An Essay in Two Parts

Total Foundation Asset Management:

Exploring Elements of Engagement Within Philanthropic Practice

By

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February 2, 2003

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This paper was prepared for "Senior Vice Presidents for a Brighter Philanthropic Tomorrow," a working group of very intelligent and extremely good looking foundation executives concerned with improving performance within the foundation community.

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The author would like to thank Marnie Sigler and Barbara Merz, both of whom are Fellows at the William and Flora Hewlett Foundation, for their comments and suggestions that helped strengthen this essay.

Introduction[1]

This essay addresses the question of how we should think about foundation assets, how we as foundation staff should work to engage those assets in the creation of value, and how those concerned with fulfilling the true potential of philanthropy should view returns generated as a result of the appropriate allocation of those foundation assets.

While it would be easy for some newcomers to conclude that a concern with the creation of value is a new agenda in the foundation community, this would be an obvious mistake. In truth, both philanthropists and those who staff their foundations have long operated in pursuit of value maximization. As the trustee of one old-line, east-coast foundation stated a number of years ago, "Good grantmaking has *always* been about finding the best entrepreneurs and investing your assets wisely in support of their work." One could not observe the very real contributions made by foundations and those whose efforts they underwrite and not realize these partnerships have created significant value for our society and world over past decades.

What newcomers to the philanthropic dialogue have brought to this pursuit of value has been a fresh perspective, a focus on performance and an awareness that while there is much of which we may be proud, there is great and untapped potential within philanthropy that we have yet to realize. Over recent years, all participants in philanthropy have been able to observe the simultaneous refinement and expansion of the field's understanding of the resources foundations have to invest and the variety of returns philanthropic institutions may be capable of generating. But many in the sector continue to make the error of focusing solely upon grantmaking as the primary value creation vehicle, despite the reality that the resources foundations are capable of mobilizing in pursuit of their institutional missions are actually much greater than grants alone. Taken together, these resources should be viewed as a portfolio of assets, defined within various asset classes, which when positioned appropriately may significantly advance the goals of the foundation well in excess of what grants alone are able to achieve.

The central challenge faced by every foundation is a simple one:

[1] The audience for this paper is primarily senior management of foundations and nonprofit organizations. The paper addresses questions of both foundation asset management and foundation engagement with organizations with which they work. Ideally, the reader has a background in these questions and experience in managing the relationships between those providing philanthropic capital and those receiving it to support the work of the nonprofit sector. Therefore, it is the author's assumption the reader is familiar with standard terms and jargon of philanthropy, and not in need of basic definitions of words or concepts.

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?

The following essay explores this question in two parts. We begin by expanding our definition of philanthropic assets beyond the historic ones of grants and foundation corpus. We introduce the five types of assets foundations control, present each as its own asset class and argue foundations have the opportunity (indeed, the responsibility!) to invest *all* these assets in support of their institutional mission.

The second part of this essay explores the question of how we engage those assets in pursuit of our mission. We identify eight elements of engagement and argue that each element should be viewed as a continuum, consisting of degrees of philanthropic engagement. We argue that all foundations operate in various ways across these elements of engagement and that the central challenge for the foundation community is how to ensure that our true potential for value creation within each element is fully maximized.

Finally, we conclude with a brief discussion of the nature of value and argue that foundation asset performance should be viewed as generating blended returns that function at multiple levels. While tracked in separate forms this Blended Return should be considered in total when assessing the extent to which foundations create value as the outcome of their investment activities.

Part One: Defining A Portfolio of Philanthropic Assets

When grantmakers assess what resources they have available to support their institutional mission, the first type of resource that comes to mind is grants. And, amounting to over $24bb in 1998,[2] grant support provided by the foundation community to nonprofit organizations is certainly not an insignificant resource. At the same time, it must be recognized that those dollars represent less than 3% of the funds supporting the work of the nonprofit sector. Nevertheless, foundation actors play a significant role in influencing nonprofit organizations and how successful they become. Countless initiatives have been spawned by foundation seed grants and first round funding which have then gone on to receive expansion and replication support from the public sector—which has then taken many of these concepts to scale, leveraging significant value for the larger society. Indeed, the President's recent announcement of $15bb in funding for international AIDS work would have been impossible were it not for the millions of dollars the philanthropic community has invested in emerging AIDS research and community intervention/relief efforts over the past two decades.

