Practices and Policies of Private Foundations in Canada

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Allan Northcott of Max Bell Foundation and Shelley Uytterhagen of the Carthy Foundation and visited several private Canadian foundations early in 2002. The purpose of the visits was to learn how a select sample of Canadian private foundations are operating, and how they see their work in the context of the recent past and foreseeable future. What follows is a summary of the information they collected.

The contents of this document are not intended to be representative of Canadian private foundations generally, nor is the analysis in any way methodologically rigorous. Rather, what follows are the authors' interpretations of the remarks given in confidence by executive and program staff respondents.[1]

[1] The authors would like to express their thanks to the many individuals who graciously contributed their expertise to this project. The executive and/or program staff of the following foundations were consulted: Carthy Foundation, CRB Foundation, Donner Canadian Foundation, EJLB Foundation, Frosst Foundation, J. W. McConnell Family Foundation, Kahanoff Foundation, Laidlaw Foundation, Max Bell Foundation, Maytree Foundation, Muttart Foundation, Richard Ivey Foundation, W. Garfield Weston Foundation, and Walter and Duncan Gordon Foundation.

I Trends in Philanthropy

The term "trend" sometimes implies questionable legitimacy. For our purposes here, a trend is an emerging policy or practice that has not yet gained unquestioned acceptance among the grantmakers consulted.

Professionalization

Respondents almost unanimously reported that the professionalization of philanthropy - which began in Canada in the 1960s - is a dominant trend. Among other things, professionalization means the adoption of strategic planning processes, adherence to corporate accountability structures, the systematic use of explicit grantmaking procedures, and hiring skilled and experienced professional staff. One respondent noted that "doing philanthropy requires professionalization, whereas doing charity does not."

The key advantage of professionalization is the enhanced quality of grant-making, where quality means that the foundation's activities lead to some intended and well-conceptualized change in a target community. A disadvantage to professionalization may be increased management and programming costs, though most foundations see such increases as more than counter-balanced by increased grant quality.

Professional staff usually have considerably more time and resources than trustees or board members to develop expertise in the foundation's granting areas, and to focus on the relative fit between the strategies of the foundation and the characteristics of particular applications. This can lead to shifts in the balance of decision-making power, whether formally or informally. Such shifts may reduce trustees' opportunities to feel directly engaged in the philanthropic activities of the foundation, and the attendant satisfaction they feel regarding their contributions to the foundation's work. Some of the foundations consulted provide direct grantmaking opportunities for trustees by allocating a specific portion of the global granting budget to grants made at the individual discretion of trustees.

The professionalization of philanthropy is contextualized in the professionalization of the third sector generally. It appears to be motivated by both the need to manage the increasing number, variety, and sophistication of fund seekers, and by the desire for strategic philanthropy.

Strategic Philanthropy: Prevention versus Intervention

A second trend noted by respondents, coincident with the professionalization of philanthropy, is the movement toward prevention and away from intervention. Adopting systemic views of the problem domains they address, foundations increasingly focus their activities on changing root causes rather than delivering "band-aid" services.

One risk of strategically "moving upstream" is that, while it probably increases the quality of grants made, it may reduce trustees' and staff opportunities to feel the satisfaction that stems from supporting the direct delivery of needed services. However, respondents noted that commitment to a strategic approach is often rewarded with the greater satisfaction of witnessing the broad impacts for a whole community of a successful strategic granting program.

Another risk of strategic philanthropy is that foundations may begin to neglect the importance of supporting direct service delivery, though most of the foundations we interviewed balance their grantmaking by devoting at least some of their resources to direct delivery of services.

Accompanying the move toward more strategic philanthropy has been a shift away from the traditional, reactive approach to grantmaking in favour of more interactive and proactive approaches, which are discussed in more detail below.

<u>Innovation and Risk</u>

Private foundations are increasingly looking for innovative initiatives, which tend to carry an added element of risk. This search is partly a result of foundations strategically positioning themselves in a niche between longer-term, stable, and often inflexible state funding for lower-risk undertakings on the one hand, and the more volatile and less strategic general fundraising on the other.

