



COVER SHEET

This is the author-version of article published as:

Leat, Diana (2006) Information for A Messy World: Making Sense of Pre-Grant Inquiry. *Third Sector Review*.

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Information for A Messy World: Making Sense of Pre-Grant Inquiry

Introduction

Formation of philanthropic grantmaking foundations in Australia is growing. The introduction of Private Prescribed Funds (PPF's) has added an estimated 228 foundations. In large part due to the stimulus of FRRR community foundations have also grown in number from around 3 in the 1990's to 9 established and 13 nascent community foundations in 2004 (Leat 2004). In addition there is an unknown, but certainly growing, number of corporate foundations and giving programmes (see, for example, Griffith et al 2005).

New grantmakers face a number of strategic challenges not least that of formulating grantmaking policies and priorities in a situation in which demand for funds far outstrips supply. Both new, and older, foundations also face operational challenges relating to various matters including grantmaking processes.

Understanding grantmaking processes involves appreciation of the fact that grantmaking is an inherently risky business, fraught with uncertainty, undertaken in an ambiguous, changing situation, and in a risk averse environment. Designing grantmaking processes (and the content of information required for grant decisions) is further complicated in a context in which there is growing emphasis on effectiveness, fairness and transparency. Given these challenges, how and on what basis do grantmakers select successful and unsuccessful applicants? How do they make decisions under conditions of uncertainty, ambiguity and change characteristic of grantmaking?

This paper considers the application content and processes of 40 grantmakers, of varying size, using publicly available information, supplemented by telephone and face to face interviews with 20 grantmakers. The paper is based on an exploratory study of the information Australian grantmakers seek about applicants prior to grantmaking, and how they acquire it. The 2005 study of Australian foundations was a much abbreviated version of an earlier UK study (Leat 1998).

The paper begins by presenting and briefly discussing the methods and content of pre-grant inquiry, and then considers the underlying nature and purposes of pre-grant inquiry. It is suggested that pre-grant inquiry functions in part as a sense-making device enabling foundations to act with some degree of comfort in an uncertain, ambiguous and risky environment. The paper concludes by suggesting that Australian foundations need to consider carefully the bases, uses, functions, and potentially toxic consequences, of pre-grant inquiry before it is developed further. Although the data reported are from Australian foundations, many of the wider issues are or relevance to foundations in the UK and elsewhere (for a view of application processes from the perspectives of applicants see Griffith at al 2005).

Methods of Pre-Grant Inquiry

What methods do foundations in Australia use to acquire information about applicants prior to grantmaking decisions?

The foundations studied included foundations spending from \$63 million to \$50,000 per annum. These foundations all had a web-site and the vast majority were members of Philanthropy Australia. These characteristics suggest that they are foundations inclined to be open and concerned with good practice. It is likely that the figures below underestimate the number of foundations in Australia that accept no unsolicited applications, often located in trustee companies and giving money to pre-designated charities from non-discretionary funds

Table 1: Australian Foundation Application Procedures	
No unsolicited applications	17 %
Letter only	7
Narrative with headings	31
Application form	44*
Plus 'phone/visit	19

- 3 on-line only

N= 41

These data were part of a more complex story. First, some foundations used different procedures (and headings/forms) for grants of different size or for different purposes or programmes. For example, some foundations accept unsolicited applications for smaller grants but also invite applications from specific organisations for particular programmes. Second, the difference between application forms and narrative with headings may be little more than one of lay-out and administrative convenience. Third, the purpose and significance of written material from applicants varied between foundations. Written applications were sometimes part of a wider process in which written material performs one of a number of functions. Fourth, foundations vary in the stage at which an application form is used. For example, Adelaide Bank sends an application form only after a telephone discussion with the applicant whereas Brencorp requires a brief form prior to a full scale application. Fifth, there is a wide range in the number of pages allowed in narratives and forms, from 1 to 8 or more pages to cover sometimes much the same information.

One of the interesting differences from a previous study in the UK in 1998 (Leat 1998) is the proportion of foundations using forms. This may reflect growing computerisation of the application process and the consequent need for standardisation of format, content and order. However, on-line application submission as a requirement is still rare. Perpetual is one example of an on-line only process and takes this to an art-form with its requirements: 'character restrictions apply to many fields to ensure that applications are succinct, relevant and comparable in length. Spaces are included in character counts'.

Application materials suggest that only a minority of foundations offer help with developing a proposal, but later interviews revealed that more do so in practice. In some cases, this service is offered prior to making an application. In other cases, it is offered only after an application has been made and the foundation is interested in helping the applicant make their case more clearly or forcefully.