Regardless, if we view the value generated by the foundation community solely as a function of its grantmaking we would sorely underestimate both the potential assets available for use as well as the full value generated by those assets. We must advance a vision of the philanthropic asset base which is inclusive of the grants foundations provide, but cognizant that those grants function together with other assets which may also be brought into use through the activities of the institution. Within this framework of foundation strategy and practice, the successful foundation is viewed not as the one with the most money or largest financial asset base, but rather the foundation that most effectively leverages its total assets in support of its institutional mission and purpose.

With that understanding in mind, we may identify the following five philanthropic asset classes:

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

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[2] *"Money Matters: The Structure, Operation and Challenges of Nonprofit Funding,"* Emerson and Carttar, December, 2002. Available through the William and Flora Hewlett Foundation and the Bridgespan Group.

Each of these asset classes represents a complex area of exploration, discussion and strategy. There are a variety of ways in which one could manage and position each type of asset in pursuit of any given foundation's overall goals—indeed, the majority of the debates documented in the pages of the Chronicle of Philanthropy and Foundation News and Commentary reflect discussions regarding the appropriate allocation of each of these assets—so the following discussion will be a brief overview. The point is simply that foundation trustees and senior management must understand that to manage foundations without the awareness of this total portfolio of philanthropic assets is to guarantee the institution will *under-perform* in terms of the potential value to be generated from these assets and the institutions that control them.

Grant Assets are the direct cash contributions provided by foundations to nonprofit organizations. These come in many forms and with a variety of terms and conditions. They may be program grants, project grants and general support grants. They may be annual, three year or extended period grants. They may be viewed as charitable gifts and as a form of philanthropic investment. If the general public is aware of foundations at all, grants represent the primary value most "lay people" understand foundations providing within our society and (to our very real detriment) grants remain the primary focus of much of the attention we place upon "philanthropy" within the nonprofit sector as a whole.

Intellectual Assets are the product of an institution's grant making activities and may be built over time as foundation staff engage in more and more grantmaking. For the most part, knowledge of an issue area and the players in any given "space" is held within the brains of foundation staff. This asset is applied in the context of the grantmaking relationship and helps steer the design of programs and strategies the foundation supports through its grants. This Intellectual Asset does not rest solely in the heads of program staff, but for those foundations actively involved in executing knowledge management strategies of various types may be cultivated, increased and disseminated both within the foundation and with outside stakeholders. Some foundations pursue strategies that push this asset into significant use on behalf of grantees and others maintain the asset as an internal resource, but all foundations have some level or degree of Intellectual Assets that under gird their analysis of issues and creation of strategies. And many foundations could do much more to further cultivate this valuable asset.

Human Assets consist of the "art" of grantmaking and can significantly affect the amount of value generated by a foundation. If good grantmaking were simply a function of knowing what to do and having the funds to do it, we would not need conferences, associations and consultants to assist foundation staff in understanding how to "do" effective work within philanthropic organizations. Some of the better grantmakers are people who have a touch for working with others, hearing their needs, seeing new opportunities that practitioners might be missing and then being able to manage a series of relationships in order to massage a process that, with the right resource support, is then able to lead to an outcome that is viewed as a success. Appreciation and stewardship of Human Assets represent much of the intangible nature of what makes for a <u>truly</u> successful investor, whether one functions within the sphere of nonprofits or venture capitalists.