One respondent noted that most foundations, despite believing that they are taking greater risks, are in fact taking far less risk than the organizations they support. Therefore, foundations should consider providing more and different types of support for the kinds of innovative risk-taking they hope to see among grant recipients. This particular foundation directly encourages and supports organizations to try new things, and considers these activities particularly important to their overall strategy because "the current culture of austerity among charities often stifles innovation and creativity."

The push for innovation has led to an increase in support of demonstration and pilot projects and a corresponding decrease in support for general operations or infrastructure. The majority of foundations we interviewed do not, as a matter of policy, provide grants solely to support operating costs. Most, however, expect a certain portion of a project budget (10 to 15 percent) to be allocated to operating costs.

Project support tends to be shorter-term, which allows foundations to avoid developing dependency relationships with grant recipients. However, the foundations we consulted increasingly recognize that the pool of funds available to replicate pilot or demonstration projects is so small that - however successful initially – they may very well *not* have a life beyond first-time support. As such, several foundations are questioning just what is the correct balance between sustaining support and dependency; between innovation and proven methods; and between support for projects and for organizational infrastructure. Two of the respondents indicated that they often provide direct funding for operations.

Civic Duty

Following up on a debate already well underway in the United States, many respondents believed that Canadian private foundations are beginning to address the question of the public obligations of foundations. Most of those we interviewed take the position that much of the capital and investment income of private foundations is effectively foregone tax revenue, and therefore it ought to be subject to the same standards (e.g., of transparency, accountability, and so on) as government spending. In this view, a "public trust" is assumed to be the natural purview of the state.

A much smaller number of respondents take a different position. They believe that the capital and investment income of private foundations is properly understood as private wealth dedicated to a public benefit, where "public" means the community of citizens rather than the state. In this view, the Foundation's staff and trustees are accountable to the donor, if she or he is alive, or to the trust agreement if the donor is deceased. Those who take this view also strongly believe that private foundations are a "public trust" that ought to be subject to the best stewardship practices (e.g., transparency, accountability, and so on), not because they are stand-ins for the state but rather because they have a duty as non-state centres of civil society leadership and activities directed at the common good. In this view, a "public trust" is assumed to be the natural purview of citizens and citizen organizations.

In any event, more people are asking: what are the duties and obligations of private foundations in a twenty-first century democratic society, and how should they go about discharging those duties and obligations?

Accountability

Professionalization, strategic philanthropy, the quest for innovation, and concerns over civic duty all drive an expectation of accountability – from both grantmakers and grant recipients. According to our respondents, foundations are increasingly emphasizing the importance of monitoring and evaluating the work they support. They are also opening their own policies and practices to greater public scrutiny. Private foundations have an extra impetus for being accountable in that doing so will help broaden public understanding of the social value of private foundations, and perhaps help lead to equitable tax treatment relative to community foundations.

Venture Philanthropy

"Venture philanthropy" is understood to mean several different things. Most foundation executives assume it to mean adopting at least some of the practices and principles of venture capital firms. These include the rigorous evaluation of proposed undertakings, a relatively high acceptance of risk, a more hands-on approach to managing grants that may go beyond monitoring and toward management, and a focus on helping organizations become more effective and more self-sufficient. Most respondents see potential value in some of the defining characteristics of venture philanthropy, given the right project, but do not see it as valuable in itself.

II Governance

Board of Directors

In Canada, registered foundations can be structured as trusts governed by trustees, or as not-for-profit corporate vehicles governed by directors. The role of trustees and directors is essentially the same. In most jurisdictions (Alberta is one of the exceptions), the not-for-profit entities do not have share capital and shareholders, but rather have members. It is typically the responsibility of the members (or shareholders) to elect a slate of directors, who then assume the governance responsibilities of the foundation on their behalf. Among the foundations we interviewed, the number of members ranges from six to 100, and the number of directors/trustees ranges from three to 12.

