Tom's Tips on Due Diligence

Tom David
The California Wellness Foundation
April 1998

Philanthropy vs. Charity

When asked to explain what it is that foundations do, the elders of our field typically begin by differentiating philanthropy from charity. In their rubric, charity derives from an impulse to help those in need, as exemplified by giving change to a panhandler or sending in a check in response to a TV story about flood victims or African refugees. The appeal is to emotion and the act of giving is from the heart.

A not insignificant aspect of the transaction is the good feeling that the charitable act gives the donor. When it comes to "big time" charitable causes, there is also no doubt that some donate in order to be recognized for their generosity, just as others give (even anonymously) out of genuine altruism. The Bradley Commission report noted that research on individual charitable giving found that two of three givers said they donate because they were asked to; only one in three donors targets charitable gifts or thinks through a personal giving rationale.

Many small, unstaffed foundations (which constitute the vast majority of foundations in California) operate in a similar fashion, providing an outlet for a family's charitable giving. Much of the individual support for health issues in the U.S. has also been of this type, whether in response to a telethon (e.g. Children's Miracle Network), door-to-door canvassing by the American Cancer Society and the like, telemarketing for AIDS agencies, or fundraising dinners and campaigns in support of the local hospital. The donor rarely stops to ask about <u>why</u> a particular hospital is most deserving, or whether a "brand name" national cause has exorbitant overhead costs, or if it is prudent for an institution to be taking on long-term debt to finance a capital expansion.

And fundraising appeals that play on emotion or the ego of the giver rarely address such questions. A classic example is the sometimes dysfunctional behavior of hospital Boards. Otherwise savvy businesspeople can become swept up in the spirit of ill-advised capital projects ... essentially leaving their critical faculties behind at the Board room door ... to ensure that "their" institution is the "best."

If that constitutes charity (and its down side), philanthropy is characterized as a more planful, strategic, even critical approach ... giving guided by the head rather than the heart. And the purported "gold standard" of that approach (at least according to the leaders of our field) is the professionally staffed foundation. While the motivation may be the same -- to improve the lot of those in need -- the means employed are rather different.

That's where you and I come in. If, as some have suggested, "professional philanthropist" is an oxymoron, and still others contend that the skills of an MBA are more germane to the task than those of an MPH, what do we contribute to the mix? How does the Foundation justify the expenditure of dollars on our salaries and expenses that could otherwise go to provide health care for the poor? The answer is summed up in the phrase "**due diligence**."

Each of you was hired because of the combination of knowledge, experience and personal skills you bring to our work. But just as important are our guiding values. We want to help others, but we also want to be <u>effective</u> ... and we recognize that preventive health interventions are a complex undertaking for which there are no easy, prescribed answers. Our Board understands that as well, and as a result has one of the highest tolerances for risk of any foundation board in the country. They have largely delegated the assessment of that risk to the staff, and rely on our analysis to inform their decision making.

It's an awesome responsibility that every one of us must take very seriously. Due diligence is the essence of the work we do. Am I suggesting that our task is all objective, rational analysis with no "heart" involved? No. Indeed, it's possible for a foundation to become so focused on its own professional "wisdom" that it totally loses touch with the experience of those who are suffering ... rejecting (and deriding) "band aid" funding of direct services entirely. That is not the course we have chosen at TCWF. For one thing, our charter directs that at least one half of our grantmaking go for direct preventive services. But even more important, our Board embraces an approach to philanthropy that combines both head and heart.

Due diligence is a term borrowed from the world of finance ... the synthesis of research gathered from multiple sources to guide investment decisions. Just as a savvy investor looks at more than the "bottom line" to inform her decisions, our definition is broader than a cost/benefit calculation. There is room for emotion in the equation, but that doesn't mean that we accept claims of need or program effectiveness at face value.

In the best sense, it's a "street smart" approach to philanthropy. We seek to penetrate the apparent/presented reality (as reflected in the proposal) to get at the backstage reality of the situation. Oftentimes things are as they appear. Most organizations are operating out of a position of integrity ... and cynicism is certainly not warranted. But neither is uncritical acceptance.

How do we get to the truth? It can be difficult information to come by. First, you have to be <u>open</u> to the truth, even if it is discrepant with your initial impressions or biases... you are human after all. No one with integrity wants to "dis" the competition. Even someone you know and trust may be loathe to share all they know. Instead, they may give oblique hints. It can require "listening with the third ear" to capture off hand comments or non-verbal cues that signal there is more to know.

But if you make it clear by your behavior that your mind is already made up ... or that you think you know better ... no one will even send those subtle cues your way.

