THE THEORY OF THE FOUNDATION EUROPEAN INITIATIVE

2016

LSE Marshall Institute

Rockefeller Philanthropy Advisors

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Researcher: Sarah Teacher
Major contributors and editors: Heather Grady, Dr Jonathan Roberts
Coordination, support and project management: Isabella Stanbrook, Wiebke Wenzel, Amelia Bradley
Research support: Mark Holmes, Abigail Scarlett, Rhys Spence, Ben Hart
Design: Lope Gutierrez-Ruiz and Carlos Castro Lugo at In-House International (www.weareinhouse.com)
Comments and counsel: Melissa Berman, Stephan Chambers, Sir Thomas Hughes-Hallett, Professor Sir Julian Le Grand, Chris Page, Jason Franklin, Gerry Salole, Rien van Gendt

FOREWORD

STEPHAN CHAMBERS
Marshall Institute
Director

MELISSA BERMAN
Rockefeller
Philanthropy Advisors
President and CEO

Complex, overdetermined and intractable problems characterise our age. The foundations represented in this report are each committed to rendering those problems more tractable by focused, evidence-based and innovative approaches. **Rockefeller Philanthropy Advisors** has worked with the LSE's Marshall Institute to help those foundations share concerns and ideas and, crucially, to develop a shared language for the field. We hope that this initiative supports foundations in their efforts to improve the state of the world.

– January 2017

TABLE OF CONTENTS

FOREWORD 3
CONTENTS 4
EXECUTIVE SUMMARY 6
PROJECT CONTEXT 6
Figure 1 The Theory of the Foundation framework developed in 2013 and published in 2016 6
KEY CHARTER FINDINGS 6
Figure 2 Charter legacy types 7
KEY SOCIAL COMPACT FINDINGS 7
KEY OPERATING CAPABILITIES FINDINGS 8
KEY OVERALL FRAMEWORK OBSERVATIONS AND DYNAMICS FINDINGS 8
PROJECT CONTEXT 11
OUR PURPOSE 11
CONCEPTUAL FRAMEWORK FOR A WHOLE FOUNDATION APPROACH 11
METHODOLOGY 11
DEFINITIONS 13
Figure 3 Definitions used throughout the report 13
PARTICIPANT SELECTION 14
Figure 4 Distribution of foundations interviewed 14
Figure 5 Characteristics of those foundations featured 15
CHARTER FINDINGS 16
CHARTER INTRODUCTION AND KEY FINDINGS 16
ORIGIN STORIES, CULTURE AND CHARTER 17
CHARTER LEGACY TYPES RELEVANCE AND DECISION-MAKING 17
Donor-led 18
Stewarded and founder-connected 18
Open 18
WRITTEN RULES AND UNWRITTEN RULES 19
Written rules 19
Unwritten rules 19
THE CHANGING ROLE OF THE BOARD IN AN EVOLVING INSTITUTION 20
Figure 6 From an operational board approach to a more strategic board approach 20
Is the board role adding-value in the decisions it is taking? 21
When board approaches clash with Social Compact consideration 21
Resourcing the board to make front-end decisions 21
Architecting a shift to a strategic board 21
SOCIAL COMPACT FINDINGS 23
SOCIAL COMPACT INTRODUCTION AND KEY FINDINGS 22
TO WHOM ARE WE ACCOUNTABLE? 24
Figure 7 Identified stakeholder accountabilities 25

Accountability to place and to beneficiaries 25
Accountability to grantees 25
Accountability to future generations 26
Accountability to the general public 26
Accountability to the family 26
LEGITIMACY 26
Part of the establishment? 27
Shrinking space 27
Direct advocacy 27
RELEVANCE 27
Partners and listening 28
Hosted convenings 28
Advisory boards and networks 28
GOVERNMENT RELATIONS 28
Figure 8 Spectrum of relationships to government 29
Minimal state interaction 29
Added-value innovation 29
Partnership 29
Core service provider 30
OPERATING CAPABILITIES FINDINGS 31
OPERATING CAPABILITIES INTRODUCTION AND KEY FINDINGS 31
ASSETS 32
Grants 32
Impact investing and spend down 33
Direct foundation capabilities 34
Figure 9 Non-financial assets deployed by foundations articulated by interviewees 34
Added-value grant-making 35
People 36
Figure 10 New functions and profiles sought 36
INTERNAL COLLABORATION 38
EXTERNAL FUNDER-TO-FUNDER COLLABORATION 38
Figure 11 Spectrum of collaboration from low to high engagement 38
OPERATING CHOICES 40
Figure 12 Foundation considerations when shaping an organisation or programme 40
OVERALL FRAMEWORK OBSERVATIONS AND DYNAMICS FINDINGS 42
OVERALL FRAMEWORK OBSERVATIONS AND DYNAMICS INTRODUCTION AND KEY FINDINGS 42
OPERATING MODELS 43
The 'Benefactor' and 'Social problem solver' 44
The 'Scaler' 44
The 'Hub' 45
The 'Relational' funders 45
RISK AND IMPACT MEASUREMENT AS EXAMPLES OF WHOLE FOUNDATION DYNAMICS 45
Risk 45
Measuring performance 46
CONCLUSION 48
APPENDIX 51
FUTURE DIRECTIONS FOR INSIGHT AND LEARNING 51
Charter areas to explore 51
Social Compact areas to explore 52
Operating Capabilities areas to explore 52
Overall framework areas to explore 53
REFERENCES 54

EXECUTIVE SUMMARY

PROJECT CONTEXT

Purpose: The purpose of the Theory of the Foundation European Initiative was to contribute key insights into European foundations; and to look beyond the direct charitable activities or grant-making of European foundations and instead to explore and understand how foundations operate as organisations in their pursuit of mission and social impact. This we term a "whole foundation approach".

Conceptual framework: Rockefeller Philanthropy Advisors (RPA) established a framework to stimulate discussion around the organisational form of philanthropy called "The Theory of the Foundation."[1] Inspired by Peter Drucker's "Theory of the Business,"[2] RPA's approach to framing philanthropic practice is detailed in Figure 1 and contains three core domains: Charter, Social Compact, and Operating Capabilities.

CHARTER
The foundation's form of governance and decision-making at the highest level, and the precursor to mission.
Assumptions include: board composition, locus of decision-making, values, issue focus, culture

SOCIAL COMPACT
The foundation's relationship to society. How it defines its licence to operate, the value it creates, and how it defines and relates to its stakeholders.
Assumptions include: partner relationships, external accountabilities, relationship to society and government, transparency

OPERATING CAPABILITIES
The core competencies, resources, skills and processes that the foundation cultivates in its sphere of activity.
Assumptions include: financial and non-financial assets, staff competencies and development, internal and external collaborations, organisational structure

Figure 1. The Theory of the Foundation framework developed in 2013 and published in 2016.

Methodology and participants selected: The Theory of the Foundation's conceptual framework was used as the basis for our study of European foundations. 41 European foundation senior executives and board members had one to two hour interviews on the themes raised by the questions affiliated with the framework. Interviewees came from 38 foundations across 14 countries in Europe. The study sought to understand how foundations described themselves as organisations beyond their grant-making or charitable operations. It also sought to understand the assumptions made about different dimensions of philanthropic practice; how those assumptions fit with one another; and how the described core dimensions of foundations work together to produce effective or ineffective organisations.

KEY CHARTER FINDINGS

Origin stories: Origin stories are often central to foundation practice and their use extends long into a foundation's life. Origin stories are typically the basis of a foundation's Charter, but act as a reference point and a source of inspiration more than they are a constraint on foundation ambitions or practice. Origin stories appear to have an enduring power over both programmatic areas and culture in a foundation, even when neither donor intent nor legal obligation exists. This suggests a significant path dependency in foundation practice.

Charter legacy types and decision-making: RPA's initial work in 2013 developed Charter legacy types (Figure 2 below), categorising foundations as Donor-led, Stewarded, Founder-connected and Open. These categories appeared useful for European foundation practice with some minor modifications. Those categorised as Donor-led foundations appeared to have a consistency in their decision-making approach, in

that the donor themselves has ultimate decision-making power. Foundations in the study categorised as Stewarded, Founder-connected and Open however demonstrated a variety of decision-making distribution between board, CEO and staff. Open Charter public foundations that have a broader base in the origin of their funds beyond a private family do tend to have more distributed decision-making than other legacy types, making heavier use of advisory groups and boards.

DONOR-LED
Living donor(s) sets mission, priorities, allocation of resources and forms of engagement; these may change as the thinking of donor(s) evolves.

Note. Public foundations cannot be Donor-led as their funds did not originate from a specific individual or family but are generally settlements between the state and a corporation. However founding decision-makers in public foundations have a formative impact on the organisation as they too establish the first mission and priorities of the organisation. Hereafter the language of "founder" encapsulates both donors, and founders of such public foundations

STEWARDED
Founder-determined. While the founder(s) no longer live, decisions of the original founders continue to shape the foundation's mission, programme areas and approach, whether legally or by custom. Subsequent boards and leaders operate within the founder's framework.

FOUNDER-CONNECTED
The successors – whether family members or not – of the founder(s) are not tightly constrained by the founder(s), but to varying degrees look to the founder(s) vision, preferences, and approach. They see themselves as interpreters of tradition.

OPEN
Board members – whether descendants of the founder(s) or not – feel empowered to select the foundation's areas of activity and types of engagements based on their collective assessments of external forces and the foundation's capacity.

Figure 2. Charter legacy types

Written and unwritten rules: As with all organisations, foundations are comprised of an amalgam of formal and informal rules and norms that shape how the work occurs. Amoung the most common rules that foundations were documenting and adhering to were those around the composition of boards and agreed processes to manage complex grant-making or programming. Rules were not always welcome: some interviewees expressed a preference for norms over and above formal rule-making with a fear that too much documentation would force a foundation's leadership to be overly prescriptive or place a strait-jacket on foundation freedoms. This held at the board level too: some Donor-led foundations interviewed were not planning to set down an enduring Charter for their organisations for the next generation leadership to follow. However even when older foundations had given no explicit instructions to follow a set of values or programme areas, there was a continuing influence of historic processes on current philanthropic practice.

The changing role of the board in an evolving organisation: Many foundations across Charter legacy types describe shifting their board governance to be less operational and more strategic. For grant-making foundations there was an interest in shifting the board from making "front-end" grants decisions and instead devolving that responsibility to the executive and staff levels. Drivers that are shifting board decision-making to be more strategic include: the board itself wanting to be more strategic; a process of maturity and foundation development; eagerness by staff for greater empowerment; high levels of trust and shared values between board and executive levels of the organisation; and new data approaches that supported informing and enabling board conversation in new ways.

KEY SOCIAL COMPACT FINDINGS

To whom are we accountable? Attitudes to accountability in foundations diverge: some participants see the absence of accountability mechanisms that connect broader society to the foundation, akin to voters' connections to a government or consumers' to a business, as part of foundation's unique power; others see the absence of democratic engagement from the outside as potentially problematic. Most foundations articulated a formal accountability to their boards and to their regulator. Foundations identified additional primary stakeholders to whom they felt informally accountable as individual organisations: to place and beneficiaries; to grantees; to future generations; to the general public; and to family. For each of these stakeholders there were Operating Capability implications that emerged from accountabilities. Relationships do emerge between the Charter of the foundation and the Social Compact that they articulate: those that articulated the general public as a primary stakeholder were all public foundations; those that articulated family as their primary stakeholder were all family foundations.

Legitimacy: Foundations are wrestling with themes of legitimacy: in an era of growing public scepticism, there were

concerns that foundations were another institution perceived to be of the establishment, not for the people; some governments were also challenging philanthropy through shrinking the space of civil society. This concern around legitimacy partly accounted for the lack of foundations acting as direct advocates for change. While many are happy to fund advocacy efforts by a third party, most foundations were reluctant to be direct advocates for a cause to government.

Relevance: Foundations are seeking new ways of staying in-step and relevant to the outside world using their partner networks, new listening approaches, technologies, convenings and formal advisory groups and boards. Public foundations tended to take significantly more input from advisory groups than family foundations; such groups were used as a source of challenge and expertise and as a way of encouraging stakeholder buy-in.

Government: Foundations had a spectrum of attitudes towards government: some sought very little interaction with the state and explicitly funded activities that government would not; others saw themselves as funding innovation that might later scale through the public sector; and others actively sought partnership with government and served as a facilitator of government services. While most foundations are seeking to avoid subsidising or displacing government funds, interviewees reported across Europe that with fiscal retrenchment and the withdrawal of the state from some services the judgement of where government is and is not active is harder to make. The new public sector context is limiting the role of philanthropy in developing social innovations that the state can scale. New constellations of public-private action are therefore emerging. For those partnering with government obstacles to doing so are not just of a financial nature but of a skills and culture gap too. In weaker state contexts philanthropy's role is often the provision of direct public services. In these markets, innovation properties and potential exits for philanthropy can be sustained but the state cannot be considered an appropriate route to scale for that innovation.

KEY OPERATING CAPABILITIES FINDINGS

Grant-making: Aspects of foundations' grant-making practice on occasion clashed with foundation leaders' ideas about how to optimally relate to grantees. Two examples of this were: typically short funding term lengths for organisations versus the long time interviewees anticipated it would take to see change happen on an issue area; and the problem of overly burdensome reporting obligations on partners. Adding value to grantees with non-financial assets was of interest across the grant-makers in the study however many raised caution that non-financial support is not always appreciated by grantees and that added-value grant-making needed to very carefully managed.

Endowment: The majority of foundations interviewed were not using their endowment to engage in impact investing, keeping charitable objectives and management of the endowment separate. However all foundation leaders were actively considering what the trend of impact investing might mean for their organisations. Key obstacles to developing impact investing include a lack of board and staff alignment on engaging in the area; and a sense that specialist skills or a new organisation might be required to develop the area. While few foundations were actively engaged in impact investing some foundations were using their pure commercial holdings to drive mission impacts: for example using their shareholdings in particular businesses to question some commercial practices. None of the interviewed foundations adopted spend-down strategies; most sustain payout rates that aim to ensure perpetuity.

Non-financial assets: For many of the foundations finance was not perceived to be their most important asset. Foundations were articulating and deploying non-financial assets identified in five key additional areas: their people, skills, approach, tools and institutional properties. Foundations would deploy and cultivate these non-financial assets more sensitively if they perceive their financial weight as small relative to their national peers; the issue they are trying to address; or the institution they are trying to influence. While foundations support innovation and advocacy in third parties very few engaged in innovation practices internally or advocated directly for a cause from their own organisation.

People: Most foundations were increasing staffing in communications and measuring impact. They were professionalizing their teams and seeking a new profile of people with higher qualifications and with either generalist management or domain expertise. A foundation's mission refocus was often an augur of a shift in its strategic approach to staffing. The imperative to train and develop staff is clear due to the very long tenure foundation professionals have in their posts. While larger foundations were happy with their staff development programmes, foundations with under 25 staff felt less confident. Among all foundations however there was an absence of consensus on what it means to be a foundation professional in the 21st century. In particular, foundations' people strategies rarely appeared to be grappling directly with major digital and technology trends. One additional area of human capital that appeared under-invested in was trustee capacities, to support

leadership to make often increasingly specialized decisions.
Internal collaboration: There were an array of divisions cited internally within foundations. Interviewees often voiced a clear separation between endowment colleagues and grant-giving and programming colleagues. Additionally programmatic divisional structure often drives internal siloes: this is particularly acute for those whose programmatic division is represented at board level. Intentional efforts to create cross-foundation ways of working could correct divisions. These include creating cross-programme opportunities to work together and staff Key Performance Indicators (KPIs) that incentivize collaboration.

External funder-to-funder collaborations: Collaborations were of significant interest in principle, but many voiced concerns on the time, investment and political dexterity needed to deliver them. Charter issues were critical to external collaborations, with board buy-in to collaboration described as an essential enabler of its success. While foundations were networking and knowledge sharing, more engaged coordination across the sector on specific and commonly cited sector problems was lacking (such as reporting burdens on partners), and discussion continued without concerted action. Collaboration that overcame Charter concerns appeared spurred by a sense of the enormity of a challenge.

Operating choices: Foundations were making a variety of operating choices. There was a general trend towards foundations focusing, and deploying disciplined strategy and problem-solving as central to their approach. A key area of reflection for many international development funders was geography; particularly the balance between a headquarters in Europe, and the need to be more present locally to deliver global funding.

KEY OVERALL FRAMEWORK OBSERVATIONS AND DYNAMICS FINDINGS

Operating models: The concept of a foundation's Charter, Social Compact and Operating Capability choices aggregating to create an operating model did appear relevant and useful to European foundations. In the study the allocation of a foundation's Operating Capabilities appeared shaped by decisions around who they fundamentally were as a foundation – their Charter concerns – and the way they sought to relate to broader stakeholders – their Social Compact. Some illustrative and ascribed models include: a foundation deploying both a 'Benefactor' and 'Social problem solver' operating model; a 'Scaler' model; a 'Hub' model; and two 'Relational' funders. A useful and logical extension of the idea of operating models may be to tie them to specific impact goals, and particular theories of change.

Risk: Many foundations described themselves as 'risk-taking.' Risk was often articulated as core to a foundation's work and Charter and yet there were few examples of foundations unpacking the term's meaning across programmes, governance, reputation and staff. Additionally there were few examples of foundations that had developed Operating Capabilities that actually incentivized risk, and accepted the concomitant failures that come with a risk-taking approach. One foundation has developed a response to this problem creating a risk matrix shared with all staff to support improved understanding of where taking risks was the ambition, and thus encouraging appropriate levels of failure.

Whole foundation impact: Creating impact was expressed as a core Charter ambition for many of the foundations and yet practical execution across the Operating Capabilities or Social Compact of the foundation was often not consistent with that ambition. All foundations were endeavouring to measure impacts at the grants or project level, with a few measuring programmatic impacts. Few however had taken those evaluations further, for example comparing across programme areas, or creating an assessment of whole foundation performance that fully incorporated their Social Compact, Charter and Operating Capabilities. Three foundations had embarked on creating a whole foundation approach: One was taking a data and systems approach, building up their Operating Capabilities to create new measurement systems. Another took a Charter approach to measurement by embedding core family values into the work whose impact they were evaluating. A final foundation was developing a Social Compact approach to measurement, focused on detailing not only how they had embarked on their work and what they had learned, but additionally what kind of relationships they had created in and with their sector, to understand how they were performing as an organisation.

The Theory of the Foundation Framework as a whole: While on occasion the labeling of the tripartite framework of Charter, Social Compact and Operating Capabilities was not intuitive for non-US audiences, the ideas that sit behind each of the three domains were highly relevant to all of the interviewees that participated in the study. The three core domains – fundamental governance, the foundation's relationship to society, and how the foundation then executes within the constraints of its governance and societal expectations – were useful and valuable for those interviewed.

Areas of coherence in foundation practice: Across the study there were areas of foundation practice that were enabled by other aspects of their work, with the interplay between Charter, Social Compact and Operating Capabilities accelerating foundation achievement. Examples included: new data capabilities that enabled more strategic decision-making; a closely held sense of the importance of the beneficiary, shaping and redefining how a foundation delivered its work; and how new tools of philanthropy could be developed through board engagement.

Areas of conflict in foundation practice: There were also areas of practice where foundations might have a stated ambition in one domain checked by a conflicting aspect elsewhere in the foundation. Examples include: foundations developing new Social Compacts with grantees and the sector pledging to drive systems change that have yet to alter practices at the board level to best support that ambition; an interest in scaling funded innovation through government, but as yet not the fully resourced Operating Capabilities to meet that ambition; operating practices around reporting that conflicted with an active Social Compact that wanted to enable partners to get on with their work; and an expressed Social Compact interest in funder-to-funder collaboration that was stymied in practice by Charter processes.

Continuing the discussion: Currently whole foundation discussions, that include values as well as performance, and capabilities as well as governance, are still too rare. The Theory of the Foundation European Initiative demonstrated that there is value in further stimulation of these discussions: articulating unspoken assumptions, realizing tensions and enablers of philanthropic practice and developing resources that might support foundations to continue to develop and improve their practice. Future fruitful lines of inquiry are included in the study's appendix.

