships. The openness of the transaction can enable both parties to talk together properly and share anxieties as well as success. Gifts given freely can result in positive results or can be absorbed in more invisible ways, but can nevertheless make for an important dialogue and sense of trust, which can in turn develop into a different sort of funding relationship.

[24] Paul Brest (Winter 2003), *Smart Money: Strategic General Operating Support*, Stanford Innovation Review.

Case study: the Baring Foundation Core Costs Programme

The Baring Foundation programme makes a significant contribution to the core costs of an organisation over three years is one example of how a funder can give. In effect the Foundation has made a grant of £75,000 over three years to selected organisations with no precise stipulation about its use. While the Foundation has made it clear that the funds are not to be used simply to strengthen the balance sheet position, there are few other restrictions, and most recipients have used the funds to strengthen organisational capacity. Evaluations of this programme suggest that in some instances this approach can enable organisations to make a step change in their development, but for others it has simply provided some breathing space during an otherwise challenging period. Concerns about the use of these funds to reduce unit price have meant that it has not normally been available to organisations that are largely offering a service under contract to public bodies.

Limitations to giving

There are times when giving is not a suitable mode, or is one that should be adopted with considerable care.

Gifts are probably not needed by those organisations that can already demonstrate high levels of giving from the public. To substitute for that relationship with the giving public, or simply to add to it, does not provide an enhanced role for any funder. Equally organisations that are almost primarily contractually funded, earning fees from statutory bodies for services provided, may long for some gift income to provide them with flexibility. If the impact of that gift income is simply to reduce the price charged to the purchaser it is probably not a good use of the funds. Finally for funding bodies which need to demonstrate to their donors, either corporate or individual, that they are able to have a clear and definable impact, there are real drawbacks with giving as opposed to shopping or investing.

Conclusion

It is an irony that in the debate about the future development of philanthropy, giving has got a bad name. It is a powerful tool for funders to use, enabling them to work in previously untried areas and develop good and lasting relationships built on trust and openness. Giving still constitutes the majority of the activity of nearly all funders, and this is extremely important for funders and funded alike. While there are occasions when it is not suitable, nevertheless the giving mode is an important one for funders, whatever their intentions. Giving can build capacity and can contribute to social change, and it can also contribute to the on going activity of any organisation, providing it with freedom to develop. It does not provide the clear and transparent link of accountability signalled by some other modes, but, depending on the funding intent, it can remain a very useful style of funding. Finally giving does not have to stand alone. Funders that wish to give in this way, may also wish to provide support and guidance to funded organisations. Unlike the investors or the shoppers, however, they will not be guided by the end to identify a return.

Chapter 7

Becoming better shoppers

Summary

Many of the organisations that fund the voluntary sector describe themselves as "purchasers." By this they tend to mean that they are paying those organisations for specific pieces of work. While this mode of funding is most frequently found in the statutory sector, many grant making trusts and companies are also increasingly providing funds for specific pieces of work. They may be commissioning voluntary organisations to do pieces of work, or they may be responding to requests for funding, but the role of the funder in these relationships is largely that of purchaser. Purchasing involves being specific about the product bought, and having narrowly defined views about the use to which the funds will be put. These same organisations also express concern at the quality of the work they are supporting and the nature of the market place in which they are shopping. This chapter considers the implications for organisations that see their primary relationship with the voluntary sector as one of procurement, and suggests some standards by which "good shopping" can be judged.

"Lots of funders behave as if they are going into Marks and Spencer and trying to buy a jumper without being prepared to pay for the design, or the advertising costs, or the laboratory testing of the new yarn, and are actually rather unwilling to meet the cost of the right hand sleeve. Then they're surprised that they have bought a rather grotty jumper."

Unattributed CEO of medium sized voluntary organisation in workshop on core cost funding

Background

The identification of the voluntary sector as a provider of services is nothing new. Voluntary organisations have provided services that the state might otherwise provide since their earliest days. However, the development of a specific of a client contractor split since the late 1980s has fundamentally changed the relationship between local planners and purchasers of services and providers, whether in the public, private or voluntary sectors. The Community Care legislation of the early 1990s further formalised these relationships and the language of funding adopted the tone of commercial agreements. Specifically there was a move by most statutory funders to devise a more contractual basis for their funding, with an emphasis on, at the very least, agreements for service delivery.

This more highly specified approach to funding, has also been adopted by other funders operating outside the statutory framework. The key features of all the funding bodies when they are shopping is that they are:

- Specific about the expectations they have of the funded organisations
- Inclined to focus on the achievements of the funded body
- Wish to track the impact of their funds in particular.

The experience of the purchasing relationship

Inevitably the experience of voluntary organisations operating in this changing funding environment has varied.

For voluntary organisations engaged in definable forms of service delivery the development of this approach brought clarity. Many became used to describing their work in terms of outputs and ascribing a unit cost to each item of delivery. Furthermore, models of contracting became ingrained in the method of operation of these organisations, and were rapidly assimilated into their business planning processes. For some funders this purchasing relationship allowed them some safe distance from the organisations they funded, and they were able to describe them simply as suppliers of services within a free market.

For national service provision organisations there did also seem to be some benefit from the economies of scale offered, and funding judgements based purely on awarding the contract to the cheapest provider may well have benefited them, despite the additional costs incurred.

However for many others this approach was much less satisfactory. The problems they encountered fall into a number of distinct categories.

Contracting as a perverse incentive

The application of funds closely related to defined outputs led some organisations to distort their service. The best example of this is the allegation that the way in which some funds for training of unemployed people were tied to outcomes meant that service providers then selected trainees who were most able to achieve these outcomes. While this result was not the one desired by the purchasers, it was seen as an inevitable result of a funding system that appeared to reward results without specifying the needs and requirements of the service user.

This perverse incentive is not an inevitable result of an output-based approach to funding, but it is one of the likely consequences unless efforts are made to overcome it.

In many contracting cases where the planning body also makes judgements about eligibility, such incentives do not arise. For example, much of social care is only available to people who are deemed to meet certain thresholds of need. In these circumstances the provider organisation may properly be concerned that the price charged to the purchaser meets the full costs of providing the service. Furthermore they may properly feel that their funding arrangement constrains the choice of beneficiary that they would otherwise make, but it is not likely to alter the nature of the service they provide.

The limitations of measurement

The new approach to funding came at the same time as a much greater emphasis on the measurement of performance. In all areas of public and voluntary service this has resulted in a greater focus on audit, and on the development and definition of measures of performance, frequently used in a comparative basis. The "performance culture" has tended to value that which can be counted.

A significant part of the voluntary sector is not engaged in the delivery of services that can readily be counted. Agencies engaged in research and development, or in working with unrecognised groups of service users, as well as organisations offering activities and development support – such as all of those engaged in community development of one sort or another – have frequently experienced the contracting regime as unhelpful. They have argued that it is difficult to structure their work into defined units or to attribute outcomes that can be tracked. Furthermore, they argue, some of the really intractable social issues of our time do not lend themselves to easy measurement, and indeed require persistence and a reliance on process and not simply outcome for maximum impact. (Chapter 10 on the measurement of impact develops this theme more fully).

These organisations argue that purchasing bodies want the activities and facilities that this part of the sector can offer, but are obstructed in doing so by a narrow and unhelpful emphasis on counting outputs.

This is not an inevitable consequence of a purchasing relationship. There are organisations that have developed ways of measuring impact, even when measurement is not straightforward, and there are funders that have devised new and imaginative ways of valuing work that cannot be described in neat output boxes.

Buying from a starved organisation

The development of organisations that are, in reality, a collection of service delivery projects may superficially seem to suit the purchaser. After all, the rhetoric of purchasing has always emphasised the simplicity of this sort of relationship.

Yet increasingly funders note that the quality of applications is not as good as it might be. They comment that funding compliance is frequently poor and, anecdotally at least, they will note the decline in innovation and new thinking. While there may be a great many reasons for these shortcomings, some at least can be attributed to the large number of "starved" organisations. These organisations are characterised by energetic management of a series of projects, each funded for differing periods and few making a contribution to the centre of the organisation. Typically these organisations will find it difficult to plan ahead. They may find the adoption of new initiatives to improve governance or to engage with users extraordinarily difficult. Their measurement of performance, and crucially their capacity to deal with poor performance, may be unduly limited. They may find that the burdens on their chief executive or most senior member of staff become intolerable.[25] Perhaps most importantly from the point of view of the funder, they may not be able to devise new ways of tackling problems and may seem to be rather unimaginative in their development. All of these are symptoms of the starved organisation.

[25] Lucy Ball & Julia Unwin (2004), *Valuing Our Potential – investing in the skills to build civil society*, City Parochial Foundation.

The existence of starved organisations is not the automatic result of the purchasing relationship. Indeed one way in which many voluntary organisations have successfully funded their own development has been through the careful and realistic pricing of contracts to ensure that the overhead costs are adequately covered. This approach, increasingly known as “full cost recovery”, enables voluntary organisations to determine a realistic overhead for their activities, and ensures that the costs of compliance, of governance and of innovation are met in their project costings.

Identified problem	Mitigation
Perverse incentive	• Purchaser defining more closely the nature of the service • Provider determining the needs of the service user at the time of agreeing funding
Limitations of measurement	• Willingness by both funder and funded to develop ways of assessing progress that do not rely solely on measurement
Funding a starved organisation	• Full cost recovery by the funded body • Willingness to pay full costs by the funding organisation

What would good shopping look like?

In any purchasing relationship the purchaser pays for costs from which s/he does not directly benefit. We daily meet the costs of advertising budgets, or research and development, and of compliance with regulations, as well as contributing to the profits and ongoing costs of the seller.

Even in the commercial market, some shoppers are not just concerned with individual purchases, however, and will tend to accept these costs but also do more. They will wish to be assured that the company selling to them has a long-term future and is a reliable and high quality supplier. This will be particularly the case for organisations purchasing on behalf of others. The literature of corporate failure is littered with examples of organisations that ignored the needs of their suppliers, and in the public sector at least, there is a growing and highly developed understanding about the nature of this relationship.

The Office of Government Commerce offers guidance to government agencies intent on large-scale procurement and stresses the need for a relationship based on partnership. The public statements of the OGC are of particular interest to those trying to develop an effective procurement relationship with the voluntary sector.

The first area of similarity and interest rests in the advice that the OGC gives to purchasers in assessing the costs of the project.

Value for money (VFM) in procurement comes from focusing on the optimum combination of whole life customer quality, rather than initial purchase price. In support of this the OGC's agenda is based on defining 'procurement' to mean the whole life-cycle process of acquisition of goods, services and works from third parties.[26]

[26] www.ogc.gov.uk.

Purchasers are urged to take a long-term view of suppliers. They are also encouraged to view the supplier as a whole entity, to understand the business aspirations of the supplier and to take a view about the long-term viability of the organisation.

Recently the OGC published its guidance[27] for those wishing to purchase from small and medium enterprises[28]. The guidance argues that small and medium enterprises can offer the purchaser better value for money by:

- Bringing greater competition to the marketplace
- Lower costs
- Innovation
- Responsiveness
- Flexibility
- Quality of service
- Specialisation

It then identifies four major challenges to the small and medium enterprises that wish to enter the government marketplace:

- They perceive the process as long and time consuming and can therefore be discouraged from bidding.
- Those new to the public sector market may not know what is involved and may have difficulty in understanding requirements.
- They may find the cost of tendering prohibitive.
- Or they may find the timescales too tight.

The guidance goes on to suggest the ways in which purchasers wishing to encourage SMEs into the market can adapt their processes to make this possible.

For the purchaser from the voluntary sector there are some lessons and some warnings in this approach. Good purchasing might be characterised by:

- An understanding of the provider organisation, its strengths and its weaknesses not simply as provider of specified services.
- A financial calculation of likely cost that considers real costs over time without artificial constraint.
- A more sophisticated approach to contracting, by both providers and purchasers, so that pricing and costing structures are robust and can stand the test of time.

There are also some major differences in stance.