Several of the family foundations we interviewed have decided to limit the number of family members acting as trustees in favour of recruiting qualified experts. In other family foundations, the entire membership consists of family members, often on a rotating basis. Terms vary from one year to lifetime appointments.

Some foundations recruit board members to be representative of the populations the foundation's grants are intended to serve. Others recruit board members for their experience and expertise in governance or investment management.

Board duties regularly include:

- articulating the operating principles of the foundation (vision, mission, grantmaking practices)
- articulating investment policy
- approving annual budgets
- choosing foundation executives and officers
- appointing auditors

Boards are ultimately responsible for grantmaking decisions as well, though there is considerable variation among our respondents in the way different boards discharge that responsibility. In the majority of cases, the foundation's professional staff conduct thorough assessments of proposals and provide recommendations to the board, who then discuss the assessments and render a funding decision. In some cases, foundation staff provide evidence to the board but no recommendation. By contrast, in a smaller but significant number of cases, the board's relation to grantmaking decisions is minimized to establishing grantmaking principles and ratifying a "consent agenda" of specific decisions made in advance by foundation staff.

A number of the foundations we consulted also have personal grant allocations for board members, who decide as individuals how it will be spent. This allows them the opportunity to support projects or organizations of personal interest that may not necessarily fit within the foundation's program interests. For some such foundations, these "directors' grants" are made only with the consent of the other directors. One foundation requires its board members to monitor and report to the board on the projects they have selected to support.

Foundation boards meet from one to five times annually. Typically, grant proposals are considered at each meeting, with the number of proposals ranging from three or four to as many as thirty. There is a wide variation among our respondents in the degree of contact between trustees/directors and foundation staff. In some foundations, board members interact almost exclusively with the chief executive. In others, the board members interact quite freely with all foundation staff. In a small number of foundations - where board members are easily accessible - much more frequent interaction between board and staff has evolved in which board members render decisions on grant proposals on a continuous basis.

Staff

In most of the private foundations we consulted, the staff make presentations to the board during regularly scheduled board meetings. Most make recommendations regarding whether proposals should be supported or declined. The level of detail of grant proposals ranges from one to fifteen pages, with some foundations preferring to provide directors with a bare minimum of information (unless otherwise requested) and others providing directors with a significant amount of information for each proposal recommended for support.

The professional staff of these foundations are often given discretion over a portion of the grants made. For example, they may be permitted to make grants less than $15,000 up to an annual limit of two percent of the annual granting budget. Some foundations stage the degree of board approval required for grantmaking, such that staff may have full discretion over a certain amount of grant funds, require one or two board members to "sign off" on slightly larger grants, and require all board members to approve grants above a certain threshold amount. The advantage of allowing greater discretion to staff in grantmaking is that it allows them to build credibility among the community of potential grant recipients, and to provide timely support to newly-emerging opportunities. The disadvantage is that it diminishes the role trustees and board members play in the particulars of the foundation's grantmaking.

Among the foundations we interviewed, the number of staff ranges from two to thirteen full time equivalents. Many foundations regularly hire student interns.

III Investment and Disbursement Policies

Investment

It is typical among the foundations we consulted to have investment committees formed by some sub-set of their board. In some instances the investment committee is chaired by a professional external to the board. The investment committee makes recommendations to the board regarding investment policy. While we did not collect specific information regarding investment policies, we can say that the risk profiles of different foundation investment policies vary significantly. One respondent suggested that "once a foundation's asset base reaches a certain size - say $100 million - it becomes more acceptable to take on a higher risk profile with at least some portion of the assets."

The number of professional investment managers contracted by these foundations ranges from one to nine, and is roughly correlated to the size of the asset base under management. Private foundations in Canada range in asset base size from one million to 1.4 billion dollars.

Some foundations have close connections with the businesses owned by the family who established the foundation. They may, for example, share office space and some administrative staff. The assets of the foundation may be managed by the staff of these family businesses. In fewer cases, the family foundation is not endowed but instead receives an annual budget for grantmaking and operating from the family-operated business.