PROJECT CONTEXT

OUR PURPOSE

The European foundation as an organisation that is managed, led and structured, and that takes decisions and crafts strategies, is still relatively rare in philanthropy literature, particularly for foundations active in continental Europe. Literature on European foundations and their effectiveness has tended to focus instead on: grant-making;[3 4 5] and financial management of endowments[6] and, in limited cases, their relationship and contribution to their foundation's mission.[7]

There have been some notable contributions on the theme of foundation organisational effectiveness and frameworks[8] and an interest in foundations as organisations that innovate new institutions[9] and funding approaches.[10] But studies that dig deeper into the structures and effectiveness of foundations as entities are scant. This is particularly the case for foundations outside of the US and UK. There are some insightful works on the continental organisation,[11] and macro trends for national philanthropy markets in Europe, [12 13] but the sector lacks shared concepts and frameworks on the organisational aspects of their practice.

The purpose of this study was to confront both literature gaps: the scarcity of insights into European foundations; and to look beyond the direct charitable activities or grant-making of European foundations and instead to explore and understand how foundations operate as organisations in their pursuit of mission and social impact. This we term a "whole foundation approach".

European foundations, like those anywhere in the world, are all rooted in the context from which they come – differing in language, history, civic culture, civic-state relationships, and legal framing – and yet they also have in common their collective commitment to act as private institutions for the public good. The Theory of the Foundation European Initiative 2016 aimed to take a group of foundations from across Europe and treat these institutions as a group – just as the European Foundation Centre does – and discern important commonalities as well as differences in their organisational structures, behaviours and assumptions.

The whole foundation approach is also important and particularly due to the evolution in the role of the foundation across Europe, both in the activities it engages in and its perception in broader society.

The role of the foundation has changed. Historically its work was as a financer or provider of social, and less often, environmental services. Today foundations engage in a broader set of activities. One leading commentator on European philanthropy, Rien van Gendt, has identified practices that include: "agenda setting" and determining the content of public and political debate; convening; becoming "knowledge institutes"; and acting as "advocates."[14]

This multiplicity of new actions by philanthropies means that foundations must expand their understanding of the potential performance of their whole organisations. For example, to be a highly effective grant-maker is already a complicated organisational goal for a foundation, but how can they or should they harness direct advocacy to support that effort? Some, such as the funders of this paper, are demonstrating a real appetite for understanding these new tools. They are working to build their own capacity and account for their impact, in an echo of the action of the operating charities and social enterprises they partner with. Just as in the broader charity sector foundation leaders are concerned that they may not be optimising

performance, and are eager to do so in order to increase their efficacy in achieving their mission and objectives.

This learning and development of philanthropic practice is largely driven by practitioners themselves with little external incentive to act. While competition challenges businesses, voters can challenge governments, and funders themselves will challenge non-profit performance, foundations lack spurs to change practice. That said, those both inside and outside the sector are starting to question actions by foundations and raise fundamental questions of foundation accountability and legitimacy.[15][16] Pressure is building on the foundation sector to respond. Currently the principal means of doing so is through thorough, self-critical reflection that enables change and supports the sector to answer criticisms with a reasoned rebuttal and appropriate action. This paper seeks to support this self-critical reflection and aims to contribute shared concepts and frameworks that may help discussion of organisational aspects of foundation practice.

CONCEPTUAL FRAMEWORK FOR A WHOLE FOUNDATION APPROACH

Rockefeller Philanthropy Advisors (RPA) established a framework to stimulate discussion around the organisational form of philanthropy called "The Theory of the Foundation", which was developed in 2013 and described in the *Stanford Social Innovation Review* in 2016.[17]

This set of concepts crafted with the (mostly) US foundation sector was inspired by RPA's CEO Melissa Berman's reading of Peter Drucker's "Theory of the Business."[18] In that seminal article, Drucker suggested that key "assumptions shape any organisation's behavior, dictate its decisions about what to do and what not to do, and define what the organization considers meaningful results."[19] For the business context Drucker framed and identified the set of assumptions on which businesses needed to articulate their position in order that their business would thrive. Berman's insight was that without such a framework for the foundation sector, analogous blindspots or underperformance was likely to exist.

The Theory of the Foundation initiative at RPA took as its point of departure Drucker's three interrelated domains of business mission, environment and competencies and identified the corollary for foundations: Charter, Social Compact, and Operating Capabilities (described in Figure 1). This approach did not aim to develop one theory for all foundations but instead to create a framework that enabled an individual foundation to articulate and challenge its own set of assumptions, answers and behaviours in each of these domains, and create its own specific "theory" of what its purpose is and how it might create public benefit.

METHODOLOGY

The Theory of the Foundation conceptual framework is used here as the basis for our study of European foundations. Specifically the study made use of the three interrelated organisational domains – the Charter, Social Compact and Operating Capabilities – as set out in Figure 1. The study has sought to answer the following questions:

* How do foundations describe themselves as organisations beyond their grant-making or charitable operations?
* What are the assumptions made about different dimensions of philanthropic practice?
* How do these assumptions fit with one another?
* How do the described core dimensions of foundations work together to produce effective or ineffective organisations?

Data was collected through semi-structured interviews with 41 European foundation senior executives and board members. Interviews lasted between one and two hours and were transcribed; participants had the opportunity to amend transcripts and also withhold sensitive data as necessary. The study team also held a series of seminars with additional foundation sector representatives.

Desk research on the foundations and how they present and describe themselves through annual reports, web presence and available media coverage, was also assessed. All data was collected in 2016.

An exploratory study of this kind has limitations. The conceptual framework, while a useful heuristic to support data collection and analysis, is empirically untested and is not the only way to categorise and investigate the whole foundation.[20] In practice there were two main challenges in deploying this framework to raise and ask questions: cultural framing and language.

For some the framework was overly anchored in enterprise. A number of interviewees found that starting the approach from Drucker's business metaphor meant that non-financial aspects of foundation practice could be missed. Using other analogies for foundation practice could have resulted in alternative emphasises: for example metaphors around organisms – growth and development – around experimentation, opportunities, exploration, radical change and social or societal innovation.[21]

For continental foundations in particular applying "risk" as a term to charitable activities was stated to be a less of an appropriate fit than other framings.

While 14 nationalities participated in the study both the set of ideas and the interviews themselves were conducted and presented in English. The standard of English amoung interviewees was excellent and no obstacle to mutual understanding however specific words and their use were differently understood. The word "Theory" for example was on occasion a red herring. Drucker used the word as a framing device as does the RPA framework: however the concept understandably was often taken literally as an attempt to explain foundation practice through a single set of rules or generalisations. Within the framework too words like "Charter" and "Social Compact" raised the need for clarification or explanation. They potentially had a resonance in the US that was not immediately clear to European audiences. "Operating Capabilities" on the other hand was clearly understood. Some of the alternative titles suggested for the three domains during interviews and workshops included: "governance model" rather than "Charter;" "Strategy and capabilities, governance and relationships" or "legitimacy, collaboration, risk, governance, performance and reputation" as alternatives for all three domains.

The collected data is an account that foundation leaders make of their own organisations. Such narratives can, of course, be subject to bias or self-legitimation. But as the following sections reveal, the accounts here are both insightful about the challenges which foundations face, and also reflective and frequently self-critical about foundations' organisational responses to these challenges. They offer a valuable window onto the frameworks and ideas that foundation practitioners are developing, and sometimes struggling with, as they explore what it means to lead a successful foundation.

DEFINITIONS

The definition of the "foundation" can be complex. For the purpose of this report we have drawn on the European Foundation Centre's expertise on the definition of the foundation in Europe.

ORIGINS	**Family Foundation**	Funds are derived from members of a single family. Typically family foundations are run, at least initially, by family members who serve as trustees or directors on a voluntary basis.[23]
	Public Foundation	Public foundations are non-profit, private and autonomous entities that have emerged from a legal settlement between the state and (most frequently) a corporation. This includes such institutions as the 88 Foundations of Banking Origin in Italy created in the 1990s,[24] and other such foundations that have emerged through public-private settlement.
	Corporate Foundation	A private foundation that derives its grant-making funds primarily from the contributions of a profit-making business. The foundation often maintains close ties with the donor company, but it is a separate, legal organisation, sometimes with its own endowment, and is subject to the same rules and regulations as other private foundations.
APPROACH	**Grant-making Foundation**	A grant-maker is typically an endowed organisation that makes grants to other charitable organisations that then indirectly achieve the foundation's goals.
	Operating Foundation	Operating foundations are (mainly endowed) organisations that deliver services themselves rather than make grants to other organisations.
	Hybrid Foundation	A hybrid foundation combines both grant-making and operating activities to meet its philanthropic mission.
FUNDINGS	**Endowment**	An endowment principally funds a foundation's work through a lump sum of investment capital that it also manages. The foundation may 'spend' the return on capital on its programmes without any capital depreciation: alternatively it may 'spend-down' so that the capital sum gradually reduces over time.
	Flow Through	A foundation may also be a flow-through, in that it is the recipient of funds from a different entity and holds no endowed capital of its own.
	Shareholder	A shareholder foundation describes a private non-profit foundation that is principally funded by ownership of part or all of a particular industrial or commercial firm. The ownership may include voting rights and continuing influence over the business.[25]

Figure 3. Definitions used throughout the report

The European Foundation Centre's guidance states:

> "There is no legal definition in Europe of "foundation", which can mean something very different from one country to another. This is due to the many languages and cultures as well as the different legal and fiscal environments that exist across Europe. Nevertheless, whether they are called a "Trust" or "Fondazione", foundations working for the public good tend to share a common set of characteristics, and a generally accepted definition is as follows: 'Public-benefit foundations are asset-based and purpose-driven. They have no members or shareholders and are separately constituted non-profit bodies. Foundations focus on areas ranging from the environment, social services, health and education, to science, research, arts and culture. They each have an established and reliable income source, which allows them to plan and carry out work over a longer term than many other institutions such as governments and companies."[22]

This report used further conceptual terms to distinguish between different types of foundation. These are set out in Figure 3 on the previous page.

PARTICIPANT SELECTION

RPA and the Marshall Institute selected 38 foundations to interview, using four main criteria to establish an appropriate group. The study sought to ensure a breadth of European coverage (as is indicated by Figure 4), as well as a diversity of players in terms of issue areas, operating models and age of the foundation. The foundations sought were those with a staff of above ten, and/or a sizeable endowment or grants programme; and those with a reputation for thoughtful or innovative practice.

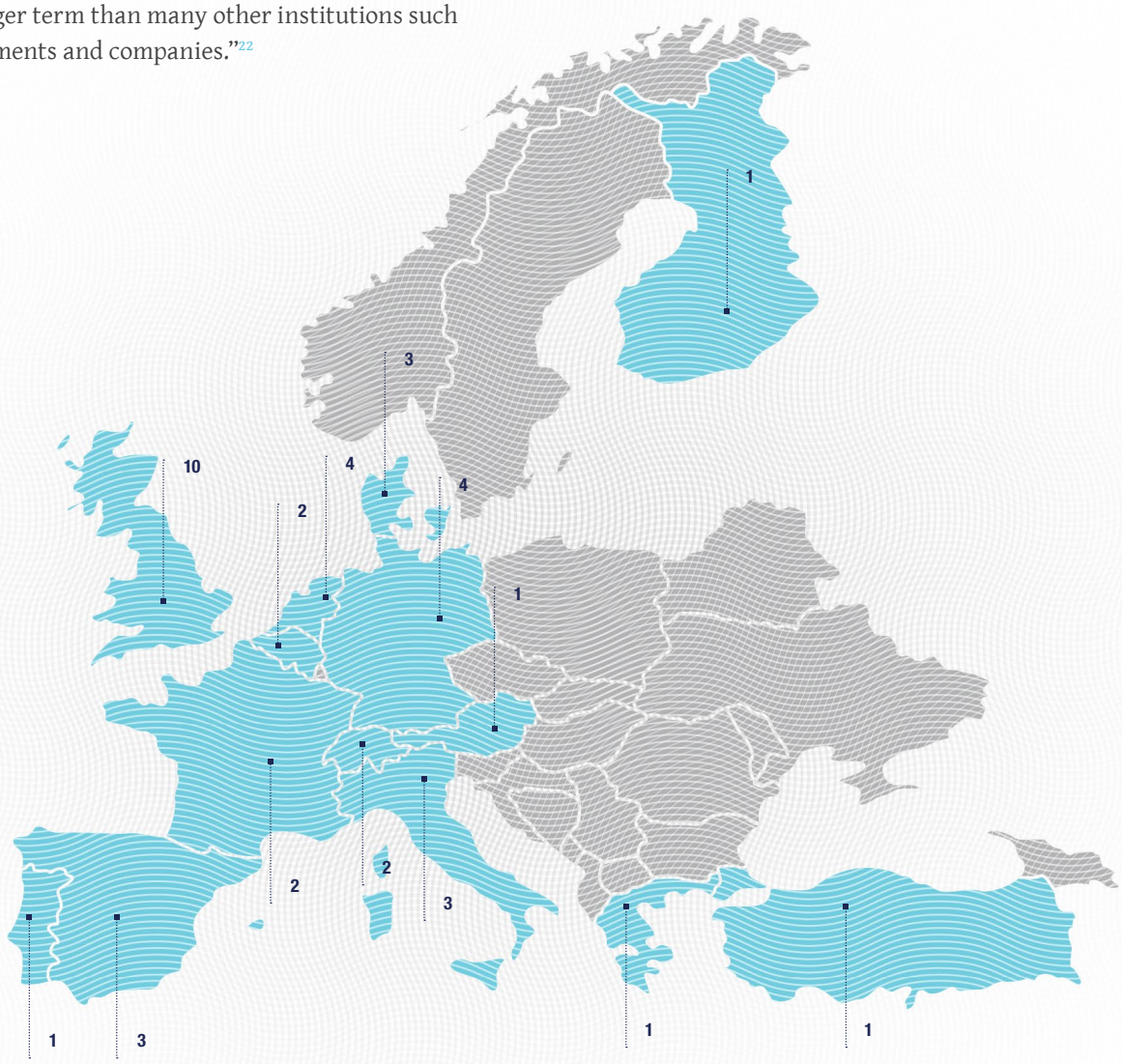

Figure 4. Distribution of foundations interviewed

Figure 5 below indicates the range in characteristics that the foundations interviewed manifested. The majority of those included in the study were endowed grant-making organisations, with a sizeable staff of above 25, annual charitable activity of over 10 million euros (with 14 foundations spending between 10-50 million euros a year, and another 14 foundations spending over 50 million euros per year) with the origins of the funds emerging from family or private wealth.

Note. *The definitions above are ascribed and not absolute. For example, as is described below in the discussion of non-financial assets, "pure" grant-makers are rare among the sample. The descriptors above should be taken as indicative of a primary activity undertaken by a foundation. Data is pulled from both interviews and publicly available materials on the foundations.*

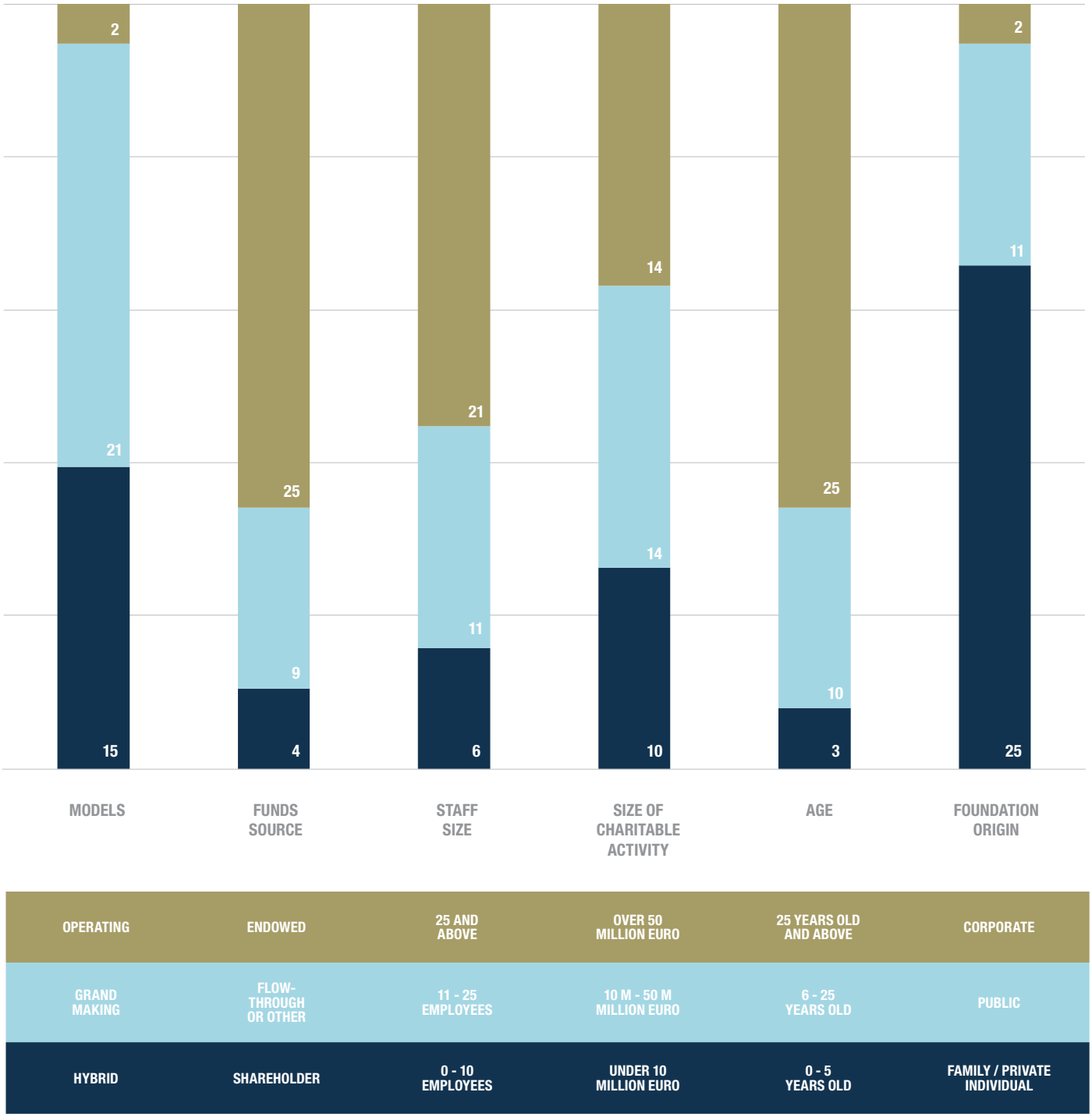

Figure 5. Characteristics of those foundations featured

CHARTER FINDINGS

CHARTER INTRODUCTION AND KEY FINDINGS

As described in Figure 1, a foundation's Charter is its form of governance and decision-making at the highest level; it is the precursor to mission, in the sense that it is the first step in a foundation's creation.

In the first phase of the Theory of the Foundation work a four-part typology around Charter was created suggesting a continuum of legacy types as in Figure 2. This continuum was helpful (with only minor modifications included) in categorizing the foundations in this study and their approach to their founding and evolution over time.

In this part of the study we probed some of the different dynamics of the Charter. We sought to understand how Charters are constructed and remade over their lifetimes, their relationship to origin stories, and any enduring programmatic area or culture shaped by these stories. Additionally we sought to explore if the Charter legacy types in Figure 2 also existed in Europe, and discover if there was a relationship between those legacy modes and decision-making within the foundation. We also sought to understand if these legacy types had any relationship to foundations' rule-making.

KEY CHARTER FINDINGS:

Origin stories: Origin stories are often central to foundation practice and their use extends long into a foundation's life. Origin stories are typically the basis of a foundation's Charter, but act as a reference point and a source of inspiration more than they are a constraint on foundation ambitions or practice. Origin stories appear to have an enduring power over both programmatic areas and culture in a foundation, even when neither donor intent nor legal obligation exists. This suggests a significant path dependency in foundation practice.

Charter legacy types and decision-making: RPA's initial work in 2013 developed Charter legacy types (Figure 2), categorising foundations as Donor-led, Stewarded, Founder-connected and Open. These categories appeared useful for European foundation practice with some minor modifications. Those categorised as Donor-led foundations appeared to have a consistency in their decision-making approach, in that the donor themselves has ultimate decision-making power. Foundations in the study categorised as Stewarded, Founder-connected and Open however demonstrated a variety of decision-making distribution between board, CEO and staff. Open Charter public foundations that have a broader base in the origin of their funds beyond a private family do tend to have more distributed decision-making than other legacy types, making heavier use of advisory groups and boards.