The figures on use of phone calls and visits need to be treated with caution. From the publicly available application materials it is difficult to determine the amount of personal contact with applicants. Interviews revealed that some foundations may

make phone calls and visits even though they do not mention this in their application materials, and conversely some that do mention the possibility may not contact all applicants.

In general, application guidelines and materials provide relatively little information on what happens next and, in particular, the likelihood of a visit by the foundation or its agents. Without further investigation it is impossible to assess whether this is because visits do not typically happen or because foundations simply do not inform applicants of this possibility (if the latter is the case this is an interesting omission in that it might be argued that the possibility of a visit encourages applicants to think carefully and realistically about what they write about themselves).

It might be expected that application processes would vary in relation to the average size and number of grants given by the foundation. While there does appear to be some relationship, differences in use of forms (and in the quantity of information requested) may also be related to the foundation's public profile and/or its status as a semi-public grantmaker (e.g LotteryWest and FRRR).

Content of Information Requested

The following areas of content are adapted from the UK study (Leat 1998). Not all UK foundations asked all of the questions listed below – but at least one foundation asked each question (or an equivalent question eg for a charity registration number rather than an ABN). In that sense then the list represents a question to which a foundation might wish to know the answer (although questions to which one might reasonably want an answer may vary in relation to the nature of the project and the amount requested). In reading the data below it is important to bear in mind that some information may be sought via telephone calls and visits.

The following analysis includes both application forms and the specific information requested under a narrative with headings.

Table 2: Information Sought by Over 50% of Australian Foundations

Tax status	90%
Organisational status/Incorp	74%
ABN no	84%
Mission/purpose	84%
Uses of grant/how spend	77%
If project: primary purpose	80%
Population to be served	64%
Anticipated length of project	84%
Current expense budget/breakdown	77%
Success criteria/evaluation plans	74%
Applications to other bodies	64%
Plans for future funding/sustainability	52%
Intended project outcomes	52%

Table 3: Additional Information Sought by 30-50% of Foundations

Need or problem addressed by the organisation	42%
No. of paid ft staff	38%
No. of volunteers (but rarely total hours worked)	35%
Accounts/ Most recent financial statement	35%
References	38%
Project: Need/problem addressed	42%
Benefits to population	38%

Table 4: Further Information Sought by Under 30% of Foundations

Age and history of the organisation	19%
Details of population served – general	22%
Geographic location	16%
Socio-econ status	6%
Age	9%

No. of paid pt staff	25%
Name of CEO	9%
List of board (with affiliations)	12%
'Catch all' question on staffing and management committee details/structure	25%
Number of members	12%
User involvement	6%
Use and methods of user feedback	3%
Operating expenses budgets	12%
Foundation and other supporters with amounts	12%
Property owned or leased and length of outstanding lease	3%
Reserves and net assets	9%
Constitution	9%
Building plans and planning permissions (if relevant)	3%
Project: No. of beneficiaries	16%
Staffing pattern for project	12%
Skills and experience needed	9%
Qualifications for the job	25%
Job description	3%
Number of volunteers	16%
Hours worked by volunteers	3%
How/why org. equipped to undertake project	16%
Names and titles of individuals who will manage	12%
How will the grant be managed	12%
To whom project staff accountable (position not name)	3%
All sources of income and amounts (actual and prospective)	9%
Capital projects - written estimates	6%
Expected results by end of funding period	19%
Plans for dissemination	19%
Status of proposals to other bodies	22%

(For a detailed prescriptive analysis of pre-grant inquiry processes and content from the US see, for example, Culick et al 2004. This publication also provides a useful list of other pre-grant inquiry tools and web sites).

Facts and Fortune-Telling; Nice to Know and Need to Know

Very broadly, information sought divides into two categories: factual information about organisational status, income, staffing and so on; and ‘speculative’ information, in particular about outcomes, evaluation and sustainability. In interviews it became clear that foundations themselves recognise the speculative nature of some of the information requested.

For example, on the issue of sustainability (asked by 52% of foundations) foundation staff said: ‘Sustainability – is any organisation sustainable? Was Barings Bank sustainable?’. ‘The Board are always asking “but is it sustainable?” – we accept we can’t answer that it depends on so many variables, so many factors totally beyond our control and the control of the applicant.’ ‘Sustainability is the toughest question because the bottom line is that non-profits don’t know. We continue asking it because we want to be seen to be responsible – we don’t want to be seen to be throwing money away on things that aren’t sustainable’.