We asked respondents whether their foundations had considered a preference for "mission-based" investing (i.e., ethical investing) or "performance-based" investing (i.e., investing to maximize return within acceptable risk limits). Roughly half had not considered the difference and were operating with a traditional performance-based investment policy. Those that had considered the choice were divided over the merits of mission-based investing. Most concluded that little difference could be made in pursuing a foundation's mission by attempting to invest in corporations whose activities are commensurate with that mission. However, others believed it was an issue worthy of ongoing consideration. One respondent suggested that "the potential for mission-based investing will likely improve as better filter mechanisms become available."

A small number of foundations have adopted a mission-based investment policy. One respondent noted that rather than responding negatively to companies whose activities were disagreeable by not investing in them, his board had determined to invest and use that status to try to positively influence the direction of the companies in question (e.g., through votes at shareholders' meetings, letter writing, etc.).

Disbursement

Few foundations have a formal disbursement policy. Many undertake an annual, bi-annual, or tri-annual but otherwise *ad hoc* budgeting process to determine how much to grant in the coming year(s). One respondent described her foundation's approach to determining the annual amount of charitable giving as "opportunity-driven rather than budget-driven." Most adopt a guideline for the amount of funds to be annually expended on charitable activities that ranges from 4.5% to 5% of the asset base. It appears that this guideline is driven solely by CCRA's regulations and not by consideration of whether the foundation is to be maintained in perpetuity, grown, or spent down. Thus, the debate over the appropriate life cycle of private foundations – which has generated so much heat in the United States - seems to be a much less salient issue among Canadian private foundations. Among those foundations that have considered how long they should exist, most have determined that the foundation should be either maintained in constant dollar terms or grown into perpetuity. Just one of the foundations we contacted has determined to spend out the assets of the foundation.

A small number of private foundations do have carefully considered and well articulated disbursement policies. One, for example, has a policy to spend six percent of its assets annually, covering both administration and charitable giving. Another has a policy consisting of several ranked principles, from meeting CCRA's guidelines, to maintaining the real value of the asset base, to growing that asset base modestly when possible, and then to expending additional grant funds when investment performance has been particularly good. These principles are reflected in a twelve-step algorithm which is used annually to determine the size of the "grantmaking envelope."

Some other foundations we interviewed that have living donors have no formal policy for determining how much to disburse in grants each year beyond meeting CCRA's requirements, but rather are able to flexibly respond to the donor's interests and the needs of the target communities.

IV Programming

Program Development

Most of the foundations we interviewed have undergone one or more comprehensive program planning processes, though in almost all cases the roots of the foundation's program interests lay in the interests and concerns of the trustees. For some foundations, the general philanthropic concerns of the original benefactor are considered the bedrock of all program planning.

Program planning processes vary greatly. The range of methods includes formal consultations with experts, informal meetings with specialists active in the target fields, research reviews, studies, focus groups, and staff-trustee retreats. Some foundations have contracted external experts to conduct and facilitate planning, while others have worked solely with internal staff. Notwithstanding the trend toward strategic philanthropy, practically none of the foundations we contacted articulate their program plans (as opposed to vision and mission statements) in terms of goals, objectives, and activities. One respondent suggested that the absence of a clear program plan reflects "the recognition that, unless a foundation's resources are very large, it is more effective to be agile in response to emerging opportunities rather than to try to single-handedly lead and achieve change through program delivery."

Several respondents highlighted the importance of keeping expectations regarding the impacts of their grants low enough to be realistic. One respondent noted that foundations are rarely if ever the *cause* of change, but rather are the *catalysts*. Another noted the importance of focussing the foundation's grantmaking, saying it is better to do one thing well than to do many things with less effect. Another noted that foundations need to take a longer-term view, since nothing significant can change in less than two or three years.

There is considerable variety in the extent to which program planning is open to change, and who participates in making program change. Some foundations seem to initiate programs with specific time horizons in mind, while others prefer to occasionally make adjustments to programs which are permanent elements of the foundation.

