THE INVESTOR APPROACH TO FUNDING THE VOLUNTARY SECTOR

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Introduction

In the report that I prepared for the Community Fund[1] I referred to the experience of several US grant-makers. One of these was the W.K. Kellogg Foundation. The preface to one of their reports on grant-making is:

If you don't know where you're going, how are you gonna know when you get there?

This is a Yogi-ism, one of the many treasured phrases from Yogi Berra, the US baseball star of the 40's and 50's. Yogi came up with some marvellously mangled phrases – some of which had a basic relevance, such as the one the W.K. Kellogg Foundation used; others perhaps less so:

- When you come to a fork in the road, take it
- The future ain't what it used to be
- Or, again one with a bit of a connection with this seminar: 'you can observe a lot by watching'

Anyway, the Kellogg quote sums up rather well one of the two interlinked themes of what I hope to contribute to this event: an explanation both of the 'Investor Approach' that gives the conference its title and of the growing interest in 'Outcomes Funding' – how funders and funded can be clearer about what they are trying to achieve in what they do. In this initial talk, I'll concentrate mainly on outcomes – for reasons that I hope will soon become clear, I believe a funder cannot adopt an Investor Approach unless it has first got to grips with outcomes. So what are the themes, the questions?

First, for the individual grant:

- how can a grant-maker and a grant applicant identify and validate the outcomes of the work that a grant is intended to make possible?

The second theme is "grant-making plus":

- how far should a grant-making organisation, the funder, go in helping to shape and steer the work of the voluntary or community organisations that it decides to support – whether or not to adopt some version of what some describe as 'the Investor Approach'; others use terms like 'engaged grant-maker'?

The connection between these is, I believe, that an 'investor approach' is not feasible unless the outcomes of what is to be funded have been clearly defined and understood by both the *investor* – the grant-maker and the *investee* – the grant recipient.

[1] The Investor Approach – a way forward for the Community Fund? (June 2002)

The reverse is not true – a grant-maker can adopt a vigorous line on outcomes without having to intervene directly in the content or quality of the application or the subsequent management of the grant.

Each theme has two dimensions – first the individual grant (as in the previous slide) – but also the grant programme from within which the grant is made; and two questions:

- what outcomes is the funder hoping to achieve through this grant programme?

and:

- how engaged is the funder going to be in the direction, conduct and evaluation of the work it is supporting and the promotion of the results of and lessons learnt from the grant programme?

Surely it is only 'good practice'?
It may seem self-evident that any grant-maker – whether an individual donor or an organisation, whether within the charitable or public – would need to be clear about these questions.

How else could you decide how to allocate resources, time, skills etc to the grant-making process?

Yet, with some notable exceptions, the practice of most grant-makers has not been constructed to answer all these questions effectively.

For example, when I was Director of the Baring Foundation we were probably ahead of the game in our ability to report in considerable detail on the activities we funded – what, where, for whom; we were good on amounts and quantity; in the jargon, we were very informative about inputs and outputs. This proved invaluable when the press suddenly got interested in us after the Baring Bank crisis removed the source of 85% of our income; our data base and information management systems meant we could send within a few minutes pie charts and tables to any journalist who asked for factual information about what we funded.

But if one of those journalists – or one of my trustees – had asked:

- What had been the impact of the grant programme? What had been achieved?
- What had been the difference made to the lives of the 100's of people that were being assisted by the organisations who were in receipt of the grants we had provided?
- What had worked and why?

I'd have had to resort to anecdote and example. We were good at 'counting the beans' but we had no real overall evidence of the results – the outcomes or the impact; we could provide little or no solid evidence of the quality of what had been achieved and what lessons had been learnt.

We did do some evaluations, I recall. One was of the value of 'tool-kit' type guidance materials – we followed up on 12 grants made to fund the preparation and production of such materials. What had been achieved?

The answer was that we found out how many had been produced and distributed – but only one grantee had systematically followed up the users of the guidance to find out if the material had been used and for how long, what value it had had, what lessons had been learnt. The rest judged success by the level of demand that had followed the marketing of the materials and/or the fact that they had distributed them all – that they might never have been taken out of the wrapping or had spent the last year gathering dust on a shelf did not seem to be a question the grantee organisations had ever got round to checking.

Output was everything – the outcomes or lasting impact were not really considered. One grant recipient organisation even responded by saying that they were glad we had asked what had happened because it had made them check their stocks and prompted them to ask for another grant to pay for a reprint!