Clearly government procurement is in large part driven by the need to expand the marketplace in order to encourage competition. How much is this part of the concern for purchasers in the voluntary sector? Does it matter to funders of voluntary organisations if there are only a limited number of organisations in business? Will this provide better services or not? Does better shopping automatically include an interest in developing choice and competition?

[27] Smaller Supplier OGC June 2002.
[28] defined by the Small Business Service as those with under 250 employees.

The answers to these questions differentiate the wide range of funders of the voluntary sector. An early chapter identified the different interests that funders have in the voluntary sector and has demonstrated that there is no single funder approach.

For many funders their contact with the voluntary sector is at best marginal. They may only be funding a voluntary organisation for a single piece of work, and will be only concerned about the deliverability of this particular project. For many others, including government agencies, health and local authorities and others who have adopted the purchasing model, these questions are very real. There are clear instances in which government funding or approaches have been used to consciously develop a market of providers. The most obvious example of this is the provisions of the National Health Service and Community Care Act 1990 which obliged local authorities to purchase in the private and voluntary sectors and so developed the residential care market giving purchasers choice. There are other examples of government policies, not backed by funding instruments, which relied on a thriving high capacity sector without taking steps to develop one.

More recently Government has taken much more active steps to encourage purchasers to behave appropriately in the voluntary sector. The HM Treasury Cross Cutting Review as part of the Spending Review 2002 specifically issued guidance to statutory funders, stressing the importance of making funding decisions in ways which enable organisations to develop. This was further underpinned by the development of ***futurebuilders***, a capital fund designed specifically to enable voluntary organisations to grow as businesses that could then choose to participate in the delivery of public services.

Conclusion

Funders can choose the nature of the relationship that they have with the organisations they support. However, if their main motivation is to either achieve specific results or to ensure particular services are provided, the funders need to consider the organisation from which they are purchasing. Crude quasi-commercial relationships do not seem to result in well-run organisations that can offer flexibility and innovation. Rather they create an atmosphere of mistrust that then inhibits performance.

Funding organisations, of whatever sort, that wish to “shop” from well managed, high performing, innovative organisations need to attend to their relationship with these suppliers, and do so in a way that builds capacity rather than preventing it.

Chapter 8

Becoming better investors

Summary

Investment terminology is now used across the funding spectrum. This chapter considers the introduction of these terms, recommends greater clarity and suggests ways in which funding bodies that wish to invest, as opposed to give or shop, may improve the ways in which they do this. It argues that the fundamental differences between the voluntary sector and the commercial sector show the need to proceed with considerable caution. The chapter concludes that there are interesting and important ways in which funders can genuinely invest in voluntary organisations, but ambiguity about the approach is risky for all concerned.

Background

Like so many aspects of the UK funding environment the introduction of investment terminology is hard to trace.

There are probably three distinct routes by which investment became described as a funding approach:

1. The **development of Venture Philanthropy** in the United States. As David Carrington has described in his paper for the Community Fund[29], the growing interest in new approaches to funding was fuelled by those who had made substantial sums through the venture capital market and who wished to apply those same skills and styles of working to the resolution of social problems
2. An interest in this country in the use of **loan finance**, of all forms, to support the development of more sustainable voluntary organisations, or social businesses. While this had its most obvious manifestation in the development of Charity Bank by Charities Aid Foundation, this initiative took place at the same time as the development of the Local Investment Fund, the Aston Reinvestment Fund and other similar activities. The role of charitable grant makers in this field was first explored in a publication by the Baring Foundation[30]. Much of this work was described and promoted by the Social Investment Task Force which reported to the Chancellor of the Exchequer.[31]
3. The growing concern among funders of all sorts was that they wished to understand the **impact** they were making. This concern was frequently expressed as a wish to identify a "social return" for their funding and combined with their concerns about the viability of the organisations they were supporting.

These three themes can best be summarised as:

- Use of alternative decision making and support tools
- Different forms of finance
- Firmer understanding of the return sought.

[29] David Carrington (2002), The Investor Approach – a way forward for the Community Fund.
[30] Julia Unwin (1995), Lending Money, the issues for grant making trusts, The Baring Foundation.
[31] Social Investment Task Force (2002), Wealth Beyond Welfare.

Together they provide a useful framework for considering the ways in which funders which seek to invest, rather than give or shop, might better develop their work.

Anglicised venture philanthropy

David Carrington's paper on the Investor Approach provides an important summary of the themes of US Venture Philanthropy and gives some insights into the growing development both here and across the Atlantic of this approach. Put crudely, Venture Philanthropy as first discussed in this country had a number of specific features:

- It linked the offer of funds with significant technical and managerial support and intervention, frequently through involvement at Board of Trustees level.
- It was predicated on the view that voluntary organisations needed to "go to scale" and there is an identifiable "right size" for viability.
- It assumed that there would be a defining moment in the life of an organisation in which it would no longer be heavily dependent on external gifted funding.
- It identified the lack of equity within organisations as a major obstacle and explored ways of developing such equity.

These themes have been widely promoted in the UK and have undoubtedly had an influence on the thinking of many funders. They have also, however, been developed in ways that are more suitable for this context. Taking each of these in turn, there has been a process of readjustment that has tempered this approach.

More than just money

Many of the UK grant-making trusts believe they are offering more than money and, in the development of "engaged grant-making", believe they are making a significant and positive contribution. The involvement in a more formal sense of the funder with the funded organisation has largely been resisted for two distinct reasons:

1. The strong culture of independence of charities, which is indeed underpinned in regulatory terms, has made most charitable organisations resistant to a model of funding that is accompanied by a seat on the board. This is a different governance culture from that in the United States where a funding relationship is often a pre-requisite to a seat on the board.
2. The diversity of funders for any one organisation has made some operating charities nervous about too many in depth relationships with too many different funders.

Nevertheless the notion that business support can go hand in hand with funding and indeed that funding can unlock other forms of aid, has largely been welcomed by the Voluntary sector. It is of course not new. Lloyds TSB Foundation has offered voluntary sector managers the opportunity to join management and leadership courses run by their bank for many years, and local authority grants officers have for decades provided guidance to funded organisations in their journey around the council. What has been different is the formalisation of this function into what might be termed "highly engaged grant making".

In order to respect the diversity of funding, most funders would expect to associate considerable support only to their larger and more significant grants, and would see this as the development of a very particular relationship. Although Jed Emerson[32] has argued that this level of engagement is a crucial part of mutual accountability, most UK grant-makers in exploring this have concluded that it is more appropriately linked to grants that are large enough for such an additional offering to be proportionate. Funders providing less than 10% of an organisation's income, for example, would be unlikely to see this high level engagement as suitable.

The newest and probably most significant Venture Philanthropy vehicle in the UK is the Impetus Trust and the current plans for this Trust assume a small number of major grants each year to which the Trust will attach considerable support and a bespoke package of targeted help and advice, including monthly review meetings.

Going to scale

Much of the rhetoric of the US Venture Philanthropists assumed that there was a "right size" for voluntary organisations to reach. This chimed with the desire by the US government to engage the voluntary sector in the delivery of public service, and therefore the need to develop a critical mass to make such engagement practicable. But it did not reflect the British experience that forcibly suggests that, while some very large voluntary organisations can deliver real value and provide excellent services, some of the particular value associated with the voluntary sector rests precisely on its local focus and the sense of accessibility and ownership that this can foster. American writers have argued that "going to scale" can, through replication, protect these values,[33] but there is still some resistance in the UK to the notion that there might be target sizes for organisations.

What is of much greater concern here is the question of organisational life cycle, and investment work in this country will frequently focus on the development of organisations or institutions particularly through a stage in their life cycle.

Freedom from external funding

Much of the thinking behind early formulations of Venture Philanthropy, or investment financing, was based on a model of business development. In this model, in the commercial sector at least, small organisations grow to become larger organisations, and at a tightly defined moment in their lives they turn to the capital markets and become public companies. This Initial Public Offering (IPO) moment is not replicated in the voluntary sector. Voluntary organisations grow through taking on new services and so by earning more. Or they merge with others. Frequently they become smaller again, and this is not seen as a sign of business failure. In this way their life cycle is both more interesting and more challenging to support than conventional commercial organisations. Crucially, it is highly unusual for any voluntary organisation to get into a position where the money earned through sale of charitable goods and services exceeds the sums spent on charitable activity. Indeed most voluntary organisations would see their mission as requiring them to expand beyond the straightforward achievement of balancing income earned and costs incurred.

For this reason the vision of sustainability is described by Nick Wilkie, of the National Council for Voluntary Organisations Sustainable Funding project, as a "journey, not a destination". Organisations that wish to minimise their dependence on gifted funds will

[32] Jed Emerson (2001), *Grantee-Grantor Relations – Mutual Accountability and the Wisdom of Frank Capra*, Foundation News and Commentary March/April www.foundationnews.org.
[33] Jeffrey Bradach (Spring 2003), *Going to Scale: The Challenge of Replicating Social Programmes*, Stanford Social Innovation Review.

seek to maximise their earned income, but they are unlikely to identify a defining moment as anything more than a spur to further development.

Development of equity within organisations

The single most significant theme from the investment debate for operating organisations is the lack of equity within the organisations. By this they mean that voluntary organisations that are entirely dependent on earned income for particular pieces of work or on short- term grants, find it hard to develop their own capacity. Put simply they do not possess the cash to provide them with internal flexibility, nor do they have the assets which can be mortgaged to provide this freedom. They are more likely to resemble the "starved organisations" described in chapter 7, with no space to develop their own thinking or innovate effectively.

While this gap is widely recognised in the UK voluntary sector, and the response to funding of core costs is an attempt to respond to it, there is resonance in the investment discussion. There is a growing interest in ways of enabling funders' investment to build equity in organisations. In this debate, long established concepts of endowment funding are combined with newer notions to describe ways in which the internal flexibility within organisations can be maximised to enable them to become properly managed and capable of independent development.

Loan finance as a funding tool

Loan finance has always been a part of the funding mix for the voluntary sector in the UK. It is only in the last decade that this has been viewed as anything more than second best to an outright gift.

The development of Charity Bank and of other sources of community based finance, as well as lessons from the housing association movement, have re-cast loan finance in a much more positive light. Instead of the poor relation, the offer of a loan is seen as an important tool in the development of businesses within the voluntary sector. Most strikingly the prospectus for ***futurebuilders***[34], the Government's £125 million fund for voluntary sector development, illustrates the extent to which loan finance can now be viewed as part of a spectrum of different forms of investment to strengthen business capacity.

However, fundamental to the introduction of loans in any form is the assurance that the costs of capital can in some way or other be met. Without this the loan is simply another burden for an operating organisation. The development of work on full cost recovery assumes that those purchasing services from the voluntary sector will be prepared to meet the costs of borrowing, but this is by no means established practice yet.

The proponents of loan funding as a tool for the development of the voluntary sector have two primary motivations. The first, and perhaps the less controversial one, is the desire to recycle funds and ensure that there are funds for organisations into the future. The second, more challenging motivation, is the desire to build business capacity within the sector. The intention is to free organisations from the frequently crippling obligations to a range of different demanding funders.