Perhaps because of the uncertainty surrounding sustainability, many foundations continue to ask the question but use the answers selectively in making decisions: ‘Sustainability can be an easy excuse to say no’. ‘The project not being sustainable is not a reason not to fund’. ‘We don’t want to spend or be seen to spend on things that aren’t sustainable but it’s not cast iron. For example, we gave grants to asylum seekers – no way are those organisations obviously sustainable because it’s against government policy – but we gave the grants though they are absolutely obviously not sustainable.’

Questions about outcomes and evaluation are some of the most commonly asked in pre-grant inquiry, even though foundations themselves do not necessarily engage in, fund or ask to see evaluations of work funded, not least because as one respondent noted: ‘Foundations live in the now. They’re always in a grant cycle and the pressure of a cycle.’

Nevertheless, asking questions about evaluation plans was considered important in part because: ‘What we spend is a big investment (\$300,000) – you need to know that

the money was well spent'; 'We need to get away from that take the money and run approach in organisations – we need to know about effects'.

Despite the emphasis on evaluation plans there was some uncertainty around the purposes of evaluation. One person remarked that although evaluation plans are important as an indication of applicant thoughtfulness, the results of evaluations were of less interest to foundations once the funding had been given – and spent. Others questioned the value of evaluation: 'We're struggling with evaluation right now. There's a feeling we ought to have external evaluation but so much depends on the evaluator and the terms of reference'. 'I've never seen a negative evaluation – so we're realising you've got to know more about what they are not saying'.

It is worth noting here that Ron Daniel, former managing partner of McKinsey and Company, argues that measures of performance 'have the appeal of providing measurement, but they often don't convey the essence of the phenomenon which you are trying to judge' (quoted in Cunningham, K. and Ricks, M. "Why Measure?" *Stanford Social Innovation Review*, Summer 2004:51).

The fact that some foundations ask for more information than they actually use is neither unusual nor surprising. The literature on organisations suggests that organisations in general gather more information than they use, yet continue to ask for more, and collect information that has little decision relevance (Feldman and March 1981:174).

Published Selection Criteria

Around one third of foundations provide detailed selection criteria. Specific criteria vary between foundations but cluster into five broad groups: (i) fit with the foundation's goals/mission; (ii) impacts and effectiveness; (iii) evaluation; (iv) management and planning; (v) value for money.

Fit with mission is of paramount importance to foundations. Foundations do not exist simply to 'do good' or to keep non-profit organisations alive; they exist to pursue a mission as set out in the trust deed, and interpreted by trustees in the light of changing

circumstances. Non-profit organisations may not always fully understand that the issue is not simply one of need but of fit with mission. As one person commented: ‘They’re not our customers and we don’t serve them. They don’t see that. Our relationship is with the sector at large and based on our knowledge of cross-sectoral issues, change and so on’. Another emphasised: ‘Our role is to serve the (donor’s) will – applying the best contemporary thinking to general social benefit – not to keep certain organisations surviving’.

The *impacts and effectiveness* cluster includes criteria such as ‘innovation’, ‘prevention’, ‘a significant contribution’, ‘lasting impact’, ‘wide impact’, leverage potential/impact that extends beyond the target group’, ‘sustainability’, ‘self-sufficiency’, ‘Will the grant be effective in bringing about structural change that will be significant (within its context) in ten years time?’ Given the size and duration of many grants this group of criteria might be titled ‘heroic hopes’. Given that most of these qualities are very difficult to assess/predict in advance the cluster might also be seen as a matter of fortune-telling.

Evaluation includes: evidence of ‘evaluation’, ‘clear outcomes and measures’, ‘evidence of realistic, measurable and achievable project goals and outcomes, planned from inception to completion’, and ‘outcome oriented performance measures’.

Management and planning criteria include ‘clear goals and target group’, ‘sound strategies’, ‘sound financial management, ‘sound management structures’, ‘good prospects for successful implementation’, ‘achievable objectives’, ‘organisational capacity and track record’, ‘clear accountability’, and ‘suitable governance’.

Value for money includes ‘value for money’ as an explicit criterion, as well as evidence of in-kind contributions, including volunteers, and capacity for financial leverage. Matching grants are rarely explicitly mentioned. Like ‘fit with the foundation’s mission’ this set of criteria is related more to the foundation’s needs rather than assumptions about what makes for greatest public benefit.