As Joel Joffe, the former Chair of the Allied Dunbar Charitable Trust, now the chair of The Giving Campaign, wrote in his Foreword to *Monitoring and Evaluation*, the ACF 'practical guide for grant-making trusts':

> "All trusts and foundations are in the business of bringing about some form of positive change, and giving grants is the means by which we set out to do this. And yet, all too often grant-makers focus on the giving itself rather than the outcomes of the giving. Having given, they frequently fail to ask the key questions: has our grant made a difference? Has it contributed towards positive change, towards improving the quality of life of others? Has it achieved what we intended it to achieve, and – very important – has it represented value for money?"

It's strange that most grant-makers have not got to grips with these questions. Surely it's just good practice – and not just for grant-makers; also for the funded organisations as well? As I argue in the Community Fund report:

"Any organisation should endeavour to:

- set out clear outcomes and performance targets which a particular function or new project is intended to deliver
- be clear in advance about the steps that it will take to achieve those targets
- have a procedure for stocktaking as they complete each step
- be ready to adjust or amend the targets/timetable/methods if their experience and learning demonstrate that to do so would be appropriate
- establish a system of keeping those organisations that are helping them (with funds or other resources) informed positively about progress and learning."

In the Community Fund report, I also suggested that:

> "For a funder to expect applicants and grant recipients to adopt such good management practice would itself, therefore, seem to be good practice. So, too, would be a willingness on the part of the funder to invest time and resources in helping those organisations which it wants to support but which do not as yet have the capacity or skills to set, measure and manage outcomes."

Definitions – the need for clarity

In the Community Fund report I devoted a whole section to what I described as 'the jungle of terms and confusing definitions'. This is an area of debate in which the same terms have several different meanings – there are times when Peter Cook's caricature of Harold MacMillan, when Prime Minister, decribing Presidents Kennedy and de Gaulle as having a very frank exchange of views 'in their respective languages' seems like an accurate image of the discussion.

The four key terms are Inputs, Outputs, Outcomes, Impact.

There seems to be general agreement about the meaning of the first two:

- Inputs – the resources that are to be used to run a service, project or programme; the money, people, facilities, equipment
- Outputs – the numbers of people helped, doors painted, leaflets distributed, hits on a web page;

Inputs and outputs are quantifiable and relatively straightforward to measure. The trouble is that – probably as a result – that is often where things stop. The trustees of the voluntary and community organisations that are the grant recipients are content with graphs or tables showing the quantity of the activities that they are providing; the funders are happy that the grantee has delivered the numbers.

The hard stuff is getting some clarity and valid measures of outcomes and longer term impact; they may not be so easily quantifiable – indeed attempts to quantify may distort them. And there are some thorny definition problems, not least because some commentators seem to use the terms interchangeably and very loosely.

US Experience: W.K. Kellogg Foundation

There are a couple of US foundations whose use of these terms, though different in some aspects from each other, I, personally, find helpful.

I referred earlier to the W.K. Kellogg Foundation. It advocates a *Programme Logic Model* which can be applied to a single service or project or to a whole programme or organisation.

This is intended to be a tool for use by the people involved in a particular project or organisation to gather and use information about what is going on – "to learn continually about and improve programmes that you operate or fund".

Kellogg describe a sequence of 5 programme components:

The first two are 'your planned work':

1. **inputs:** the human, financial, organisational and community resources needed to operate your programme

2. **activities:** what you do with these inputs, the resources – **if** you have access to the resources, **then** you can use them to accomplish your planned activities

The next three are 'your intended results'

3. **outputs:** the direct and tangible products – **if** you accomplish your planned activities, **then** you will deliver the amount of product and/or service that you intended: X people will be using the Day Centre; Y will have gone on the training course; Z will have got hold of the leaflet

4. **outcomes:** specific changes in individual or group behaviour, knowledge, skills, level of functioning – **if** the outputs are delivered, if you accomplish your planned activities to the extent that you intended, **then** the people who are participating will benefit in certain ways, will achieve certain goals, will be able to apply new skills or have access to new opportunities

5. **impact:** fundamental intended (or unintended) changes in organisations, communities or systems – **if** the outcomes are achieved, **then** certain changes in organisations, communities or systems might be expected to occur.

Kellogg also suggest that you must incorporate a time line – they emphasise that impact often occurs well after the conclusion of a period of project funding and caution against measures designed to report on long-term impact being imposed by a funder when only short-term outcomes can be discerned.