One respondent noted that the absence of pressure on foundations for short-term results gives them freedom to develop programs with longer-term goals. The time horizon of programs is related to the issue of the appropriate societal role for private foundations. Respondents generally see their foundations as one or some combination of the following:

(a) supporters of R&D for larger public institutions (governments or government-funded agencies), or in other words, as sites for support of innovative pilots or demonstrations that may be scaled up and funded by governments. In this view, the proper time horizon for programs is a function of policy and practice change by governments.

(b) supporters of R&D for the non-profit sector. In this view, the proper time horizon for programs is a function of policy and practice change among agencies within the sector.

(c) supporters of direct delivery of services, especially those left unfunded by reductions in state spending. In this view, the proper time horizon for programs is a function of either the need for services or the desire of the foundation to continue its support.

A good number of the foundations we consulted actively encourage staff to present proposals which push the frontier of the foundation's established programs and practices, leading to trustee approval rates less than 50 percent. Others remain more conservative, with approval rates approaching 100 percent.

One of the most important and time-consuming tasks for foundation staff is to stay abreast of developments in their program fields. They do this in a number of ways:

- assembling a committee of advisors to provide an ongoing source of expertise in the program
- staying in contact with well developed affinity groups in the United States and across Canada
- convening meetings (up to several weekly) with representatives from target communities
- attending relevant conferences and seminars
- subscribing to various journals, magazines, and media clipping services
- conducting environmental scans
- maintaining contact with government departments and agencies
- regularly bringing grantees and leaders in the field together (e.g., annually or bi-annually)
- cultivating relationships with trusted advisors

- joining appropriate industry associations such as Private Foundations Canada, Canadian Centre for Philanthropy, and Council on Foundations

Granting Versus Operating

Private foundations can support charitable activities in three ways. *Granting foundations* make grants of cash to other registered charities. All of the foundations we interviewed were granting foundations. Most of them also, to varying degrees, are *operating foundations*. That is, they implement some programs and projects with their own internal resources. The balance between granting and operating varies widely, with "operating" accounting for between ten and fifty percent of a foundation's charitable activity.

Much less frequently, foundations achieve some portion of their charitable work by entering into *agency agreements* with parties which themselves are not registered charities, but which are contracted to undertake charitable activities on behalf of the foundation.

Communication

Many respondents suggested that communicating the knowledge gained from longer-term experience supporting activities in a particular program is among the least developed aspects of foundation work. The expertise residing within private foundations thus represents a large, untapped resource. A smaller number of foundations focus more on communications, conducting speaking engagements and cross country tours, and submitting briefing documents to parliamentary committees. One foundation hosts a conference every two years that brings together all their partners and grantees.

V Grant Making Practices

Soliciting and Evaluating Proposals

Most of our respondents agree that the best way to limit the number of unsolicited applications which have little or no connection to the foundation's overall mission and program interests is to make widely available a very clear, focussed account of their mission, programs, and granting guidelines. Most foundations do this through a website.

Typically, unsolicited applications are dealt with in a stage-gate process. Many foundations request a letter of intent as a first step, and will only review a full proposal if it has been invited. The standard practice is to assess letters of intent and reply to the applicant with either a declination or an invitation to provide a larger proposal. Many foundations will work with the grantee in the final development of the proposal to help ensure it fits the foundation's granting criteria.

Proposals are then subjected to a more rigorous review, and in most of the foundations consulted, external referees or networks of experts are engaged to assess the merits of proposals. Finally, proposals and the assessments made of them are presented to the board of directors for approval. In rare instances, foundation trustees meet with applicants to help assess the merits of a proposal.

Most of the foundations we consulted are fluid, and process letters of intent and proposals throughout the year. The time it takes to render a final decision on an application varies greatly within and among foundations, ranging from one week to one year, with a typical turnaround time from two to six months.

Grant Volume

The size and number of grants made by foundations varies widely. For this report, we did not collect data that would allow us to discuss grant number and size in a statistically meaningful way. However, it appears that the number of grants ranges from one to 287 grants per year, making up total grant disbursements of between $10,000 to over $20 million annually.