Written and unwritten rules: As with all organisations, foundations are comprised of an amalgam of formal and informal rules and norms that shape how the work occurs. Amoung the most common rules that foundations were documenting and adhering to were those around the composition of boards and agreed processes to manage complex grant-making or programming. Rules were not always welcome: some interviewees expressed a preference for norms over and above formal rule-making with a fear that too much documentation would

force a foundation's leadership to be overly prescriptive or place a strait-jacket on foundation freedoms. This held at the board level too: some Donor-led foundations interviewed were not planning to set down an enduring Charter for their organisations for the next generation leadership to follow. However even when older foundations had given no explicit instructions to follow a set of values or programme areas, there was a continuing influence of historic processes on current philanthropic practice.

The changing role of the board in an evolving organisation: Many foundations across Charter legacy types describe shifting their board governance to be less operational and more strategic. For grant-making foundations there was an interest in shifting the board from making "front-end" grants decisions and instead devolving that responsibility to the executive and staff levels. Drivers that are shifting board decision-making to be more strategic include: the board itself wanting to be more strategic; a process of maturity and foundation development; eagerness by staff for greater empowerment; high levels of trust and shared values between board and executive levels of the organisation; and new data approaches that supported informing and enabling board conversation in new ways.

ORIGIN STORIES, CULTURE AND CHARTER

Origin stories exist for virtually all foundations. Across all of the interviews founders and origin stories loomed large even when no longer in living memory. For some foundations whose founder had died 50 or even 100 years earlier, the anchor philanthropist was still a major reference point. For one foundation whose founder died in the 1940s, an interviewee said, "In our daily work, in our daily thoughts... [we are] strongly connected to the funder... I think you would find in almost every office room a picture of him."

This long shadow of history may not be surprising. The aim of a foundation is often not simply social impact, but also adherence to a certain set of principles or to the memory of someone or something through enduring works of public benefit. One interviewee was critical of the foundation sector's tendency to look to the past suggesting that too many foundations ask, "What would the founders want?' even when... [it] is long past its sell-by date." But for the foundations interviewed in this study, origin stories were more often a reference point and a source of inspiration than they were a bind on foundation ambitions or practice. Origin stories set the broad focus and culture, and might be harnessed by contemporary leaders to find new meanings to support emerging strategies fit for the modern world.

Throughout the interviews there were examples of how a foundation's initial funding areas or approach had become wired into the meaning and existence of the foundation itself. One foundation established almost 100 years ago maintained a strong social justice tradition that had begun with its founders. Another had its health origins established (in some respects) 500 years ago, now instituted into its Charter. The foundations remained able to innovate within and around those themes, but nonetheless they created intangible boundaries that their current leaders did not seek to challenge.

Participants often suggested that organisational culture too was established and influenced by the early decisions of founders. When alive, a founder's personality imbued the foundation: one founder for example, established their organisation in the same mould as their business life describing it as "entrepreneurial and managerial." The culture can continue after death. One foundation identified the trust and approachability grantees felt towards their organisation today to the (now-dead) founder's warmth and down-to-earth nature. In another case the foundation's practice of privacy, humility and discretion that was ascribed to the founders over 200 years ago continued, and fitted well with the current funders' faith roots. Origin stories were key to how all foundations described themselves regardless of their Charter legacy type.

CHARTER LEGACY TYPES RELEVANCE AND DECISION-MAKING

Different legacy Charters were seen across the European foundation sector, and in-step with the taxonomy in Figure 2. While one might expect that similar legacy types would have commensurately similar governance approaches outside of Donor-led foundations, this was not borne out in the small sample interviewed. This tallies with Gerry Salole's insights on the 88 foundations created in the 1990s when the Italian state privatised state-controlled savings banks. While all the institutions were set up with the same legal framing and governance, "within a short time, palpable differences between these close cousins, ranging from insignificant to more substantive and weighty, emerged with regards to their governance structures, decision-making processes"[26] and beyond.

DONOR-LED

Donor-led foundations were, unsurprisingly, characterized by a key individual. In one case decisions were strongly driven by the individual who had given the funds from the board level. The foundation was "very leadership-oriented:" the founder and a key staff person served as primary decision-makers, and a formal board meeting twice a year simply fulfilled legal requirements and signed off on major investments. While there were Donor-led foundations with less directly hands-on and more consultative founders it was still clear that a living donor appeared to have a strong moral authority over the allocation of funds and the final say. Perhaps one of the clearest examples of this is when there is conflict between an entrepreneurial founder and the need to sustain a focus on a specific issue. One founder philanthropist acknowledged that while their staff team was "highly disciplined and focused", they themselves were often under pressure to support other causes outside of the remit of the foundation. As they put it, "we the funders of the foundation are one of the foundation's biggest problems."

STEWARDED AND FOUNDER-CONNECTED

A founder stepping down from leadership either through their retirement or death heralds a shift of Charter legacy approach from Donor-led to one of the three other legacy categories: which one adopted depends on how closely specified a founder's Charter is and how closely future foundation leaders adhere to those specifications. One foundation typifying the Stewarded approach had a founder who had died but whose family remained on the board. The foundation repeatedly reinforced its founder's passion for education and a specific regional focus but additionally had been expanding incrementally to a more national coverage – not departing from the original founding intent but building on it with the board expressing some latitude to extend into new opportunities.

Foundations that have moved beyond family engagement but could be considered Founder-connected still often use their history to support and define new directions. When the CEO of a foundation with a long-deceased founder and a non-family board was set on creating a new and inspiring vision for the foundation they made a poster out of one of the founder's quotes to assert that this radical new strategy was aligned with the founder's character. Another described the core founding document of the foundation detailed in the 1930s as "a strong source of philosophy and inspiration in terms of the breadth of what the organisation does" that additionally helps staff to this day, shape and interpret their key programme areas.

For foundations that had Stewarded and Founder-connected legacy types, decision-making tended to be more broadly held between board members and additionally between board and CEO. In contrast to Donor-led foundations there was little mention of an individual decision-maker at board level. One interviewee spoke of how their board refreshed itself through joint actions by both the board and CEO: the board would urge more diversity or a greater socioeconomic mix for its board members, and then the executive was charged with generating a list of suitable candidates from which the board chose their members.

However even within these legacy Charter types there are also notable examples of major individual decision-makers within foundations. One foundation had started life in the mid 20th century with a strong president figure who held both executive and board power. Despite the passage of time and a series of different office-holders the president continued to be identified as the major player in decision-making even as the legacy connection from the founder shifted over time. In essence the governance shifted little even as the foundation legacy altered. While legacy might at first sight seem an obvious determinant of culture and governance, in fact beyond those with a living donor, there seem to be multiple other variables which mediate and moderate the effect.

OPEN

Open legacy types were less wedded to their founding narratives, but had cultures and path dependency that created boundaries for their foundations' work. In a noted difference to other legacy Charters certain trends in governance appeared to hold across some foundation types. Perhaps due to the preponderance of public foundations - where no "one" person had originally owned the money - there was a higher use of internal democratic processes in terms of the board role. For example one foundation board with an Open legacy approach (albeit highly committed to a specific region and mission) was fundamentally selected by the broader region that the foundation represented: There was a self-recruiting association of 130 people – the great and the good of the local area – that in turn determined a small supervisory board for the foundation from among its members. This supervisory board met twice a year and was charged with deciding the overall grant-lines, foundation budget and appointing the executive board which included the CEO who decides the programme areas. Another foundation was similarly instituted in a way that anchored it in democratic mechanisms. Above the supervisory board was an association of two thousand members representing the origin of the funds. As a result, "in a way [the foundation] is a national asset. So although this is a private foundation, the base from which the money is coming is

so broad that it's good that there is also a broad constituency of people who are supervising our work." Public foundations also tended to have more distributed decision-making as a whole, and made heavier use of advisory groups and boards.

Diversity in the distribution of decision-making within a foundation was also highly personalized to the experience of a particular board and CEO. This is particularly the case for Open foundations interviewed, as in effect this legacy type gives the board the most latitude to reshape its organisation. One CEO who had led their foundation for over a decade talked about how decision-making had changed over time. Their board members had term limits of 12 years, thus within the period of the CEO's leadership the board membership had completely changed. As the CEO put it, "the board had a much greater literal sense of owning a foundation with a new director. This is very different from a board with a very great sense of stewardship and independence with a very established director."

WRITTEN RULES AND UNWRITTEN RULES

As with all organisations, foundations are comprised of an amalgam of formal and informal rules and norms that shape how the work occurs. All of the foundations detailed the benefits and constraints associated with detailed formal rules or the absence thereof. Most interviewees expressed a continuing tension around the documentation of plans and procedures: on the one hand, there was a concern to avoid heavy-handed bureaucracy; but on the other hand an awareness that, without such documentation, strategy and operations might become messy and decisions overly personalized. Delegation of responsibility to more junior levels within the foundation was often predicated on written procedures. While there was a significant volume of documented rule-making there was also a preponderance of unwritten rules that appeared of equal weight in driving foundation practices.

WRITTEN RULES

Rules that shape foundation practice were present in almost every foundation, and dictated major guidelines, some of which were written down. One example was a foundation which detailed that 50% of its giving had to be directed to one specified country. In another example the fundamental long term direction of the foundation was written down but kept private from all but the board members and key staff. The reason for this secrecy was unclear. Governing or advisory board membership also often had clear rules. Two interviewees expressed that they detailed gender, ethnicity, expertise and diversity to ensure a specific mix of people supporting key decision-making.

Strategic planning processes tended to be clearly defined, with most foundations manifesting an annual planning cycle of programme plans and actions, or a longer-term strategic plan, that helped staff know what should happen when. For one foundation a major shift to become a more strategic organisation was predicated on the establishment of written processes that gave clear allocation of duties and powers to different parts of the foundation. This rule-making helped the management do better work "because once we had these rules, we found it helped to do work better and faster, not always having to go back to the board... to get their permission." A tight delineation of organisational focus, from which staff were expected not to deviate, also helped the team to stay on target to achieve the foundation's goals.

Another interviewee shared how detailed process and procedures might become more necessary as the foundation grew in size: "as the granting process became more complicated, reached out to a larger geographic area and became greater, the rules and how to go about our work became much more clearly defined. The processes became much more systematised as we grew as an organisation and it was necessary to define things in a very specific way." Processes developed and adhered to would include providing clear funding criteria, or explaining expectations around the implications of partnership with the foundation. One funder had detailed the kinds of theories of change of organisations that they believed to be effective and ineffective, thus guiding their staff in choosing strategies to back.

UNWRITTEN RULES

Among some foundations there was a preference for flexibility over and above more formal rule-making. One family board member described how the foundation had spent time looking at its values and theories of change and documenting these ideas, but actually the culture of the foundation was not orientated to this reflective mode: "we're more of a 'get-on-and-do-things' philanthropy" they said, learning and developing approaches as they go. Another Open public foundation too echoed a preference to not make formal rules: "I am very concerned about the idea that 'this is how our foundation does something' as that very quickly gets out of date." Another public foundation also shared that they had limited guidance on the fundamental long-term direction of the foundation. While this had its downsides – the foundation was buffeted by many interest groups that made an argument for the foundation to resource them – the CEO found it "better that than having

a clearly determined straitjacket in which you function and where it may be easier to say no to somebody, but where [your action]... is very limited."

In a similar theme, three of the Donor-led foundations had no intention to specify Charters for the next generation to follow. One funder suggested that their children will develop their own philanthropic interests and that as parents they, "don't intend to dictate to them either which areas they engage themselves with, or the mechanisms by which they do so." In short, they did not consider detailing an enduring Charter. Another eschewed detailing rules as "some problems are no longer relevant anymore and it's so hard to change the rules that some of these foundations just get stuck."

On the other hand, one CEO described that it was at his urging that his founding family developed a fundamental description of their work to support better ways of working. It was "necessary for mutual understanding between our board members and the family... We realised a Charter could help, so we created one... I think it is a good way of having a common understanding of what is important." In general it may be that the fashion for shaping an organisation with very clear delineation for the future is on the wane within some foundations, potentially driven by new attitudes to philanthropy: perhaps the primacy of foundations as a memorial to a specific person has lost ground, first, to the need to maintain living donor's interest and, second, to the need for organisational flexibility in order to achieve impact within changing social and cultural environments. A sample larger than the group covered in this project would be needed to determine if these few examples could be considered a philanthropy trend.

That foundations can be driven or guided as much by informal norms and tradition as by formal rule-making is perhaps additionally borne out by the experiences of some of the older foundations in the study. In one foundation, now over 100 years old, the founders had explicitly stated that "future trustees should have absolute discretion... [The founders] deliberately didn't make it in perpetuity, and they purposely didn't say that you have to go on doing what we would have wanted." Yet, despite this intention, the foundation still had family involvement and sustained the founders' religious values base. The continuing influence of history on current philanthropic practice, even in the absence of explicit instructions which might drive continued rule-adherence, implies the importance of norms in foundation practice and the deep path dependency of foundations as organisations.

Unwritten rules extended to a variety of processes and politics that went undocumented. Frequently there was a sense that a practice was self-evident through its enactment. One foundation required all of its board members to donate to the foundation – yet this rule was understood, not documented, and if not followed, "we ask them to leave." In some foundations, informal processes and unwritten understandings were more important than written rules, particularly in the realm of decision-making rights. For family foundations these might be sensitive family dynamics around decision-making: "working in a family office context means there are some written, but there are also some unwritten, rules, and it's especially the latter category which can make it somewhat challenging." This informality of decision-making however was not exclusive to family foundations. In the case of one public foundation while there were written rules about project initiation, in fact these were laxly followed and the "well-intentioned intuition of a director" could be more important than following procedures.

THE CHANGING ROLE OF THE BOARD IN AN EVOLVING INSTITUTION

The vast majority of the foundations interviewed expressed an expansion of their role from traditional grant givers or providers of charitable programmes to focused, strategic, problem-solvers using financial and non-financial tools. A pressing consideration was how this change in a foundation's social role might be reflected within the discussion, approach and tasks at board level. As one interviewee put it: "governance is at the heart of absolutely everything always. Everything flows from the governance model and governance competency and governance understanding." This attempt to direct the discussion at the board level towards a more strategic focus was not the exclusive domain of one Charter legacy type or another, but rather an approach

MOVING THE BOARD FROM MORE OPERATIONAL DECISION-MAKING...
- Operational decisions focused on who should receive grants
- Sign off on grant size: low
- Board are presented with grants' decisions to approve.

...TO AN INCREASED FOCUSED ON STRATEGIC QUESTIONS
- Strategic decisions: holding executive to account for whether objectives are met
- Sign off on grant size: high
- Board are presented with a social problem to be solved a philanthropic approach and evidence of impacts

Figure 6. From an operational board approach to a more strategic board approach

driven by the choices of the foundation leadership of the time. Across the interviews discussion dwelt on two core themes: the usefulness or otherwise of the board signing off "front-end" grants and how to better facilitate those decisions; and the actual process of supporting a board to a new governance mode.

IS THE BOARD ROLE ADDING-VALUE IN THE DECISIONS IT IS TAKING?

For grant-making foundations in particular one traditional role that boards have played has been to sign off grants, as Figure 6 describes. For many foundations this board activity was no longer useful. One CEO stated that at their arrival at the foundation the staff "were opening envelopes and taking out applications and putting them in different envelopes for the board. The board would then make decisions. I realised that we did not change anything by doing that." Others observed that while a board appraising grant proposals in theory could veto such proposals, this rarely happened. In fact as one foundation put it, so much work had already been done by the time the proposal was seen by the board that the "whole set-up is not established to say no." Thus in another foundation perhaps only once in ten years had the board pushed back on a decision that committees and the CEO had shared: another interviewee could not recall that a grant proposal had ever been vetoed.

For many interviewees this appeared a waste of a valuable resource that could be better purposed if directed to new uses. While foundations increasingly identify their role as attempting to change systems "they have a governance model that is all about the front-end... about making decisions [on]... how to spend the money, which is not the best use of trustee time and effort." The pre-occupation with decisions at the front-end might mean that bigger questions relating to systems change were being missed: "it's not a system designed to say, 'Will this have the biggest impact relative to the things that we're trying to achieve?' [Or]... 'How does this fit with what the rest of the world is doing and where are the opportunities for real leverage?'" Foundations were also actively looking for strategic guidance from their boards, and wanted boards not to sign-off grants, but help executives think more broadly: "all of our governance was focused on the 'what' question, as in what should we fund? We needed far, far more governance attention on the 'so what' and 'so then what' questions... As staff we're very good at the trees, but we need governance to help us continually refer back to the wood, and... hold us to account for what this all was adding up to and moving towards."

WHEN BOARD APPROACHES CLASH WITH SOCIAL COMPACT CONSIDERATIONS

For some this front-end operational grant-making board role was in tension with the relationships they had with society in their Social Compact: "we realised that we can't pursue a highly flexible relational approach within a grant making system that was still inflexible and transactional... We were spending a lot of time building relationships with organisations... and then we'd have to say to them, well this has been great but actually it's not our decision and we're now going to take this to a grants committee made up of people who you've never met... and they're going to make a yes or no decision in half an hour." In any case for this foundation putting all grants through the board simply wouldn't work to help grantees meet their mission: "the kind of flexibility that an organisation needs at a particular moment in time cannot be predicted through three-year funding commitments, it needs a much more fluid approach than that."

RESOURCING THE BOARD TO MAKE FRONT-END DECISIONS

While this move away from board level front-end decisions was occurring in many foundations, not all organisations were following this path. The board of one large foundation still approved every grant – and there was a huge volume to distribute. The foundation had, however, resourced its board sufficiently to manage this volume of grants so that the board could add value. The board had instigated meetings outside of the formal three meetings a year, including teleconferencing every two weeks in "a continuous conversation." By the time board meetings took place the board had watched grants progress through the organisation and thus could sanction them quickly but meaningfully when formally presented, and still have scope to make strategic decisions.

ARCHITECTING A SHIFT TO A STRATEGIC BOARD

While the decision to be a more strategic board might be made in principle, the practice of initiating the transition to this approach was much less clear. Getting "information levels, decision-making and detail right" for strategic governance was found to be delicate balance across all the foundations interviewed intent on making such a journey. The trajectories of successfully navigating this shift are complex, with interviewees sharing a combination of factors that enable the change in board discussion and focus. They include the board wanting this new paradigm itself; a process of foundation maturity

and foundation development; eagerness by staff for greater empowerment; high levels of trust and shared values between board and executive levels of the organisation; and new data approaches that supported informing and enabling board conversation in new ways.

One foundation's shift to create a more strategic board reflected many of those lessons. It was reshaping the hierarchy of its decision-making for two reasons. The first, was an anonymous poll of staff that had revealed an interest in greater empowerment in decision-making; the second, was the board's expressed interest in having more strategic discussions. The board had found that at the thrice-yearly board meeting "all the sessions were so full of discussing single projects, there was no time to discuss with [the board]... the strategy of the foundation." The foundation decided to switch its approach, moving to new higher budget thresholds for board approval. This new framing sees the board allocate departmental budget for the year, and focuses discussion instead on goals and strategies, no longer signing off single projects. However to ensure that the board is not wholly disconnected from projects, board members have access to the internal database: if board members are interested they can look deep into projects with the assistance of the foundation staff. The foundation leader stated that this shift was profoundly enabled by high levels of trust within the organisation. However even within this bedrock of trust part of that switch was not easy: "We really have to say goodbye to all the smaller decisions! [That is] the price we have to pay." This complexity of key decision-makers relinquishing decision-making rights was a common theme across the interviews: another interviewee also stated that some of their foundation trustees even when shifting to the new strategic mode found "it is hard not to want to delve into the detail."

For two foundations the change in the board's role was experienced as an evolution of the foundation's development. Sign-off levels for one were changed simply due to the sheer volume of grants that had to be distributed. Changes were made so that a trustee, programme director and the foundation president alone could sign off a grant under a certain size without having to bring the proposal to the whole board. For another family foundation a decade ago the purely family board hired a CEO, and since then the organisation had been shifting to professionalise its systems and move the board from an operational mode to a more strategic mode. The process took about eight years as the foundation became accustomed to the introduction of professional management. Previously operating trustees transferred executive work to the management: as the ranks of management grew, the less executive the board of trustees became. Today the board of trustees mainly focuses on setting the strategy and holding the executive to account, marrying this approach with a greater delegation of sign-off levels to the executive team below it. This strategic board also established "board working groups" that did not have formal decision-making power, but allowed for trustees to be more engaged in the day-to-day work if interested. These new informal groups prepared "the ground for good decision-making."

Alignment of values among actors within the organisation was also identified as an enabler of this new decision-making. One foundation CEO talked of the power of the shared faith base and values of social justice of their predominantly family board in enabling good discussion and teamwork. This fundamental agreement on values, and a belief in the value of equality itself, meant that the executive team are "not trying to sell [the board] something... We are working to the same ends and by the same means." Another foundation said, "we spend a lot of time to share values and analysis. This is also coherent with the tradition of consensus building in... [our country's] culture."