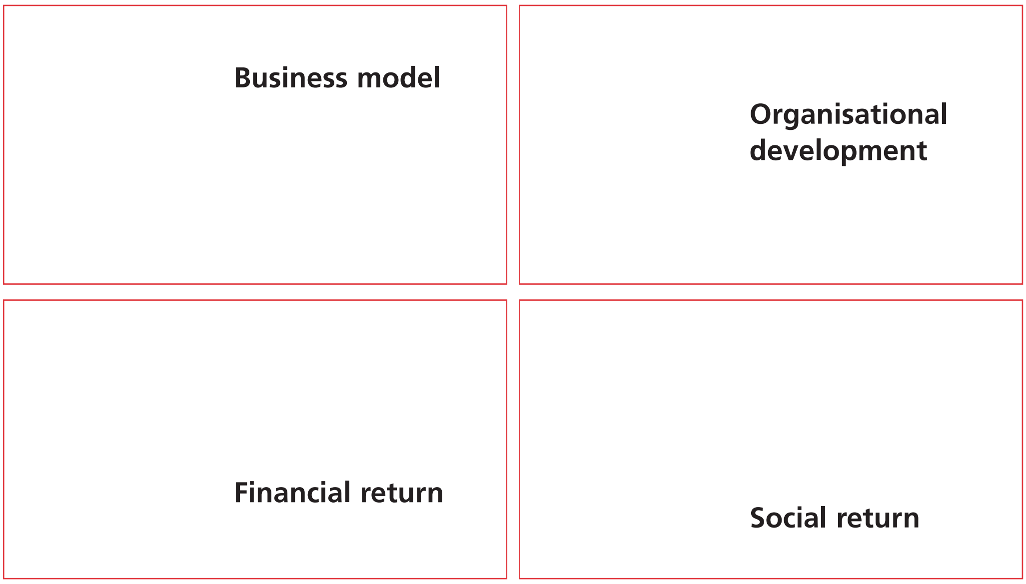
[34] Futurebuilders (2003), *An Investment Fund for Voluntary and Community Public Service Delivery*.

How far does this approach work? In part it depends on the nature of the organisation concerned. There is no doubt that the lessons of housing association development, where small voluntary organisations developed an asset base as a platform for long term earned income, has been influential in enabling others to see loan finance as suitable. The prerequisite is the ability to repay the loan. This can be done through the sale of goods and services, and if the purchasers of those services are willing to pay the additional costs, then the financial and managerial disciplines on the organisation will help them to build stronger organisations. But fundamentally it assumes that the costs of capital can be covered in the income earned – this fundamental assumption has far reaching implications for other funders, including those who shop and those who give.

This has been particularly true for the group of voluntary organisations that now describe themselves as social enterprises or social businesses. Again, while the sceptics dismiss this as simply another way of describing the same activity, there is considerable evidence[35] that this does describe a different way of doing business, and this new model of business development, while still focused entirely on mission, is able to operate in a more commercially sustainable way.

Focus on impact

The third driver for a focus on investment takes the debate far beyond loan finance. Funding bodies that do not necessarily expect to see a financial return are nevertheless increasingly describing the other sorts of return as products of investment. The baseline report for the Adventure Capital Fund[36] includes a pictorial representation of this approach. The balanced scorecard community enterprise model allows investors and funders of all sorts to track the nature of the return they are expecting and the return they are getting.



On this chart investors can plot the sort of return they are seeking and can identify the stages at which they can expect a financial return, a social return, a better developed business model or changes in the organisational development of the project. The balanced score card serves as a useful graphic representation of the sort of return, or combination of returns, that those using an investor model of funding are seeking.

[35] Stephen Thake (2003), Primed for Growth, New Economics Foundation.
[36] ibid

The crisis of equity

By and large voluntary organisations are asset poor. While the minority have substantial historic endowments and some own their own buildings, a cursory glance at the balance sheet of most of the voluntary sector provides a clear illustration of the inherent financial weakness of the sector. This manifests itself in limitations on planning and development, weaknesses in governance, and a sense of instability when planning for the long term. In particular, voluntary organisations are frequently unable to respond to opportunities that present themselves because they lack the internal infrastructure to seize such opportunities.

Other approaches include the recommendation that, for particular pieces of development work, it would be appropriate to consider "year zero funding". Under this model the funder is asked to provide some funds in advance of the project starting to enable it to plan properly for launch. In this model of funding the investment actually pays for some of the research and development work that would normally be financed from the organisation's own equity.

A more traditional model is the endowment model. Although this is currently used much less than in the past, more modern interpretations of the model are beginning to emerge. For example, there are occasions when providing an organisation with a more substantial sum at the start of its endeavours might enable it to seize other opportunities as well as approach its task in a more flexible and carefully planned way.

What does funding as an investment mean?

It is never the case that a funder expects nothing to happen with the funding given. Is all funding therefore an investment? And if so is there any point in using the term at all?

This book has made a distinction between the funding intents and also the funding modes. It has described funding as shopping and funding as giving. In this typology funding as investing has some rather distinct features.

- It has the specific intention of producing a long-term outcome, usually after the period of the funding. This might be an outcome in policy change or in organisational capacity and strength, but it will be over a reasonable time horizon.
- Investment requires a closer relationship with the recipient. It is unlikely to be provided simply in response to a request for funds, but will be generated as part of a longer-term relationship.
- Investment will usually be accompanied by some other form of support or guidance, and so will typically be more suitable for an organisation where the funding represents a significant contribution.
- It may or may not expect a financial return. Although the purest forms do expect such a return, and the Adventure Capital Fund supported by the Home Office and the Department of Trade and Industry predicates future growth on such a return, other self consciously styled investment approaches describe their return as other than financial.

There are some other possible features of investment funding:

- Funding provided as investment does not necessarily need to be spent by the organisation in a given period. It might be funding to provide freedom for an organisation during a particularly difficult time, or indeed funding to cushion the organisation from the vagaries of other sources of income.
- A second approach has been proposed to government by Ed Mayo, writing in an Association of Chief Executives of Voluntary Organisations publication[37]. In this article he proposes a new approach to funding whereby the state pays a voluntary organisation the "social market" sum, which would equal, not the input costs of a piece of work, but the marginal cost of social benefit. Thus for example the costs saved in court time and in custodial sentencing could be allocated to an organisation that could demonstrate that it has contributed to these cost savings. This approach would provide the voluntary organisation with the funds to use to continue to achieve that social impact. While this book does argue later that it is notoriously difficult to allocate particular impacts to single organisations, there are ways in which this can be done, and, Ed Mayo contests, doing so would enable a much closer relationship between the level of funding provided and the outcome delivered.
- A third approach borrows from the literature of organisational development, and links funding invested with milestones for organisational growth.

All these, and doubtless many others, are ways in which the funder with a desire to invest, rather than just give or buy, can manage their contributions.

Requirements for investment

If investment is more than simply a fancy name for engaged grant-making, then there are some clear requirements for funders that wish to invest in ways that work.

First they need to understand the approach to be adopted. At the same time they need to have some clarity about the intentions of such investment. Is the funder adopting an investment model because it believes that is the best way to strengthen organisations? Or because it will deliver better services? Or because it is a way of encouraging long term systems change?

Second the organisation will need a theory of change. As investment is so crucially focused on change, any investment approach needs to be able to identify the changes that will be brought about, and have a shared lexicon for describing such changes.

Third the funder will need to have a view about the nature of the organisation it is supporting in this way. Mark Rosenman[38] of the Union Institute, Cincinnati, has argued that it is easier for foundations to invest if they are ideologically or politically aligned with the funded body. This, he argues, is because the act of long term investment assumes a deep affinity with the organisation receiving the investment, and a willingness to support its long term development.

Fourthly and finally it will need to invest in the staff and advisers to enable the sort of change to take place. If the investor funder is characterised by selection of few funded organisations, it is also likely to be an organisation in which the management and support

[37] Ed Mayo (2003), *in Replacing the State*, ACEVO.
[38] Speech at National Council for Voluntary Organisations Conference 2003.

costs are correspondingly high. The Impetus Trust has marshalled impressive volunteer support and guidance to work alongside the funding investment. Others may need to mimic this approach, or otherwise fund ways of providing the funded organisations with sufficient high quality guidance.

Conclusion

Good investment is hard to do and expensive to manage. It is a specific form of funding and can be used by funders with any of the three intents described in this book. However, it is best done when the outcomes are clearly and jointly articulated, and where the focus is sufficiently tight to enable a relationship of real trust to develop.

Chapter 9

More than just a grant maker – enhancing the value of a grant

Summary

Most grant makers want to have an impact that is greater than the funds actually contributed. Some do this by offering additional support and help. Others look to the funded organisations to find ways of enhancing the value of the grant. This chapter distinguishes between the value contributed by the funder, and the value produced by the grant holder, and argues that both sides need to have clarity about what they mean when considering this issue. It goes on to argue that funders in different modes- giving, shopping and investing – will all wish to enhance the value of their grants, but will do so in very different ways.

Introduction

Added value is an economic term, increasingly used by funding organisations. It is a difficult subject for grant makers to examine. It goes to the heart of the debate about the proper relationship between the funder and the funded, and specifically challenges the nature of the relationship and the appropriate level of expectations. This chapter, in examining the very different forms that added value can take, provides a guide both for grant-making bodies and for voluntary organisations in determining the nature, scale and direction of added value that can be expected or offered.

Added value is defined as the extra contribution that can be produced from a financial contribution. The added value may be contributed by the recipient of funding or by the provider of the funding.

For some grant-making organisations the concept of added value will seem to be unnecessarily complicated. They will argue for a straightforward bi-lateral relationship, in which a partnership of sorts may evolve, but for which there is no need to specify the expected return. For grant-making organisations that are in the public or political eye, however, there can be real advantages in enumerating quite precisely the additional benefits that arise from a grant and in determining how these benefits are generated. This can be used both to justify the expenditure that grant-making organisations need to make and also to hold recipients of public funds to account in a clear and transparent manner. It can also be important for those grant-making trusts that need to raise funds from other sources, including from the public, if they can demonstrate the leverage that their funding makes possible.

Whose added value?

Added value is often described as if it is either contributed by the funder or contributed by the funded organisation. Funders will describe the added value that they offer including:

- Access to the printing workshop at the Kings Fund for grant recipients.
- Consultancy support offered free by the City Parochial Foundation
- Access to management training and development offered by Lloyds TSB Foundation through the company.

This sort of support is by no means uncontroversial. Some grant recipients argue that they would prefer to be simply given a grant, and that they would rather source their other support and services directly. Some of them see the tendency of grant-making trusts to associate grant making with additional services as unnecessarily complicated and even potentially interfering. Others, however, consider that access to the resource and facilities of major institutions can enhance the performance and capacity of the voluntary sector and are much more supportive.

Some funders also demand added value from the organisations they support. They do this in a number of ways: They support organisations that can "make the grant work harder" because they:

- Attract other sources of funds
- Demonstrate that they can have a real impact on the policy process
- Provide briefing on particular subjects
- Use the evidence generated to make some wider case.

None of these requirements is an intrinsic part of grant-making, but for a number of significant funders they have become part of the funding relationship. A lack of clarity about definition and expectations can be confusing for both parties.

Types of added value

There are two types of added value which can be analysed, assessed and sometimes measured and which could be contributed by many funders and by funded bodies

Financial and technical

Some funders are able to contribute or generate additional support. This comes in a number of forms.

- Additional finance that can be directly attributed to the grant made by the funder. This might include matched funding from the European Union for which the funder signs the public certificate. This funding is only released by the other funder on condition that a grant is made.
- Additional finance that has a direct causal link. This might include funding that is more likely to become available because of the contribution of the funder and would probably not be provided without the grant.

- Personnel, and information technology support, as well as legal, surveying and other professional support is provided by some funding bodies to organisations.
- Pro bono consultancy and advice – the Trust for London and City Parochial Foundation retain consultants and offer their services directly to some of the organisations they fund.

Policy, partnership and profile

- Grant making organisations make a judgement about the organisations they wish to support. This judgement then possesses a value to the funded organisation because of the signal it sends to other potential funders and partners. It can be argued that a grant from some funders provides a form of validation or accreditation, and that this "kite mark" then has a value to the organisation and to other funders.
- The opportunity to develop a network of funded organisations and put them in touch with other organisations is a characteristic of many grant-makers. The Baring Foundation brings together the organisations it supports with core costs grants to enable them to learn from each other and to provide mutual support.
- Grant making organisations possess a great deal of information about the sector they are supporting. For some this provides an opportunity to seek to inform the policy process. For these organisations the development of policy and the contribution to wider debates is a part of the grant making. In turn it may bring added value both to the funded organisations and to the development of policy and practice in general. The Joseph Rowntree Foundation consciously seeks to be influential on public policy and uses the learning from organisations it supports to build this influence.

These forms of added value can be associated with individual grants, or with programmes of funding.

