

Total Foundation Asset Management:

*Exploring Elements of Engagement
Within
Philanthropic Practice*

Initial Assumptions:

§ Foundations are not charitable gift institutions, but rather investors in blended value creation

§ The central question to be addressed by foundation managers is:

How do we ensure our portfolio of assets is most effectively aligned in support of maximizing the total value we have the potential to create in partnership with our stakeholders?

Defining the Philanthropic Asset Base

Foundations Have the Potential to Manage

Five Asset Classes :

- § Grant Assets
- § Human Assets
- § Intellectual Assets
- § Political Assets
- § Financial Assets

Grant Assets:

- § Direct Cash Contributions Made to Nonprofit Organizations
- § May be Program Grants, Project Grants, General Support Grants, etc.
- § Viewed as the primary foundation asset by most of those in the general public and within the nonprofit sector

Human Assets

- § This is the “art” of philanthropy
- § Rests within the talent and expertise of staff
- § Ability to observe a field of practice, identify emerging opportunities and work with investees toward a given goal
- § Represents much of the “intangible” in what are viewed as “good grantmaking” relationships

Intellectual Assets

- § This represents the knowledge cultivated by a foundation within a given area of grant making and engagement
- § Rests in part within the brains of staff...
- § But held primarily within the intellectual capital developed by an institution as it assesses the impact of its work, produces reports, disseminates its knowledge and becomes a long-term investor in a given field of practice

Political Assets

- § The ability of a foundation to act as a convener of public policy players and related stakeholders; the ability to inject “objective” information into public debate; ability to move an agenda with regard to an issue of public concern
- § One of the most under-utilized assets of philanthropy

Financial Assets

- § The potential to invest 95% of one's financial holdings in alignment with the 5% grant payout mandated by regulation in order to direct a majority of one's financial assets in support of an institutional mission
- § Includes managing corpus through targeted community investments, positive value investing in mainstream firms/funds and proactive use of proxy voting rights to advance institutional mission

Becoming a Strategic Value Investor

Three Fundamental Assumptions:

- § Engagement is Value Neutral—all foundations are engaged with investees, it is simply a question of degree; Therefore...
- § The central question becomes: *What is the appropriate degree and form of engagement one should pursue with investees?*
However...
- § All foundations should seek to maximize to the greatest degree possible the leverage and impact of all assets they may possibly bring to their engagement in the grantmaking relationship.

Benefits of Becoming Strategically Engaged:

1. Improve the foundation's effectiveness of providing resources to supported organizations;
2. Leverage total foundation and grantee organizational assets more efficiently;
3. Increase operating efficiencies of the field within which both the grantee and grantor function;
4. Enhance organizational performance of both players;
5. Assist foundation staff to develop better understanding of the funded organization, its intervention strategy and the issue(s) it seeks to address;
6. Achieve mutual accountability between both sets of players in the funding relationship: the investee and the investor.
7. Create real and meaningful change within a given area of focus or concern.

Eight Elements of Engagement:

§ Duration

§ Frequency

§ Consistency

§ Form

§ Intentionality

§ Continuity

§ Agency

§ Breadth

§ *Duration*—The general time period of the engagement

§ *Frequency*—How often the investor/investee interact

§ *Consistency*—Percentage of program officers who engage

§ *Form*— The method, approach and context within which a foundation sets the work plan and connects w/investee

§ *Intentionality*—Is the engagement strategic or episodic?

§ *Continuity*—Extent to which engagement flows from beginning to end of investment

§ *Agency*—Are foundation staff the contact for engagement or a 3rd Party outside the foundation?

§ *Breadth*—What is the array of assets invested by the foundation in the relationship?

Breadth of Engagement:

- Ø Cash Grants
- Ø Concessionary Rate Capital (Program Related Investments or Recoverable Grants)
- Ø Mission-related Investing of corpus in alignment with institutional strategy of investor/investee organizations
- Ø Proxy Voting by the Foundation in support of the issues being pursued by the investee
- Ø Provision of organizational development or issue specific expertise to investees by foundation staff, consultants or advisors
- Ø Public sharing of foundation specific knowledge and learnings that promise to support the development of the larger field of practice
- Ø Convening practitioners, policy makers, grantmakers and others to build/leverage intellectual capital
- Ø Participation in Public Policy and related activities targeting broader, institutional/societal change

The Continuum of Engagement: A Function of Degrees

- § Engagement is a dynamic function occurring to various degrees across asset classes and within the specific elements of engagement
- § The more of each element one executes, the more engaged one could be said to be
- § *The point of discussion for each foundation is to assess where one stands on each element of engagement and to what degree one is maximizing the potential value of all five asset classes under management*

Continuums of Connectivity Eight Elements of Engagement

Low Engagement \longleftrightarrow *Engaged Grantmaking* \longleftrightarrow High Engagement

