



A discussion paper on  
risk and good grantmaking



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## Executive summary

The Big Lottery Fund commissioned Diana Leat to write a discussion paper exploring the nature of risk and how it applies to the business of grantmaking. The purpose of the paper is to set out the challenges for grantmakers and to promote a debate about risk and good grantmaking. It looks at the experience of foundations in handling risk and the particular dilemmas facing the Big Lottery Fund.

Grantmakers can give out their money in different ways according to their goals, values and priorities. Associated with the whole process are various inherent risks, which grantmakers are expected to overcome while maintaining low costs and reducing bureaucracy. There are advantages to grantmaking in terms of flexibility, spread and participation, fostering innovation, building on what exists and accountability. Each of these advantages carries with it a corresponding risk, but minimising the risk tends to reduce the advantage.

Attitudes to risk vary between types of organisations and activity. For venture capitalists or industries focused on innovation, risk-taking is a key and essential part. In other sectors, risk is less widely acknowledged or tolerated, and prevention or risk minimisation is the guiding principle. Voluntary organisations such as foundations may see themselves as risk-takers but are not always clear or consistent about what this means. In any case, rather than seeking to anticipate every risk or danger, it may be a more effective approach to develop the capacity to respond resiliently to untoward events and to learn from experience.

The Big Lottery Fund faces particular dilemmas as a non-departmental public body distributing Lottery funds, which spring from its accountability to many formal and informal stakeholding groups. Foundations have greater freedom in the way they distribute their funds but the Big Lottery Fund faces multiple pressures and expectations from those who have an interest in it, and its management of risk is thus played out in a very public arena. In particular it faces two sets of expectations: it is expected to behave like a statutory grantmaker on one hand, and on the other, it is assessed in terms of the values and expectations derived from the practice of independently endowed foundations. There is a tension between some of the Big Lottery Fund's goals and principles and the expectations of its stakeholders. Ultimately it is only possible to achieve the Fund's mission of 'bringing real improvements to communities, and the lives of people most in need' if certain risks are taken.

Different types of risk can be addressed by grantmakers in different ways. The goals, values and organisational culture of the grantmaker will affect how it perceives, tolerates and handles risks. Tools such as heat maps provide a framework for identifying and managing organisational risk. Checks and controls can be increased, although by reducing potential harm, benefit is likely to be reduced too. Grantmakers can rely on others, by using proxies as indicators of trustworthiness, or by outsourcing grantmaking activity altogether. Each of these approaches has its advantages and disadvantages.

The effective grantmaker must thus make choices in its strategic decisions, the way it operates and how it manages its relationships. Risk is ever-present, comes in different forms and has the potential for benefit as well as harm; dealing with one type of risk may reduce other benefits and increase other harms. All grantmaking is a matter of choices and trade-offs, with all options carrying both negative and positive risks.

**‘ Don’t play for safety.  
It’s the most dangerous  
thing in the world ’**

**‘ You cannot make  
something foolproof,  
because fools are so  
ingenious ’**

**‘ If seeking to anticipate  
dangers saps a system’s  
energies without  
enabling it to guess  
right, for instance, then  
the system might end  
up without the benefits  
of either anticipation or  
resilience. ’**

From ‘Searching for Safety’ by  
A. Wildavsky (1988).

## Introduction

Spending money is easy. Spending limited resources effectively and efficiently is extraordinarily difficult; doing so in ways that please everyone is impossible as long as demand for money exceeds supply. Grantmakers are subject to a range of contradictory demands.

For example, they are expected to: innovate – but not to risk failure; to make sure that applications are sound – but to make grants with minimum bureaucracy, speedily, with easy access for small local groups, and at minimum cost; to avoid duplicating other funding or only funding already well-supported causes – but to fund causes that command widespread support from the general public; and so on.

Grantmakers face two major challenges:

- ▶ How to design grantmaking processes in ways that provide a basis for sound and fair decisions, minimise risks of failure and fraud and, at the same time, retain the grantmakers' commitment to other principles such as innovation, and openness and accessibility to small and marginalized groups with little or no track record.
- ▶ How to increase public, political and media understanding of what grantmaking can and cannot achieve, its inherent riskiness and the dilemmas and trade-offs involved. Meeting this challenge is the basis for a more informed debate regarding efficient and effective grantmaking, and appropriate performance measures for different types of grantmakers, and grants, with different goals.

The purpose of this paper is to address the challenges above. The aims of the paper are to:

- increase political, media and public understanding of grantmaking, the dilemmas grantmakers face and differences between grantmakers
- stimulate a more rounded debate about risk and good grantmaking as a basis for more informed discussion regarding expectations and performance
- make suggestions for ways in which constructive risk-taking may be managed within grantmakers of different types
- highlight issues for further exploration and discussion.