Grant related added value

Both financial, human resource and support benefits spring directly from the grant. The added value:

- Can be attributed directly to the grant
- Relates to the individual grant. In other words it does not require a significant programme of grant making.

Programme related added value

Some forms of added value are only useful of they are associated with a programme of funding. Programme related added value is highly significant in the lives of both grant-making organisations and in the recipient organisations. The development of profile and policy can represent significant ways in which a programme of grant making is enhanced.

Measurement of added value

Most funders have no real need to measure added value. They are able to assert that they both contribute and derive significant value from the grants they make. However, other funders, either because they are in the public eye, or because they are appealing to the public for funds, may well wish to demonstrate that they can measure the added value of their grants. For these organisations there is a particular challenge in measuring added value in ways that are meaningful.

This analysis is particularly helpful when determining the measurement of added value and the responsibilities for measuring it.

Requirements for any form of measurement are:

- Agreement about the unit of measurement
- Agreement about time frame
- Understanding of responsibility and capability.

One of the issues that have bedevilled attempts to measure added value in the past has been a lack of certainty about these issues.

Grant related added value is triggered by the individual grant decision. It is therefore possible to date it and to establish at the start of the process the nature and scope of the added value expected. A typical agreement concerned with direct added value might therefore include a statement about:

- The amount of money that will be expected to come to the organisation as a result of the grant. This will be expressed as a minimum target.
- The numbers of unpaid hours unlocked by the grant. This will be expressed as a minimum target.
- The time period over which these should occur, perhaps with some phasing built in to the agreement.
- The additional help that the grant making body may be prepared to offer. This may be expressed with some limitations and will require the agreement of the funding body before it is provided. It will be measured in terms of the hours and finance provided, and the hours offered, if they can be viewed as pro bono consultancy, can be converted into proxy financial measures.

Grant related added value would therefore occur over the life of the grant. It will be measured either in time or money.

Programme related added value is triggered by the whole programme and is much more frequently provided at the initiative of the funding organisation. So, for example, the work that the Baring Foundation does in bringing groups of funded organisations together, learning from their experience and promoting their work within the wider policy process, adds value to the work of those organisations. This value is contributed by the funding body and is largely at the discretion of that body. However, both funded organisations and other agencies concerned with that field of public policy can perceive the benefits. Measuring programme related added value and creating targets for it is challenging. But it can be done.

Different measures of added value

Input measures – input measures can describe in financial terms the person hours devoted to this activity by the grant-making body. These can be determined either at the start of a programme of grant making or more pragmatically at different points in the review process. The inputs might include:

- Staff time
- Research time (commissioned or in house)
- Conferences / seminars
- Publications

Outcome measures can be found in policy and attitude shifts, both of which can be measured using qualitative methods such as stakeholder reviews.

In this way the task of developing appropriate units of measurement becomes a bit more straightforward.

Most added value systems have a preference for conversion into financial measures and this at least has the virtue of simplicity and apparent transparency. In doing this, however, some care must be applied. Added value measurements, in pounds or otherwise, are frequently only proxies and they can be misleading and give a false impression.

Measurement of financial and other technical or professional added value

These measurements will normally be in financial terms, both in target setting and in reporting. They will refer to the other funds brought to the activity because of the original grant made by the principal funder. Some funders provide a high level of support for funded organisations. Some of this is financial and this can readily be quantified. Much is advice and consultancy, and this could be logged and converted into financial sums, perhaps equating the time with consultancy time.

Measurement of policy, partnership and profile added value

The measurement of impact on policy and partnership is notoriously difficult. Funders do, however, need to know what the impact has been. The biggest conceptual obstacle to such measurement is the ownership of the outcomes. Too many organisations claiming an impact on public policy begins to be meaningless, and will call the whole system into disrepute. Yet at the same time there are funders who are able to identify the ways in which particular pieces of grant-making, for policy analysis or for the development of best practice, have impacted positively on the development of public policy. For these instances funders need to identify the inputs made, and then conclude that they have worked in partnership with others to achieve particular agreed ends.

Time frames

There are three distinct time frames to be used in understanding added value and they refer directly to the typology above!

- A short time for individual grants – in the agreement of individual grants, targets for added value need to be set in agreement with the funded organisation. This would relate to the first year of the funding.
- Long time frame – for individual grants – in the agreement, targets would be set for the full period of the grant – probably 3-5 years.
- Longer time frame for programme related added value – probably through the life of the funding programme which might be ten years.

Responsibility and capability

Just as the units of measurement differ, so do the means of reporting it. This largely relates to the distinction between contributed and extracted added value. While this report proposes that setting targets for added value should be a largely collaborative piece of work, it needs to be acknowledged that reporting of added value will differ. There are additionally problems with capability. As this book argues, voluntary organisations differ enormously in their abilities and capacity, and this is evident in the material gathered so far on added value. Funders may wish to produce guidance and related training, especially for the larger organisations where there is a higher expectation of extracted added value.

Pitfalls in planning for added value

The concept of leverage or added value is still comparatively immature in the grant-making environment. This is not because it has not been achieved, but rather that there is an anxiety about the best ways of developing and measuring it and confusion about the attribution and ownership of added value.

There are a number of specific pitfalls associated with added value:

- Without careful planning added value can be counted more than once by different funders and this can diminish credibility.
- Statements of added value can be so vague as to be meaningless.
- Skilled applicants are able to offer apparently much higher levels of added value and this can discriminate against less experienced organisations.

In order to guard against these particular pitfalls:

- Added value needs to be planned, with targets, both maximum and minimum, spelt out at an early stage.
- General exhortations about added value are not helpful and needs to be much more tightly specified.
- Added value targets and expectations will differ at different stages of an organisation's life.

The voluntary sector and added value

It is a truism to say that the voluntary sector is large, diverse and highly varied in its aptitude and capacity. Largely because of this, the relationship it has with funders will also be very different in different parts of the sector.

There are two ways in which the sector can helpfully be analysed in order to clarify the nature of the added value that is relevant to it.

Life cycle of the organisation – most investors in the commercial environment are acutely conscious of the different stages in the life cycle of any organisation, and will tailor their relationship accordingly. Funders of voluntary organisations seem much less likely to do so and yet, especially in determining added value, it is absolutely critical. different commentators have constructed very different ways of defining these. For the sake of this argument it might be helpful simply to propose four definitions and to describe briefly the expectations there might be of added value:

- Start up organisations – organisations that are just launching are unlikely to offer significant extracted added value, although they may benefit considerably from contributed added value. Any contractual or semi-contractual approach to added value will need to specify the contributed added value that could be made available and propose an agreed definition for the period of time during which the organisation will remain in "start up mode".
- Established organisations – organisations that have reached a planned stage of development will be able to bring greater "extracted added value" in that their ability to attract other funding and human resources should be enhanced. Furthermore they should be in a position to contribute much more to some of the programme related added value that this report has described.
- Organisations going through major change – organisations that are developing, contracting or otherwise reconfiguring may call on a greater degree of "contributed added value". As with the start up organisations this should be for a limited period of time.
- Organisations working actively with others – voluntary organisations are frequently encouraged to co-operate and there are a great many different ways in which this can be done. While alliances of all sorts can in themselves help organisations improve their performance, there is a stage in the life cycle of any organisation where co-operation of some sort is necessary and costly. Organisations going through a recognised period of co-operation may well find that they call more on contributed added value, although they should be in a position to generate more extracted added value.

Nature of the organisation – principally being the distinction between first and second tier organisations. There is a major difference in this context between the different types of voluntary organisation, both in what they do and how they operate. For the purposes of this analysis the biggest single difference is between the front line organisations, providing a service, or a set of activities, or directly advocating for people and communities, and the second tier organisations which exist to support them.

- Front line organisations may well require support from their funding body in all the ways which this chapter has described. They may be able to add financial value through attracting other sources of funding, but largely they will be receiving the help the funding body can offer.
- Second tier, or infrastructure organisations offer a particular type of added value to

their funders. By their power to convene, and their policy role, they can work collaboratively with funders to enhance the value of the grant made either directly to them, or to those they represent. There are dangers in this approach however. Second tier organisations[39,40] are applicants also, and the expectation that they will be able to add value to grants made needs to be moderated with the recognition that they also require funding. While advocating and supporting their sector, they also have an important business interest in raising funds themselves.

Added value and funder intent

This book has argued that the activities of funders are heavily influenced by what they are trying to achieve. This is no different when the funder is seeking to enhance the value of the grant.

Funders focused primarily on keeping services an activities going will particularly wish to focus on the financial leverage that their grant can generate. They may wish to be assured that all other avenues, particularly for long term funding have been explored, and will be particularly focused on maximising the efficiency and effectiveness of the organisations they fund.

Funds making grants in order to build institutions may be able to contribute more support in the form of technical and professional expertise, and may also be willing to contribute consultancy and management advice. Finally those funders who have an eye on systems change will, give much greater priority to ensuring that their grant enhances the profile, policy and partnership work of the funded organisation.

Added value and funding style

Funding bodies give, shop and invest. In each of these modes they will expect to enhance their grants in rather different ways, and will have different approaches to measurement.

Grants that are made as gifts are capable of enhancement in all the ways described in this chapter, but the funders giving these gifts are less likely to be concerned about measurement. Funders that see their primary role as "shopping" may, if they are commissioning research or particular sorts of activity, be interested in both the financial leverage and the policy input that their grants can enable. However for organisations that see their main contribution as an investment one, there will be a much wider range of added value, and for these funders the desire to measure both inputs and outcomes will be particularly important.

Conclusion

Many funders wish to enhance the value of their grant. They do it in a great many different ways, and these methods are usually chosen to fit the particular interests and priorities of the funding organisation. For some particular funders there is an additional incentive to measure the impact of these additional contributions. They may do this through measuring their inputs, or by measuring the contribution of the funded organisations. While such measurement is complex, it should not obscure the very additional real benefits that any funding body can offer to those organisations which it chooses to support financially.

[39] Lucy Ball & Julia Unwin ibid.
[40] Szanton ibid.

Chapter 10

Measuring Impact – success has many parents, failure is always an orphan

Summary

It has become almost axiomatic for funders of all sorts to say that they want to understand impact. They only wish to fund where there is a discernible impact, and there has been a search for new ways of measuring impact, usually in the guise of ensuring greater accountability. Of course funders wish to see an impact but the issues of impact are complex and many layered, and there are dangers that the new approach to identifying impact actually fetters the ability of grant making trusts to take risks and explore new ways of working. The impact achieved by any piece of funding will in large part be determined by the intention of a particular grant or commission, and funders need to distinguish between the impact of particular funding decisions, and the impact of entire programmes.

Background

An emphasis on measuring impact comes from an approach to management that equates management with measurement. Put simply, advocates argue that organisations that are not capable of measuring their achievement, are almost certainly not managing their resources carefully. In failing to consider the nature of this impact, argue the sceptics, voluntary organisations are able to use large sums of money with no understanding of the effect they are having.

Like so much in the grant-making and funding world it is hard to track the genesis of particular issues and approaches. The interest in "investment approaches" to funding is frequently associated with a desire by many funders to develop a much clearer understanding of the impact their funds were having. Undoubtedly the notion of funder as investor has fuelled the debate about impact and made many funders much more conscious of the "return" they could and should expect for their funding. Discussions of impact, certainly in government circles, can be traced back to the Scrutiny Report into the funding of the voluntary sector in the late 1980s that expressed clearly the requirement to link funding decisions and subsequent evaluation with outcomes achieved by the funding body.

Whatever the origins, however, the concern about the measurement of impact has struck a chord with the trustees and managers of many funding bodies. Increasingly funders wish to know that their funding has made a difference, and are exploring new ways of measuring impact.

The concern

The concern with measuring impact comes in a number of different forms. At one end of the spectrum there is the desire by funders to know that something has been achieved with their funds. After all, they argue, simply offering cash with no understanding about what it has achieved is a fairly meaningless activity. At this end of the spectrum the funder tends to seek post grant reporting, and to search for quite open-ended definitions of what constitutes success. At the other end of the spectrum is a much more tightly defined approach to target setting, with highly specified outcome measures agreed at the start.