Political Assets are those resources foundations leverage beyond their walls to convene stakeholders around an issue, educating both the general public and policy makers with regard to an action agenda, and pursue legal and/or regulatory changes in light of the learnings and experiences of the foundation and its investees. Perhaps one of the more under utilized assets of the foundation community, some foundations have excelled at strategies to convert this asset to real value in support of a larger vision and agenda for change. Many foundations confuse limitations on lobbying and advocacy with restrictions upon the application of political assets, but in truth foundations often exercise this asset by default or with lack of intention and thereby greatly reduce the value Political Assets are capable of generating. For example, the ability to convene thought leaders and practitioners around a given area of common interest is one aspect of how political assets may be managed; as is creating publicity and bringing attention to a cause or promising solution. Political assets simply speak to the capacity of foundations to foster and direct public attention and dialogue around an issue. It may also mean being involved in influencing the development of public policy and regulation as well.

Of all the assets available to the modern foundation, *Financial Assets* are no doubt the least well utilized. The crushing majority of foundations turn over their Financial Assets to professional money managers who then allocate those assets in total and complete absence of any consideration of the institution's mission, purpose or goals. Indeed, many trustees would no doubt be surprised to know that their financial holdings are actively working against the interests of their philanthropic investments. This is especially ridiculous in light of the significant advances made by fund managers and investors creating strategies to maximize both financial <u>and</u> social returns on behalf of long-term, value investors—which one would imagine most foundations would understand themselves to be. The days of traditional "mission related investing" through the use of screens and other practices are dwarfed by the potential of foundations to engage in targeted community investments, "positive value investing" (which seeks out best in class within traditional industries and in accordance with sound financial management approaches to fund diversification), and the use of shareholder proxies to advance the larger interests of the foundation. Simply put, the reality that less than 5% of most foundations' assets drive 100% of their institutional mission, while 95% of their assets are managed strictly with regard to financial performance alone represents one of the greatest "under valued" assets of the foundation portfolio.

While the total foundation portfolio consists of these five asset classes, the potential value of that portfolio will remain locked up unless the foundation is successful in its management of those assets. Therefore, we now turn to a discussion of considerations related to Total Foundation Asset Management—namely, how foundations might best function as "engaged value investors" and leverage their total assets to maximize both their value creation efforts and the returns generated by philanthropy.

Part Two: The Practice of Total Foundation Asset Management

Defining What It Means to be an Engaged Grantmaker

The term "engaged grantmaking" appears to be gaining increasing use in the foundation community. As we will see, there are many layers to this issue, but most of the current discussion has focused upon that aspect of "engagement" that speaks to the relationship between grantor and grantee. The question of what the appropriate relationship looks like and whether it is appropriate for foundation staff to view themselves as engaged with their grantees, has been debated for many years. Indeed, this author can remember sitting in a meeting with foundation colleagues over a decade ago and being told his monthly meetings with grantees, his efforts to be engaged in the grantee's process of strategy development and execution, was "professionally inappropriate" since, as funders, we are supposed to be somewhat removed from our grantees and should strive to be objective in our allocation of funds to those in the field.

While there may have been a time when the notion of being connected to a grantee would bring frowns from one's peers, today that attitude has largely changed. The rise of Venture Philanthropy[3] in the late-90s, together with the mainstream foundation community's re-focusing on its long-term debate regarding the appropriate role of foundations within the non-profit sector, has brought an increased awareness of the importance of our reflecting upon the grantor/grantee relationship and various ways in which the value of that relationship may be increased—whether through "engaged grantmaking," venture philanthropy, strategic philanthropy[4] or any number of other frameworks for maximizing the impact of philanthropic practice.

Before discussing the specific elements of engaged grantmaking, three general assumptions must be presented:

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[3] While a concise definition of Venture Philanthropy may bring an extended debate, one may simply say that it is the philanthropic application of venture capital principles and practice. For lengthy discussions regarding its definition and implications, please see this author's other papers at www.redf.org.

[4] This paper explores aspects of engaged grantmaking and the previous footnote references a definition of venture philanthropy. Strategic philanthropy has historically been used to describe the efforts of corporate philanthropy to be framed in support of the corporate goal's of its sponsor, but more recently has been used to describe any strategic approach to creating long-term value through a philanthropic practice and it is this latter definition that the author refers to in this case.