Proactive, Interactive, Reactive

Foundations can be proactive, interactive, or reactive in grantmaking. Many foundations are becoming increasingly proactive, reflecting the growing adoption of strategic grantmaking. In this mode, the professional staff of foundations conceptualize and develop programs. From there they may take one of two paths. In the first, they author and circulate detailed requests for proposals for projects they have developed, and provide support to the organizations who are judged to be best able to undertake the projects. In the second, the foundation's professional staff identify a number of organizations whose ongoing work closely matches the objectives of the foundation's programs, and provide support to those organizations. In some foundations, practically all grantmaking is proactive. In a considerable number of others, a large majority of grants are proactive (80 to 90 percent). In a slightly smaller number, roughly half of the grantmaking is proactive.

Several respondents noted that key reasons for maintaining a "reactive" approach is that (1) it helps them stay abreast of emerging developments in their program areas and within the charitable sector generally, and (2) it means that the foundation needs to spend less of its resources doing planning and project development work. In some foundations, the "reactive" work of reviewing and responding to unsolicited applications becomes an important part of program planning and proactive project development.

Matching Funds

Most foundations will provide matching funds, but only about half will require matching funds when making a grant. The reasons for matching include:

- leveraging other available pools of funding (e.g., government)
- generating an additional check on the quality of proposal
- reducing the risk that an organization or project will become dependent on a single source of support

The reasons for not matching include:

- requiring an organization to secure matching funds may place fundraising demands on the organization which exceed its capacity, or the organization may "cannibalize" its operating capacity in order to seek the additional funds
- requiring an organization to secure matching funds may discourage risk-taking and innovation
- requiring an organization to secure matching funds for a project and therefore be accountable to multiple investors may dilute the integrity of the project's goals and objectives
- one respondent noted that government funds should not be matched, because to yoke foundation resources to government initiatives is to compromise the proper role of private foundations - which is to do things which governments cannot or will not do.

Reporting by Grantees

All foundations who responded require some reporting from grant recipients. About half have standard reporting requirements, which range from one to four progress reports annually, one to two financial statements annually, and an end-of-project report. Some foundations develop tailored reporting requirements on a case-by-case basis. Most conduct numerous site visits as part of ongoing monitoring. One foundation requires financial reports be certified by the grantee's Chief Financial officer or Treasurer, and, in the case of larger projects, by the grantee's auditor. Another foundation requires recipients to report in person to the board on an annual basis.

Reporting requirements are generally agreed upon at the beginning of the grant, sometimes by way of a contract letter that the grantee is required to sign. It is quite common for disbursements of a grant to be scheduled incrementally and to be released only when reporting requirements are fulfilled.

Roughly a quarter of the responding foundations have required grant recipients to engage an external evaluator to assess project or program success. In these instances, the cost of external evaluations is budgeted at between 10 and 20 percent of the project cost.

VI Self Evaluation

None of the responding foundations have undergone a formal external evaluation of the foundation as a whole, though all of them have some informal internal self-assessment built into their operating procedures. About a quarter have contracted with external evaluators to assess particular programs. A smaller number have external reviews of their programs done regularly (e.g., every three years).

One respondent noted that a good gauge of how the foundation is doing overall is the degree to which the board and the staff are "on the same page." Another was skeptical about the possibility of assessing any foundation overall, pointing out that the nature of foundation work is so varied that evaluations could be little more than subjective judgments that would not likely add much value to the quality of what private foundations do.

VII Concluding Comments

Even the small number of private foundations we consulted contains a rich and wide variety of organizational characteristics. They are united, however, by a collective commitment to "do better philanthropy." This commitment is reflected in their policies and practices, which are evolving as thoughtful responses to the complexities of the Canadian social fabric.

Among the key challenges ahead will be keeping pace with the changing needs of the organizations we support and the communities they in turn serve. We trust that many of our respondents would agree that facing this challenge will require foundations to commit to rigorous self-assessment, to sharing lessons learned, and to embracing change.