The issue

Well-managed organisations obviously need to have some understanding of the difference they make. This applies whether they are funding bodies or funded organisations. The question at issue is how this is managed, and how it is measured. For voluntary organisations funded by a multiplicity of funders, all with their own different funding intents, there can be a genuinely difficult clash between the different approaches to measuring impact associated with even one project, let alone the whole grant.

Writing for the Stanford Social Innovation Review, Bruce Sievers challenges this approach:

> ***"Measurable outcomes" seems to have become the new mantra in the non-profit world. Everywhere one reads about foundations seeking to measure results, applying metrics and assessing effectiveness. The assumption seems to be that, if only we could get a stronger numerical hold on what happens as a result of non-profit activity, akin to the bottom-line of a business investment or the hard numbers of empirical science, we could do much better at solving some of the great social problems upon which we are all so diligently working.***
> ***Let me suggest a heretical view: the fundamental business analogy is flawed. While the rhetoric sounds good, realities of social action and social change lend themselves only in a very clumsy way to the tidy world of numbers and bottom-lines. In addition to the daunting (and ultimately unsolvable) complexities of scale, multi-variables, and causal chains, there is the underlying conceptual problem of imposing reductionist interpretatations on social reality. If we look very hard, we soon see that the numbers aren't wearing any clothes.***[41]

In arguing that metrics have inappropriately been applied to the messier world of social change, Sievers highlights what for many has been the biggest obstacle to generating a sensible debate about the measurement of impact, namely the need for a language that goes beyond numbers in describing the complexity of success or failure.

One of the problems with the quantification of impact is the very different impacts that funders are seeking to achieve. This makes the adoption of shared measures almost impossible, even if they were desirable. This is beginning to be recognised in the public sector, where commentators and regulators are increasingly arguing for a common sense approach to the issue. As Richard Reeves, writing in Management Today[42], argues:

[41] Bruce Sievers on the SSIR web log January 2004.
[42] Richard Reeves (February 2004), *Keeping up with the Jones*, Management Today.

Much of the benefit flowing from public sector work is by definition highly subjective, even intangible. Occupational psychologist Jon Stokes has pointed out that, while the private sector transforms things, the public sector transforms people. And this transformation is harder to estimate to the nearest decimal point.

It is obviously even harder to put a quantifiable figure on changes to a community's sense of self-being, let alone track that change to a particular funding decision. Yet despite the complexity of the issue, it is hard to escape the view that an unwillingness to describe, if not measure, impact may well be masking an inability to manage, and so by implication a weakness in actually achieving impact. It is not really surprising therefore, that funders agonise about their impact. They know they want to fund in order to make a difference. They know they want to fund organisations that are well managed. They recognise that measurement is an important but difficult aspect of management in any public policy area. Yet they want to support organisations and do so in a way that enables them, rather than hinders them.

Whose outcomes?

What then can funders do to ensure that an impact is achieved, without getting engaged in the frequently absurd pseudo-science of the "counting culture"? How can funders start to measure what matters? Instead of treating anything that can be measured as if it mattered?

It is important to establish a principle about the ownership of outcomes. Achievement of social change, in whatever form, is the achievement of a number of different organisations, but in this relationship it is primarily the achievement of the funded body. Donors of any sort do not normally make change themselves. They provide some of the tools that enable it to happen. These tools will include the finance that they provide, but will also include the advice and guidance, the support and frequently the promotional work that many funders now offer. This can be difficult for some funders to recognise or accept. If they are dependent on public donation or public or political goodwill for their action there will always be a tendency to claim impact, and sometimes this is simply part of the complex dance between funders and funded. But in the challenging matter of defining impact it can be more difficult and more problematic if funders seek to claim the outcomes for themselves.

Instead it may be helpful to consider impact by funders in terms of their original intents. As has been described, funders have particular intentions when they make contributions to organisations. They want to achieve certain things, and the impact they seek to achieve will, in part at least, be governed by the intention behind the funding.

Funding so that services and activities can continue

This sort of funding is, as has been described, offered in order to support worthwhile and important activity. In making funds available with this intention the funder is guided by a number of things:

- The track record of the organisation providing the service or activity
- The evidence of need
- The belief based on evidence that the particular activity is worth supporting.

In terms of expected impact, therefore, the funder is likely to have a fairly clear view of the nature of the impact the funded organisation will have if supported in this way.

Example

The funder may, for example, know that contributing to the cost of a community warden on a particularly troubled housing estate has, in the past, reduced fear of crime and made it possible for older people to return home earlier from hospital. In supporting this activity they are trying to either encourage more of the same activity, or the translation of this activity into an area where it has not previously been applied before, but where the evidence exists that such an intervention may work. The impact of the warden, in practice at least, will be partly dependent on the abilities of the person appointed, the vagaries of the local community and the behaviour of other professionals on the estate, but the funder has reasonable confidence that some of the desired impact will be achieved.

But the funder will also know that the eventual outcome will be dependent on a host of other factors. A sudden change in the housing management deployed on the estate, or allocation of housing to a few particularly difficult families will also have an effect on the impact, just as major interventions from the local schools may have an equal and positive impact on the fear of crime in the area. In order therefore to assure themselves of the value of their contribution, mature funders will need to recognise that the successful outcome with this sort of funding intent is nearly always a shared outcome. They will need to acknowledge the fact that there is always a great deal of luck involved in achieving success, and that predicting impact is inherently risky.

This does not mean, however, that the funder of this project will have no eye on impact. Sharing impact and recognising difficulty in predicting impact are by no means the same as ignoring impact. A funder who is meeting the costs of services will need to understand what it is they are paying for, and therefore what the range of likely impacts might be. It might be more appropriate to describe this as funding expectations, where the desired impact is expressed as a range of possible outcomes, with an understanding that the determination of these outcomes does not rest with any one agent alone.

Funders with this intent will tend to operate either in gift giving mode or in shopping mode. The distinction in terms of impact is likely to be on the grounds of trust. The gift giver or donor with the intention of supporting good work will select organisations with which they can have an open and trusting relationship. While the funder will want to have regular reports about impact, and will obviously wish to see a result for their funding, they will also wish to know about problems in achieving impact, and will hope to share knowledge arising from the project, whether positive or negative.

The funder in shopping mode, however, will have a different approach. The assessment made by the shopping funder is about the likelihood of successful delivery, and it is normal for impact to be agreed in advance. It may even be the case that release of funds is dependent upon achievement of certain pre-defined milestones that indicate the likelihood of achieving the desired impact. While this type of funding mode may be based less on trust, it may also be more suitable for organisations which do not have an established relationship with the funder. In an application for this sort of funding to a grant maker that is primarily concerned about shopping, the appraisal depends on the likelihood of achievement, as much as the relationship between the funded organisation and funder.

Funding for organisational development

Some funding is made available explicitly in order to build capacity or develop institutions. This sort of funding provides an easier route to measurement of impact, and it is perhaps not surprising that much of the US literature about impact in practice focuses on institutional change. Thus for example, Michael Bailin[43], from the Edna McConnell Clark Foundation, describes the process of engagement with organisations to build their strength. He describes the agreed "theory of change" established between grant recipient and foundation, the tools of due diligence then used and the carefully calibrated benchmarks of success. All these approaches are described in the context of developing organisations, providing them with the tools to increase their capacity.

In articulating this approach, Bailin develops a bespoke theory about the ways in which organisations grow and develop. In the voluntary sector in the UK there is no widely accepted model of growth, but a deepening recognition that there are measurable and definable stages in the development of an organisation. Achievement of these stages in itself constitutes an achievable impact.

Most funders who are seeking to develop organisations, whether they describe it as capacity building or contributions to organisational development, do so with a fairly clear notion of the sort of outcome they want to see. This may be very general. Some funders have a vision of a robust organisation, able to chart its own course, and develop in ways that are compatible with its mission. Others will be more specific about their own expectations of a strong organisation and may wish to measure the capacity for independent action, or the extent to which the developed organisation can take measured business risks. For many funders, however, development beyond this is difficult to track. They are understandably reluctant to specify the nature of such development, and may be cautious about delivering a route map for development. This caution is largely justified. The ecology of the voluntary sector is a complex one, and external forces may not be best placed to intervene. Studies[44] have shown that, for example, funder led mergers tend to create very unhappy marriages and rather messy divorces. Equally, voluntary organisations can be very resistant to the pressures of those with different organisational backgrounds and cultures.

Yet the voluntary sector is not hermetically sealed. It is influenced by trends in management thinking, and most organisations recognise that there is a great deal to be learned from other sectors. The development of Venture Philanthropy models in the UK has been based on the view that some external assistance can enable voluntary organisations to grow and develop. Whether or not voluntary organisations accept the notion that there is a right target size for growth, there is a growing understanding that forms of funding designed to strengthen organisations may also come with advice and guidance on the best direction for that funding.

[43] Michael Bailin (February 2003), *Re-engineering Philanthropy – field notes from the trenches*, a lecture given at Georgetown University.
[44] Bill Mather (2000), *Merging interests*, The Baring Foundation.

Converting that image of strengthened organisation into a measured impact is not easy. Frequently proxy measures of financial viability will be used. Unlike the commercial sector the route to growth is not clearly delineated, and with the absence of a defining moment like an Initial Public Offering many measures of institutional growth and stability are misleading. Instead funders may reach for descriptions of organisational strength, perhaps tied to some critical success criteria. The programme of management development supported by the London Housing Foundation, for example, was able to track success not by simple numerical measures, but through a growing understanding of capacity and the role of leadership.

It is possible to imagine the development of a new lexicon of measurement, which, borrowing and adapting from the commercial sector, would describe the funding ratios that would demonstrate strength and enhanced capacity. The funding bodies that focus on institutional change will normally be operating in investment mode, and may be able to develop such approaches with the organisations they are funding. To do so effectively would require an atmosphere of mutual trust and an acceptance that some risks are shared. While some funders can develop this with their funded organisations, those funders that are also seeking other relationships with the same voluntary organisation may find it much more difficult.

However, even with all the financial and managerial models available, impact on organisational strength will also be an outcome shared. The decision to apply funds in order to build an organisation will be based on a judgement about:

- The likely pace of development
- The market in which the organisation is operating
- The capacity of the key individuals.

Each of these judgements is likely to be inexact, and a successful outcome will depend upon not simply an accurate judgement of the current situation, but a precise prediction about future changes. Good organisations are built up and become strong because of the actions of key players within them. They are enabled to do this by benign trading conditions, and may be very much helped, or hindered, by investment decisions. This is as true of the voluntary sector as it is for every other organisation, and so impact in developing an institution, even though it may be more straightforward to measure, will still belong to a great many players.

Funding for systems change

Funding which is applied in order to change systems or policies may be given as a gift, may be an investment for the long-term return or may be commissioned by a funder. First and foremost, however, it will have the intention of achieving a specific impact, namely a change in policy or practice. Sometimes this might be very specific indeed. The funding by the NatWest Charitable Trust to assist Carers National in the development of the first major Carers Act, for example, enabled that voluntary organisation to pursue its own mission with a very specific impact in mind. On the other hand it might be a more generalised impact that is sought. This might include the Baring Foundation's early support for the Development Trusts Association, recognising that a new model of community development was being incubated and supported and would eventually have an impact on neighbourhood renewal policy.

But policy impacts are never the province of one lone organisation. Change takes place in policy because of a combination of circumstances, and is always generated by a number of different actors. Some British funders have focused primarily on the objective of systems change, and have applied funding both for research and for practice in order to achieve the desired impact. These funders, which include the Joseph Rowntree Foundation, will tend to include promotion and influence among their portfolio of activities, and in this way seek to add weight to their funding activities.

Funders that are engaged in changing systems and policies may be using any of the three modes described in this book. They may be commissioning specific pieces of work, or they may be responding to appeals. Equally they may be taking a long-term interest in an issue. What unites their activities is their articulated desire to see a change in particular policy area or indeed geographic area.