A few foundations go even further and provide details of comparative criteria. For example, one foundation acknowledges that ‘often trustees must decline applications

even if they meet the above criteria. Comparisons and judgements are made on the basis of the degree to which a project: May meet the identified need; has community support; is collaborative; is sustainable; may have multiple positive outcomes; outcomes can be measured; will assist the greater number of people' (Equity)

Issues

The analysis above raises a number of issues. First, why do many foundations not include the criteria by which applications are assessed? Because they do not have any pre-determined criteria? Because it's about 'gut feeling'? Because you cannot specify in advance? To avoid being held accountable to the selection criteria? To retain flexibility and discretion in the grant process? Or, because to provide applicants with the criteria to be used in assessing their applications would provide them with the ingredients to 'cook up' the perfect application? This last point is not as far fetched as it sounds; in the UK it could be argued that this was one of the circumstances enabling an organised group to make fraudulent but successful applications to a number of grantmakers (see, for example, www.biglotteryfund.org.uk).

Second, how realistic are these criteria – especially those in the 'impacts' group. In some cases, foundations argued, impacts are not an issue in the sense that a piece of equipment was or was not bought (though one might still ask what impact the possession of that item had on the beneficiary). In the case of larger projects and services, how many of the impacts foundations are looking for are individually achievable, let alone in combination, especially in view of the level and duration of resources on offer, and the organisational capacity of applicants.

Third, how appropriate are these criteria, especially those relating to management and planning. For example, is it possible to get to outcomes, as distinct from outputs, during the period of the grant?

Fourth, if evaluation is a tool for learning and impact (i.e. rather than accountability per se), what is the logic of emphasis on evaluation without a corresponding emphasis on dissemination and replication?

Fifth, how does the emphasis on evaluation fit with that on outcomes? Does the emphasis on clear and measurable goals and on evaluation and performance measurement encourage short termism and focus on the countable; and to what extent is this in tension with the typically much longer time-frames and flexibility required to achieve sustainable outcomes?

Sixth, what are the assumptions contained here about the role and nature of ‘clear goals and strategies’ and planning in achieving sustainable social outcomes? As suggested elsewhere, grantmaking is largely based on a notion that you can and should make a plan (a proposal) and if you stick to it then you will achieve the outcome you sought. In reality, of course, plans have to be adapted to fit changing circumstances, new understandings of the nature of the problem, entry of other players, new opportunities, and so on (Leat, 1998). Achieving social outcomes is not like managing an organisation. Foundations that are effective in achieving sustainable social outcomes acknowledge that the process is messy and unpredictable and is never in the control of one player. It follows that plans have to be constantly flexible and opportunistic (Anheier and Leat, 2006).

This raises a seventh question about where these criteria come from and on what they are based. In some cases, it is clear that criteria are copied from another foundation – without necessarily considering any differences in maximum size or duration of funding or the nature of the field. But where did the criteria come from in the first place? For example, when foundations ask for evidence of ‘sound’ and ‘suitable management and governance, what do ‘sound’ and ‘suitable’ mean, and on what basis are judgements about soundness and suitability made? Where is the body of knowledge that tells us what would be suitable for this type of work?

The more fundamental question concerns the nature and purpose of these criteria. In many respects the criteria read more like a wish list than a set of operational criteria. To make sense of the process and content of pre-grant inquiry it is necessary to consider the environment in which grant making foundations operate.

Foundations in an Uncertain World

Foundations in most countries, including Australia, live in a world of increasing uncertainty. If, following Duncan, (1979) we break environmental uncertainty down into complexity and dynamism then it is arguable that in the last decade foundations have experienced a greater degree of complexity in the number of elements in their organisational task environments (e.g. in terms of what the grantmaking process is now seen to require) and increased heterogeneity in terms of demands and expectations (eg from different types of grant seekers and from government, regulators and the media), and a higher degree of dynamism in the rate and predictability of change of the elements.

In other words, foundations have moved from an environment of low to medium complexity and low dynamism, creating low uncertainty, to one of medium to high complexity and high dynamism, creating high uncertainty.

The list of uncertainties for foundations is long: uncertain income, uncertain legal frameworks, new and unpredictable attention from the media; constantly changing government policies; new and unpredictable demands from a greater variety of grantees; new and not always predictable social issues (e.g. a concern with rural issues; asylum seekers and refugees; Islamophobia, and so on).