First, the question of engagement itself is value neutral. Regardless of how one approaches the topic, _all_ grantmakers are engaged with their grantees. Annual foundation reports, evolving funding priorities and the actual allocation of grant dollars to grantees each amount to various types of engagement with nonprofit organizations. The only way a foundation could be "un-engaged" would be to completely go out of business, disbursing its corpus and making no allocations—though it could be argued that even that would represent a form of quasi-engagement![5] To debate the appropriate degree and form of engagement is fine. And one could also say the degrees of engagement that are described later in this document are themselves arrayed across a spectrum of value assumptions which are anything but value neutral. However, to pretend that a foundation can exist in the sector and not be engaged in some form or fashion is beyond reason. We are all engaged with our grantees—our engagement is simply a matter of degree.[6]

Second, in light of the reality of our engagement with nonprofits, the central question to be considered is what is the appropriate degree and extent of engagement we as foundations should seek to pursue in relation to our grantees? I would argue that the appropriate level of engagement is a function of the context within which the funder operates and the capacities any given foundation brings to the grantmaking process. This context of grantmaking functions at three levels. First, is within the capacity of the grantmaking organization; second, is with reference to the developmental stage of the grantee organization receiving the foundation's support; and third, is the developmental stage of the field within which both the grantee and grantor operate. For the purposes of clarity, this paper places primary emphasis on the first contextual level, but does so with real awareness of the importance of the other two levels, within which much of the actual engagement takes place.

Not all foundations are equipped to be "fully engaged" grantmakers (as defined later in this document). By extension, not all grantees are prepared to work with grantmakers on a fully engaged basis. Even the most open and strategic grantmaker is bound by the degree to which her portfolio of grantees is open to defining the terms of their relationship as one of "intentional, mutual engagement" versus "philanthropic ATM."

[5] Indeed, one could argue that such a form of engagement is actually one of high efficiency—and therefore to be greatly valued as an effective way to structure a given grantmaking strategy and practice.

[6] For further discussion of this point, please see the author's article, *"Mutual Accountability and the Wisdom of Frank Capra,"* which appeared in the March/April 2001 issue of Foundation News and Commentary.

And, depending upon the field of practice or issue area addressed by both grantor and grantee, certain fields or areas of interest may benefit to a greater or lesser degree from high engagement of foundations funding in that area of work.

When it comes to the question of what is the appropriate degree and form of engagement, it simply comes down to the fact that various foundations should be more or less engaged at different points in time depending upon the stage of development of funded organizations, field of practice or body of knowledge—and depending upon the foundation's own ability to add meaningful value to the work of its grantees.[7]

It is important to be crystal clear on this point:

We are not arguing that only "good" grantmakers are fully engaged investors in the public good or that "bad" grantmakers are those operating at a level of "low engagement", but rather that each grantmaker should be engaged to the maximum degree appropriate for their own foundation's goals, capacities, area of interest and specific portfolio of funded and stakeholder organizations.

With these first two assumptions in mind, the third and final assumption we must recognize when discussing the question of "engaged grantmaking" is that the whole point of *any* philanthropic practice is to have the greatest possible effect—the most significant impact—upon an area of interest or concern. Grant funds are not allocated simply to fulfill a 5% payout requirement, but rather as a means to the end of achieving some social mission or other institutional goal.

Therefore, *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*. The whole point of being engaged in a grantmaking process is to assist in achieving a goal of social change, and therefore regardless of whether one seeks to be "highly engaged" or "less engaged," every foundation should seek to maximize to the greatest possible extent the contribution value of its total assets and resources in pursuit of its mission. Engagement is not a "one size fits all" concept, but is a critical determinant of success within the practice of a foundation's grantmaking *and* its effort to maximize the impact of its total asset portfolio, as defined below.

[7] It should be noted that an excellent area for future research and writing would be an exploration of what specific types of engagement are most effective within which specific contexts of practice.