World Bank

So all well and good I can hear the restless among you – but let's get real and apply all this to something practical.

OK, here's a World Bank example – nothing to do with charities or the voluntary sector! This is about the monitoring of a loan to control a particularly harmful emission from diesel buses, PM10[2].

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[2] "PM10 is particulate matter (PM) with a mass median aerodynamic diameter less than 10 micrometers; PM10 is therefore particulate matter which is very small, remains suspended in the air for periods of time, and is easily inhaled into the deep lung. Increased death (mortality) and disease (morbidity) have been

- ***The input:*** financial and technical assistance
- ***The output:*** the number of new engines installed
- ***The outcome:*** the reduced PM10 emissions from buses
- ***The impact:*** reductions in ambient concentrations of PM10 in previously polluted areas and reductions in health problems caused by respiratory diseases.

US Experience: Edna McConnell Clark Foundation
The second US foundation that, I feel, has set out some useful and thoughtful definitions is the Edna McConnell Clark Foundation. They have a commendable and welcome commitment to fighting jargon and championing clear writing.

They define outcomes as:

> "the 'enduring changes' in conditions that are achieved as a result of efforts undertaken".

…and have…

> "adopted a number of definitions relating to outcome management that are appropriate to their aspiration to influence developments at a number of levels:

- "The *individual level*" – which includes changes in people's knowledge, skills, abilities, and attitudes;

- "The *organizational level*" – which includes building new capacity and the adoption of new policies and practice;

- "The *neighbourhood or community level"* – which could include changes in job training or local employment rates, crime rates, school achievement rates, use of public spaces and community facilities;

- "The *policy level"* – which might include the adoption of new laws, regulations or quality standards, public and private sector funding practices, and so on.

I would have thought that many UK funders would share a similar ladder of aspirations.

The only addition I would add to the list of outcome levels about which funders should be concerned is their own performance.

I commend to you another US source: *Indicators of Effectiveness – Understanding and Improving Foundation Effectiveness*, published last year by the Centre for Effective Philanthropy; this combines in a single coherent set of indicators those that measure the outcomes of the work a grant-making organisation funds together with measures of their own grant-making strategy, operations management and governance. (Website: www.effectivephilanthropy.org)

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linked to periods of high outdoor PM10 concentrations." *The Rocky Mountain Center for Occupational and Environmental Health at the University of Utah.*

The UK experience: Charities Evaluation Services
I've drawn attention to US experience partly because there has been much more debate among their foundations than over here about outcomes and a lot of it is easily accessible on the web. But there is a lot now happening here in the UK, too – and the decision of the Community Fund to build all their future grant-making around outcomes will intensify and increase these developments, given how substantial is their contribution to the funding of the voluntary and community sector.

The organisation which has been especially active – and I think, effective – on promoting in a really practical way how organisations can get to grips with outcomes is Charities Evaluation Services (CES). CES, whose 'strapline' is *CES Helps You Do What You Do Best*, is probably best known for being the producers of *PQASSO*. This is a self-assessment quality assurance system that has been designed specifically for small and medium voluntary sector organisations and enables them to approach quality at their own pace, without costly consultancy fees. CES are now getting increasingly active on outcomes and were commissioned to write the *Handy Guide to Outcomes* for the Community Fund – and has secured a Plain English Crystal Mark for the guide so it should help all funders and funded get their heads round the whole issue. CES also publish some useful *Discussion Papers* – on *Outcome Monitoring; Performance Indicators: Use and Misuse; Using Evaluation to Explore Policy*, for example. They have also recently published *Evaluating Ourselves*, a series of practical guide books aimed at small and medium sized voluntary organisations approaching monitoring and evaluation, or funding agencies establishing project evaluation systems.

Health Warning!
We will return later to some of the policy and practical questions that need to be addressed if a funder is seriously trying to implement outcomes into their strategy and ways of working; first though a 'health warning'.

As one of the responses to the consultations about the Community Fund report has stated:

> "The funding community in the UK must avoid the fashionable trends and models, the quick fixes, the magic bullets, and the golden promises.
>
> "Actually funding outcomes, and developing an outcome orientation, is a slow process that requires dedication and hard work and must take place in conjunction with the funded.
>
> "It cannot be imposed as a new system overnight".

I couldn't agree more – and argued in the Community Fund report that a funder 'cannot afford...to introduce a flawed system or even to introduce a good system clumsily.'