And the pace of change is faster, or perhaps more accurately foundations are more aware of the pace of change. In the past, foundations lived in a largely cloistered, private world in which they were relatively immune to changes going on around them; government and the media had little interest in them and they saw themselves as having no interest in or to government and the media. Although grant seekers were, of course, interested in foundations, foundations managed such interest by maintaining their cloak of invisibility. In the last decade that cloistered world has been invaded by both government and media interest. Governments want foundations to grow and to do more, while governments do both less and more. As sources of government funding have been 'reformed' or removed, and as more information on foundations has become available, grant seekers have become more demanding.

Key elements in both the complexity and the dynamism of the foundation world include increasing pressures for:

- Greater accessibility and transparency
- Greater 'fairness' in decision-making /decision-making as a rational process
- Greater accountability and due diligence
- Greater effectiveness
- Greater efficiency in the face of increasing volume of demand
- A move from risk taking to risk aversion, in large part as a result of the emphasis on accountability, due diligence and greater effectiveness.

But, in responding to these pressures foundations face significant difficulties. The first difficulty is that grant making is by its very nature an inherently risky business. The second difficulty is that grant making is an ambiguous business.

Inherent Risks of Grantmaking

The purpose of grant-making organisations is to spend money in pursuit of their objectives which they attempt to fulfil by working through independent 'suppliers'/grantees. This is an inherently risky process for a number of reasons.

First, grantmakers work through (often hundreds or thousand of) grantees with whom they have typically had little previous contact and of whom they have little direct knowledge. Furthermore, they cannot typically inspect the quality of the finished product before the decision to purchase/fund. On top of those uncertainties, grantmakers typically set out to fund new and untried services and thus suffer from the 'liability of newness' (DiMaggio, 1992).

Second, grantmakers do not have voters, shareholders or customers, to provide them with market indicators and knowledge about the range and scale of demand/needs. The idea that grantmakers may obtain adequate knowledge of need via the demands of grantees overlooks the fact that grant applicants come to beg not to buy and, in any case, grant applicants do not perfectly reflect the needs of end users (i.e. some needs are not represented by any voluntary organisation and not all voluntary organisations have the capacity or the status to apply for a grant).

Grantmakers are hindered by other factors. Ideally, grantmakers need ‘unbiased’ knowledge of applicants; but applicants have an interest in presenting only that information which they choose to present and which is most supportive of their application. In addition, in seeking knowledge of applicants and their proposals, in pursuit of the goal of making best use of their resources in achieving their missions, grantmakers are hindered by the lack of any established body of knowledge about the factors associated with ‘success’/what works.

Once the grant has been made there are further risks and uncertainties. Grantmakers depend on grantees over whom they typically have little, if any, direct oversight or control other than via the terms of the grant. At the same time, despite, or perhaps because of their financial independence, the aim of grant recipients is often to maintain maximum autonomy and flexibility of expenditure, keeping the strings attached to the grant as loose as possible.

And grant makers are expected to overcome these risks with low costs, minimum bureaucracy and overheads.

Types of Risk

All funders face a variety of different types of risk in making grants to typically unknown others. These include:

- Rogue/fraud risk
- Person risk – backing the individual maverick innovator
- Personnel risk – putting staff/volunteers in danger
- Organisation risk – poor management of the grantee threatening efficiency and effectiveness
- Political risk – challenging the established order; getting too close to lobbying; risk of media disapproval
- Environmental risk – factors in the external environment that might cause the project to fail
- Means-End/Innovation risk – lack of proven/any theory of the relationship between means and ends

- Procedural risk – failing to follow agreed or expected procedures in grant making
- Funding risk – too small grants, and/or for too short a time to be effective, or grants too big for the organisation to handle
- Reputational risk – grants that for any of the reasons above threaten the grant makers' reputation.

The significance of each type of risk will vary between different grantmakers depending on a number of factors including their legal/organisational status, values, goals, organisational culture, and their approach to grantmaking.

Grantmaking as an Ambiguous Business

The second difficulty is that grantmaking is an ambiguous business. Weick (2001:45), drawing on McCaskey (1982), identifies twelve sources of ambiguity in organisations – most grantmaking foundations suffer from not one or two of these but all twelve.

For grantmaking organisations the nature of the problem they seek to address is often itself in question; the problem is unclear or changing, there are competing definitions and any one problem often overlaps with others. Information about the problem is often unreliable, sparse or confusing and subject to multiple, conflicting interpretations. Without objective criteria to assess issues and information grantmakers often have to rely on personal and/or professional values to make sense of the situation sometimes creating political and emotional disagreements within the organisation.