In another case, the CEO and the board stated the intention to be more analytical, evidence-based, responsive and purposeful, and supported the CEO to help deliver against this new mandate. The CEO ascribed the success of this transition to three core changes largely around its Operating Capabilities: a new strategic performance framework; a change in funding approach from picking great organisations to setting out to achieve clear goals; and a shared understanding of the foundation's appetite for risk across its funding, investments, governance and reputation. This set of tools and approaches gave the board - through good data and shared frameworks - the information they needed to have a strategic cross-foundation discussion. Across interviews we found a connection between the ability to account for and describe impact, and being able to have a different level of discussion at the board level.

SOCIAL COMPACT FINDINGS

SOCIAL COMPACT INTRODUCTION AND KEY FINDINGS

The definition and dimensions of the Social Compact are outlined in Figure 1: the foundation's relationship to society; how it defines its licence to operate; the value it creates; and how it defines and relates to its stakeholders. One of the distinct properties of foundations compared to profit-making firms, the government or even to many other nonprofit organisations, is the relative weakness of formalised external accountability mechanisms which shape their relationship to society. Foundations are often accountable only through very basic legal requirements. Unlike the state, voters cannot eject leadership; unlike the market, neither shareholders nor customers can punish poor practice by removing capital or discontinuing consumption, except in the rare cases where grantees find a foundation donor so challenging that they seek funds elsewhere.

In this part of the study we therefore explore how a foundation develops its relationship to society. Firstly we consider to whom foundations feel accountable, and in turn how they reorient their Operating Capabilities to meet those accountabilities. Identifying this accountability is essential: a foundation develops its Social Compact through understanding the specific constituency that it is committed to. Then we explore how foundations are wrestling with the broad concept of the legitimacy of their work in a context of a changing external environment and a scepticism about public institutions. We also learn how foundations are staying relevant and in-step with a changing external environment and how they are seeking to bring the outside world to life inside the foundation. Finally we document and explore how foundations are shaping their relationships to government.

KEY SOCIAL COMPACT FINDINGS:

To whom are we accountable? Attitudes to accountability in foundations diverge: some participants see the absence of accountability mechanisms that connect broader society to the foundation, akin to voters' connections to a government or consumers' to a business, as part of foundation's unique power; others see the absence of democratic engagement from the outside as potentially problematic. Most foundations articulated a formal accountability to their boards and to their regulator. Foundations identified additional primary stakeholders to whom they felt informally accountable as individual organisations: to place and beneficiaries; to grantees; to future generations; to the general public; and to family. For each of these stakeholders there were Operating Capability implications that emerged from accountabilities. Relationships do emerge between the Charter of the foundation and the Social Compact that they articulate: those that articulated the general public as a primary stakeholder were all public foundations; those that articulated family as their primary stakeholder were all family foundations.

Legitimacy: Foundations are wrestling with themes of legitimacy: in an era of growing public scepticism, there were concerns that foundations were another institution perceived to be of the establishment, not for the people; some govern-

ments were also challenging philanthropy through shrinking the space of civil society. This concern around legitimacy partly accounted for the lack of foundations acting as direct advocates for change. While many are happy to fund advocacy efforts by a third party, most foundations were reluctant to be direct advocates for a cause to government.

Relevance: Foundations are seeking new ways of staying in-step and relevant to the outside world using their partner networks, new listening approaches, technologies, convenings and formal advisory groups and boards. Public foundations tended to take significantly more input from advisory groups than family foundations; such groups were used as a source of challenge and expertise and as a way of encouraging stakeholder buy-in.

Government: Foundations had a spectrum of attitudes towards government: some sought very little interaction with the state and explicitly funded activities that government would not; others saw themselves as funding innovation that might latterly scale through the public sector; and others actively sought partnership with government and served as a facilitator of government services. While most foundations are seeking to avoid subsidising or displacing government funds, interviewees reported across Europe that with fiscal retrenchment and the withdrawal of the state from some services the judgement of where government is and is not active is harder to make. The new public sector context is limiting the role of philanthropy in developing social innovations that the state can scale. New constellations of public-private action are therefore emerging. For those partnering with government obstacles to doing so are not just of a financial nature but of a skills and culture gap too. In weaker state contexts philanthropy's role is often the provision of direct public services. In these markets, innovation properties and potential exits for philanthropy can be sustained but the state cannot be considered an appropriate route to scale for that innovation.

TO WHOM ARE WE ACCOUNTABLE?

The study sought to understand initially foundations' broad approach to the concept of accountability, particularly the absence of accountability mechanisms that connect broader society to the foundation, akin to voters' connections to a government or consumers' to a business. There were divergent views identifying this freedom as both a benefit and a problem. One interviewee saw the lack of accountability as the critical value of foundations: "we already have two systems – the democratic process and the market process – which take care of [responding quickly to changes in society]... If the foundations are all doing the same thing [by also responding] why would foundations be needed? In that sense it's important that foundations... [support] things which are not so popular now, but we believe will be useful in the future." As a result they conceive of their institution as explicitly "counter-cyclical." A different CEO took a more critical view noting that "foundations are probably the least democratic places in the world. [Other organisations have elected bodies]... In the case of a foundation, it's only a bunch of people and they are deciding everything."

Foundations were also asked to describe to whom they felt accountable. As one workshop participant put it a foundation does not have a Social Compact until it decides to focus on a specific constituency that it feels committed to. Once that community has been decided it can cultivate a Social Compact over time. In the study interviewees defined primary lead stakeholders meaningful to their work and then described how Operating Capabilities had been shaped to reflect that accountability. Across the interviews the practice of making accountabilities explicit and detailing the Operating Capabilities ramifications of that Social Compact appeared to be a valuable process.

Most foundations identified formal accountability to both the board and regulators, but in addition articulated a range of other important stakeholders as detailed in Figure 7. There were some however for whom the idea of a broader stakeholder conception of the Social Compact felt less relevant. One interviewee rejected the idea of the Social Compact as outward-facing and multiple stakeholder driven. Instead this foundation relied solely on the mechanism of governance to drive accountability: "programme officers are servants of the board, not servants of the partners. If the board is satisfied with our job, then the administrative body has done his job... The board is the only place where decisions are taken collectively... deciding democratically. Elsewhere the organisation is hierarchical... The true democracy is in the board." For this interviewee other accountabilities emerged through an internal focus on the board process: "if the board considers an action not meaningful anymore - not just in terms of effectiveness but also relevancy - we will stop it. If the board thinks it is important, we will continue to do the work even if 90% of the population disagrees."

For those foundations that did identify additional stakeholders to whom they were primarily accountable, however, five particular accountabilities emerged around specific groups: to place and beneficiaries; to grantees; to future generations; to the general public; and to family. Each of these different accountabilities carried implications for Operating Capabilities.

Furthermore some relationships emerge between the Charter of the foundation and the Social Compact: Those that identified the general public as a primary stakeholder were all public foundations and appeared to gear their Social Compact to be more externally focused; those that articulated family as their primary stakeholder were all family foundations who had an important focus on internal accountabilities. Few participants mentioned the media as a stakeholder, but some of the larger foundations were both harnessing the media and responding to new demands made of them by the media. Questions around conflict of interest and salaries were particularly acute.

NUMBER OF FOUNDATIONS EXPLICITLY IDENTIFYING A PRIMARY ACCOUNTABILITY TO A STAKEHOLDER BEYOND BOARD AND REGULATOR

PLACE / BENEFICIARIES	Two foundations
CAUSE / ISSUE	
GRANTEE / PARTNER	Two foundations
FUTURE GENERATIONS	Two foundations
GENERAL PUBLIC	Four foundations
EMPLOYEES	
CHAIR	
FOUNDER / FAMILY	Six foundations
FOUNDATION SECTOR	
MEDIA	

Figure 11. Identified stakeholder accountabilities

ACCOUNTABILITY TO PLACE AND TO BENEFICIARIES

Some foundations identified a specific place or beneficiary as their core stakeholder. This identification catalyzed, in some, a major reorientation of the foundations' systems in order to address themselves appropriately and rigorously to a community. One foundation explicitly identifies pockets of serious social deprivation and local "cold-spots" where philanthropy and charitable activity has not reached. To test the appropriateness of its Operating Capabilities to meet this need the foundation interrogates itself by asking: "does this [foundation approach] seek to serve the organisation, or satisfy the trustees, or does this genuinely seek to serve the people that we exist to support? And is it good enough for them?" This simple question led to major changes of approach. The foundation hires community activists, deploys language more carefully, and ensures that service users are at the heart of decision-making. Another European foundation included a service user on its board to support better integration of beneficiary voice and thinking into foundation strategy, demonstrating that an overriding commitment to a particular Social Compact can also influence and impact a foundation's Charter too.[27] Such a level of integration of grantees and communities as part of a foundation's Social Compact was not articulated in the practices of other foundations.

ACCOUNTABILITY TO GRANTEES

Foundations that articulate a commitment and accountability to their grantee partners identify different priorities and actions vis-à-vis accountability. These typically include: crafting foundation strategy in partnership with grantees; deployment of core funding as a standard; use of anonymous surveys of grantees on the foundation's performance; and efforts to feedback and give answers in a timely fashion.

One interviewee explicitly articulated the foundation's primary commitment to their grantees and outlined throughout their interview how this shaped their practice. The foundation deploys a "grantee-centric" approach publicly set out by the Peery Foundation.[28] It generally provided unrestricted funding, citing studies that found this to be more valuable to grantees than restricted funding.[29] Additionally the foundation used an anonymous survey both of grantees and of those that had been turned down for funding to understand how it might improve its service for partners and potential partners. Another foundation focused on taking early and continual feedback from partners on the direction of foundation strategy. In an evaluation partners said, "It feels like they've got their arms around you," such was the proximity of the relationship.

One of the core tensions for grant-making foundations with a strong sense of accountability to grantees is to stay open to potential new applicants but also to avoid wasting grantee or foundation time in the exploratory phase. In the case of one foundation only 1% of its applicants receive funding. This clearly can create inefficiencies on both sides. Some developed simple approaches to try and address this. One foundation created a very short online form to identify if a grantee was suitable to be funded: they committed to feedback on potential grantees' inquiries with a definitive answer within 48 hours. An alternative was to increase staffing levels. One foundation, having committed to leading a national theatre competition, ensured that there were 15 people throughout their country watching every show that artists put on: it was suggested that

no other foundation in their country was engaged to such a level. For another their commitment to their grantees and to the field led them to discard open calls for proposals altogether and instead "seek ideas through the networks that we have and that we intend to build." The interviewee explained: "if all the time that we have currently wasted reviewing unsuccessful applications can be reinvested in building those networks and sensing what's out there, then… we become more engaged in the environment that we're operating in." This foundation's interest in meeting a key stakeholder's needs and optimising its resources had led it to discard an age old practice of the foundation and to create a new way of interacting with the outside world. They were however live and mindful of the risks of this approach and were creating new Operating Capabilities to try and mitigate them: "we have… [a] reflective practice… [to] challenge ourselves about whether we are genuinely reflecting the diversity of the field out there in the relationships that we build. Otherwise we're just going to look like an elite organisation that hangs out with its own kind."

ACCOUNTABILITY TO FUTURE GENERATIONS

The two interviewees who articulated "future generations" as a primary stakeholder group focused significant efforts on addressing environmental impacts. Both described their work in terms of global preservation for the future and referenced their children as an important source of inspiration.

ACCOUNTABILITY TO THE GENERAL PUBLIC

Some interviewees, particularly those speaking from public foundations, said that the general public was their primary stakeholder. For these the Social Compact issue resolved to the twin themes of transparency and communications. One stated, "we are accountable to the public. We publish our work; we have Facebook and we always answer questions that are put to us." This foundation also publishes their CEO's salary even though this is not a legal requirement or a cultural expectation.* Such transparency is perceived to be key to the foundation gaining respect within society: "we have to be integrated into society and we have to stand by what we are doing." Others benchmarked on transparency indices, and sought to improve and achieve the highest rating for quality management by independent accredited standards to demonstrate through third party assurance the quality of the service they were providing to beneficiaries.

* In the US for example, it is a legal requirement for foundations to publish annually the salaries of their top earners.

ACCOUNTABILITY TO THE FAMILY

Many in family foundations felt a strong sense of accountability to the family itself. The donor as central stakeholder in the philanthropic process and the accountability to their needs acting as an asset, has been argued for powerfully by those such as Peter Frumkin. His work contends that the values, passion, and energy of donors are critical in maintaining the strength of philanthropy and that honouring the vision and intent of donors enables a foundation to stay nimble and engaged.[30] This strength of feeling and accountability was reflected in some foundation practices. One interviewee said that the foundation's objective "is to fulfill the wishes of our founder, which are philanthropic." Their accountability appeared to be first to the founder and then to the mission. Another reiterated that their organisation had been set up explicitly to be a "trustee run, family run, professionally staffed foundation where the decision-making was the family and the professional staff was there to give them advice and input." This commitment to family shaped internal practices and was rare in other types of foundations. For example one of the key indicators of success for staff of this foundation, alongside external strategic impact, was the family's happiness with the work: "this is about the family and them investing their actual resources as well as their time and passion into the fields they're working in… If you've satisfied the family members and they're happy with how they've spent their financial resources and time, at a micro level that's a definition of success." At this foundation additionally individual family board members are given the licence to originate programme areas that reflect their own interest. Board members in a non-family origin foundation would seldom get to cultivate their own programme area.

LEGITIMACY

The foundation's legitimacy or illegitimacy as an actor seeking to improve the public good cuts right to the heart of the role of the foundation in society: this was a core theme in the interviews. Without membership or votes or consumers, what gives the foundation the right to act and decide the public good? Themes around the legitimacy of foundations were articulated in three key areas. Firstly, it was suggested that foundations were perceived to be of the establishment and not for the people. Secondly, some governments were also challenging philanthropy through shrinking the space of civil society. Finally perhaps the clearest manifestation of the challenge around legitimacy was revealed by the foundations' hesitancy around deploying assets such as brand, reputation and their access to networks to drive impacts. Use of the assets raised a

fundamental question internally that many struggled to answer: If we speak, on whose behalf do we do so?

PART OF THE ESTABLISHMENT?

In a political context where the general public has "had enough of experts"[31] (as one UK politician and Brexit campaigner memorably described) some interviewees expressed that foundations are increasingly experiencing the same scrutiny and scepticism as other public institutions. One interviewee framed it this way: "the populism we're experiencing as part of a wider anti-establishment feeling [is impacting us]. We are perceived as part of the establishment, so this is proving a significant societal challenge which we cannot ignore as a foundation." Another agreed: given new dynamics of social change driven on social media without the involvement of "the traditional players of the not for profit world or philanthropy... there are questions around the relevance of the old model and whether philanthropy and the not for profit organisations are just viewed as part of the establishment." This perception is problematic: if foundations that are explicitly focused on addressing needs of specific communities are perceived to be elite, are they really achieving their goals? Furthermore, while all interviewees considered that their focus on specific communities and issues made them more attuned to community need, there was a voiced concern that a shift of multiple funders to specialist giving programmes might both leave some less fashionable needs unmet and the broader public unengaged and unaware of foundation practices.

It is possible that foundations can alter their Operating Capabilities – their communications, accessibility, collaboration approach or programming – to show broader communities that they are both institutions of private action and public good. There is a practical concern that if foundations in the medium term are not perceived to be showing sufficient value, governments might reduce fiscal incentives for philanthropies which are perceived by a sceptical public to be tax breaks for the wealthy. Now is certainly the time for the foundation sector to be considering this risk and seeking to address it. As one foundation put it, "if you are acting for the public good you have to be part of that discourse with the public about what the public good is, and then think about how to involve different communities that you are purporting to support."

SHRINKING SPACE

An extension of the fiscal threat to philanthropy practice is the broader challenge around the shrinking space of civil society. Where formerly, European foundation capital was welcomed, there have been increasing restrictions in many countries including China, India, Israel, Turkey and Hungary.[32] There are complex and varied drivers for this, but one clearly touches on the question of legitimacy. Often undemocratic governments are asking of (in effect) undemocratic foundations – do you have more right to decide social action than we do? The foundations interviewed were struggling to answer this question.

DIRECT ADVOCACY

Another difficult and ambiguous area is around foundations leading direct advocacy activities. While many are happy to fund advocacy efforts by a third party, most foundations were reluctant to be direct advocates for a cause to government. For many direct advocacy created a risk to reputation and there may have been a regulatory sensitivity around the charge of political activity versus pursuing objects. But for at least one foundation, democratic concerns were at the core of their reluctance: the foundation, it was suggested, had very small roots in terms of representation of communities or membership and little buy-in from stakeholders outside of the foundation. Another foundation similarly explained that they did not take a public position because "we feel, 'who is... [our] foundation to have these opinions?' I mean, who are we and why were they looking to us?" Without partnership through a multitude of external stakeholders, the direct action would feel illegitimate.

RELEVANCE

Another core concern for interviewees was how to bring the outside world's current concerns into the foundation, keeping the work relevant and fresh. One interviewee found that the "charitable sector and foundations are struggling to keep pace with the world around us." For some, it was foundations themselves that are becoming overly focused on internal processes and procedures – policies, risk management, impact evaluation – while the outside the world seems to be moving in a different direction. "I think that it is absolutely clear that the danger is that it is making us totally irrelevant... We are just becoming a Mini-Me version of bad contracting by the state." Foundations were seeking ways of navigating this problem by using their partnerships, new listening approaches and new technologies, convenings and formal advisory groups and boards through which they might learn what was relevant to their work. Each of these approaches is explored below.

PARTNERS AND LISTENING

Partners, mostly but not exclusively grantees, were often the primary vessel through which foundations gauged the external temperature. Being engaged in a conversation on a daily basis with over 3000 partners was how one foundation described keeping up with the field. However another found that its long-term relationships with its partners and its ever-increasing specialization meant that it struggled get outside of its established relationships and hear new ideas. Others found it hard to have "candid" discussions with partners about the direction that the foundation could go in. To rectify this problem some interviewees pointed out that the onus was on the foundation itself to redouble its efforts to listen. One foundation's approach is to "work closely and listen carefully to what is going on out there and to be a part of it. And to have a range of other stakeholders, not all of whom are funded partners. All the people and organisations that we work with have some kind of role in giving evidence to the development of our strategy." As one foundations stated, "Sometimes foundations look like fortresses or castles, and the gate is very small." To counteract this, foundations had to actively seek new ideas, listen and resource this appropriately.

Some foundations were developing technological Operating Capabilities or new long-term planning tools to keep their staff in step with external developments. One foundation had reinvigorated its intranet with "dynamic content about social trends, examples of programme evaluations and philanthropic news. It aims at being very precise and didactic." Others are using long-term planning tools. For a funder focused on systems change: "every 10 years we try to have a deeper discussion about our comprehension of the state of the world. We have a general discussion (board and staff) about where we are, what are the major threats, with whom, and how does it work?"

HOSTED CONVENINGS

Most of the foundations interviewed described conferences and engagement with new publications as an essential part of their approach to keeping up with trends. Some were creating their own convenings to further both learning and sector engagement. One foundation created an Open Day, "which looks like a shareholders' meeting... [We] present to all our stakeholders. From families, to our donors, to our people working with us, to our community. We open our doors... so everyone can look at what we are doing and what we are going to do." Foundation staff also hand out their personal emails, which is an important signal of accessibility to stakeholders. Another foundation periodically deployed "Search"[33] conferences. These are participative planning methods that bring together stakeholders close to the foundation and from alternative backgrounds to help inform foundation strategy. Those that had not made use of convening mechanisms for their learning felt the lack of that platform: "what we haven't yet convened is something which says 'Nationally what are the interests and ideas, or what are the trends, or where are the points that we might be able to leverage?'"

ADVISORY BOARDS AND NETWORKS

One of the key mechanisms that foundations are using to extend both their influence and listening ear are networks and boards that sit outside of the foundation. While there are some family foundations using expert advisory boards extensively, public foundations tended to take significantly more input from advisory groups as a source of challenge, expertise and to encourage stakeholder buy-in. One for example had convened a very senior group of people – from government, civil society and academia – whose role was to keep the foundation board and CEO challenged on the areas in which they were invested. Another had programme-specific committees and provincial committees resulting in about 370 people having discretion over the allocation of philanthropy in addition to the 34 staff members. Another foundation had 2150 experts who were involved in expert committees advising the distribution of funds outside of the core employees, showing a strong impact of Social Compact on Charter structures and assumptions. "It is important to listen to what the field has to say... We always try to have people from grassroots organisations, academics, people from the corporate world, people on both sides of the political spectrum." This approach signalled a major distribution of decision-making: "Once the objectives are formulated, once we know which impact we are looking for, the implementation is very much bottom up." For foundations manifesting this approach to consultation and 'bringing the outside in' a significant part of the board's role was to hold the external committees to account and understand their processes and decisions, rather than make the decisions themselves.