In assessing their impact these funders have even more difficulty than their colleagues. Policy change has been described as meeting a "tipping point"[45] at which a new issue or approach seems to become virtually unstoppable. In public policy many UK grant making trusts and others could claim to have contributed to just such a tipping point on a wide range of issues, but claiming individual credit is doubtful. If such credit is hard to claim, still more challenging is the notion of any verifiable audit trail which links funding decisions with policy or systems changes.

Alternative approaches to assessing the impact of individual grants or contracts

If all three funding intents produce complex and navigationally difficult impacts, is the search for measurable results fruitless? Is it as Bruce Sievers suggests in this chapter actually a misguided attempt to quantify the abstract? Or is it that actually the issue has been over intellectualised, made too complicated and been confused with notions of numerical measurement? Many experienced funders argue that they know success when they meet it. They are able to identify good work – under any of the three intents – as a result of their funding support, and are simply pleased to be associated with the outcomes of the organisations they support. Others argue that actually impact matters for some of their funding, but the vast majority of it is offered at risk and is made freely available to organisations that are doing good work. These funders are joined by the many voluntary organisations that feel that the search for measures of impact has only added to their burden.

They also argue that an approach that is unnecessarily driven by a "counting culture" can disadvantage new and pioneering approaches, favouring the tried and tested over the new and inherently more risky. Just as this can create difficulties for the funded organisations, they argue, so it can artificially constrain the funding decision makers, encouraging them to a more cautious and potentially less effective course of action.

For some other funders and recipient organisations, however, this is unsatisfactory. They are searching for the elusive recognition and understanding of impact, but increasingly argue that, as in assessment, impact appraisal is more art than science. They are therefore searching for more straightforward, easily understood definitions of impact.

[45] Malcolm Gladwell (2002), *The Tipping Point – how little things can make a difference.*

Such new approaches need to satisfy the following criteria. They need to be:

- Easy to understand
- Easy to apply
- Verifiable
- Proportionate.

The examination of funding intent does provide some pointers for the development of such a framework. If funders and funded alike are clear and open about the intention of any funding, then they will find development of simple and shared descriptions of impact much easier. Equally if both parties recognise that the real impact is achieved by the front line voluntary organisation, then the assessment of the impact of the funder or funding decision becomes rather more straightforward. Purists will argue that the real eventual outcome is ignored in this approach but it does have the merit of focusing on the impact of the funding itself and of making an assessment that compares this impact with the original intention. In order to develop an understanding of the impact of the organisation that has been funded, all those with an interest in it need to find a shared way of assessing impact, but it is suggested that this will only be desirable in the minority of cases.

Central to a new approach must be the development of a new way of describing success. Funders can take the lead in this by working with funding recipients to consider their own expectations of success. While this is frequently done at the assessment stage, there is no doubt that at that stage the applicant's desire to impress the funder will inhibit any sensible discussion. However, after the funding has been agreed, the voluntary organisations and the funder can have a reasonable and mature discussion about the nature of success. If they can find some commonly shared language to describe impact, this can then be captured for longer-term appraisal.

Other measures or descriptions of impact will be determined by the funding intent. Criteria for organisation development and for social change are not impossible to describe. They can be generated between the voluntary organisation and the funder, or alternatively produced by one partner and presented for final approval to the other. Whichever style is adopted, there will be more negotiation and a more creative approach to describing the distance travelled.

Funding intent	Possible measures
For all funding intents	Agreement about shared descriptive terms
Services and activities	Outcomes as agreed at the start of the funding
Institution building	Funding ratios to signify organisational robustness Organisational development milestones Definitions of life cycle
Systems change	Agreed targets Proxy measures such as press coverage, parliamentary coverage as appropriate

Failure to measure impact at all can lead to sloppy management and make it almost impossible for trustees and managers to decide where to allocate their resource. It can also provide inappropriate feather bedding for less successful organisations and mask ineffectual management. On the other hand, over-elaborate attempts to measure impact either result in rather obscure responses or fail to capture the complexity and subtlety of many voluntary sector activities.

Measurement of programme impact

The other side of this coin is the attempt by some funders to measure the impact of whole programmes; those who are interested in this approach argue that without some clear measure of achievement, management of the grant-making activity itself is impossible. They need to have some sense of where they are making a difference as chapter 2 on the design of grant-making has demonstrated. For many funders some way of focussing on impact has been the development of programmes of funding or themes. Essentially, grouping together a number of different funding interventions enables the funder to identify the sort of impact they wish to make and then to make some retrospective judgements about whether or not these impacts have been achieved.

Consideration of a programme of funding might take a number of forms.

The first, and one most rarely applied by funders, is to see what the impact of a style of funding has been on a particular sector. The fourth chapter of this book describes the ways in which the funding economy itself has had an impact on the shape and capacity of the voluntary sector in the UK and in this individual grant-makers have played their part.

The second and more common approach is to consider the impact on a subject area or theme of activity. A funder might, for example, determine that they had a particular concern about the welfare of prisoners. In constructing such a theme they might well combine all three intents, wishing to support good services, build the organisations responding to need in this area and press for a change in the way prisoners are treated. In setting up such a programme the funder might also combine all the styles of funding behaviour. They might be making a number of reactive grants to meet costs, but might also commission work on a new approach and might make an investment in a number of specific organisations. The criteria for determining impact, therefore, will cross all funding styles and all funding intents. They might therefore construct a means of defining impact that borrows from classic management theory.

Vision	A better life for prisoners
Milestones	• Government funding for prisoners' welfare • New guidance from Prisons Service on treatment of prisoners at the point of release • Access to helpline support for 75% of prisoners
Targets	• Viability of two prisoners' welfare organisations • Raised profile for the issue • Publication of three policy/ research papers • Take up of support services increased by 10%

On each of these measures the funder would need to agree with the field the ways of describing success, but this could be done in a collaborative way.

To do this would not be cost free. Funders that wish to work in this way will need to invest both in developing descriptions of success and then in ensuring that they are described over time. In doing so, however, they will be expanding their own learning and that of the sector, but they will not be artificially constraining their decision making in advance because of the limitations of measurement.

The third and final form of programme impact measurement concerns not the field of endeavour, but the funding style. For some funders there is a need to evaluate for themselves whether or not a particular form of intervention has been useful. So, for example, the Baring Foundation commissioned an evaluation of its programme supporting mergers in voluntary organisations. The objective of this evaluation was not to consider the impact of the programme on the end user, but rather to evaluate the use to which the programme of funding was put by applicants, to identify constraints in its operation and to provide guidance to trustees about the future direction of the programme of intervention.

Conclusion

A concern with impact is important both for voluntary organisations and for funders. Without it there will be real problems with making decisions. Many of the current number based approaches are too narrow and circumscribed for the field of activity inhabited by the voluntary sector. They run the risk of creating artificial barriers to the relationship between the funders and the funded and, because they are frequently discussed only at the assessment stage, they introduce another area of potential dishonesty.

A more imaginative approach, based on the shared development of descriptions of success, might enhance the relationship between the two partners in this dance. It will be more expensive, however, and will probably only be applied in the minority of cases. For funders to evaluate the impact of whole programmes of funding will also require collaboration and the development of a new lexicon for communication, but may make it easier for funders to understand their own impact.

Chapter 11

Collaborating or going it alone

Summary

One of the features of the current funding environment is the way in which funders increasingly work together. This collaboration has many positive impacts and can enable grant-making organisations of different sorts both to share risk and resource. Inevitably there are some limitations to this approach. This chapter describes the different motivations for collaboration and considers the particular challenges facing independent grant-making trusts in collaboration with government or other statutory bodies.

The purpose of collaboration

It is useful to consider collaboration from the perspective of the motivating purpose, before considering the different ways in which grant-making trusts could work more effectively with each other and with other organisations. From the point of view of a grant-making organisation there are three distinct objectives of collaborative work.

1. Collaboration to maximise impact

There are some areas of policy concern that are so significant that it is only by jointly addressing them that funders can make an impact. This can involve no more than jointly funding a piece of work. This in effect happens all the time, as most voluntary sector activity is multi-funded. Alternatively, it could take the form of setting up a particular fund into which several funders contribute which was the model adopted for the Charity Know How Fund. Whatever the method adopted, the purpose of maximising impact by collaboration is normally designed to make the impact of the funding greater than the funds alone. Funding of this kind can seek to learn lessons from its results, or enhance the impact of the grant-making by using the contacts of the funding bodies. Collaboration to maximise impact might also be characterised by some shared evaluation and dissemination element to the work.

2. Collaboration to explore new territory

There are times when new areas of policy or concern occur in untried or untested environments. Typically these might focus on a geographic or regional issue, such as the interest shown by grant-making trusts in supporting charities in the emerging democracies of Eastern Europe or the work in Northern Ireland establishing a local distributor. Or they might be concerned with an area of interest where the experience of effective grant-making is relatively limited. Examples of this might include some of the early work done by foundations in supporting the National Aids Trust. Collaboration of this sort may well be done through the creation of a new fund and is likely to be accompanied by some preliminary investigation of the field.

3. Collaboration to reduce costs

The objective of maximising the funds to distribute is obviously central to the concerns of most funders and there is therefore – particularly in the current climate – some interest in this. Essentially, collaboration to achieve a reduction of costs will usually involve some sort of cost sharing, either through joint purchasing arrangements, or through shared evaluation and assessment processes, or shared office functions. Many of the community foundations in effect offer a service to a number of different trusts, enabling grant-making to be done relatively cost-effectively. Collaboration with the objective of reducing costs may well also be designed to improve the service to applicants.

Ways of collaborating

There is a great deal of casual collaboration between all grant-making organisations. Opinions are shared and decisions made on the basis of the judgement and decisions of other funders. This is inevitably the case in a field in which most activity is supported by a number of different funders. Equally funders consult each other before launching new programmes of funding.

This chapter describes rather more systematic collaboration. Six types of collaboration are described, and each could be used to deliver the different purposes described above.

- Collaboration on individual grants
- The creation of shared programmes of grants, perhaps including research
- Shared assessment and evaluation
- Shared office services
- The creation of new funding vehicles
- Merger between two grant-making trusts

Each of these ways of collaborating is explored and some analysis of the costs and benefits of the approach attempted.

Collaboration on individual grants

In a sense most grant-making has an element of this. It is rare indeed for a grant making body to be a sole funder for any piece of work. Contact between funders, simply to try and share knowledge and gather intelligence about the likely decisions to be made, is commonplace. However, there are some occasions where the collaboration on an individual grant is more explicit, and where the recommendation of payment actually draws attention to the fact that one grant is being offered to match or complement another.

This sort of collaboration might occur if two or more funders decided to consider particular proposals jointly, perhaps especially those in previously unexplored territory. It is, for example, possible to imagine a group of trusts choosing to collaborate with each other in support of a donation to a large, controversial and challenging applicant. In these cases the decision to fund might be made in an inter-dependent way, and the foundations could jointly share risk.

The disadvantage to this sort of collaboration is, however, that it is rather costly and cumbersome, and the benefits would only be marginal. It might help minimise the appearance of risk, but it would not substantially enhance, impact or reduce cost.

Shared programmes of funding

An alternative model might be the development of a shared programme of funding. Under this model the funders could jointly advertise their intent, commission some shared research and invite applications. These would remain the responsibility of the individual funding bodies, but the aggregate of the grants could be reviewed for the purposes of evaluation and assessment of impact. Furthermore, the funders could seek to learn from the whole programme.

A recent collaborative programme of this nature was the intervention into schools exclusion in the London Borough of Merton by City Parochial Foundation, Bridge House Trust Fund and the Equitable Life Charitable Trust. The three trusts each funded a project in the borough, but ran some joint evaluative work and met the projects together through the life of the project. The funders concluded that although there had been some benefits to this way of working, the fact that the projects continued to have individual relationships with their individual funder probably hindered the development of the programme as a whole.