In our past lives (before TCWF) we've all known organizations that were not what they seemed to be... where behind the scenes there were management problems, high staff turnover or poor services. You know that can even be true of agencies with a high profile leader, positive media coverage and lots of donors (particularly the latter). When you were on the "outside," you were privy to such information if you were connected at all ... or via your own direct observation. And I'll bet you watched funder after funder jump on the bandwagon and you marveled ... "How can they be so stupid?" Now that you're "in the house," that kind of intelligence is frequently inaccessible ... particularly in communities where you have no personal history. And without due diligence, we're vulnerable to a reserved seat on one or more of those bandwagons.

Aspects of Due Diligence

Due diligence is more an attitude and orientation to the work than it is a "technology" that can be summed up in a simple checklist. That doesn't mean that we approach every interaction from behind a judgmental/critical mask. Our contacts with grantseekers and others in the field should always be friendly and open ... even on those occasions when we may be offering critical feedback. Rather, it is the quality of our grantmaking decisions that will make it clear that we understand "their" reality, and will ultimately gain us respect both as an organization and as individual professionals. When all is said and done, we will be judged by where we choose to put TCWF's money. Due diligence, then, should permeate all of your activities leading up to the final draft of your grant recommendation in the Board Book.

Pre-LOI stage

The wellspring of due diligence is your connectedness to the field(s) in which you are doing grantmaking. **History** is always relevant. When meeting with someone who has worked in a particular field for some time, I try never to miss the opportunity to learn more of the history of current policies, agencies and programs. Your questions in this vein communicate not only a respect for the experience and viewpoint of the speaker, but also a willingness to learn and to profit from the mistakes of the past. It can be a great way to build rapport with someone you don't know. As you have learned more of the relevant history of a field or a region, you can ask more astute questions ... and offer informed observations of your own ... connecting even more deeply with your source. By communicating (subtly) that you understand the experience and point of view of the speaker, you engender trust.

Networking is an essential aspect of the work. It can take as many forms as there are personalities, from attending key conferences and local meetings, to making yourself available at receptions and other informal settings, to "cold calls" to individuals in areas that you'd like to learn more about ... taking the initiative to invite others to lunch, even when a particular project is not on the table. Some of my best information about "who's who" has come from sitting in the back of the room as an observer at public meetings. As I used to travel the state, I always tried to use the opportunity of a trip to meet local funders and local government officials (e.g. county health department folks). Both can be important informants in identifying good project ideas and helping you make judgments about proposals you receive from their regions. Everyone is flattered when you ask their opinion. You don't always have to agree with them ... and it's good policy to let them know in advance if you decide to go ahead and do something against their recommendation ... but it's the solicitation and collation of multiple opinions and points of view that makes for true due diligence. Needless to say, it's best to develop those relationships before you have to ask for their help. But networking is a never ending task ... you should always be building your list of contacts throughout the state.

You should also make an effort to keep up with **policy developments**. You should be aware of current government funding streams in your areas of interest and what the current issues are in Sacramento (or at the county level) that are shaping the field. How better to position TCWF's dollars for maximal impact? One way is via conversations with Laura Brown, who monitors the California Legislature under contract with the Foundation. Another is through your own connections with advocates who have up-to-the minute information. There are also growing resources on the Net that can provide you with more data than you can process.

With more and more philanthropic dollars entering the health field in California, it's also essential to understand what **other funders** are doing. The health funders' extranet that is currently being developed has the potential to improve communication among local foundations. But the best source is still by developing personal relationships with your counterparts in other funding organizations. To do your job effectively you need to know about their funding philosophy and priorities ... and you can sometimes use that knowledge (and personal connections) to benefit grantseekers when we can't provide the full funding requested, or when a good idea doesn't fit our priorities.

It's also important to keep up with the national **literature** in your field(s) of interest. Given the way we work, this is probably the hardest thing to find time for, yet we simply can't afford to conduct our grantmaking in a vacuum. One surrogate is to attend annual meetings of the professional societies (not grantmakers) in your field. Another is to be active in affinity groups of the Council on Foundations, so that you can learn from the experience of funders in other parts of the country. Even though we are a California funder, our decisions should be informed by the best information available from national sources as well as local ones.

LOI Stage

Attention to the activities listed above will result in a higher volume of quality LOIs that are in sync with our current funding priorities. In the mean time, we will always receive unsolicited requests.