GOVERNMENT RELATIONS

A central part of a foundation's Social Compact is understanding its relationship to government. All foundations understood that the state was essential to their practice and held a set of opinions about how they should relate to the state. As one put it, the foundation and the state are "part of the same body and each serves in its role. But at the end we cannot compare a finger... [to] a brain... You can lose a finger... But you cannot

survive without a brain.... In this sense a foundation is a finger, the state is a vital organ of a modern society." The spread of attitudes to government among interviewees was broad and sat along a spectrum of interest as indicated in Figure 8.

CAUTIONARY APPROACH	HIGH ENGAGEMENT
MINIMAL STATE INTERACTION	• Reporting responsibilities. • Funding non-service delivery / advocacy.
ADDED -VALUE INNOVATION	• Reaching hard-to-reach communities. • New models.
PARTNERSHIP	• Information sharing. • Brokerage across government departments / sectors. • Seeking scale.
CORE SERVICE PROVIDER	• Provision of basic services (education, health) in weaker state contexts • Contractor of state

Figure 8. Spectrum of relationships to government

MINIMAL STATE INTERACTION

For some foundations their expressed relationship to government is very clear: "we do what government doesn't do, we are non-political, and we remain at arm's length." The mode was avoidance, that of explicitly going where government would not. One funded "advocacy and campaigning organisations that are trying to change the system at the top end.... And we also look at local [small] innovation...connected at the bottom end." Pushing for change, and funding local innovation, keeps the foundation away from the traditional role of government. Many interviewees sought to avoid subsidising or displacing government, with one noting, "we are not the plan B if the government is not willing to subsidise something... they cannot trust that we will jump in if they decide to jump out."
However where the government would and would not invest, and the line of where government stopped and private action started was different from country to country. One interviewee shared that in their country citizens were satisfied if the government could reach 80 per cent of the population, and thus defined the foundation's role as working on reaching the remaining 20 per cent. In other markets however a government that was missing 20 per cent of its population would be seen to be failing. However regardless of the state, interviewees across Europe reported that "the red line of statutory provision is shifting." Where government once invested it now was rowing back its funding and creating new boundaries around what was and was not government responsibility. UK philanthropist Vivian Duffield summed up the new status quo in 2015: "our early philosophy was to provide things that... [government] wouldn't or couldn't. That's had to change a lot over recent years.... We are no longer the icing on the cake in the UK. We're not even the filling any more, and I worry we're almost becoming the cake itself."[34] There was recognition across Europe that the foundation sector was living in new times in terms of state relations.

ADDED-VALUE INNOVATION

There was a particular challenge for those that conceived of themselves as "added-value innovation" and thus sought to prove a model and then have it taken up by government. As one interviewee put it, "foundations... ought to be organisations that are able to experiment... able to build new models that then can be taken over also by either public or private institutions." As an example, one foundation had invested in a social impact bond[35] in an issue area unrelated to its typical funding objectives to demonstrate proof of concept to its national government. But with the new realities of public sector budgets interviewees reported serious challenges to this dynamic. As early as 2003 USA philanthropy experts were seeing a decline of the 'innovation incubator' role: "The list of nonprofit projects that were ever brought to scale by government is short and growing shorter every year as discretionary funds available for new initiatives shrink at all levels of government."[36] In Europe this trend was echoed in 2016 interviews: "the machinery of state... is not working particularly well in terms of adopting and rolling out innovation." Some suggest that in fact the pendulum of innovation scaling through government has switched the other way, with government now turning to philanthropy and "viewing it as a way to hand over various projects."

PARTNERSHIP

Some foundation leaders have described the need for nuance in how foundations should navigate this new reality. While the traditional approach would be to hold fast in the face of municipality cuts, and "cling to the principle of 'not filling the gaps left by the government.' Sometimes, we have to learn to step beyond our own ego."[37] Many foundations were manifesting new types of partnerships with government. Citing the example of the foundation, Fonds 1818, one philanthropy expert described how the foundation took over a formerly government-led library, but introduced their own innovative way of delivering it, in a demonstration of a third way between a

blanket refusal to subsidize a formerly state-funded service and the collapse of an important public resource.

For those that were partnering with government, obstacles to doing so were not just of a financial nature but of a skills and culture gap too. One foundation started a programme that had been very successful in catalyzing major impacts for a local region, and the foundation was keen to see that programme taken up by local authorities. It took work and education at the "political, management, technical" levels to really help the programme fly. The stakes of success here were high, and in both directions: "the upside is higher impact through scaling, versus losing all the impact through government failure." Another interviewee concurred with the need for work at all levels and from very early on in proceedings in order to make a success of a government-foundation partnership: "it doesn't work that the foundation has a great idea and the government then does the scaling of said great idea. If the government is to do the scaling, then you have to involve them from the very start. We try to bring in the government, not only at the top decision maker level, but at the working level. We try to bring them in at the very beginning of the project. We want to create ownership on their side and then it's much easier to talk about government taking over an approach." Clearly a successful scaling relationship with government places demands on Operating Capabilities. As foundations struggle to see innovation taken up by government they may need to focus more internal resources and attention upon supporting an innovation's scaling by the public sector.

CORE SERVICE PROVIDER

Interviewees acknowledged that within Europe different states have different capacities, as do civil society groups, and thus the role of philanthropy has to change over time. "When civil society is weak, you have to react to it through operations, because there are no institutions that can handle the situation. When you have a civil society that is richly developed, you must react by grant, because there are institutions that are there and doing things, so you just grant to them." Two foundations had been on this journey over their own and their country's lifetime, shifting from core service providers in-step with government and delivering basic services to shift to a more grant-making mode. For another foundation this sense of a different relationship with the state and with programming dependent on national context was a live issue: The foundation had offices in one emerging philanthropy market place, and another in a highly saturated philanthropy market. In the less developed philanthropy market the work was very much service delivery and additionally "labour-intensive, time-consuming grantmaking, because we have, from the beginning to the end, a close supervision of the processes.... We have a lot of specific, highly trained people to monitor our activities." In the more developed market the "specific funds always find the intended target" and thus the team is smaller and can focus on different "strategic" initiatives.

One interviewee suggested that in weaker state contexts philanthropy's innovation properties could be sustained, but that the state could not be considered an appropriate route to scale for their innovation. Speaking of their work in Eastern Europe where state capacities to take up innovation were limited the foundation was "trying to help develop models of... social entrepreneurship, or models of self-financing for larger institutions like Catholic charities that are providing social services to elderly or disabled people... We need the efforts of a broad spectrum of different organisations in order to make up, or to build on, the basic services that a government is able to provide." The interviewee urged more creative systems to scale innovation and substitute for governments' deficits.

OPERATING CAPABILITES FINDINGS

OPERATING CAPABILITIES INTRODUCTION AND KEY FINDINGS

As Figure 1 details, the Operating Capabilities domain of the Theory of the Foundation focuses on the core competencies, resources, skills, and processes that the foundation cultivates in its sphere of activity. Foundations have long identified tools and capabilities such as programme design, grants administration, research and project management as central to executing their work. Today however new tools are available to foundations and increasingly in use: be that impact investing, advocacy, or collaboration. How best to use, resource and develop these tools to create impact however is still very much a live question.

In this part of the report we look at how foundations are identifying and deploying both financial and non-financial assets. We share insights on the people staffing European foundations, both the new functions being constituted internally, and also the new profile of staff member that foundations are seeking to employ and develop. We look too at how foundations are altering internal structures to encourage more internal collaboration, and additionally at how foundations are conceiving and driving external funder-to-funder collaborations. The section concludes with insights on how foundations are making these myriad operating choices.

KEY OPERATING CAPABILITIES FINDINGS

Grant-making: Aspects of foundations' grant-making practice on occasion clashed with foundation leaders' ideas about how to optimally relate to grantees. Two examples of this were: typically short funding term lengths for organisations versus the long time interviewees anticipated it would take to see change happen on an issue area; and the problem of overly burdensome reporting obligations on partners. Adding value to grantees with non-financial assets was of interest across the grant-makers in the study however many raised caution that non-financial support is not always appreciated by grantees and that added-value grant-making needed to very carefully managed.

Endowment: The majority of foundations interviewed were not using their endowment to engage in impact investing, keeping charitable objectives and management of the endowment separate. However all foundation leaders were actively considering what the trend of impact investing might mean for their organisations. Key obstacles to developing impact investing include a lack of board and staff alignment on engaging in the area; and a sense that specialist skills or a new organisation might be required to develop the area. While few foundations were actively engaged in impact investing some foundations were using their pure commercial holdings to drive mission impacts: for example using their shareholdings in particular

businesses to question some commercial practices. None of the interviewed foundations adopted spend-down strategies; most sustain payout rates that aim to ensure perpetuity.

Non-financial assets: For many of the foundations finance was not perceived to be their most important asset. Foundations were articulating and deploying non-financial assets identified in five key additional areas: their people, skills, approach, tools and institutional properties. Foundations would deploy and cultivate these non-financial assets more sensitively if they perceive their financial weight as small relative to their national peers; the issue they are trying to address; or the institution they are trying to influence. While foundations support innovation and advocacy in third parties very few engaged in innovation practices internally or advocated directly for a cause from their own organisation.

People: Most foundations were increasing staffing in communications and measuring impact. They were professionalizing their teams and seeking a new profile of people with higher qualifications and with either generalist management or domain expertise. A foundation's mission refocus was often an augur of a shift in its strategic approach to staffing. The imperative to train and develop staff is clear due to the very long tenure foundation professionals have in their posts. While larger foundations were happy with their staff development programmes, foundations with under 25 staff felt less confident. Among all foundations however there was an absence of consensus on what it means to be a foundation professional in the 21st century. In particular, foundations' people strategies rarely appeared to be grappling directly with major digital and technology trends. One additional area of human capital that appeared under-invested in was trustee capacities, to support leadership to make often increasingly specialized decisions.

Internal collaboration: There were an array of divisions cited internally within foundations. Interviewees often voiced a clear separation between endowment colleagues and grant-giving and programming colleagues. Additionally programmatic divisional structure often drives internal siloes: this is particularly acute for those whose programmatic division is represented at board level. Intentional efforts to create cross-foundation ways of working could correct divisions. These include creating cross-programme opportunities to work together and staff Key Performance Indicators (KPIs) that incentivize collaboration.

External funder-to-funder collaborations: Collaborations were of significant interest in principle, but many voiced concerns on the time, investment and political dexterity needed to deliver them. Charter issues were critical to external collaborations, with board buy-in to collaboration described as an essential enabler of its success. While foundations were networking and knowledge sharing, more engaged coordination across the sector on specific and commonly cited sector problems was lacking (such as reporting burdens on partners), and discussion continued without concerted action. Collaboration that overcame Charter concerns appeared spurred by a sense of the enormity of a challenge.

Operating choices: Foundations were making a variety of operating choices. There was a general trend towards foundations focusing, and deploying disciplined strategy and problem-solving as central to their approach. A key area of reflection for many international development funders was geography; particularly the balance between a headquarters in Europe, and the need to be more present locally to deliver global funding.

ASSETS

Interviewees described the range of assets they were using to drive change, as well as some of the complexities and paradoxes of their use. Financial assets that were discussed specifically included grants, impact investing and spend-down strategies. Non-financial assets included: direct foundation Operating Capabilities such as team members, skills, and the foundation's institutional properties; and (for grant-makers) the added-value given to partners.

GRANTS

Even for tools with very established use such as grants there were tensions with Social Compact aspirations. Traditional funding length terms and reporting obligations in particular were voiced as occasionally jarring with what might better support issues. Part of this was the interaction between issues and organisations: one interviewee noted that while issues require a long-term funding commitment beyond six years, they were still using a "three-year funding cycle because we don't want to provide a disincentive to our grantees." Other foundations however were seeking to realign their funding and approach to partnership to be in tune with their beliefs about how long it takes to create social change. In one foundation's view, less than five years of work on an issue was a "relatively new programme." Another focusing on attitudinal change around Alzheimer's disease suggested the challenge "will take us at least ten years"; and another focused on systems change articulated goals in terms of generational shifts of twenty years.

An additional described tension between typical Operating Capabilities and Social Compact was between the level of funds given and the reporting requirements demanded. Some foundations had found that they were making the life of "grantees too difficult for the smaller grants in terms of an administrative burden." Another interviewee shared their sense that grant-making foundations often become a "shadow board" for charitable organisations, receiving more information on the charity's leadership than the charity's own board. In both the case of funding terms and reporting requirements, while there was awareness that these presented tensions between key domains of philanthropy action and some individual examples of foundations changing practice to answer them, the issues were sector-wide and currently there were few concrete actions that demonstrated a change in practice to solve them.

IMPACT INVESTING[†] AND SPEND DOWN

Few of the foundations interviewed were heavily engaged in impact investing and many maintained a traditional boundary between non-profit and for-profit activity. One stated, "we very, very specifically and explicitly abstain from [impact investing]... activities. We do not want to be seen even remotely that philanthropic activities are providing some kind of commercial benefit or financial gain." In this case there was a Charter conviction that clearly held that an Operating Capability of impact investing would not be suitable for the foundation in practice. For many foundations interviewed however the topic was one with which they were wrestling and for some was seen as one of the fundamental paradoxes of philanthropic work, generating clear "conflict... between our values and our income." One CEO described how unavoidable the question had become both in terms of actively seeking impacts through their investments and limiting negative impacts through ethical investment: "if you're an environmental funder but you don't worry about the environmental impact of your endowment...or you believe in ending poverty but you don't look at the social impacts of your investments - that is no longer an option." However the interviewee recognized the obstacles to change were major, since separating charitable objectives and the endowment are "just an accepted wisdom, and those are the hardest to shift. It is a truism we've...just accepted. People will have to think differently" in order for the common practice to change.

Where foundations have both staff and board agreement impact investing strategies were being developed. The Charter considerations appeared critical to enabling this new tool's use. For one young foundation, the CEO and the key board member concurred on a limited impact investing approach, and cultivated the area using 3% of the endowment. The approach entailed getting finance committee buy-in at board level through a specific committee for impact investing, and a programme officer who monitors the committee's findings. The foundation additionally plays a big role within the foundation sector in their country and felt it needed to an advocate for impact investing: "we have a responsibility to show smaller foundations that to have an impact and to be efficient, you need to combine and be coherent between your strategy and your implemented programmes." Here the foundation held a set of Charter ideas about its role in society and Social Compact, and thus engaged in and resourced the Operating Capability of impact investing as a result.

However for most other interviewees while they evinced an interest in better harnessing financial assets for social impact, they generally did little of it, and maintained a division between financial investment of the endowment and charitable purposes. There appeared two main reasons for this: a lack of board and staff alignment on engaging in the area; and a sense that specialist skills or a new organisation were required to develop the area.

In terms of board alignment some staff interviewed expressed an eagerness to explore impact investing; founders too – a minority of interviewees – included two who are interested and engaging in impact investing. However staff identified the reticence of their boards to embark on an impact investing agenda as a key brake to their being able to harness the tool. One experienced foundation commentator raised a note of caution in this board / staff dynamic, outlining that the gap between foundation leadership and board often became a cause of inac-

[†] Impact investing here is defined using the Global Impact Investing Network's (GIIN) definition: "Investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return." GIIN identifies the practice of impact investing as further defined by four other core characteristics: An investor's intention to have a positive social or environmental impact through investments is essential to impact investing; Impact investments are expected to generate a financial return on capital or, at minimum, a return of capital; Impact investments target financial returns that range from below market (sometimes called concessionary) to risk-adjusted market rate, and can be made across asset classes, including but not limited to cash equivalents, fixed income, venture capital, and private equity; and a hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance and progress of underlying investments, ensuring transparency and accountability while informing the practice of impact investing and building the field. (https://thegiin.org/impact-investing/need-to-know/)

tion: staff would suggest that a radical idea would not get past a board and thus self-censor; and a board would share that were they to be brought new ideas by the staff, that they would back them. Further work is needed to understand the internal foundation dynamics that enable the cultivation and use of impact investing as a tool. Clearly additionally, this board and staff dynamic could frustrate change within a foundation on multiple dimensions of philanthropy practice beyond simply impact investing: another core theme of research to develop would focus on how best to create open and challenging discussions between board and staff on all aspects of foundation practice.

Most interviewees expressed a lack of capacity in impact investing, often arguing that a separate institution was needed to embark on the area. As one put it, "we're not really set up for... [impact investing]. I think you would need a different organisation to do that; so you'd have to basically say 'alright from now on, this is what we are doing' and that hasn't been our choice." The strong implication here was that there might be an optimal operating model for impact investing but that the shape of the grant-making foundation was not it. Interestingly having an internal financial team was no predictor of impact investing; both those with and without in-house finance capacity had yet to engage with impact investing. Another interviewee had created an impact investing vehicle outside of their family foundation. This alternate vehicle was partly intended as a proof of concept that would support both professional advisors and foundation colleagues to see the business case for financial and social returns. This was described as an "instrument driven" approach differentiated from the "purpose driven" approach for the foundation. Should the impact investing vehicle prove successful it would then provide a compelling argument for the family's longer-term ambition that in the future foundation assets would be 100% impact invested. For others their entrance into the field was done in an incremental way, using a "pedagogical process" undertaking small areas of work and deepening learning.

For some foundations while impact investing was not a feature of their practice, they were comfortable with leveraging their shareholdings in commercial plays to drive impacts. A foundation that remains the largest shareholder in its origin bank has harnessed its shareholding to recruit banking staff volunteers and create a savings bank for people who are not yet participating in mainstream finance. The project not only saw more people gaining access to banking services, but also changed the volunteers from "tough gatekeepers of a retail bank" to a team interested in developing a mainstream service for the vulnerable. Other foundations were also using their commercial investments to engage with companies on their environmental, social and governance practices.

Although the study investigated the use of spend-down strategies (having a time-bound foundation rather than one set up for perpetuity), none of the selected foundations has adopted this; most sustain payout rates that aim to ensure perpetuity. An interesting topic for future research is to delve into how foundations in Europe plan their budgets, as a contrast the US where, for example, a minimum average annual payout of 5% of the endowment must be maintained by law.

DIRECT FOUNDATION CAPABILITIES

Some interviewees see finance as their most important asset, but the majority of interviewees articulated a range of other assets as critical to their work. These assets fit into two core categories: Assets core to the character of the foundation itself that can be directly committed to a cause or issue without intermediation by partners; and the added-value support and capacity building that could be given to charitable partners.

NON-FINANCIAL ASSETS THAT FOUNDATIONS ARTICULATED AS CRITICAL TO THEIR WORK

PEOPLE	Staff Networks	Convening Brokerage / Connecting	Board
SKILLS	Expertise Communications Advocacy	Problem-solving Experience Governance support	Capacity building Knowledge of the field
APPROACH	Flexibility Focus	Long-term thinking Deal-making	Time
TOOLS	Prizes Strategy	Competitions Strategic litigation	Platforms Space
INSTITUTIONAL PROPERTIES	Independence Endorsement	Brand / Reputation Visibility	Passion Trust

Figure 9. Non-financial assets deployed by foundations articulated by interviewees

Foundations included a range of non-financial aspects of their work as key assets in creating impact, detailed in Figure 9. Foundations are deploying capabilities from five key areas: Their people, skills, approach, tools and institutional properties. These are all essential factors that they are using to support their work. One interviewee stated that, for example, their role connecting people within their sector was as valuable to supporting their mission as the funding that they gave; others shared that publicly aligning their brand or reputation with an organisation or an issue could add significant value to a cause beyond the euro sum actually invested.

Philanthropy's small financial scale relative to business or government drove many foundation leaders to cultivate other assets to advance their work. One health funder for example described that each year they granted about 25 million euro in a specific area of their city on a single issue, health. This was however less than 1% of what the government spent in the area. Foundations have, "extremely little competitive advantage and influence when it comes to money... [We have to] maximize the usefulness of our other styles and attributes like independence, our long term view, flexibility, ability to convene and collaborate, and independence of voice." As one foundation put it, "we are a very small funder and a very small actor and when you are very small, you are obliged to be clever. You cannot change the world with a strengths that you have not got." This kind of thinking deeply shapes how people articulated their strengths. One foundation "barely" uses the term grant-making "because the money lubricates the strategy. We come to the table with ourselves and a number of other things, including a very big little black book which we use extensively, and one of our resources is money."