Shared assessment and evaluation

Most grant-making trusts are exercised by the need to improve the quality of their assessment and evaluation after the grant has been spent. These two functions can be expensive and hard to do well. It would be possible for more than one foundation to employ jointly an assessor or evaluator to help on particular issues. This might most appropriately be done where the area of funding is either specialist or regionally focused.

In an informal way this happened in the past when the Baring Foundation regional advisers were also advising a number of other trusts about activity in the region. This had the advantage of maximising the sum of knowledge and provided the potential for developing a robust and mutually respected methodology. The disadvantage of this approach, however, is that the post holder can be seen as a gatekeeper and can create a rather monolithic approach to funding decisions. These dangers are obviously minimised when the process of sharing takes place after the grant decision has been made.

One advantage of this approach from the point of view of many funders is that it would provide a larger sample of funded activity from which to learn and this might be attractive to a number of foundations with smaller grant budgets. For example, some shared evaluation of programmes of international funding, or particular interventions, would allow for a more meaningful evaluation if there were a larger group of funded organisations to consider.

There might also be advantages for the funded organisations. The new climate of "outcome funding" and the debate about the investment approach of some grant-makers can significantly increase the transaction costs for funded organisations. The evaluations demanded by some funders are costly for the grant holder and the return may not be obvious. Jointly commissioned evaluations might produce a more useful product without adding to the burdens of the grant holders.

Shared office services

Grant-making trusts anxious to reduce the overhead costs of their grant-making may wish to investigate the sharing of office services. A single "back office" could service the needs of a number of different foundations. Charis[46] has been set up to provide just such a service for the new trusts being established in the utility sector.

Such an approach has a number of advantages. It enables the highest quality administrative function. It enables investment in the best possible systems and the quality of grant-making should be raised. There might additionally be some gains as assessment and evaluation information could be shared.

As with all collaborative arrangements, for existing grant making bodies there is a spectrum of collaboration. It might be possible for two foundations to share their database management and grant payment systems. This could be extended, however, to joint servicing of trustee meetings, jointly commissioned evaluation and assessment and, at the high end, the appointment of a Director who would service a number of foundations.

The experience of voluntary organisations in sharing office facilities suggests that this option would not be cheaper in the short term and would require significant management input. However, in the longer term it would deliver savings, as well as improving the experience of the grant applicants.

The creation of new funding vehicles

Grant-making trusts have in the past created new funding vehicles with which to support particular activities. One way in which foundations can effectively collaborate on a particular subject, as opposed to through their entire programme, is by the creation of a specialist funding vehicle. For example, it would be possible for a group of foundations to each commit significant funds to a particular subject and then manage it collaboratively. Such a new vehicle might be a new organisation in its entirety, with an independent board and a long-term future. Equally it could be owned and managed by the funding foundations, with trustees nominated to serve on it.

The advantage of this approach is that it gives clarity to the grant seeker, and makes it possible for the different funders to identify collectively the sort of research and approach they would need. It would require sensitive management at both the planning and the implementation stage, and is probably a desirable approach only for particular types of activity.

Merger between two grant-making trusts

It is always possible for two organisations with similar objectives and similar beneficial areas to consider a merger. It is frequently argued that the charitable world is a crowded one, in which there is insufficient merger, and it is right that grant-making organisations should consider this.

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[46] ibid.

However, in common with other mergers, the process is difficult and expensive. The need to combine different cultures and different approaches, while at the same time preserving a programme of activity, is challenging. Operating charities report that the strongest pressure to merge comes from the need to improve service provision. For grant-making trusts the pressure is more likely to be financial, with a desire to keep overhead costs low.

Working with government – the dilemmas for independent funding organisations

An additional set of dilemmas arises when independent grant-making trusts consider the relationship they might have with government or other statutory bodies.

Since 1997 the government has shown an increasing interest in the role of the voluntary sector. This interest is both in the role of the sector as a deliverer of public service and as a means of building strong communities.

This interest has expressed itself in as number of ways, but most significantly in the development of a number of designated funds designed either to build capacity or to ensure the delivery of service or activities. In general these funds have been developed with the engagement of large parts of the voluntary sector and many have been associated with the move of individuals from the voluntary sector to work within government.

Issues for grant making trusts

There are two ways in which this change has an impact on grant-making trusts over and above the change associated with the environment in general.

- For some funds the government has actively approached some of the larger grant making trusts to invite them to deliver the funds.
- In others the government has expressed the wish that independent funders should follow their priorities or at least have regard to them.

These two approaches require separate analysis and consideration.

Grant making trusts as deliverers of government funding

A strong theme for government funding has been the development of alternative vehicles for delivering funding. In the search for established organisations, with credibility in the sector and with assessment and appraisal capacity, not unnaturally the charitable grant-making trusts have been identified. They potentially provide a well-regarded, stable and secure route for delivery of government programmes. Furthermore, from government's point of view, the fact that they are already established means that the difficulties of creating a new agency are avoided and so the cost in money and in time can be minimised.

From the point of view of the grant-making trusts, however, there are some very different considerations. These can most easily be considered under three headings:

1. **Scale** – except for the very largest foundations the scale of these new programmes would dwarf existing programmes and this would almost certainly have an impact on the management and governance capacity of the foundation. It might be possible to develop a ratio that would determine whether or not the scale was a problem. For example a foundation could conclude that it would be prepared to act as a deliverer of sums amounting to 20% or less of the current grant making programme.
2. **Control** – trustees of grant-making trusts remain responsible for the funds they disperse. They hold dear their ability to direct the funds, and inevitably managing funds on behalf of another influences the control. A test for a grant-making trust considering taking on some aspect of delivery might be the degree to which the trustees would retain control. Decision-making within criteria provided by government is different from implementation of decisions taken by government. The alternative is to offer a service on a contractual basis[47].
3. **Impact** – a grant-making trust approached in this way might conclude that the knowledge, skills and contacts they could offer would maximise the impact of a government funding programme and that this would ultimately support beneficiaries more.

Grant making trusts as partners in new approaches

The second strand of the approaches by government to grant-making trusts has concerned the direction of the government funding. Government argues that the new approaches it has developed have been developed with the agreement and engagement of the sector. They have been subject to widespread background research and consultation, and are formulated in response to clearly articulated problems. Therefore, it is argued, there is reason to hope that independent grant-making trusts would be prepared to direct some of their funds in the same direction and so maximise impact.

There is an attractive logic to this. Grant-making trusts interested in making an impact can see the attraction of working as funding partners with government, and in some areas there will be shared interests anyway. Furthermore, charitable funds are a comparatively small proportion of the funds within the voluntary sector so there are some attractions in ensuring those funds are working in the same direction as larger funds. "Going with the grain" of government policy can, potentially, maximise the impact of charitable funds.

On the other hand, there is a real concern that philanthropic endeavour and funds are increasingly being harnessed by government and that this is jeopardising the prized independence of the sector[48]. Voluntary organisations need to know that there are sources of funding for issues that are not perceived to be priorities by the government of the day, and this niche is filled by the independent foundations. New and emerging issues, or ones that are unpopular with government, remain difficult to fund unless charitable resource is devoted to them. There is a fear in the sector that attempts to harness charitable funds to meet government priorities will have the effect of stifling the organisations that either adopt a more oppositional stance, or are simply dealing with issues that are not currently viewed as priorities.

[47] It should be noted that on a previous occasion the Customs and Excise considered that a grant making trust providing an assessment and appraisal service to another foundation was trading, and therefore the contract was subject to VAT. (Baring Foundation and Bridge House Trust Fund 1995).
[48] Paul Barker writing in the centenary issue of Search, the journal of the Joseph Rowntree Foundation.

Issues for applicants

As has been argued, the behaviour of funding bodies has a major impact on the behaviour of the voluntary sector, its strengths and its capacity. What are the implications of greater collaboration between different types of funder for the field? Which organisations will benefit and which will lose?

Applicants have always got a peculiar sort of benefit from the diversity of funds. The better resourced have been able to "play the funding game," developing projects to fit funding programmes and making best use of the available funds. For the less well resourced, however, the funding jigsaw can and does present a bewildering picture and, as the Joseph Rowntree Foundation[49] study into the experience of black and minority ethnic organisations indicated, can present a formidable barrier to growth.

However, a unified funding scene would not on its own help this situation. The merit of the occasionally confusing diversity of funding streams is that the maverick can be supported, grant-making trusts can take individual risks, and projects outside the consensus can be developed. There are real fears that too much co-ordination by funders may close down this range of options and produce a more centralised, perhaps more conformist, funding tradition.

These fears are particularly expressed in relation to the use of independent funding to support government initiatives. While on the one hand voluntary organisations wish to see the government initiatives having maximum impact and may well feel that the independent sector has something to contribute, there is a real fear that approaches to co-ordinate and brigade voluntary giving behind government initiatives will reduce the capacity of the sector to innovate, take risks and challenge existing norms.

Conclusion

The answer to this probably lies in a clearer focus on the nature of the collaboration proposed. For example, grant-making trusts could establish some joint application processes and some shared evaluation of impact, keeping the decision making separate, and in this way reduce the transaction costs to applicants without overly centralising the nature of the funding actually offered. Equally, independent funders could offer some services to government, instilling some good practice about outreach, criteria setting and assessment, while leaving decision making and programme design in the hands of government. Like so much in the funding environment, clarity of purpose may help make judgements about the approach to be adopted. A key test of any such approach must be the extent to which new and untried organisations get the opportunity to benefit from the funding available.

[49] ibid.

Chapter 12

Behaving well and doing good – ethics in funding and grant making

Summary

The grant-making relationship is one in which there are incentives to dishonesty. This is largely because there are too many applications chasing the available funds. Applicants will describe their work in ways that seem like to achieve funding. At the same time funders allow themselves to believe that risk can be minimised. In fact as in any power relationship the nature of the contract is complicated, and attempts to act properly sometimes result in unfortunate adverse consequences. This chapter explores some of the grey areas of grant making, arguing that the development of a truly ethical framework for this activity is difficult.

"You'll never have to buy your own lunch again – on the other hand you'll never hear the truth again"

Light hearted comment to anonymous incoming chief executive of a major grant-making trust

As this book has illustrated, the funding relationship is essentially a power relationship, and has increasingly become one in which the applicants and the funders are engaged in a complex dance in which neither side is able to be totally truthful. This brief chapter outlines some of the ethical issues that arise in the grant-making relationship and highlights some of the risks inherent in the relationship.

Honesty

In any power relationship honesty is likely to become the first casualty. The supplicant in such a relationship will try to tailor their requirements to meet the wishes of the more powerful party. In the funding relationship applicants will typically disguise the nature of their funding needs, packaging long-term overhead expenditure as an interesting piece of project work, and claiming innovation where there is really continuity. The applicant will describe the excellent prospects for continuing funding, often known as the "exit strategy", while privately recognising that there is little hope of any substitute funding arriving.

Equally the funder is also likely to be willingly deceived in the relationship. All funders know that their contributions are used to meet a range of costs within organisations. Equally many of them explicitly state that they will not fund overhead costs. All funders know that there are limits to the exit strategies they are shown. And yet most funders will collude with this, because they do not wish to assume long-term responsibility.

Influence

Funders of voluntary organisations are immensely influential. This book demonstrates that the nature of funding decisions shapes the voluntary sector in fundamental ways, and that the capacity and strength of the sector is directly influenced by the ways in which funding is made available. This is true both of the style of funding and of the decision about what to fund. The grant conditions of major funders increasingly influence the behaviour of operating charities. Just as the requirements for high quality equal opportunities policies by the London Boroughs Grants Committee in the late 1980s influenced behaviour and trustee practice, so the requirement by Comic Relief that successful applicants needed to engage users on the trustee bodies of agencies serving people with disabilities undoubtedly had an influence. Less publicly too, there is anecdotal evidence of the questions asked by funders and purchasers acting as the spur for organisations to consider merger or other different ways of working.