Ambiguity is further compounded by multiple or vague goals; inadequate time, money and attention; unclear decision making points; lack of clear success measures and lack of understanding of cause and effect relationships, among other factors (for further detail see: Weick 2001:45).

These factors create conditions of uncertainty, anxiety, and contradictory demands. For example, grantmaking is subject to ambiguous and multiple goals. Grantmakers are expected to be efficient and effective and accessible. The grantmaking world

abounds with contradictory assumptions and advice. Small is best and closer to the 'ground'; larger organisations are more competent; slick, glossy organisations are questionable but smaller, less professional organisations may lack capacity. Focused, crafted applications are questionable but rambling/unfocused ones are also problematic, and difficult to process. DGR's are, by definition, trustworthy - or maybe not. Don't fund for failure but don't fund beyond the recipient's capacity to manage. Fund things that are innovative but not crazy/outside the box. Boards made up entirely of members of the same family should be treated with caution (even by foundations with boards made up solely of family members). And so on.

Grantmakers are under pressure, and want, to be efficient and effective but it is not clear how they can achieve these goals in combination. They want to achieve sustainable projects but are not sure how to do this. In short, there is no established body of knowledge on which they can base predictions of success and failure, effectiveness and sustainability.

Devices for Reducing Anxiety

How do organisations in general act under conditions of ambiguity and change?

According to Weick they may behave as though the environment were simpler than it is. This strategy effectively removes the 'ifs and buts' from the situation, paying most attention to assumed connections and regularities (e.g. for example, the assumption that organisations with a track record tend to be more effective than those without or organisations that have thought about evaluation tend to be more effective than those that have not). This approach allows the organisation to take strong action – and also often creates self-fulfilling prophecies e.g. if organisations with a track record are more likely to receive grants then it is also likely that they will be more effective than those which do not receive grants.

Like investors in other markets, foundations 'simplify' their task by engaging in a form of auditing of potential grant recipients. In order to overcome the fact that for new projects, and for new small organisations, there is little to look back on,

foundations combine past ‘audits’ (accounts, Annual Reports etc) with a form of ‘advance auditing’.

But both past and advance audit are seriously hampered by (i) lack of a body of knowledge on which predictions/factors associated with success and failure, effectiveness and ineffectiveness etc can be based (ii) the complexity of social and political environments, the complexity of social change and the unpredictability of sustainability, and (iii) the nature of innovation and the role of serendipity in that.

Advance audit in particular necessarily involves a degree of faith and hope, or as one respondent put it ‘accepting that only God knows – and it’s doubtful if He does either’.

So why do foundations spend money and time on procedures that are supported by so little knowledge? One way of understanding advance audit would be to see it as not merely enabling foundations to take action, rather than being paralysed by uncertainty, but also to feel comfortable doing so. As Power has remarked of audit in general: ‘Auditing has the character of a certain kind of organisational script whose dramaturgical essence is the production of comfort’ (Power 1997:123).

Audit arises in conditions of accountability and operational difficulties in one party monitoring the activities of the other – and loss of trust. But the purpose of audit certificates, Power argues, is not to engage in communication but to provide a one way signal regarding the organisation being fit or not fit for purpose; audit acts as negative assurance. These observations on the functions and sources of concern with audit seem particularly relevant to grantmaking foundations and pre-grant assessment.

In a risk averse society, dominated by talk of performance measures and due diligence, it is not surprising that foundations wanting to be efficient and effective but working under conditions of high ambiguity and uncertainty would be drawn to procedures that enable them to act and to make sense of their actions. Pre-grant inquiry may also serve to reduce uncertainty in the relationship between grantmakers and grant recipients. For example: ‘The risk for us is about miscommunication. It’s not about deception but about only sort of understanding what this is going to do. (In

pre-grant inquiry) we get clearer about that. It's about clarifying a contract for the gift'.

In summary, pre-grant inquiry functions as a sense making device to enable foundations to reduce uncertainty, create comfort and confidence. In addition, pre-grant inquiry functions as a means of balancing supply and demand in an accessible system, legitimating decisions as based on 'objective' criteria, and demonstrating due diligence.

As Feldman and March (1981) note: decision making in organizations 'is an arena for exercising social values, for displaying authority, and for exhibiting proper behaviour and attitudes with respect to a central construct of modern western civilisation: the concept of intelligent choice....The gathering of information provides a ritualist assurance that appropriate attitudes about decision making exist It is representation of competence and a reaffirmation of social virtue' (177).