Size was in the eye of the beholder and could be a function of the foundation's perception of its significance: relative to its national peers; relative to the issue the foundation was trying to address; or relative to the institutions the foundation is trying to influence. One foundation shifted to an ambitious new goal around scaling impact and in-so-doing found itself working with partners whose financial resources were often far greater than their own. In order to add value in these new partnerships, it had to combine "financial resources... intellectual resources and... [its] network of people" in a new way. It had to learn to focus on leveraging and influencing the ways other used their money if it was going to achieve its new goals. Even for larger foundations, non-financial assets were suggested as the biggest contributor to social impact. One interviewee from a foundation investing about 70 million euros on operating and grant-making projects placed their financial capacities in third place, ranking their staff "in the first place... as our biggest treasure... and in second place, but not far behind, is our network of partners." Another foundation listed the network of committees that it worked with to decide on grants' allocation as "one of our big assets."
While foundations prided themselves on funding innovation and advocacy in third parties, few engaged in innovation or advocacy for their own part. Only one talked of harnessing technology trends such as open data, or transparency initiatives like 360Giving in their work. Another interviewee stated explicitly that while "technological advances are speeding up dramatically and the transition to business and organisation digital models is increasingly radical as well as urgent" that, "the digital transition of our organisation as a whole has been limited and... done on an ad hoc basis."

None spoke of being a direct advocate as a primary strength. Only one weighed it as an area of active engagement sharing that its initial responsibility to advocate emerged out of the organisation's size, sector focus and independence: in effect the foundation was given a seat at the table due to its influence and was developing an approach that supported it in understanding how best to harness the power of that seat. Few foundations followed suit, but many were weighing up the complexity of engaging in this area. One example given was considering how to act when the campaigning work its partners did not achieve success, and whether the foundation should plug that "advocacy gap" using its board and networks. As the Social Compact discussion on legitimacy and advocacy in this paper attests, this is a complex area for foundations to enter into relative to a foundations' (often) limited citizen representation. Another foundation was wrestling with the potential use of strategic communications or public affairs: Would it unlock advocacy for a cause directly? Or would it just be another cost? One of the observations made by funders was that direct advocacy from Donor-led foundations tended to come more easily than from givers with more institutional Charters. As they remarked, "you have a board of trustees, which is not a person, and therefore getting a collective view on what kind of risk you want to take and what kind of position you want to take, is much, much harder."

ADDED-VALUE GRANT-MAKING

For the grant-makers in the study there was certainly interest in giving more than grants to organisations. For those that identified themselves as harnessing a venture philanthropy approach their whole conception of philanthropic investment was focused on added value. One such foundation was started from the principle, "it's not like you have huge assets, but you have huge know-how and then you use your know-how on the projects." It was this know-how that was at the core

of the foundation's proposition, particularly their capacity to get their social investments to sustainability, and bring their business acumen to a social issue. Many other interviewees were also adding-value to their grant-making. They were using third party consultants and foundation staff to support grantees, particularly with governance support, strategic planning, and fundraising. In the UK this has sometimes been framed as "funding plus" – stopping short of a full venture philanthropy approach but adding organisational strengthening and capacity building with funds.[38]

Some foundation leaders voiced disquiet with funding–plus, noting that the non-financial aspects were not always appreciated by grantees and might interact with other important power dynamics. As one interviewee put it: "would I see it as a whole series of additional demands and conditions that are being placed on me along with the cheque?" One foundation reported that among grantee base: "the work we do beyond the grant-making was not entirely appreciated." Another also stepped back from the approach, feeling that "there wasn't really much evidence that it was adding a huge amount of value. I don't think we ran it very cleverly from our end and the take-up was quite patchy." Properly resourced however some foundations were very much its advocates. One said: "we do a lot of work with a lot of organisations and sometimes we give them money." For them this approach had been highly successful, but also "it's massively expensive and time consuming and requires an enormous amount of skill. We spend a quarter of what we spend on staffing and our work. That is the only way to do it well, and not everyone wants to pay that price, nor should they."

For some this whole approach of adding value to grantees was in tension with their understanding of engaging in systems change. In a powerful example of a Social Compact informing Operating Capabilities, one foundation actively stopped itself from "adding" more than intellectual support, brokerage, and allowing organisations and partnership to mature over time. "There is always this struggle to avoid taking the control of the partners. It's a permanent temptation. You think maybe that your thinking is better than theirs... But we cannot decide for our partners... It is our task to help progressive civil society, not to think in their place."

PEOPLE

New functions, new profiles

While there was a general preference to keep teams small, foundations generally were increasing capacities in communications and measuring impact – creating new roles to better drive both agendas. Communications capacity itself was related to impact: "it's about sharing... [our] expertise with other actors and with grantees." Standalone impact measurement departments were emerging too. According to one foundation which launched such a department in 2015, this ensures that every proposal has "a clear definition of the input, the output, the outcome and the impact expected." Another foundation has a newly-created strategic and internal communications department through which to both measure impact and develop communications. Additionally the majority of foundations described professionalizing their staff and seeking a new profile of people – with higher qualifications and generalist management or domain expertise, as is summarized in Figure 10. There were also attributes sought which seemed specific to foundations around shared values, interpersonal skills and a good understanding of family dynamics.

NEW FUNCTIONS SOUGHT	• Communications: media, social media, website, internal, strategic communications for mission / brand. • Strategy • Impact
NEW PROFILE OF PEOPLE	• Consultancy / generalists • Domain expertise

Figure 10. New functions and profiles sought

Interviewees articulated a shift from a dominance of administrators in their foundations to a growth in philanthropy professionals: both generalists (often from the private sector) or those with subject matter expertise. One interviewee shared that their previous CEO had spoken specifically to "raising the quality bar" on the foundation's people strategy and over the past ten years and since then had been set on doing so. Foundations' mission focus and change was a significant predictor of a shift in strategic approach to staffing. A foundation that became focused on scaling through government needed new capacities, in particular "people who can put together a deal with organisations that are bigger, more powerful than we are... And... another group of people whose strength lies in providing analytical support to these organisations once partnerships are established." The foundation also hired a new programme director who had been a government minister and as a result had both the expertise and legitimacy needed to engage senior public officials. This thrust to increase the capabilities of those that had been hired appeared to be reflected across interviewees.

One foundation of the 'generalist' type chose to staff with fewer, more qualified personnel, bringing on many from consultancy with 10-15 years of experience. They looked "for people who have the skills to analyse, to dig deep, to communicate well, who are able to think strategically." Another chose generalists over specialists because "specialists push their own paradigms in the field." One founder saw their employees as "investment managers" with the staff today positioning themselves not as "classic philanthropic administrators; but as managers and entrepreneurs." Other foundations took the 'expert' route. For one foundation's philanthropic work, "you wouldn't actually be able to do it unless you had a PhD in the relevant academic field." Another had moved their staff over ten years from being technical and administrative hires to people with, "five to ten years of content expertise in the field within which we want to operate."

Soft skills and cultural fit have become critical to foundation practice too, both in a family and non-family foundation context. One foundation was recruiting on values. Their people "value open trusting relationships that are capable of building empathy with all sorts of different types of people and organisations... These are people who want to put themselves at the service of others but simultaneously, they are people who have a capacity to critique and think systemically."

Developing people

A key theme of the study was the need to develop people at all levels. Often neglected in terms of development but critical to the foundation's work were the capabilities of the board members to take necessary decisions. As some foundations become more technical and focused, some board members feel they lack the requisite knowledge to inform their decision-making. One example is an environmental funder with a specialty in climate change whose funding decisions now entail very technical understanding of climate change policy. A new foundation in fact was borne out of an established foundation that felt the issue of climate change could be "better served if they made a new foundation with this as its sole focus" and a board led by climate experts. Intentional development of trustees appears to be an important and currently under-resourced area that could support better foundation practices.

The impetus and necessity to train at the top was reflected throughout foundations. This was particularly the case due to the longevity of staff tenure, often in the context of quite small teams. Some foundations were trying to create pathways in and out of their foundation, noting however that few had succeeded in moving people on. While some US foundations have term limits for programme directors and officers[39] that was not a practice identified in European interviews. Sometimes personnel had been in place more than twenty-five years; another CEO expects to hire and retain a colleague for twenty years. In this context, the impetus is strong to train and invest. As one foundation leader put it: "this is the army I am going to war with."

Large foundations with a staff above 25 were engaged in this area. One felt confident that it had significant training systems. Others were putting in place processes to improve their people management. One was rolling out a "competence assessment system" throughout 2016 to provide a comprehensive and objective view of the performance of each staff member in order to find the best training for them. The foundation was also developing a collaboration programme with foundations in other countries so that foundation staff could learn from one another across borders. Another was leveraging its international structure to drive training, cross-pollinating its programme-officer population by having each one pass through its most developed office every two years. It additionally brought other foundations and other businesses together through an annual conference on philanthropy. While the larger foundations were happy with their training programmes, many interviewees did not feel confident about their people development, particularly those with under 25 staff who tended not to do training in-house.

The kinds of skills foundations are seeking to develop vary widely. One foundation is actively "encouraging staff to behave as agents of change" encouraging all staff members to sit on boards or committees of non-profits. There are others for whom values and a faith base are embedded into hiring processes, and into induction and training programmes. Generally however, there was still an absence of consensus on what it means to be a foundation professional, and the building blocks needed to develop and cultivate talent in the sector. As one of the foundations observed: what are the key skills needed to be a 21st century grant-maker? Key deficits in the sector's knowledge appeared particularly stark around digital and technology trends. Foundations are now operating in a social sector disrupted by new communications tools like mobile and social media: for example myriad campaign movements are emerging on social media with no philanthropic support, challenging common notions of funding through partners to drive social change. One interviewee made the analogy that German boiler manufacturers are sending service engineers to Silicon Valley to learn digital as tomorrow's plumbers will need to be tech experts: they questioned what the foundation sector is doing for its people on digital, data and technology? These were not

themes that foundations appeared to be grappling with with the same urgency as other sectors.

INTERNAL COLLABORATION

Many foundations are wrestling with internal collaboration, principally due to programmatic divisional structure. This is particularly acute for foundations in which programmatic division is represented at board level. In effect particular board members sponsor specific programme areas and work in verticals down the foundation: this means working horizontally across programmes becomes more complex. "In some ways when we were smaller and we had less grants, perhaps there was more discussion between the various trustees. As we've evolved and got bigger and the programmes have developed, each trustee will see less of the other programme grants. So there's just so many more grants that we see less of the other programmes." Another foundation described the "entangled" levels of executive and board creating a sort of "federation of foundations inside." Another theme of division was that between staff who were managing the endowment and their grant-giving colleagues. Even interaction between the two groups was rare within some foundations.

Interviewees noted that it was only intentional efforts to create cross-foundation ways of working that could correct this. One foundation shifted from organising its staff into three different philanthropic tool domains – grant-making, implementing and communicating – to working cross-functionally around a problem in a matrix system: "these three original departments start to collaborate a lot more and are not seen as independent silos anymore. Our staff members changed the way we work and now it's a lot more of a collaboration between different teams working on the same topic." In a similar pattern another foundation initiated explicitly joint-programme areas to try and break down siloes. The foundation used the opportunity of working in a couple of new geographies to develop new integration across different programme areas – describing the practice as an "eye-opener" in terms of seeing how colleagues from the same foundation but different programme areas were working. Staff are also being incentivised to work together through Key Performance Indicators (KPIs). One interviewee described that "people are being assessed now on how much they're working outside of their team, outside their division and being asked to provide proof that they've made new relationships outside of their own area."

EXTERNAL FUNDER-TO-FUNDER COLLABORATION

All interviewees articulated a position in the foundation sector along a spectrum of isolation from sector colleagues through to deep collaboration and pooled funding with peers, as is detailed in Figure 11.

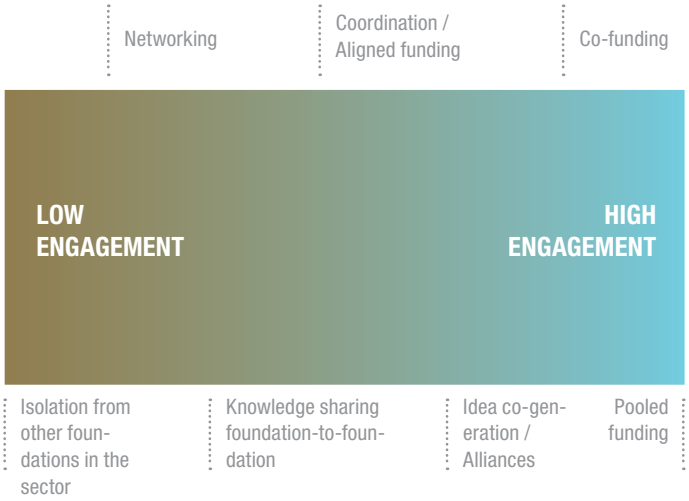

Figure 11. Spectrum of collaboration from low to high engagement

While foundations acknowledged that the principle of better and closer collaboration in the sector was important, they shared concerns about the reality of those collaborations. All identified the significant time and investment necessary to support successful collaborations, and additionally some of the political dynamics of their working: as one interviewee put it, "everyone wants to leverage, no one wants to be leveraged." For engaged funding collaborations "you're basically transferring some of your autonomy to a bigger platform with some common objectives," and for many foundations, that was a challenge too big to overcome. There was some concern not only of the time involved in crafting a collaboration, but additionally whether it would yield sufficient benefits or instead lead to foundation leaders subsuming their own variety of ideas into one that was potentially less potent, in order to create a harmonious collaboration. One example cited by a couple of interviewees was the high profile and expensive ClimateWorks collaboration on climate change in which significant sums of philanthropic capital from across multiple foundations was allocated with limited impacts. It was an effort described in its own evaluation as both "brilliant" and "an epic failure."[40] This potential for a negative group effect through collaboration led one participant to question whether diversity of action for foundations and non-collaboration

is more important because the philanthropy sector lacks the disciplining accountability of the market. This is an important question deserving of a deeper inquiry.

For those collaborations that were sought but went unrealised, it was Charter issues that were identified as the significant obstacle. Clashing governance approaches on occasion inhibited close-working: "you cannot do long term work with any surety when only two of you in the partnership know you're going to be there for a decade... That's where you get tension between senior staff in foundations and what their governance enables them to do. It's a show-stopper, frankly, for certain types of long-term work." However boards could be enablers too. One foundation that identifies itself as an inveterate collaborator does so at their founder's urging, attesting to the centrality of having board buy-in to drive collaboration. Staff were asked by the Chair, "how are we leveraging our money?" Collaboration was the staff's primary answer.

For all foundations understanding what the field and neighbouring foundations are doing on parallel issues is critical to understanding how and where their own foundation would act. One funder focused explicitly on doing "what other funders don't" describing themselves as "custodians" of the areas in which they funded. Another interviewee shared that they had "withdrawn from one field simply because it was practical - because there is another foundation that is very active in that field. But that was not something that we felt as a competition, but rather as the opportunity for us to then focus on other things." Whereas in the market competition might challenge an incumbent to deliver better service, in this case it appeared to catalyze reallocation of funds. Foundations were also networking with a long-term view. An interviewee cited cultivating relationships with a new philanthropy in an emerging market so that "maybe in two, three, four years' time when an opportunity comes up to partner we'll be ready to do that. But it does take time and it means continually keeping up the conversations till we are ready to do something together."

For many foundations particularly those with a strong Social Compact with grantees or beneficiaries the rarity of collaboration outside of simple networking and knowledge-sharing was a source of frustration. As a foundation leader pointed out, competitive organisations regularly collaborate through syndicated funds, and they are organisations that, "don't like each other, don't trust each other, and are highly competitive." The foundation world, in which trust, mutual respect and a shared public benefit purpose might be considered fundamental, ironically still struggles more than most sectors to formally collaborate, even when already funding some of the same organisations. This lack of collaboration extended to even quite straightforward issues such as grantee reporting burdens. A grantee could have multiple funders of the same project, all asking for different reporting requirements at different times. Simple coordination to create one report for all foundations would enable a grantee to spend more time with beneficiaries rather than tailoring reports to donors. However reporting coordination is very rare in practice. One interviewee spoke to their experience committing to a pledge on harmonised reporting. Shortly after signing the pledge the cluster of foundations that had created the uniform reporting structure started adding requests for further bespoke information from their grantees and the initiative dissipated. This is a clear area where better articulation of a Social Compact and the Operating Capabilities it implies might support stronger action by foundations to solve small but corrosive issues.

As with the deployment of non-financial assets generally collaboration that managed to overcome Charter concerns appeared spurred by a sense of the enormity of the challenge a foundation was facing. One foundation described their own pathway to collaboration thus: "when you have money [you think you] can just do it yourself and it's easier.... [the] money makes you arrogant... Then you learn that you can't change the world on your own. Over time and having learnt from your mistakes, you reach the conclusion that your voice and money is so small that you need to collaborate." Tackling a complex cross-stakeholder issue – homelessness – is what shifted one foundation into more active collaboration. It began partnering with two other foundations, a research group, and engaged the active participation from homeless people. The foundation identified itself as a "spider" at the centre of a web convening government and major business around its research and findings, and coordinating an approach and set of interventions that now a group of different funders are in pursuit of. The significance of the issue and interest in addressing it drove the foundation to adopt new configurations.

Formal, networked collaboration such as the concept of syndicated funds was relatively rare. On occasion deep collaborations were initiated by harnessing the Network of European Foundations platform.[41] A notable example referenced by interviewees is the pan-European issue of refugees and migration, with the European Programme for Integration and Migration cited by three foundations as essential for this purpose. For those that have entered more deeply into these explicitly co-funding relationships, there was a sense of the richness of those relationships going beyond the extra finance they brought. They increased foundation learning and also enabled access to "more critical voices in a positive way," which sup-

ported new guidance on how to build better work. It could be concluded, that at least for this small sample of foundations, there are some very real barriers to collaboration which are potentially creating inefficiency in the foundation sector.

OPERATING CHOICES

The sum of all of the different choices on Operating Capabilities – on the use of assets, staff and funding sector interaction – is a core contributor to the foundation's operating model discussed in the concluding section of this report. The choices made are shaped by the fundamental direction and intention of a foundation's leadership – their Charter considerations - as well as the beliefs around what kind of relationships the foundation seeks to have with broader society – their Social Compact.

Within this context it is useful to consider the full set of operating choices that foundations can consider making. RPA's original set of ideas on foundation operating choices articulated some key domains of consideration that foundations were making to shape their practice. In the US, foundations articulated the choices they were making around five categories: these domains are italicised in Figure 12. These comprised foundation approaches: to decision-making; resourcing; peer relationships; strategy; and programmes. European interviewees voiced multiple additions, also contained in Figure 12 and are non-italicised. The added domains include tolerance of risk, approach to issues, time constraints and other key themes.

Many interviewees dwelt on the complexity of making operating choices. As one interviewee noted, there were contrasting demands on foundations to be "simultaneously very nimble and adaptive while also taking a long term view of social change." Another interviewee echoed this dichotomy trying to strike a "balance and not become a foundation that's just driven by its KPIs," but also, "not wanting to be perceived as a foundation which just drifts." Across the interviews there was a general trend towards foundations driving more focus, disciplined strategy and problem-solving as central to their approach. A key area of reflection for many international development funders was the balance between a headquarters in Europe, and the need to be more present locally to deliver global funding.

DOMAIN	SPECTRUM OF DECISIONS	
DECISION-MAKING	Centralised	Decentralised
RESOURCING	Build (Initiate new institutions / run your own programme / hire your own team)	Buy (Invest in third party charities / consultants
PEER RELATIONSHIPS	Independent	Networked
STRATEGY	Creative / responsive	Disciplined
PROGRAMMES	Broad	Deep / focused / specialised
TOLERANCE FOR RISK	Risk averse	Risk-taking
SOURCING PARTNERSHIPS	Reactive	Proactive
APPROACH TO FUNDING	Many and small	Few and big
LENGTH OF FUNDING COMMITMENT	Short term	Long term
SIZE OF FUNDING COMMITMENT	Small	Large
STAFF NUMBERS	Low	High
USE OF ADVISORY BOARDS	Low	High
TIME CONSTRAINTS	Low	High
PLACE	Local	Remote
ISSUE APPROACH	Meeting a need	Problem solving
MANAGEMENT ENGAGEMENT	Low	High

Figure 12. Foundation considerations when shaping an organisation or programme

For many of the interviewees the idea of focusing on a specific community or issue is core to their understanding of effectiveness. As one put it: "We try to focus, focus, focus. If you're small you need to focus." For many of the much larger foundations this idea of focus was also core. One large foundation with 30 areas of programmatic work was set on "reducing the number of programmes, with the objective of allocating more resources to those that have a greater transformative impact." Another interviewee from a foundation of major scale with 11 programme areas and multiple geographies also identified more focus both geographically and programmatically as a key strategic imperative for the foundation. One however defined themselves against this trend. They felt that many foundations were moving to strategic grant-making and taking a more programmatic approach and that as a result there was a need for reactive and responsive giving to "unfashionable causes" that "reinforce... the fabric of communities."