In sum, it could be said that the purpose of reflecting upon engaged grantmaking practice is more than simply being aware of the dynamics of the grantee/grantor relationship. It is an intentional structuring of that relationship in order to achieve certain goals.

What are the primary goals of engaged grantmaking practice? The goals of any individual foundation and the definition of its approach to engaged grantmaking will differ in specifics between and among a host of foundations. There is no single understanding of the goals to be achieved—however the primary and overriding intent for all philanthropic asset management strategies is to maximize the value of its assets that may be used in fulfillment of its institutional mission and purpose. At a broad and generic level, these goals may be initially understood as the following:

- Improving the foundation's effectiveness of providing resources to supported organizations;
- Leveraging total foundation and grantee organizational assets more efficiently;
- Improving the operating efficiencies of the field within which both the grantee and grantor function in order to move the field as whole forward to increasing overall impact and effectiveness;
- Improving foundation and grantee organizational performance;
- Assuring that foundation staff develop better understanding of both the funded organization and the issue(s) it seeks to address;
- Achieving mutual accountability between both sets of players in the funding relationship: the grantee and the grantor.
- Creating real and meaningful change within a given area of focus or concern.

The Eight Elements of Engagement

Engaged Grantmaking is more than simply knowing it when one sees it. Engaged Grantmaking is an active choice of intent, approach and practice. There are defined elements by which one may assess whether and to what degree one is practicing engaged grantmaking. The following text explores the question of "how much" of any one element a foundation does—the degree of the engagement—but initially the key point is to identify the core elements of philanthropic engagement itself.

While there may be other factors worth considering, at a minimum the following eight elements may be understood as forming the foundation of engaged grantmaking practice:

Duration
Frequency
Consistency
Form
Intentionality
Continuity
Agency
Breadth

An immediate question would be whether this list is prioritized in any way or if these eight elements are best viewed as situational in terms of their importance to understanding engaged grantmaking. While it would seem obvious that several of the elements are "non-negotiable"[8], it would seem apparent that the relative importance of each element will rise and fall within the context of any given foundation's grantmaking history and environment.

We will consider each of these in turn.

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[8] For example, one would have to have some amount of duration within the grantmaking relationship in order to be "engaged" and the longer that duration, the more time one might have to build the engagement and benefits thereof…

1) Duration. At the center of the question of engagement is the issue of the duration of the grantmaking relationship. On a most basic level, duration may be defined as long-term or short-term, however there are several increments of duration worth considering. One time, single grant engagements make up a majority of the grantmaking practices in the nonprofit sector. A smaller number of grantmakers will pursue two to three year funding relationships with grantees. And a lesser number still will pursue grantmaking relationships of three to five to ten years. Obviously, an area demanding further research would be the exploration of exactly what percentages of grants fall into which categories and, more importantly, why grantmakers structure their approaches accordingly. In the absence of such analysis, one could state that the greater the duration, the greater the level of possible engagement over time.

2) Frequency. How often the grantor and grantee interact is a key measure of the degree of engagement between the two. Increments of frequency may be weekly, monthly, quarterly, annually, or project-driven. By project-driven, we mean that meetings are held at various points in time set by the timeline of the project itself. An example of project-driven frequency would be meetings scheduled at the start of the grant, at the end of a planning period, at the launch of a program initiative and at the end of a program initiative. This type of engagement could be viewed as project based. Again, it is important to note that the "best" degree of frequency will shift depending upon the type of grant support being provided and is wholly conditional upon the overall strategic goals of the grantmaking program—there is no right or wrong, but simply a question of what level of frequency will provide the most value to grantee and grantor as both work to achieve their respective programmatic goals.