But pre-grant audit, like all sense making processes in ambiguous, changing situations, has certain potentially toxic consequences.

Toxic Consequences

Arguably, total reliance on consistent audit (i.e. a set of common information collected across all organisations) has a number of potentially toxic consequences.

Reliance on past and advance audit may encourage a culture of trial without error and funding for success, potentially reducing the chances of real innovation. It may reduce effective accessibility for quirky, different, innovative organisations including those that do not fit the 'good management' model of the moment. It may create cloned non-profit organisations as only those with the desired characteristics obtain funding; and if grantmakers across sectors are adopting the same mind-set and engaging in basically the same form of audit then the effects on diversity will be greater and faster.

Reliance on past and advance audit may encourage organisations to adopt processes and structures of little relevance to their own goals and needs and may be costly in a variety of ways. It may encourage reliance on standard procedures as appropriate for all. As one person commented: ‘Asking about evaluation plans is the fashion but it kind of depresses me. It has to be the right evaluation for the right purpose but not many people see that’.

Other potentially toxic consequences of relying on past and advance audit include encouragement of distrust and game- playing to meet the required standards, as well as creating a danger that we begin to believe that asking questions about plans etc are actually real indicators/measures of likely success. Audit is designed to clarify and reassure and as such it has an important function. But it becomes dysfunctional insofar as it encourage the notion that we can predict effects when in reality social change also involves luck, opportunism and serendipity. It becomes dysfunctional if it discourages flexibility and improvisation in both the grantmaker and the grant recipient. For example, the need to plan in advance, stick to the plan, and so on, imposes a simplicity and flexibility that is inappropriate in the real world of social change thus damaging the chances of achieving outcomes and achieving sustainability.

The danger is that we begin to believe that the factors on which audit focuses are the factors that matter – and that the bandwagon becomes hard to stop. As one person put it: “We didn’t always do it this way – why did we change? Probably because it was what other people in the field were doing – that becomes a sort of standard you have to adopt’.

The Value of Flexibility

So far it seems that, although many foundations do indeed use pre-grant assessment as negative assurance of fitness for purpose, they do not use it as a one way signal. Some foundations engage in two way communication with grant applicants, and as discussed above, they apply their own procedures and criteria flexibly. But there are two problems with flexibility. One is that it can take the foundation back to indecision

and discomfort. Another is that to grant seekers, flexible procedures and criteria may look like inconsistency, favouritism, and unfairness.

Power has suggested that: 'The audit society is a society that endangers itself because it invests too heavily in shallow rituals of verification at the expense of other forms of organisational intelligence' (Power 1997: 123); and Gambetta (1988) has talked of the need to know when to trust trust (Gambetta 1988a) i.e. how to know when to demand or not demand an account, accepting that with trust there is always risk.

Many foundations continue to engage in a form of 'intuitive auditing' based on ongoing interactions with applicants and others. They continue, as one foundation put it, to 'sniff around' for information. The problem, of course, is that in a culture in which only rational knowledge counts, 'intuition', 'gut feelings' and 'sniffing around' are contested as bases for decisions. Conversely, however, while audit has a number of obvious attractions in enabling organisations to act in a seemingly rational and confident way, the problem is that it is likely to hamper learning about other factors and changes that could produce big effects.

As Weick counsels: 'Assess when decision rationality works in your setting and when it doesn't. Build your own ad hoc contingency theory of rationality.

Don't treat rationality as a universal prescription. If you live by rationality alone, you lose options (use of intuition, quick response, trial and error) and you lose non-deliberated sources of variety (hunches)' (Weick 2001:53).

The Wider Functions of Pre-Grant Assessment

This study suggests that pre-grant inquiry is not just about efficiency and balancing supply and demand, nor is it only about enhancing effectiveness in terms of likelihood of delivery via advance audit. As some foundations move away from seeing their resources solely in terms of money to give away and start to appreciate their wealth of experience, knowledge and networks, pre-grant inquiry – especially site visits - takes on new functions.

Relationship building

Pre-grant inquiry is seen as having important functions for some foundations in relationship building which, in turn provides the basis for foundation roles in convening organisations (within and across sectors) for discussion, cooperation, learning and support. As foundations build their relationships they are able to use those relationships to create new networks with and between previously unconnected others.