For funders of international development the question of where to staff was a critical operating choice. One funder had articulated two very powerful non-financial assets at its disposal: long-term engagement with faith communities around the world and a global footprint of business interests and offices. The foundation realised that it could leverage both to be "more effective on a global scale" and start a new impact-focused chapter that combined with its prior values-led giving. Today the foundation is "present in places where we can see that the needs are greatest" and brings a new "strategic theme based structure" on top of its local gifts, that enable the foundation to realise its global and local vision. The need to have local networks as a development funder was echoed in other interviews. A foundation with main offices in two European cities had its international work enabled by maintaining "a network of several thousand, or even ten thousand, of alumni / partners / fellows / friends we could trust and we could rely on." Without these deep roots internationally development funders felt they were short of a key asset. One global funder with 90% of its staff in a European office stated that their lack of more local developing world offices felt a key impediment to hearing the "pulse" on the ground. As they put it, "you can't be a serious member of the development community and be in Mayfair."

OVERALL FRAMEWORK, OBSERVATIONS AND DYNAMICS FINDINGS

OVERALL FRAMEWORK OBSERVATIONS AND DYNAMICS INTRODUCTION AND KEY FINDINGS

For many interviewees the idea of framing and describing the whole foundation was an invaluable one. As the former sections have shown articulating the Charter, Social Compact and Operating Capabilities for a foundation and exploring the connections between them makes explicit areas of coherence and enabling relationships as well as areas of continuing conflict and tension.

In this final section we look at those connections between the three domains, the resulting shape of the foundation, and some specific themes that highlight the potential power of articulating philanthropic practice more explicitly. Firstly we look concretely at operating models: the sum of the decisions – both intentional and unintentional – that foundations are making to shape their work. What do the Charter, Social Compact and choices made on Operating Capabilities mean for the shape of a foundation and might there be metaphors that describe these approaches? Then we look at two significant contemporary dilemmas which foundations face that exhibit some of the tensions in the Theory of the Foundation framework in practice: risk and impact measurement. Finally we make conclusions about the Theory of the Foundation, and summarise the key insights garnered from this European study.

OVERALL FRAMEWORK OBSERVATIONS AND DYNAMICS KEY FINDINGS

Operating models: The concept of a foundation's Charter, Social Compact and Operating Capability choices aggregating to create an operating model did appear relevant and useful to European foundations. In the study the allocation of a foundation's Operating Capabilities appeared shaped by decisions around who they fundamentally were as a foundation – their Charter concerns – and the way they sought to relate to broader stakeholders – their Social Compact. Some illustrative and ascribed models include: a foundation deploying both a 'Benefactor' and 'Social problem solver' operating model; a 'Scaler' model; a 'Hub' model; and two 'Relational' funders. A useful and logical extension of the idea of operating models may be to tie them to specific impact goals, and particular theories of change.

Risk: Many foundations described themselves as 'risk-taking.' Risk was often articulated as core to a foundation's work and Charter and yet there were few examples of foundations unpacking the term's meaning across programmes, governance, reputation and staff. Additionally there were few examples of foundations that had developed Operating Capabilities that actually incentivized risk, and accepted the concomitant failures that come with a risk-taking approach. One foundation has developed a response to this problem creating a risk matrix shared with all staff to support improved understanding of where taking risks was the ambition, and thus encouraging appropriate levels of failure.

Whole foundation impact: Creating impact was expressed as a core Charter ambition for many of the foundations and yet practical execution across the Operating Capabilities or Social Compact of the foundation was often not consistent with that ambition. All foundations were endeavouring to measure impacts at the grants or project level, with a few measuring programmatic impacts. Few however had taken those evaluations further, for example comparing across programme areas, or creating an assessment of whole foundation performance that fully incorporated their Social Compact, Charter and Operating Capabilities. Three foundations had embarked on creating a whole foundation approach: One was taking a data and systems approach, building up their Operating Capabilities to create new measurement systems. Another took a Charter approach to measurement by embedding core family values into the work whose impact they were evaluating. A final foundation was developing a Social Compact approach to measurement, focused on detailing not only how they had embarked on their work and what they had learned, but additionally what kind of relationships they had created in and with their sector, to understand how they were performing as an organisation.

The Theory of the Foundation Framework as a whole: While on occasion the labeling of the tripartite framework of Charter, Social Compact and Operating Capabilities was not intuitive for non-US audiences, the ideas that sit behind each of the three domains were highly relevant to all of the interviewees that participated in the study. The three core domains – fundamental governance, the foundation's relationship to society, and how the foundation then executes within the constraints of its governance and societal expectations – were useful and valuable for those interviewed.

Areas of coherence in foundation practice: Across the study there were areas of foundation practice that were enabled by other aspects of their work, with the interplay between Charter, Social Compact and Operating Capabilities accelerating foundation achievement. Examples included: new data capabilities that enabled more strategic decision-making; a closely held sense of the importance of the beneficiary, shaping and redefining how a foundation delivered its work; and how new tools of philanthropy could be developed through board engagement.

Areas of conflict in foundation practice: There were also areas of practice where foundations might have a stated ambition in one domain checked by a conflicting aspect elsewhere in the foundation. Examples include: foundations developing new Social Compacts with grantees and the sector pledging to drive systems change that have yet to alter practices at the board level to best support that ambition; an interest in scaling funded innovation through government, but as yet not the fully resourced Operating Capabilities to meet that ambition; operating practices around reporting that conflicted with an active Social Compact that wanted to enable partners to get on with their work; and an expressed Social Compact interest in funder-to-funder collaboration that was stymied in practice by Charter processes.

Continuing the discussion: Currently whole foundation discussions, that include values as well as performance, and capabilities as well as governance, are still too rare. The Theory of the Foundation European Initiative demonstrated that there is value in further stimulation of these discussions: articulating unspoken assumptions, realizing tensions and enablers of philanthropic practice and developing resources that might support foundations to continue to develop and improve their practice. Future fruitful lines of inquiry are included in the study's appendix.

OPERATING MODELS

A shape of a foundation is, logically, the sum of all the choices the organisation makes on their Charter, Social Compact and Operating Capabilities. In the study the choices foundations made around their Operating Capabilities appear secondary to their determination of who they were and the difference they sought to make in the world: their Charter and Social Compact. Additionally, while hypothetically all of these shaping choices could be made intentionally, this level of rationality is rarely seen in practice: many foundations struggled to articulate a model for their work. Foundation leaders certainly have scope to shape parts of their organisation – such as programme areas – or restructure an existing whole foundation, but seldom (beyond at their founding) have the opportunity to develop new models of working in their entirety. However in the context of this absence of intentionality interviewees were seeking more information on potential models that they could take, and ex-

pressed a desire to have a greater intentionality of practice. In this case the idea of articulating and outlining operating models appeared to be welcomed by participating interviewees.

The original US work lead by RPA posed some descriptors for what the summed choices on Charter, Social Compact and Operating Capabilities could create. Using an adapted version of the Business Model Canvas[42] RPA created some hypothetical types of potential operating models that a foundation might adopt. These included: A talent agency; a think tank; a property developer (weaving together different functions to create a new initiative); a campaign manager; a field builder; and a discovery foundation.

During the European interviews foundations leaders were asked to describe their operating model or cite organisational inspirations that they had chosen to help shape their foundations. Few of the foundations commented deeply on the question, and thus ascribing types to all participants and categorizing them into RPA's established five categories was not possible. However listening to foundation responses and in turn responding creatively to those answers, we can tentatively suggest five further model types to add to RPA's established list. These new model additions were those that emerged most clearly from the interviews as presented. Additionally they appear to have the most use generally for the foundation sector as they manifest traits that many foundations are seeking to deploy in their own practice. The examples include one foundation whose model had two sides to it: A 'Benefactor' legacy model that reflects the historic choices of the foundation and the 'Social problem solver' that has emerged as part of a new chapter of work. A second example included is described as the 'Scaler': a foundation whose choices are clearly focused on a new goal to scale two selected interventions and invest in its field. A third is a 'Hub' model that explicitly seeks to stay small but convenes experts around it to augment its decision-making. Finally two models are shared that orient very specifically to the communities that the foundations serve, described here as 'Relational' funders. Below we describe these examples in greater depth.

THE 'BENEFACTOR' AND 'SOCIAL PROBLEM SOLVER'

The first foundation model had two sides: the 'Benefactor' model of "giving back" which it did through scholarship programmes and funding major capital projects; and another side of the foundation that was intent on "playing a role in addressing social problems." The 'Benefactor' model is rooted in historic Charter considerations: the foundation's founders sought to give back within their country in thanks for their successful business life. While the founders are now deceased this part of the foundation's work continues: the programme area is highly structured, with key deadlines and a process driven approach that is largely conducted by those of an administrative background. The 'Social problem solver' part of the foundation emerges from a new set of Charter and Social Compact considerations: a next generation donor stepping into the foundation wanting to play a different role in effecting social change in an altered social context. Instead of scholarships and capital projects, this side of the foundation was funding and growing organisations: to do so required a different set of operating skills from the 'Benefactor' side of the foundation. "We have to be skilful because we have to create new things all the time, evaluate what worked, see what we need to change and add to what is already happening. As a result of this approach we are constantly changing. It is an ongoing brainstorming process." This duality of focus within the same foundation was quite common in the study, particularly for those that hosted separate programmes that over time would develop distinct and programmatic internal cultures and operating models. It is an example that shows how a Charter consideration can shape an organisation, and far beyond a founder's death.

THE 'SCALER'

The 'Scaler' foundation was undertaking one of the more active reshapes of its work in the context of the other foundations in the study. Its thematic focus was in-step with the founder's area of interest but its now Open legacy type and engagement from the board gave the foundation latitude to create a new approach. This focus was on a target to scale two innovations with Operating Capabilities reoriented to meet the goal. New people were recruited who excelled in "structuring partnerships" with government aimed at achieving greater scale impact. More senior staff were located in other countries instead of in their "headquarters so they could more easily build relationships with key partners." The internal structure of the foundation was also significantly altered to meet the new goals with the CEO including the directors of the two core teams (strategic partnerships, grant-making and advocacy team; and the research and evaluation, communications and subject matter team) in decision-making processes relevant to each other's departments. The foundation also wanted to deepen the depth and breadth of its subject matter expertise to be able to provide more and better knowledge inputs to its partnerships. In the service of this it set up a network of pre-vetted experts who the foundation could pay for short assignments enabling the foundation to assemble a "custom team of experts quickly and then have them work directly with our core staff and strategic partners."

THE 'HUB'

In another foundation, the structure of the organisation had been built around both the funders' expertise and passion, and their operating needs: they had limited time and wished not to build up a large in-house team. The Donor-led organisation was shaped to meet both those needs: a Charter desire to stay small but focused on key issues and a strong Social Compact that sought to create significant impacts and strong partners. Operating Capabilities were deployed in the service of these objectives. The foundation could be described as a 'Hub,' an operating form that kept a small staff, and made large grants to "eminent institutions... allowing them to be the host / flow-through vehicle for money that flows to small NGOs worldwide." It also meant that the foundation's decision-making quality was augmented by some of the top expertise in the world. The foundation articulated its approach clearly: "we don't accept applications. We give multi-year grants. We give generous overheads, or indirect costs. We build long-term relationships: we have relationships that may run for 10/20... possibly to 40 years. We give few grants and large grants." The foundation was driving significant impacts, anchored in a clearly articulated Charter that counter-balanced the funders' limited time and small team by including some of the world's experts as key decision-makers on the allocation of capital.

THE 'RELATIONAL' FUNDERS

For two foundations Social Compact considerations were uppermost in import to their approach and they had profoundly reoriented their systems to be fit to the communities they serve. They are described here as 'Relational' funders. Both organisations sought to model the expectations they had of changing the world in the internal functioning of the foundations themselves. As one interviewee put it, "we wouldn't ask a charity to do something that we don't already do ourselves which I think grant-makers should have as a rule." The foundation had "changed from being a passive, reactive grant-maker to actually a delivery agent. We're employing people from within the community; they're community activists and agents for change. We're supporting them. We're linking them with other people. We're training them." Another interviewee saw a direct line of accountability and connection between the vulnerable people it hoped to reach and the way it behaves, seeking to create trusting relationships within and outside the foundation because "we think that in an interdependent system, if you're going to foster and generate trust at the level of [the vulnerable beneficiary you are trying to reach]... then it needs to run through the entire system. Our hypothesis is that you can't have a system which is transactional and contract driven and target driven at one end, and somehow gives rise to flexible trusting open relationships at the other end - it just doesn't compute." They therefore manifested this approach as far as possible within the foundation itself. The Operating Capabilities of both these foundations were tilted towards the set of relationships they sought to have in society.

One foundation felt that a useful and logical extension of the idea of operating models was to tie them to specific impact goals and particular theories of change. The power of this would be to understand whether there could be an operating model optimally suited to addressing a specific social problem: for example hypothetically would a climate change funder be best to organise as a 'Field builder', or an arts funder be best to organise as an 'Institution builder'? Articulating and codifying operating model approaches in this way would serve two functions: firstly as an internal discussion tool to organise a foundation's internal structures to optimise for a particular social goal's delivery, and secondly a useful discussion tool to broker external collaborations. Obtaining further detail on this question is beyond the scope of this report but certainly gives good direction for future research in this area.

RISK AND IMPACT MEASUREMENT AS EXAMPLES OF WHOLE FOUNDATION DYNAMICS

Two themes that cut across the majority of the interviews and have specific relevance to all three domains of the Theory of the Foundation – Charter, Social Compact and Operating Capabilities – were risk and impact measurement. Many foundations described themselves as 'risk-taking' and / or 'impact oriented.' These were expressed as core Charter ambitions and yet in each case frequently their practical execution across the foundation was not consistent with their ambition. Below we explore how risk, risk-taking and failure are approached within the Charter and Operating Capabilities of a foundation; and also consider performance evaluation, and how the majority of foundations appear still to struggle to find a language for evaluating the organisation as a whole.

RISK

At the Charter level many foundations described taking a risk-taking approach to their charitable activities. For most this risk was innate to philanthropy: it was deeply tied to the sense that philanthropy's proper role is to innovate. As one interviewee put it, "a foundation ought to be using its resources

to look to new horizons, to experiment, to try out new things and to offer working models that others can take on." Another shared, "taking risks which other organisations are not able to... is one of our key values." And yet within this context where risk was understood to be so core to a foundation's impact there were few examples of foundations unpacking the term. Clearly some risks are never good, such as issues around child protection or risks to beneficiaries and staff: these sorts of risks were attended to by foundations. But risk was also identified with backing "new models... new ideas,... new thinking" as well as relating to doing unpopular things or investing in unfashionable causes. Risk was welcome it appeared, often because it was used as shorthand for risk and opportunity. As one interviewee expressed, risk and grant size are not directly equated, and a foundation's smallest grant could be its biggest risk because, for example, it might potentially put a foundation at odds with public opinion. Additionally from a financial perspective, while a small grant sounds like no risk at all because it would deploy so little resource, the opportunity of developing something as yet untested was that it might yield some unexpected, unknown and beneficial result. This absence of a clear understanding of what risk means is not a new issue. Diana Leat attested in 2005 that, "foundations may see themselves as risk-takers but are not always clear or consistent about what this means."[43]

With the rationale of a whole foundation approach, being a 'risk-taking foundation' in a foundation's Charter would have implications for Operating Capabilities, for example around supporting staff to take an appropriate amount of risk in their work, and additionally to develop systems that would manage risk appropriately. However few foundations had developed systems that actually incentivized risk, and accepted the concomitant failures that come with a risk-taking approach. One foundation that had identified that it needed risk-takers recognized the lack of that culture in their foundation. When they asked colleagues about who had faced challenges in their programmes, no one came forward to say they'd failed. For another foundation, key capacities on risk needed to be built as higher sign-off levels for grant-making were devolved to programme officers, and a new era of impact measurement was being introduced. In effect the foundation was asking staff to take greater ownership of the full extent of the decisions they make, and be judged on these much more clearly through impact measurement. One leader's concern was that these dual themes would make people more risk averse – however the foundation had not yet created any explicit cross-foundation actions to mitigate this likely outcome.

One foundation had been thinking carefully about a whole-foundation approach to risk and additionally the systems and process that the foundation needed to cultivate to sit behind it. The CEO's insight was that while the foundation had rhetoric around encouraging risk, it did not properly support colleagues in understanding what that meant in practice. It therefore created a risk matrix shared with all staff containing a red, amber, and green rating system so the foundation could distinguish certain areas where high risk was the ambition, and thus the tolerance of potential failures was high. This approach was taken across funding portfolio, investments, governance and reputation, enabling better definition of whether the risk wanted by the foundation was being met by its systems. The very simple framework would allow the foundation to have a shared understanding of what risk meant to them and to play around with different risk scenarios. Ultimately this framework was intended to be linked to performance, with the ambition too for it to be externally audited. This thorough and systematic approach to risk management that helped both to incentivize risk-taking as well as to reduce unnecessary risks was the only example described in the study. It seemed a good example of a foundation leader taking a Charter concern on risk and developing an Operating Capability that would enable that aspiration to be met.

MEASURING PERFORMANCE

Performance measurement also highlighted foundations' continuing struggles to weave together the separate domains of their work and be consistent across them. Many of the foundations describe themselves as seeking to create impact in the world but lack the capacity to judge whether they are doing so. For a commercial business, success is easier to monitor and the metrics of profit or shareholder value enable comparison across industry. But for foundations performance and their effectiveness in achieving that performance is much harder to measure. For one interviewee the answer to, "have you been successful this year?" was, frankly, "I have no idea. How could you?" Noted philanthropy academic Helmut Anheier has argued that "simple notions of 'success' and 'failure' may not be relevant concepts for assessing performance at all" for foundations, as they face the challenge of ambiguity that seems inherent in relation to the chosen role of foundation work for example, "working towards uncertain outcomes; starting rather than completing activities towards a desired goal; building bridges between otherwise unconnected or distrusting constituencies, or creating space for diverse parties to convene or discordant voices to be heard."[44] Bearing in mind Anheier's caveat there remained a shared sense amoung interviewees of the importance of understanding if their organisations were doing

as well as they could to achieve their goals, and whether their choices were resulting in continuous improvements in performance. Developing a shared understanding of what progress and performance is for the foundation sector and frameworks that might enable making judgment and comparison across organisations feels a particularly important absence that the sector might seek to fill.

All those interviewed are grappling with impact measurement at the grants or project level and had developed Operating Capabilities that enabled measurement. At the programmatic level some foundations were measuring their own impacts, assessing if they had achieved their own goals through their work: one for example clustered projects on a set theme and did a five-year review to understand how this activity had contributed to an overall goal. Few however had taken those evaluations further, for example comparing across programme areas and discussing the opportunity costs of investing in one programme over and above another, or creating a framework or assessment of whole foundation performance that fully incorporated their Social Compact, Charter and Operating Capabilities.

The relevance of each of the Theory of the Foundation domains is indicated in foundations' articulation of how they understand success. A discussion on opportunity cost revealed how critical Charter concerns are for a foundation's sense of its own effectiveness. While hypothetically it might be more efficient for a foundation to be invested in one programme area in order to obtain a deep knowledge on the topic, in practice some Charter considerations ruled out that conception of procedural effectiveness. For two foundations programme areas were a reflection of the donors' respective interests: in effect they are subject areas that represent a board member's passion. In that case one programme area would not receive less investment than another based on metrics of portfolio performance. Effectiveness here would be the foundation optimizing its resources to meet each of its programme areas individually rather than optimizing its resources as a whole. Another interviewee simply did not conceive comparing programmatic performance to be the role of their foundation: "we don't put the programme areas on a scale and try to balance them. We are motivated basically by a very fundamental principle, which is: is the organisation good? Is it doing good work? Are the people who are running the organisation ethical and good people? And that's how we start." When considering how to understand foundation effectiveness we need to create a framework that allows for these Charter considerations. Foundations are both organisations of private action and public good: In this study, for certain foundations, the private or individual satisfaction in delivering foundation work was often as critical to the successful functioning of the organisations as meeting and addressing societal considerations.