3) Consistency. In some ways, consistency might be viewed as less an element of engagement than a function of whether the engagement will be successful. A foundation might have all the other elements of engagement to a high degree, and in that sense be viewed as an "engaged grantmaker," yet it is only if those elements are consistently applied that the foundation could truly be viewed as engaged. Consistency of engagement is critical and necessary if the other elements are to "get traction" within the philanthropic practice. It is for this reason that consistency itself, though something of an outlier, should be viewed as an element of engagement. The consistency with which a foundation engages its grantees is a function of whether all program officers active within a foundation practice elements of engaged grantmaking or whether only some officers do. And, by extension, the degree to which all grantees are so engaged or simply a few grantees are engaged. A foundation within which all program officers operate in a highly engaged manner with all grantees could be viewed as a foundation with a high

degree of consistency of grantee engagement. Conversely, a foundation wherein only a few program officers are significantly engaged with a small number of grantees is a foundation with a low degree of engagement.[9]

4) Form. The form of the engagement has a significant effect upon the degree to which a foundation is viewed as practicing engaged grantmaking. Does the foundation simply receive reports from the grantee at pre-defined points in time, or does the foundation actively participate in setting the agenda upon which such reporting might be based and work to assure the grantee's ability to generate such reports through the development and use of an appropriate MIS infrastructure?[10] Does the foundation participate in setting the strategy of the funded organization or respond to the stated priorities and interests of the prospective grantee? Is the organization a proxy for the foundation's work and interest or does the foundation become actively involved in working with the organization to both set the agenda and develop the strategy? In some ways, the element of "form" may be understood as the degree to which the foundation is actively involved in setting the work plan and organizational agenda, and the degree to which it simply responds to the stated interests and priorities of the prospective grantee. Indeed, form may itself be something of a spectrum along which the foundation creates, refines and tracks the engagement. The form of the engagement also blends into the following element of Intentionality in that how the engagement is managed by both parties may also determine the quality of the engagement.

5) Intentionality. Is the engagement an intentional part of the foundation strategy or an episodic response to grantee funding or other crisis? Is it part of an overall, enunciated strategic planning process and action plan, or does the engagement take place as a result of "problems" with the grant or grantee? Periodically, one reads of a group of foundations coming together to address a crisis encountered by a grantee to which the foundations have all provided support. While in some ways this could be viewed as a high degree of engagement, the engagement in this case is a function of a crisis episode, not a deliberate effort to maintain a positive, contributing relationship with the funded organization. While being engaged at crisis moments is important, doing so as part of an overall, intentional strategy could be said to be reflective of a higher degree of true engagement.

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[9] It is important to consider whether this consistency is lodged within the foundation as an institution or determined at the level of foundation president, vice-president or program officer. Should individuals within any of these roles change, there is a good chance the consistency of the engagement will change as well unless the foundation itself has institutionalized the practice of intentionally engaging with grantees.
[10] Both the grantee and grantor should have access to and make use of such an infrastructure for information gathering, analysis and dissemination.

6) Continuity. Where does the engagement take place in the context of the funding commitment and allocation process? Does all the engagement happen prior to the grant award? While potentially of great benefit to the prospective grantee, such pre-award activities as due diligence (which can be viewed by grantees as a "defensive posture" on the part of the grantmaker to protect their own interests as opposed to protecting the shared interests of both parties) may be a form of engagement, the fact that such engagement may not carry onward and be continual throughout the life of the grant is a reflection of a lower degree of engagement than those foundations that support engagement continually throughout the grant lifetime. By extension, assuring that the goals and expectations stated initially are in fact those by which performance is judged also speaks to the degree of continuity in the grantmaking relationship.

7) Agency. Who is the provider of the "engagement"? If it is a 3rd Party or consultant hired or paid for by the foundation, that decreases the degree of direct engagement the foundation itself maintains with the grantee. This may be completely appropriate and agreed to by all parties involved, however while the foundation could be facilitating a process of learning and growth for a grantee through supporting a consultant, it nevertheless runs the risk of decreasing the degree to which that grantmaker should be viewed as being engaged with a specific nonprofit.[11] The foundation may be engaged, however it is engagement via proxy and would therefore place the foundation in a position of "less engaged" on our overall continuum of engaged grantmaking.