The Challenges to Funders

Funders may be getting more interested in the outcomes and the impact of what they support – but this new interest poses some major challenges for them and the ways they work.

I think that the past practice of funders – in the charitable and public sectors – has been a significant cause of the general inability of many voluntary and community sector organisations to provide sustained data and evidence of the outcomes and impact of their efforts:

- grant-makers have concentrated on short-term support, tied to tangible and measurable outputs and quantitative monitoring – success is measured by compliance not by achievement

- their application forms and programme priorities have tended to concentrate on the activities that their funds will be used to pay for – not the changes in the life experiences or opportunities of the people and communities who are the intended beneficiaries

- grant-makers may have asked how an organisation will evaluate its work and what indicators of success it will use – but they seldom provide sufficient funds to pay for the necessary information gathering or for the resources and time needed to analyse and make use of the lessons learnt

- too often grantee organisations sweat gallons on completing complicated monitoring reports (too often, as well, several completely different forms for different funders – the lack of collaboration between funders is fantastically wasteful of everyone's time) and then, adding insult to injury, no use seems to be made of the reports – they get no feedback or comment – it's as if the key achievement is the completion of the monitoring form, not the content of the work itself.

So I believe many grant-makers have to reform themselves if they want to learn more from the organisations they support about lasting value – what works and why – and, therefore, what they should support more (or less) of.

The Challenge to Grant Seekers

But, ever even-handed, I also think that the grant-seekers have colluded with the superficiality which I attribute to grant-makers; that fundraisers are especially prone to celebrating – and not going beyond – outputs and activities. Perhaps their impatience to get results and their enthusiasm for simplistic marketing messages gets in the way of the investment of time, effort and skills that are needed to be able to identify, report accurately on – and to celebrate – long term impact. Quoting the numbers – how many attended a centre, received information from an advice service, were trained, participated in an activity – is so much easier than trying, clearly and coherently, to explain the qualitative achievements (or failures – with lessons learnt), the outcomes and the lasting impact.

It's understandable if many in the voluntary sector, faced with yet another set of demands from a funding body for reports on outcomes, groan with a resigned weariness – and see the whole debate as being either part of a compliance and target fixated obsession and/or some additional regulatory onslaught. It's not surprising if voluntary organisations get fed up when they have to spend hours of what feels like totally unproductive time filling in forms and ticking boxes.

It may be an understandable response to the whole issue – but it would, I believe be wrong.

Is it all worth the trouble and effoirt?
As would the response from funders that surely this must involve a lot of effort? Is it worth it when only small grants are involved?

If the organisations that you support have not already established clear outcomes for their work, then maybe it would be sensible to help ensure that they can – not just to please or pacify funders, but because it will probably help them ensure that their organisations are better managed and that they provide better services to the community.

The outcomes/impact debate can be a positive development if it means that the voluntary and charity sector adopts and shapes the outcomes agenda for its own use; if grant-makers and grant-seekers ask themselves – systematically, intelligently and simply – how can they demonstrate that their work is delivering real benefits?

The answer to that question can, I believe, enhance the sector's ability to:

- inform and improve their work and the understanding of it within the wider community

- explain, perhaps inspire, current or potential users of the services they provide

- motivate and support, again perhaps inspire, staff, volunteers and trustees

- report to donors and other funders more fully and enhance not only the prospects of future funding but also encourage grant-makers to have more confidence in the work they are supporting

- demonstrate to government, centrally or locally, the value of a services that have been developed and the case for their replication or 'cloning' elsewhere

- promote on a wider stage the value of what has been achieved – use what has been learnt to influence and inform policy makers, researchers, the media.

It's potentially a considerable asset to efforts to build or restore trust and confidence in charities and the voluntary sector.

So you will understand why I believe that all funders should – and would gain from – introducing a good outcomes funding system at the centre of their work – after all, how else would they be able to answer Yogi Berra's question?

The 'Investor Approach'
Briefly, some 'scene setting' comments about the 'Investor Approach' – for follow-up later in the discussion groups. Again, this is not new and not rocket science – and, some might argue, no more than the 'engaged' and active practice of some existing funders, including some here today.

So what's an investor? No single model – there's a spectrum of funder activity which would include the following levels of involvement:

- a targeted approach to specific priority groups

- active out-reach to potential applicants and involvement in shaping applications

- the requirement of applicants to set out clear outcomes for what they plan to do and to introduce formal verification systems to monitor and evaluate progress (and the provision of information, training and support to help them to meet the requirement)

- involvement in decisions about a grantee's policy or operational changes

- promoting a project's long term funding prospects directly with other funders

- nominating trustees or committee members – or taking on that role directly.