For others the absence of cross-programme comparison was not because of Charter irrelevance, but because of Operating Capabilities complexity. Many shared how difficult it is to compare 'apples and pears.' One foundation was investing in gay rights in the developing world, in civil society independence, and in the arts. It rejected ideas around framing them collectively: "If you were going to say, 'let's have a common framework', I think you would end up with something reductive and simplistic." Others think about their performance in terms of their Social Compact, with one taking stakeholder acknowledgement as its understanding of success: "my board seems to be satisfied with the projects.... the general public is satisfied. We have lots of praise from the press and from individual people for what we are doing, but....[beyond that measurement] must remain intuitive."

However in the midst of this multitude of approaches most interviewees were troubled by the lack of consistency and ambiguity in the area of measuring performance. As one foundation leader shared, while we can prevaricate and say that impact is hard and the social sector is different, are we, "hiding behind the idea of flexibility and adaptability, when instead we need hard and fast answers, like how do we judge ourselves?" Three foundations described different responses to this challenge. One was taking a data and systems approach – building up their Operating Capabilities to create new measurement systems. Another took a Charter approach to measurement by embedding core family values into the work whose impact they were evaluating. A final foundation was developing a Social Compact approach to measurement, focused on detailing not only how they had embarked on their work and what they had learned, but additionally what kind of relationships they had created in and with their sector, to understand how they were performing as an organisation.

OPERATING CAPABILITIES APPROACH TO IMPACT

One foundation started their work in whole foundation measurement by improving information and analytics internally. The first step was to track and code their 1000 grants so that the organisation could treat the work as a portfolio and analyse the trends or gaps. Coding details included: outcomes, priorities, beneficiaries, amount, duration, type, restricted/unrestricted funding. The second step was to aggregate the information into performance insight. To do this they introduced a tripartite framework for judging: foundation performance; the performance of the organisations that they fund;

and the effectiveness of their collaborative working. The performance was appraised at the end of the grant based on a structured conversation with the grantee. Dependent on the answers the grant would then be rated A-D. Putting in place these data systems has enabled the foundation to have new more strategic discussions. Now the foundation can assess how the policy environment interplays with its portfolio and raise more straightforward opportunity cost questions about where they might want to invest more or less within the foundation.

CHARTER APPROACH TO IMPACT

Another foundation was combining impact and values as it sought to describe its relationship to systems change, social change and fold learning from impact measurement back into the organisation to enable continuous improvement. The framework started at the three core values that the family foundation board had described as critical to their philanthropic practice. The foundation leadership had then created an evaluative approach that could assess if it was accelerating those values in society. The foundation aimed to achieve systemic change; through that, social change; and in that process look for new knowledge that the foundation could accelerate that would lead to better societies based on those values the family had articulated. One of the tools the foundation used to understand the systemic change aspect of the framework was screening its grants portfolio allocation through a McKinsey framework to understanding whether it was investing on aggregate in high impact theories of change.[45]

SOCIAL COMPACT APPROACH TO IMPACT

One foundation highly geared to its Social Compact aimed to create a learning organisation with trusted relationships rather than measure a journey towards a pre-specified goal. As they put it, "it is the imposition of present understandings of success that have acted perversely within these complex environments and skewed people's behaviours towards fairly linear understanding of success and away from being able to operate across the whole." The foundation presented a full and complex picture of its impacts to its board to identify, "what's been borne out by our actions… what's not borne out… unexpected evidence that came through… [and areas] where we've changed our mind." For the foundation this might be a less crisp way of exploring impacts than other more metric-driven approaches, but ultimately it was a more meaningful way of judging progress. The foundation did push itself to use some hard numbers even within this ambiguity, particularly around the networks and relationships it had built. The quality of these networks and relationships appeared as critical to the foundation's conception of long term success as the short-term outcomes of the funds transacted.

Each of these approaches, manifesting a different emphasis of Theory of the Foundation domains, gives illustrative examples of what a broader evaluative framework for foundations would need to incorporate. It demonstrates how critical each part of the framework is to foundations' conceptions of their own effectiveness. Foundations want to achieve impact by delivering against their founders' wishes and values – their Charter concerns; they also seek to understand the strength of their own decision-making through enhanced Operating Capabilities; and additionally want to create impact in third party organisations and create relationships and networks through their Social Compact that themselves are impactful. Each of the domain practices evidenced in these approaches to measurement would need to be included in any sector-wide framework that would aspire to encapsulate the value and uniqueness of the foundation as an organisational type.

CONCLUSION

Across the Theory of the Foundation European Initiative, participating interviewees and those who joined workshops contributed important ideas about, and articulated challenges on, the European foundation as a whole. The study enabled participants to bring to the surface issues that, regardless of nationality and cultural roots, all foundations faced. While on occasion the labelling of the tripartite framework of Charter, Social Compact and Operating Capabilities was not intuitive, the ideas that sit behind each of the three domains were highly relevant. The three core domains – fundamental governance, the foundation's relationship to society, and how the foundation then executes within the constraints of its governance and societal expectations – were relevant and valuable for all those interviewed.

Part of the power of the project was to make visible what often goes unseen in foundation practice. While the sector commonly discusses the outward achievements of its practice - the grants it makes or the programmes it leads - enablers and brakes of that work are often located elsewhere: the governance that allows for a new impact investing strategy to take off; or the absence of a risk capability in staff that stymies the capacity of a foundation to undertake more daring programming. Throughout the study examples of both these enablers and brakes on practice were present.

Often a foundation practice in one area appeared enabled by other aspects of its work. These are areas of coherence in foundation practice, where a stated foundation objective is met by other aspects of practice, enabling the foundation to better achieve the goals it sets for itself.

* Interviews demonstrated how an interest in becoming a more strategic organisation and board at Charter level was enabled by new Operating Capabilities in accounting for and describing impact. Different discussions could be had at board level by using different dashboards and data capabilities.
* There were powerful examples of how foundations were identifying their Social Compact and in turn altering Operating Capabilities to meet their accountabilities. Some of those who expressed a commitment to place, grantees, beneficiaries or family often had altered practices to respond to that stakeholder group's needs.
* Where foundations have both staff and board commitment to deploy impact investing as a tool, impact investing strategies were being developed. The Charter considerations appeared critical to enabling this tool's use and the suitable resourcing of Operating Capabilities to engage fully in the area.
* Meeting a Charter ambition to be risk-taking could be delivered against by creating Operating Capabilities such as a risk matrix, to generate a consensus internally of what suitable risk is for governance, reputation, grant-making and beyond and then creating systems to appropriately incentivize it.

The study also revealed existing tensions for some foundations between domains. There were areas where foundations might have a stated ambition checked by a conflicting aspect elsewhere in the foundation.

* Some foundations are developing new Social Compacts with grantees and the sector pledging to drive systems change. At the Charter level however decision-making may not have shifted to fully support this revised Social Compact. Instead it may continue to be overly focused on operational issues such as signing off grants, rather than on more strategic discussions around systems change. It appears that, were the board supported or resourced differently to transition to making more strategic decisions, this would be a stated intent that could then be better met by the board.
* As fiscal retrenchment and the withdrawal of the state changes philanthropy's relationship with governments, funded innovations appear to be obtaining less traction with government as a partner in scale. One obstacle to this might be the resourcing of Operating Capabilities on the foundation side. Some foundations that are seeking to scale through government have reoriented their Operating Capabilities to meet that aim. A clearer articulation of the requisite capabilities to support government scaling of philanthropic projects might see a greater number succeed in practice.
* Within Operating Capabilities there were approaches to deploying assets that on occasion conflicted with known Social Compact commitments. An example of this was reporting obligations for foundation grantees and partners. While grantees or partners drafting multiple reports on the same activity for individual foundations was understood by many to be an unnecessary burden, the practice persisted. Perhaps a stronger articulation of the Social Compact, i.e. describing why addressing the issue was important, and development of sufficient internal capability such as a key staff person to drive reporting coordination across the foundation sector could help address this problem, which is felt broadly across the philanthropy sector.
* External funder-to-funder collaborations were often predicated on foundations having compatible Social Compacts and Charters. When funder collaborations worked it was at the urging of board members, and usually where collaborating foundations felt a resonance in values and approach. For those collaborations that would have been desirable but went unrealised, it was Charter issues that were cited by interviewees as the primary obstacle.

The study showed consistently that clear connections exist between the three domains, with each domain acting as a significant influence on the other and thus on foundation performance. Where enabling activities across two or three domains were in evidence, there was coherence between what a foundation wanted to achieve and what it was achieving and ambitions took flight. Where conflicts appeared between domains, a foundation struggled to achieve its objectives with the same clarity and ease. In many of these conflicts it appeared that with a clearer articulation of an ambition's importance, and a full understanding of the implications for all domains of foundation practice, an organisation could fix the problem. In other cases while that conflict might not be resolved in the immediate, it could at least be a paradox or tension made explicit, with awareness enabling its potential resolution in the longer term.

There is plenty of work still to be done on the themes covered in this report. Further insight and resources are needed to understand the full implications of a whole foundation approach, and crucially, more work with foundations individually

in practice. Future fruitful lines of inquiry are contained in the appendix. Nevertheless, what is clear from this project is that whole foundation discussions are enormously valuable for foundations: taking the time be self-reflective and self-critical on practices within and beyond the organisation appears to be an essential component to improving sector performance. Discussions that include values as well as performance, and capabilities as well as governance, are still too rare. The Theory of the Foundation European Initiative demonstrated that there is value in further stimulation of these explorations: articulating unspoken assumptions, realizing tensions and enablers of philanthropic practice, and creating resources that might support foundations to continue to develop and improve their practice.

APPENDIX

FUTURE DIRECTIONS FOR INSIGHT AND LEARNING

The Theory of the Foundation project has identified important and useful insights for European foundations, and highlights interesting practices developed by the foundation community. It additionally raises many questions and challenges that the foundation sector may further explore in each domain.

CHARTER AREAS TO EXPLORE

One area that could be developed would to take the Charter legacy type (Donor-led, Stewarded, Founder-connected, Open) and combine that with other aspects of the Charter such as origin of funds (family foundation, public foundation and corporate foundation) to understand if there are useful commonalities within sub-categories that might allow for the sharing of practices among like-foundations in Europe, particularly around governance approaches.

For the foundations in this study there was a wide variation in approaches to board governance, including differences in volume of meetings, trustee training, meeting length and agenda, delegation and sign-off levels, tasks and discussion at board level, and board and staff connectivity. It would be interesting to map this variety and relate it to origin of funds and legacy type. This could help foundation leaders understand the options available to them as they consider how to refresh or reinvigorate their governance, and be a source of inspiration on an array of different practices that a board could adopt to help with their work.

An additional area of interest would be to understand if foundations established by living donors will have enduring or non-enduring Charters. In this study some of the Donor-led foundations expressed that their foundations would have unspecified Charters for the future: subsequent generations would be free to define the emphasis of the foundation, and indeed have the latitude to be involved or not. This appears to be a shift from former practice, and if such a shift could be considered a more widespread trend it would be useful to explore further how it might inform and change philanthropy practice in the longer term.

As many foundation boards are seeking to move towards becoming more strategic, a clear guide to support leaders intent on moving board discussion in this direction could be invaluable. The guide might contain deeper case studies on those who have made the transition alongside explorations of the data systems, types and agendas of meetings, and sign-off levels that are concomitant with this new approach.

As a final note on Charters, there were some indications that foundations were placing different weight on different aspects of the framework: some organisations could be described as internally Charter dominated, and some more outwardly facing Social Compact dominated. In short this meant that there was a centre of gravity to one specific domain, and that concerns in that domain to some extent over-rode those of another. It would be interesting to test this hypothesis with greater rigor and understand its implications for practice.

SOCIAL COMPACT AREAS TO EXPLORE

For the Social Compact area of work there appears a significant potential power in articulating stakeholder accountabilities and then understanding the Operating Capabilities and Charter that best serve that accountability. Examples of foundations in the study demonstrated that shifts in practice can support better meeting the needs of a specified stakeholder. Building on the examples in this report, models could be developed of Operating Capabilities and Charters that best serve specific stakeholder groups so that the foundations can benchmark themselves on how they are meeting stakeholder groups' needs in practice.

With regard to legitimacy, the foundation sector could develop its understanding of the different means through which to ensure that a broader public is engaged and aware of foundation practices while maintaining their focus and commitment to their own missions. The general public may not be a key articulated stakeholder for many foundations, but it is to the whole sector's benefit that these institutions are valued by the public, rather than treated with scepticism. Understanding helpful practices - for example specific aspects of transparency and communications, or engaging with networks outside the foundation itself – could support the sector's value in a political context of scepticism. A deeper standalone resource in this area would outline the different ways in which foundations can systematically integrate external stakeholder perspectives into their work and ensure practice is adequately in-step with external expectations.

When discussing government relations interviewees signalled a new reality in the boundaries that their governments were drawing in terms of service delivery. The question of government / foundation relationships in this new context, and its implications for philanthropy and its role as an experimenter and incubator of innovation, would certainly be worth deeper exploration. An additional area of interest is alternative organisational types that could scale philanthropic innovation. If philanthropy is to maintain its role as risk capital, understanding alternative exits and routes to scale and how to manage them would be an important contribution to the sector.

OPERATING CAPABILITIES AREAS TO EXPLORE

For Operating Capabilities there are many lines of future inquiry that could be useful for philanthropic practice.

One clear area deserving of further attention is the development of impact investing as a tool. In the study, board and staff alignment prior to introducing impact investing appeared essential: further work is needed to understand the internal foundation dynamics that enable the cultivation and use of impact investing. Additionally there also seems an ambiguity around how to organise internally to host a successful impact investing strategy, so a useful contribution would be to develop a better understanding of the shape of a foundation that successfully integrates impact investing into its work.

Spend-down was not a strategy that was being deployed by the European foundations interviewed in this report. This question raised an interesting theme on how European foundations plan their budgets. In the US a minimum average annual payout of 5% of the endowment must be maintained by law, but in some European countries like the UK that is not the case. Understanding how foundation leaders allocate capital in this ambiguity could generate very interesting insights. This is particularly the case in a slow growth economy: it would be interesting to discover how organisations are considering lasting in perpetuity, if in practice their low investment yields are already challenged by inflating annual costs of programme work, grant-making and beyond.

One key area that emerges is the significance of non-financial resources in driving foundation impacts. However, outside of venture philanthropies, foundations rarely accounted for these non-financial assets and rarely considered how to optimise their people, networks and brokerage to advance their missions. Having a clearer sense of how one might measure performance on the allocation of non-financial assets could certainly help foundations better wield these powerful tools.

Staffing and staff development generally were consistent issues across the interviews, with most foundations handling these individually. With such deep attention to talent and recruitment profiles within individual foundations, it would seem that creating exchange and learning opportunities on the evolution of foundation staffing needs could contribute to enhancing the effectiveness of the sector overall. There could be great benefit in creating or building on established European foundation staff exchange programmes. Additionally, while many were training and developing their staff, particularly the larger foundations, there was a wider sense amongst interviewees that the sector was not clear on the essential foundation skills needed in the 21st century, particularly around digital and technological trends.

On the latter, very few foundations had considered the imminent arrival of technology issues such as virtual reality, artificial intelligence and big data. One resource that could be of use to foundation leaders would be a guide to how digital and

technological capabilities could be harnessed in all three domains of the foundation: Building Charter resilience in the face of technology and digital; Operating Capabilities in digital and technology; and harnessing digital and technology to better deliver against a foundation's Social Compact.

Finally, external funder-to-funder collaboration would be a fertile area to explore in more depth. One key theme is discerning what level and type of funder-to-funder collaboration is indeed beneficial for social impact. This question is raised in the context of a fundamental challenge to collaboration raised by one workshop participant, who questioned whether diversity of action for foundations and refraining from collaboration is in fact more important, since the philanthropy sector lacks the disciplining accountability of the market. Another useful exploration of funder-to-funder collaboration would be to look more deeply into why collaboration or coordination on common issues still remains so elusive within the sector, and what the internal foundation accelerators of successful collaboration might be.

OVERALL FRAMEWORK AREAS TO EXPLORE

The Theory of the Foundation framework has been a useful heuristic to explore foundations and bring those areas of foundation practice so often left in the shade more fully into the light. It has enabled areas core to foundation practice - foundation values, governance, and relationships both inside and outside the foundation - to be expressed and interrogated. This process itself appears very useful. Additionally there appear some further useful resources that could emerge from a continuing exploration of these ideas.

One would be a standardised set of questions that enables independent or facilitated exploration of all three domains of the Charter, Social Compact and Operating Capabilities to support discussions of key assumptions with board, staff and family. This would be a useful way for foundations to understand whether all internal stakeholders were aligned behind the expectations the foundation had of itself, and additionally if foundation practices were in fact inconsistent with a foundation's expressed ambition.

Operating models are a useful idea for the foundation sector but need more detailed articulation in order to be of practical support to leaders. A next phase of work here would focus on identifying specific hypothetical models, built on real life examples and outlining in detail the operating choices that they might imply: For example for a 'Scaler' what specific staffing ratios might that entail? What weight of management support would partners need? And, how flexible might a strategy have to be? Additionally it could be useful to extend this idea yet further and (as one foundation suggested) explore the tie between specific operating models and specific impact goals, and particular theories of change. The power of this would be to understand whether there could be an operating model optimally suited to addressing a specific social problem, or to pursuing a particular function or social role.

There would, finally, be further benefit from deepening the evaluative potential of the Theory of the Foundation framework and continuing to build a common understanding of what success, failure and risk or experimentation mean in foundation practice. Individual foundations are already developing sophisticated interpretations of how to evaluate their own practice as a whole. Each foundation that has embarked on this journey has featured or emphasized either Operating Capabilities, Charter values or the importance they place in the relationships they create through their Social Compact. They have created an individual framework for their organisation that both enables internal discussion on how to improve their own practice, and also incorporates some of the uniqueness of the foundation as an organisation. An important contribution in the next chapter of this work could be to build and learn from these examples and the framework itself, and understand if the sector can develop more of a consensus around how to describe and report on philanthropic impact and performance. The intent of this would be to help foundation leaders understand if they are, in their own terms, doing better than they did the year before, and if they are successfully advancing their social and environmental ambitions within society. The result of this could be new practical resources to support more comparable descriptions of foundations' impact, thus better exhibiting the sector's vitality and contributions to building a better world.

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THE THEORY OF THE FOUNDATION EUROPEAN INITIATIVE

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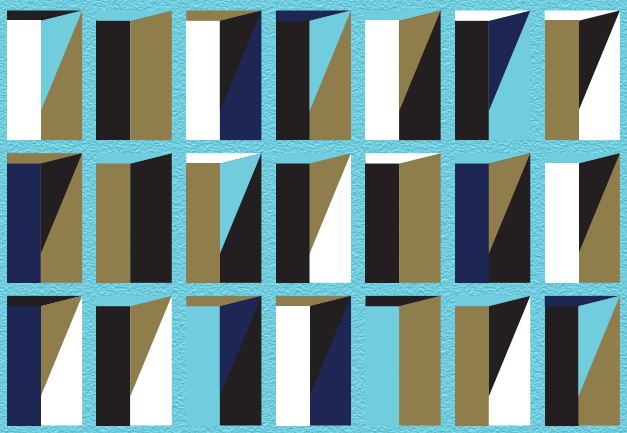

THE THEORY OF THE FOUNDATION INITIATIVE WAS STARTED BY ROCKEFELLER PHILANTHROPY ADVISORS IN 2013. ITS AIM IS TO ENHANCE THE CAPACITY OF FOUNDATIONS TO ALIGN THEIR RESOURCES FOR IMPACT. IT COMPRISES SEMINARS, WORKSHOPS AND REPORTS INTENDED TO DEVELOP A SHARED LANGUAGE FOR FOUNDATION LEADERS GLOBALLY. THE INITIATIVE SEEKS TO EXTEND THE FIELD OF KNOWLEDGE ABOUT FOUNDATIONS AS INSTITUTIONS AND ENCOURAGE THE SECTOR'S DEVELOPMENT.

marshallinstitute@lse.ac.uk
www.lse.ac.uk/marshallinstitute

@rockphilanth
info@rockpa.org
www.rockpa.org