8) Breadth. What is the breadth of resource engagement between the grantmaker, grantee and field of interest? What is the array of resources/assets brought into play by the grantmaker to support the work of the grantee and through which the foundation pursues its own institutional mission? As a compliment to the Five Asset Classes already presented, the list of total assets available to many foundations could include the following:

[11] This is a bit of a delicate point, in that if the foundation facilitates the introduction of an "expert third party" who successfully enables the grantee to move to a higher level of execution, then the grantmaker may come to be viewed as even more engaged since they a) accurately assessed the need for that expertise and b) enabled that connection to be made to the benefit of the grantee.

- Cash Grants
- Concessionary Rate Capital (Program Related Investments or Recoverable Grants)
- Mission-related Investing of corpus in alignment with the institutional strategy of both the grantee and grantor organization
- Proxy Voting by the Foundation in support of the issues being pursued by the grantee
- Provision of organizational development or issue specific expertise to grantees by foundation staff, consultants or advisors
- Convening practitioners, policy makers, grantmakers and other players in a defined area of interest in order to build/leverage intellectual capital
- Public sharing of foundation specific knowledge and learnings that promise to support the development of the larger field of practice

It is easy to see how this list builds upon our previous discussion of philanthropic asset classes. The more of these assets the foundation makes available to the process of its work with grantees and the field as a whole, the more engaged the foundation could be said to be. The more any given foundation restricts its asset allocation to simply grants or holding meetings ad nauseum, the less engaged it could be said to be. At the same time, there is a question of breadth *and* depth as well, for a foundation might choose to focus on several of these areas at a high degree of depth and therefore be viewed as extremely engaged in those specific areas of asset allocation and management.

The Continuum of Engagement: A Function of Degrees

Having presented the eight elements of engagement, we must now explore the degree to which any given foundation executes at a high, moderate or low level of engagement.

Naturally, as soon as one attempts to say what something is and what it isn't, exceptions immediately arise. While some would argue it is the exception that proves the rule, of greater interest to our particular exploration of foundation engagement is the reality that within the understanding that there are certain fundamental aspects to being engaged, engagement is not a static concept, but rather dynamic in nature, occurring across a number of dimensions and over the course of diverse points in time. Specifically, a foundation may begin in one place with one set of elements of engagement in play, move to another stage of development and depth within that same set of elements, and be in the present time at a stage of development where all eight elements are in motion with a high degree of depth and use within the investment strategy of the foundation.

Therefore, it must be recognized that at various stages of a foundation's own development, or as the funder is executing different types of foundation strategy/practice, the foundation may be placed along multiple continuum for each of the previously presented eight elements of engagement.

Having acknowledged that reality, it is the simultaneous and maximal practice of all eight elements of engagement that together are what constitute what could be viewed as "engaged grantmaking". Succinctly put, *the more of each element one executes, the more engaged one could be said to be as a grantmaker.*[12] Therefore, it is helpful for us to track performance along each of these eight continua of engagement.

The following chart presents each of the eight elements of engagement, along with a ranking system upon which one may begin to assess the relative degree to which one's foundation practices "high engagement" versus "low engagement." As was stated in our introductory comments, all foundations are engaged grantmakers, influencing both those in search of funding and those that secure it. The question of greater interest to philanthropy is the degree and extent to which various foundation players execute enunciated strategies of engagement in pursuit of their institutional missions. The following chart may be of assistance in assessing one's degree of engagement with grantees and the field as a whole.

This chart is simply a jumping off point for current discussion. In the future, expanding on the chart, making it more useful for readers to place themselves on it through the creation of a specific question/answer rating system and so on, are all areas worth exploring.

For the time being, perhaps the next step for those concerned with philanthropic strategy and practice is a discussion regarding where foundation executives should start in this process and how they might best assess the effectiveness of their engagement. We will leave that for the readers of this paper to explore on their own…

[12] This may be less true with the elements of agency and breadth, but the basic concept plays out across each element of engagement.