Some will be clearly out of our ballpark. As you review the others, I encourage you to stay alert to possibilities that may be latent rather than overt. Just because a letter is not well written or well reasoned does not mean that there's nothing there worthy of follow up. Some of the best grants I've made over the years started with a letter that would never pass muster in a "Grantseeking Basics" class. A letter from a part of the state where we are not doing much funding might serve as the stimulus for at least a phone conversation to ascertain more about an organization and what else it is doing that might be a "fit" for us. Maybe there's the potential for a small planning grant, as a way to learn more about a region or a particular subpopulation. In other words, don't be too quick to deny something out of hand.

Before getting serious with an organization, the first thing to do is to check GIFTS to see if they have any history with us. Have they had a past grant? If so, did they provide us with timely and adequate reporting? What does the closeout report say about what they accomplished? That's not to say that we would automatically "black ball" a group that has stumbled in the past. But we should certainly be aware of any such history ... and ask them to account for it before we considered inviting another proposal.

In some cases, it may also make sense to have a face-to-face meeting with an organization before you formally request a proposal. I would ask them to come to our office ... or at least have a phone appointment if they're from a more remote area and you're not planning to be in their vicinity for some time. Such a meeting might be warranted if you have no prior history with the organization, or want to explore project ideas other than what they have proposed ... or want to open up the topic of core operating support. I would never encourage a (general grant) proposal unless you plan to bring it forward with a formal recommendation. It's simply too big an investment of an agency's time and energy if there's not a high probability of payoff. Instead, use a pre-proposal meeting to answer questions you may have and to reach agreement on the dimensions of a fundable proposal... or to inform your decision to <u>not</u> invite a proposal.

Proposal Stage

Once the proposal has been received, one should ideally complete the following steps **before** scheduling a site visit: read the proposal and supporting documents to formulate a list of questions to ask the project/agency principals; get the results of the financial review to see if you should be asking particular questions of the organization's CFO or Board Chair when you visit them; and do some initial calling around about the organization to check them out and see if there are any other "red flags" that bear further investigation.

I see the proposal as merely the door opener to a conversation with the organization that will ultimately lead to your decision to recommend or not recommend them for funding. A poor quality proposal, just like an inadequate LOI, is **not** sufficient in my book to automatically warrant a "No." It obviously raises questions about institutional capacity ... but it certainly does not provide proof that an agency is not meeting local needs. It may simply reflect the fact that the organization cannot afford the services of a professional "grantwriter" or development officer. All too often, a "hired gun" can provide a compelling case statement and even program design for an agency that has serious internal flaws ... or a questionable local reputation. Remember the bandwagon.

For anything but the smallest planning grants, a **site visit** is a necessity. I'd even try to do one for a planning grant if it's an organization new to you. It's only common courtesy to allow a decent interval of time between your phone call and the date of the site visit. It should be a time and date convenient for all concerned... not something that unduly disrupts the activities of the agency. Who should be present? At minimum, the Executive Director, the project director/key staff , and a Board member, preferably the Board Chair if this is for a sizeable grant. You may want to meet some clients as well, although such conversations are often difficult to pull off in a relaxed fashion. You should specify in advance what you want to see, and some basics about how you'd like to spend your time. Many agencies will try to control the agenda with a scripted presentation and a lengthy tour of the agency and/or neighborhood. That is understandable, but probably not the best use of your time. I'd save the tours for after you've completed your agenda, if there is time remaining. I'd also try to keep the cast of characters limited. The more people present, the more difficult it is to get to more sensitive topics. One way to account for that is to build some time into the agenda (preferably toward the end) for a private session with the Executive Director and Board Chair.

How much time should you allot? For most general grant-level projects, I'd say you should be able to accomplish what you need in two hours. Anything longer becomes a theatrical production that misuses the time of the agency personnel. Obviously, for larger, multi-year grants one could justify an entire day onsite to accommodate a series of meetings with various components/constituencies of the project.

What do you want to get out of the site visit? At one level, you are developing a relationship with the organization and its community, so it is essential to take time to get acquainted and to hear the "story" of the agency and the project. It is also important to leave time for their questions about the Foundation, and to tell our story if they're interested. Part of our purpose is to demystify not only TCWF but philanthropy in general and to make it more accessible to those we should be serving. Diplomacy is an important part of every site visit. Never forget that your visit is an "event" for the agency in question, even if for you it's merely "business."

At another level, you are there to gather information that will help you make the most informed decision possible. Some things will be learned via direct questions, others by observation, by attending to tacit messages and/or intuiting what is not being said. To help with the latter, it is often a good idea to have a colleague along to share the job of listening and watching what goes on. It's easy to become so focused on a list of questions that you miss other important content. If the agency is dealing with subject matter with which you're unfamiliar, consider engaging a consultant who is an expert in their field to accompany you. It can be a very cost effective intervention, with some potential "value added" for the agency as well.