Few funders embrace all of that range of types of investment in their work – but many (some of whom are here today) have adopted some, particularly at the pre-application or pre-decision to fund stages.

Questions
So what are the operational questions raised by all this? Here are some – though I expect (hope) you will have lots more.

For ***Outcomes – how to address***:

- Time – when to measure? (Grant periods seldom aligned to the time it will take to resolve complex problems – how can you judge outcomes or impact after just a couple of or three years?)

- Variables – how to allow for all the other internal and external factors which contribute to an outcome?
    - *(Balham Nursery illustrates both these questions)*

- User involvement in definition and verification – neither just a funder driven system or a provider's goals agenda – how to take proper account of user aspirations and experience? If not directly relevant and meaningful, bound to be flawed

And ***how to ensure*** that you:

- Build on and strengthen what's there – e.g. the grantee's got a good self-evaluation scheme already; can there be any justification for requiring them to adopt your system for measuring achievements and the outcomes of their work?

- Collaborate with other funders – you are likely to be only one of several; the *Compact Funding Code* (explain) states that funders should:

  > "take account of the monitoring procedures already agreed by the organisation's other funders and any quality assurance system introduced by the organisation itself. This approach will help reduce the staff/volunteer time spent by the funded organisation in reporting in a number of different formats and should in turn reduce the associated costs"

- Invest – in your own staff (so that they are confident, skilled and committed enough to avoid a default back to outputs if the pressure gets tough) and

- Invest – in promoting lessons learnt (why require grantees and staff to adopt new tricks if the result is more paper on shelves gathering dust?)

And if considering whether or not to adopt some version of the ***Investor Approach?***

- Can you define the added value? the Investor Approach assumes that the investor can supply skills, experience or connections in addition to funds and a high quality of grant-making practice – that they should be a 'highly-engaged' funder.

  (it is not obvious that the staff of most grant-makers will have the skills or experience to be able to 'add value' beyond ensuring that the processing of the grant application, payment and management are done to the highest possible standard. As I said in the Community Fund report: "If the Community Fund is determined to be more than just an excellent grant-making practitioner, it will need in advance to define very clearly what added value it thinks it can provide and to be sure that its own staff have the necessary expertise and competence. It will also have to satisfy itself that its grantees would welcome such additional assistance. I have not found convincing evidence or argument that there is a case for the Fund to adopt an investor approach that goes beyond the determined and comprehensive introduction of outcome setting and measurement systems within its own operations and the work of the organisations that it funds").

- Conflicts of interest – staff 'going native' becoming advocates for the organisation within the funder, increasingly less able to offer their trustees an objective judgement when things go wrong within a grantee organisation

- ‘Institutionalise’ throughout all organisation – materials, web, processes, committee/board conduct, public reporting. If only a veneer, practice will default back to a focus on outputs and bean counting as soon as pressure grows or enthusiasm cools or departs.

Best practice?

However far into this a funder chooses to go, for me there are three key ‘best practice’ features that must be in place – the funder must:

1. ensure your assessment/due diligence systems guarantee that, if a grant is agreed, the grantee organisation is capable of delivering the outputs and outcomes that both you and they have agreed – no point in ‘born to fail’ grant-making

2. pay to equip the grantee to deliver if they (or you) recognise that their capacity needs to be strengthened

3. ensure that the learning that can result is primarily an investment in the work and the users, not a self-serving tool for funders – funder needs to learn from and apply evaluation of the work that they support are important, but, I suggest, secondary.

And, crucially, take time and trouble to ensure that you can articulate clearly:

- what you aspire to achieve with your grants – the outcomes you hope for - and that you expect to be judged on

- what you expect from your grantees – be clear from the start; there’s nothing so irritating as the rules getting changed half-way through

- how you will carry out your side of the deal – the grant-making transaction generates a mutual set of obligations, especially if set out to be an ‘engaged funder’, to adopt the ‘Investor Approach’.

Is it all worth it? I believe it is and think the considerable initial effort and investment involved can pay solid dividends:

- dividends internally within the grant-making organisation for trustees/committee members and for the staff

- dividends externally, for the potential benefits to alliances and partnerships between funders and the wider voluntary and community sector and the statutory agencies with whom you have to engage

- and, above all, dividends in the quality of the experience of the users and beneficiaries of the local services and organisations you support.

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