Continuums of Connectivity:
Eight Elements of Engagement

Low Engagement	⟷ *Engaged Grantmaking* ⟷	High Engagement
Short-Term	⟷ ***Duration*** ⟷	Long-Term
One Year	Three Year	Five Year Plus
Low	⟷ ***Frequency*** ⟷	High
Annual ······ Quarterly	Project Driven	Monthly ······ Weekly
Individual Program Officers Individual Grantees	⟷ ***Consistency*** ⟷	All Program Officers All Grantees
Responsive	⟷ ***Form*** ⟷	Active
Episodic	⟷ ***Intentionality*** ⟷ 0pportunistic	Strategic
Pre-Award	⟷ ***Continuity*** ⟷ Periodic	Grant Lifetime
3rd Person	⟷ ***Agency*** ⟷	1st Person
Grants	⟷ ***Breadth*** ⟷ Partial Asset Allocation	Full Asset Allocation

Conclusion:
A Word About Capital Performance and Blended Returns

This essay has presented five asset classes under foundation control and available for pursuing a philanthropic organization's mission. We then presented eight elements of engagement that speak to the question of how those assets may best be managed within an overall foundation strategy. While a separate paper would be required to fully explore the issue of foundation return on investment, we began this discussion with an affirmation that all foundation's have a responsibility to maximize the potential value to be generated from philanthropic assets and so must at least briefly address the question of how foundations may best assess the value they create.

The challenge of designing a framework capable of capturing the full value created by a single foundation, much less the philanthropic community as a whole, is not to be understated. And yet, there is great promise in our undertaking this challenge. Some would argue foundations cannot function as meaningful agents of social change since they work only through proxy and are not directly engaged in advancing a specific change agenda. The role of foundations, these critics would argue, is simply to make grants in the most efficient and effective manner possible. And within a perspective that views the main role of foundations as vehicles of charitable giving, these critics are correct.

However, if one accepts that foundations have available to them an array of assets and can invest those assets through a diverse set of engagements, the measure of a foundation's worth becomes less a function of its grantmaking prowess than an assessment of the many levels upon which it functions to drive not simply charitable investments into the market, but to act as a player within society—a player in pursuit of a mission to have a positive impact upon our world.

In the same way there are five asset classes to be considered when creating philanthropic strategy, there are at least as many levels of capital performance and return to be taken into account. These returns could be thought of as distinct, yet in the composite, are fully blended relative to the overall value they represent. They are the returns that when taken together make up the full value of the investing institution and it is this Blended Return that should be the focus of our analysis.

At this stage in the field's development, much of the focus on evaluating foundation effectiveness has centered upon the effectiveness of simply one part of foundation investing—that of grantmaking.[13] Fewer examples exist of foundation's assessing the contributed value of total assets, and to this author's knowledge, no examples exist of foundations working to track the ongoing value creation of their total asset base in order to assess the value of their investing and activities on a more comprehensive, total asset and capital allocation basis (that is to say, asset and capital resources as defined in this paper!!)

In the same way many communities are developing "community indicators" to track a host of indices that point toward the relative health of their neighborhoods and regions, and that the Total Social Impact Fund presents a comprehensive framework for investors to begin an assessment of the full value of their personal investing, the foundation community must explore the creation of a Blended Returns Framework capable of assisting it in categorizing, tracking and calculating the various elements of return—both qualitative and quantitative—generated by the effective management of its philanthropic assets.

It is only by taking *all* our assets into consideration and creating the tools necessary to understand our Blended Returns that the philanthropic community will be able to capture the full impact of our collective value proposition and in so doing fulfill the true potential of both our organizations and the innovators we support.

[13] There are many reports and some books on foundation evaluation, but the most recent offering is from Global Leaders for Tomorrow (a World Economic Forum affiliate) entitled, "Philanthropy Measures Up." This report presents three types of evaluation: Results-Oriented (the model being the Roberts Enterprise Development Fund's SROI Framework), Performance Oriented (the model being New Profit Inc), and Comparative Oriented (the model being the surveys done by the Center for Effective Philanthropy). While these are all good efforts, they each fall short of the type of Blended Return Framework being advocated in this paper.