Relationship building is also related to building trust to encourage learning. ‘Sadly there’s a culture around in government that they don’t want to hear your bad news. It’s turned into a culture of manipulation that prevents learning. We tell people to tell us their bad news. We’ve had some great reports of failures, but you need trust for that’. ‘We try to build relationships from the start. Then we get phone calls saying it’s not working out quite as we planned. We can’t recruit or the situation has changed. They are very tentative but we know that’s how it is. We show these things to the trustees because it helps them to understand.’ ‘Being honest, encouraging flexibility, accepting changes of plans, adaptiveness all relate to risk – learning can be very powerful in overcoming risk’ (on relationship building see also: Orosz, 2000).

Knowledge building

Pre-grant inquiry is seen as a means for the foundation to build its knowledge of the sector enabling it to act as ambassador or connector to other organisations and sometimes donors. Via site visits, in particular, foundations build and enrich their own knowledge of organisations and environments; as well as developing their overview position. As they build knowledge they are able to share that learning with others inside and beyond the sector.

Trustee and staff education

Pre-grant inquiry, again especially site visits, is seen as a powerful means of trustee and staff education, understanding and motivation. Trustees, in particular, were said to benefit from a richer understanding of the realities of the life and work of applicants (see also: Family Giving News, August 2005)

Organisational development for grantees

Pre –grant inquiry was also seen as a form of organisational development for grantees. One respondent said: ‘We don’t evaluate our projects though we do ask for reports and we do ask people to tell us what they plan to do about evaluation because we feel it’s important for the organisation to think about it’.

Foundations Adding Value

Developing new roles, based in part on the knowledge, learning and relationships derived from pre-grant inquiry, was seen as one way in which foundations could genuinely add value. ‘We spend so much time on processing stuff and so little on adding value’. ‘Because of the number of applications we receive relative to our budgets most of our time is taken up with saying no. Now we want to move to more time on adding value by developing ideas, disseminating ideas and knowledge. This relates to sustainability – getting more projects to the point where they can be taken up and replicated if they are any good.’

What Next?

Pre-grant inquiry has a number of functions. Assuming continuing wider cultural pressures for efficiency and effectiveness, further development of pre-grant inquiry requires careful thought. At present, many foundations apply pre-grant inquiry flexibly – with all the disadvantages of that. But demands for due diligence, demonstrable effectiveness and the appearance of equity may encourage a degree of consistency and rationalism potentially ill-suited to the ambiguity, uncertainty and messiness of the world in which grantmakers work. In this situation grantmakers need to be clear about what pre-grant inquiry can and cannot do and its potentially toxic consequences. It is worth remembering that grantmaking is inherently risky; pre-grant inquiry should not be seen as a way of excluding all risk, not least because risk has benefits as well as costs and is a necessary component of innovation.

In the discussion above, pre-grant inquiry has been portrayed as in part a tool to provide rationality and comfort in an ambiguous world. It is worth remembering that: ‘the bad thing about sentimental commitments to rationality is that they lead us to expect rational techniques to work in situations to which they are profoundly ill

suites. The good thing about the quasi-religious quality of rationality-enhancing techniques is that even when techniques fail, the ritual of their application, like any successful ritual, may move people to self-improvement and cooperative action and so enhance the capacity of the organisations or industries to achieve collective goals.’ (DiMaggio 2001: 250).

One positive value of the emphasis on pre-grant inquiry lies in the questions and questioning mind-set it generates. For example, thinking about outcomes may encourage a foundation to think more clearly about what that outcome would look like, what and who would have to change in order to achieve it, and whether this can feasibly be achieved by the applicant organisation, with the methods, resources and in the time scale proposed. One of the greatest values of emphasis on outcome measurement and sustainability in pre-grant inquiry may be before not after the event.

Pre-grant inquiry with its emphasis on outcome measurement may be most valuable when it is seen as being about learning, moving towards solutions, and not about ‘did it work or not?’. But this approach requires real honesty, trust and genuine collegial relationships, to ensure that evaluation stays focused on learning rather than audit. If real learning is to occur pre-grant inquiry and evaluation have to be sufficiently sophisticated to take into account the messiness of the real world, the interactions of all the variables and the effects of unforeseen, extraneous events; and learning has to be fed back into the organisation and built into subsequent iterations of this and other work, and subsequent pre-grant inquiry.

In thinking about pre-grant inquiry foundations in Australia may have much to learn from their fellow surfers: ‘People who surf do not command the waves to appear, or to have a particular spacing, or to be of a special height. Instead surfers do their best with what they get. They can control inputs to the process, but they can’t control outcomes. To ride a wave as if one were in control is to act and have faith.’ (Weick, 2001: 55)

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