Think of the writeup format as you prepare your questions, and try to gather as much of the "internal" information you will need as you can during the site visit. For example:

> What is the history of the agency and its key personnel? What is the scope of its activities?
>
> What was the impetus for the project? What prior experience does the agency have in addressing these questions? Was that work evaluated?
>
> Who else is working on this issue? What are the lines of communication, if any?

How will the project be implemented? e.g. techniques for outreach, etc.

How will progress be assessed/outcomes be measured?

Is additional funding being sought? What is the status of those requests?

Is this effort time-limited, or will continued funding be required? What's the plan for sustainability?

The above questions, and others like them, represent a sampling of some obvious inquiries to assess the strength of the project idea and the staff who will carry it out. The other "half" of the visit is to assess the capacity of the organization in general ... this may lead to examination of the possibility of core operating support, including the identification of management issues that the organization would like to work on. Some questions to stimulate that discussion include:

Planning

Does the organization have a strategic plan? If so, when was it last updated? Was an outside consultant used to facilitate the process? How did that go? What issues have emerged for the organization since the plan was completed?

Finances

Does the organization have a fund development plan? What are the organization's current sources of funding? Are they balanced across types of funding, or overly dependent on one type? Does the organization fund raise from individuals? If so, how? How much in the past year? (Questions from financial review, e.g. Does the organization maintain cash reserves? Is cash flow an issue? Why did the organization run an operating deficit for the previous fiscal year?)

Board Functioning

Describe the composition of the Board. How often does it meet? Is it organized into committees? How do those function? Does the Board raise funds for the organization? In what ways? What is the level of participation, both in fundraising and in meetings? Do members have terms? Has the Board ever engaged in a formal process of Board Development? How recently? What were the outcomes? Ask the Board Chair to describe her involvement in the organization... how much time does she devote each month, etc. Ask her what she thinks are the biggest challenges confronting the organization....

Staffing/Staff Development

How long have the E.D. and key staff been with the organization? What is their annual staff turnover? Is it more pronounced in particular positions? What kinds of starting salaries and benefits are offered? What kinds of opportunities for staff development are offered? What is the ethnic composition of the staff re: clients served? etc.

Any or all of the issues that might arise in talking about the organization are fair game for inclusion in a core operating support grant, e.g., engaging a consultant to work with the Board or help with developing a fundraising plan. If we're serious about capacity building, we should see these concerns as equally valid as questions we might have about the way an organization implements its programs.

In addition to answering questions, the site visit may raise some new ones. You may want to give the organization an opportunity to respond to those in writing. You may even decide to ask them to revise the proposal itself, e.g., for core operating support.

Post site-visit is also the time to check out your observations with others who have knowledge of the organization. The standard technique is phone calls to individuals in the area or elsewhere who might serve as good informants. I believe that it is appropriate to assure informants that their comments will be held in confidence (i.e., within the Foundation). These calls can be fairly brief, but again you should listen carefully to make sure that they are not just telling you what they think you want to hear. If you want their honest opinion, you should not set the conversation up as if your mind were already fixed.

You might begin by asking their general impressions of the organization/personnel in question and then segue into more specific probes regarding particular aspects of the project, etc. I would want to consult at least two different individuals ... and perhaps more if significant questions are raised or the project is particularly complex. You should most definitely check with others who have previously funded (or are currently funding) the organization to see what their experience has been. They can often provide you with the most candid feedback of all.

The final stages of due diligence accompany the preparation of the writeup. If questions are raised at the staff review, there may be a need to call the agency or confer with additional references to fill in the final details. You may also remember questions that you forgot to ask that are important for your analysis. By all means, follow up with a call. But at this invested a good deal in the process, and we shouldn't be asking more of them unless we're truly on the "home stretch" toward funding.

Postscript

By now it's clear that due diligence is as much art as science. Two different program officers visiting the same program can come away with different impressions ... and that's not a bad thing. If everyone in philanthropy thought alike, grantseeking would truly be a high risk proposition. But that's not to say that we shouldn't strive for rigor and consistency in the way TCWF staff approaches the task of grant analysis. This is a very serious undertaking for the organizations who apply to us for funds. If we had to personally call each unsuccessful applicant with the bad news, we would be confronted with that reality on a daily basis. We owe them and our Board the assurance that we are worthy of the privileged positions we occupy, and that we are dedicated to applying the very highest standards to our work. It is my hope that this piece will prove useful to you in fulfilling that promise.