Recipients of funding can be, in private at least, very critical of the way in which funders operate. Perhaps unsurprisingly this tends not to be said openly. Michael Bailin, running a major US foundation, has moved from running an operating charity and has therefore been more public, and more scathing, in his criticisms of the operation of some grant-making trusts or philanthropic foundations, to use the terminology of the USA[50]. Writing about the behaviour of some US Foundations, as perceived by an applicant, he writes:

"Standing in that queue, I often saw the dark side of philanthropy that many previous speakers in this series have described:
"Autocratic, ineffective, and willful." "Elitist." "Cloistered."
"Arrogant." "Pampered.". …in the years when I was passing my hat around the foundation world, I did see all these qualities now and again, and I understood – and still understand – what the critics are referring to."

He goes on to criticise some of the behaviour he identified in the Foundation he now runs:

"We were… trying to inject new ideas – quite often, ideas of our contrivance – into the work of grantees whose own ideas, and whose actual mission, may have been quite different from what we had in mind. We were constantly wheedling and negotiating with them, tugging here and prodding there, compromising a little on this issue, strong-arming them hard on that one. Quite often, as I learned in my years as a grant-seeker, the result was a bad fit for both the foundation and the grantee. Much of the time, the end result was not much more than the reluctant implementation of a compromised idea. Both the grantee and the foundation were essentially acquiescing in a marriage of convenience, but rarely of honesty or trust. Still, it brought some money in the grantee's door. And it produced a program that the Foundation could cite with pride (if not necessarily precision) in its annual report. …Yes, the staff was terrifically talented and distinguished in their fields …But even so, we were proceeding as if we had some independent leverage over social systems that had been many decades in the making — systems that were fortified by all the ramparts of bureaucracy and regulation, and thickets of intergovernmental agreements and contracts, and moats of public dollars".

[50] Michael Bailin (2003), *Re-engineering philanthropy: field notes from the trenches*, A Presentation by the President of The Edna McConnell Clark Foundation.

In lambasting the "arrogance" of some grant-making trusts, Bailin reflects the views of recipients and applicants who believe, albeit always privately, that funders of all sorts can exert excessive influence without due accountability.

"They behave as if they know best"
"Sometimes they arrive with ideas about how we should be operating"

Comments by grant holders in a workshop to discuss attitudes

There is another side to this. Some grant-making trusts have concluded that there are too few influences on some funded organisations and that, in the vacuum left by others, they have an important role to play. An evaluation of the merger programme of the Baring Foundation[51] concluded that just as institutional investors are often the powerful agents in mergers initiation in the corporate sector, so in the voluntary context, it may be that only grant-making trusts can exert sufficient leverage to encourage new organisational configurations.

Bailin's words, however, will find an echo in many of the operating charities which believe, however privately, that there are times when the influence of the grant-makers has been insufficiently accountable, based more on the prejudices and views of powerful advisers, directors and trustees than on the needs of the applicant charities.

Whose achievement?

In discussions with grant seekers of all types and sizes, a recurrent theme has focused on the attribution of outcomes.

"I hate it when they say they have achieved things. All they ever did was agree to give us a cheque"
Anonymous grant holder

The tendency of funding organisations to take credit for the achievements of funded organisations is particularly galling to front line organisations. They believe it diminishes their own efforts and only serves to build the prestige of the grant-maker, without acknowledging the efforts of the operating charity.

For some, but by no means all, there is a business need to share outcomes. Those grant-making trusts that raise funds from the public or operate in the public eye will need to demonstrate that their contribution has been of significance and that real change can be attributed to it. In many other cases the wish to understand impact may have inadvertently led to the sort of over-claiming that is complained about.

[51] Julia Unwin (1997), The Baring Foundation, unpublished.

Probity and professionalism – guarantees of ethics?

The last fifteen years has witnessed a growing professionalism in both the funding environment and the voluntary sector as a whole. In choosing between competing applications, trustees and their staff increasingly apply much more formal assessment procedures, and significant steps are taken to ensure that personal interests, either financial or otherwise, do not influence the outcome of grant applications. In particular it has become good practice to separate assessment and decision-making and to operate rigorous procedures for the declaration of interests. The process of assessment itself has become much more rigorous, as concepts of appraisal drawn from the investment sector begin to penetrate the grant-making world. For contracting organisations of course this process has an additional dimension. These organisations are frequently running a clearly competitive regime, comparing applications on the grounds of price and quality. Furthermore they are subject to the discipline of public audit that in turn imposes a number of protections against poor practice.

Nevertheless, most funding organisations would argue that there is still a range of ethical dilemmas in good grant-making. The Ford Foundation, in its influential work on "Grantcraft"[52], argues that there "remain grey areas between regulations". Is it possible that in following regulations too rigidly grant-making trusts are in danger of losing their capacity to respond effectively and spontaneously? Most grant-making and investment bodies would argue that assessment is as much art as science, and that instinct and trust play their part. Judgement is always hard to police and in the voluntary sector it is notoriously hard to make definitive and scientifically valid assessments. Specifically, there is a concern that reliance on quasi-scientific methods of analysis and judgement can too easily favour large professional organisations and present barriers to the more informal newer organisations.

Mutual respect and good judgement

Many of the attempts to improve the ethical behaviour of funding bodies stress the need for mutual respect and understanding. The foundations that most clearly understand the field in which they are operating can, it is argued, treat applicants and grant holders properly and so avoid the adverse consequences of the power relationship. Transparency of decision-making and the establishment of mutually agreed goals are all desirable in creating an ethical relationship. Yet it is clear to many people engaged in the complex dance that constitutes the funding environment that this is not enough. Only constant vigilance and a willingness to change behaviour can help funding bodies navigate these grey areas. And even this does not help when those same funders have to negotiate with their own funding bodies, either in the form of other parts of government, the company sponsoring the activity or the public. In all of these cases the funder will be forced into positions that may not be wholly straightforward. Calls for a pragmatic approach to this are entirely understandable, but they do allow the more powerful party, namely the funder, to exert influence beyond their mandate.

[52] www.grantcraft.org – a project of the Ford Foundation.

Beyond decision making

Ethical dilemmas persist long after the decision to fund has been made. As the Grantcraft project illustrates.

DESCRIPTION

What warning signs might alert you that a project is floundering? In this guide, grant-makers recount their experiences with troubled projects and tell how they responded – or how they wish they'd responded. With the benefit of hindsight, veterans describe what they learned and offer advice on the most effective and timely way to handle distress signals.

SAMPLE QUOTES

"It was at this time, that I started to feel completely in shark-filled waters. I started to feel I was caught in a bad dream. I was feeling oppressed by the whole thing, thinking 'God, why did I ever get into this?'"

A grant-maker on realizing that a large grant to an entrepreneurial start-up was dragging her into an ethically questionable money pit

""There was an uproar in the grantee community. People wanted to know what we were supporting. I'd thought we had an understanding [between the foundation and the grantee on how the grant would be used] and instead it was turning into something quite different. I was catching a certain amount of flak… I was feeling trapped."

A grant-maker on learning that a leading grantee was using foundation money to advance a previously undisclosed ideological agenda

"My heart sank at this meeting. I could tell that he felt this was hurdle-jumping, and unnecessary and undignified."

A grant maker on realizing exactly how a critically important grantee regarded the core objectives of his foundation's major new initiative

In managing the progress of any funding commitment, funders of all types are subject to a wide range of pressures. The response when things go wrong is rarely simple, and funders with an eye to their ethical performance will always be torn between wanting to protect and if possible restore the value of their original funding, but also ensure that the funded organisation emerges intact from the process.

This is particularly the case for funding bodies that are not entirely independent or are operating in the gold fish bowl of public scrutiny. Sticking with projects that flounder can seem like a counsel of perfection, when the funders' own income is jeopardised in this way. Yet failing to do so can be more damaging for the funded organisation. Equally mindless continuing support to a damaged and possibly damaging project does no-one any favours.

The United State experience

The United States has produced some of the most imaginative and innovative thinking about the funding environment. Some of this at least has been fuelled by the palpable tension between the philanthropic foundations and the not-for-profit organisations they support. As many of the quotes in this book have illustrated, there is a barely concealed mistrust of the larger foundations and their practices. In part this has sprung from a concern that the foundations have not been managed to high ethical standards. Specific well publicised scandals of trustee benefit and trustee self-dealing have contributed to a growing sense of unease. This has been exacerbated by a range of noisy debates about the relationship between the endowment held by the large foundations and the sums spent on not-for-profit activity.

Dissent in the UK

In the UK there is no parallel expressed concern. Indeed there is much less tension between the funding bodies and the operating organisations. The deep divides expressed in the US between philanthropy and not for profit organisations is not a feature of the UK funding environment.

However, the growing anger among some new organisations about the barriers they perceive in entering the funding world, draw attention to the need or a scrupulously ethical approach to management of these influential funds. In particular organisations that consider they have experienced discrimination in their search for funds, or in their treatment once funded, are critical of the way in which the funding environment is managed. They argue that funding systems can in themselves present insuperable barriers to entry, and contribute to the sense of the funding environment as an exclusive club.

The greater transparency in the British system, and the more open approach to information sharing has played an important role in establishing the current funding environment. However, as the issues facing the sector become more complex, and the level of scrutiny greater, it seems likely that tensions will develop.

Some of these are explored below.

Transparency and confidentiality

The relationship between a funder and the recipient organisation is ideally one of trust. The impact achieved will be greater if both sides can speak freely to each other. In this relationship funders learn a great deal about the organisations they support and the ones that apply to them. Responsible funders become close to a range of organisations and know a great deal about them. In the interests of openness and collaboration they have an interest in sharing that information. Equally in the interests of preserving the confidentiality of the funded body, they need to be absolutely discreet. The tension between these two presents challenges for funders that wish to behave properly and at the same time meet demands for openness.

Personal knowledge or funder's whim

Chapter Five considered whether funding appraisal was an art or science and concluded that it had elements of both. It also noted that experienced funders develop knowledge of individual organisations and of the sector. While this knowledge is prized, there is fine line to be drawn between the funder with extensive knowledge and understanding, and the funder exercising inappropriate prejudice and whim. Those who find themselves excluded from the grant making tango that this book has described, will often conclude that whim, not knowledge has kept them out.

There is inevitability about this. Organisations that do not receive funding will believe that they are subject to unreasonable, and possible discriminatory attitudes. Those that are supported will applaud the wisdom of the decision maker. But for funders that wish to behave as well as possible there is a challenge in making the reasoning behind their decisions open, accessible and comprehensible both to those they support, or decline.

Interference or support

Another tension for funders wishing to behave well occurs during the life of a grant when things do not seem to be going well. There is a tension between letting funded organisations manage on their own, and providing guidance. The funder who wishes to treat the funded body in an adult way, allowing the organisation to develop in ways that seem right to the trustees and managers of that body, can easily be accused of neglecting the organisation, and allowing it to drown. Equally the funder who offers advice and makes forceful suggestions for improvement, may be caricatured as too interventionist, and disrespectful of the independence of the organisation.

Conclusion

These tensions present all funders with dilemmas. Funding organisations need to find a way through these, informed partly by the mode of funding used, and partly by the funding intent. A funder with a commitment to building an institution, adopting an investment stance will respond in one way to these tensions. A gift giving organisation, interested in maintaining services will, however have a different response.

It is difficult, if not impossible, to articulate an ethical framework for the funding environment. Yet the funding environment strives to operate in an ethically appropriate way. The pressures towards mutual dishonesty and the abuse of the power relationship need to be resolved by funders if they are to succeed in their goals. There are obviously no easy answers to this, but this chapter has suggested that openness about the pressures faced, as well as a willingness to generate mutual respect, are a start.

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The Grantmaking Tango: Issues for Funders

This book asks “what sort of funder do you want to be?”

It goes on to give a simple framework for grant makers of giving, shopping and investing as styles of funding. It will be useful for voluntary sector organisations, be they grant seekers or grant givers, and it is based on over 10 years of experience in the field by the author.

The Baring Foundation
60 London Wall
London EC2M 5TQ

Tel: 020 7767 1348
Fax: 020 7767 7121

E-mail: baring.foundation@uk.ing.com
Website: www.baringfoundation.org.uk

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