Parts of the paper focus on the special dilemmas for the Big Lottery Fund as a grantmaker operating on a huge scale, funded by Lottery ticket purchasers, accountable to government, with multiple goals and subject to a range of sometimes contradictory expectations of multiple stakeholders. However, many of the dilemmas faced by the Big Lottery Fund are those of other grantmakers, written larger and in the neon lights of tabloid, public and political attention.

## Ways of getting things done

Making grants to others is one way in which government, business and the charitable sector get things done to achieve their chosen goals. There are of course other ways of getting things done:

- do it yourself – operating your own programmes
- contract someone else to do it – contracting out/purchasing
- give loans
- give grants.

Each of these approaches has advantages and disadvantages in terms of control, risk, costs and so on. The costs and benefits of each approach depend on:

- how much control you want to maintain
- what (other) goals you want to achieve
- how much you know about how to achieve those goals
- how innovative you want to be
- how closely you want to be associated with projects
- the extent to which you want to retain flexibility in ends, means and agents
- the availability of 'suppliers'(grantees) at acceptable prices.

It is worth noting here that the major early US philanthropists (e.g. Carnegie and Rockefeller) began as operating organisations on the grounds that this gave them maximum control, avoided high transaction costs in selection and monitoring of grant recipients, avoided problems of deciding on criteria for recipients and avoided risks of inefficiency and ineffectiveness. They subsequently became grantmakers because it was politically desirable to reduce the perception of control by a super-rich founder and to distance the organisation from choice of priorities and results.

Today, some grantmakers are beginning to reconsider the advantages of doing some things themselves (rather than making grants to others) and/or adopting a hybrid model between fully operating and solely grantmaking.

## 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.

- ▶ Grantmakers cannot typically inspect the quality of the finished product before the decision to purchase/fund.
- ▶ Without voters, shareholders or customers, grantmakers do not have market indicators and knowledge. The idea that grantmakers may obtain all the knowledge they need via the demands of grantees overlooks the fact that grant applicants come to beg not to buy. 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 to apply for a grant).
- ▶ Grantmakers work through (often hundreds or thousands of) grantees with whom they have typically had little previous contact and of whom they have little direct knowledge.
- ▶ Grantmakers typically set out to fund new and untried services and thus suffer from the 'liability of newness' (DiMaggio, 1992).

## Advantages of grantmaking

- ▶ Grantmakers need ‘unbiased’ knowledge of applicants who have an interest in presenting only that information which they choose to present and which is most supportive of their application.
- ▶ 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.
- ▶ 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, keeping the strings attached to the grant as loose as possible.

And grantmakers are expected to overcome these risks with low costs, bureaucracy and overheads.

So why, given the risks and the availability of other ways of doing things, is grantmaking adopted as an approach? Grantmaking has a range of advantages for certain purposes.

### Flexibility

Grantmaking:

- allows flexibility/spread of priorities (both operating and contracting directly and indirectly tie you into narrower and longer term priorities)
- allows flexibility in the length of financial commitment
- allows flexibility in size of financial contribution
- allows flexibility in means, enabling the grantmaker to attack a problem from different angles in different ways
- allows flexibility to take into account local differences
- allows flexibility in drawing in other funders without elaborate legal structures of joint ventures etc
- allows the funder flexibility to avoid bearing the full historical and present overhead costs of provision
- allows a more immediate response without the need to appoint new staff, develop new programmes from scratch, develop new knowledge etc, and without the detailed legal processes of contracting.

### Spread and participation

Grantmaking:

- compared with operating and contracting, grantmaking allows wider geographical spread of spending, potential benefit and profile
- involves a wider range of ‘suppliers’/grantees and allows greater participation
- allows provision for small scale/ minority interests and needs.

### Innovation

Grantmaking:

- allows ‘space’ for newcomers/keeps barriers to market entry low
- enables responsiveness to new ideas and approaches outside the mainstream (where research suggests innovation is most likely to come from)
- allows freedom to try out a range of things without close specification and/or longer term commitment (this may be especially important when there is uncertainty about what will work)
- allows experimentation/trial without high cost and commitment.

## Benefits and risks of grantmaking

### Building on existing resources

Grantmaking:

- builds/draws on the knowledge, reputation, experience and networks of grant recipients.

### Accountability

Grantmaking:

- distances the funder from responsibility for accountability for results
- avoids accusations of ‘arrogance’/ ‘directiveness’ /control by the funder; allows the funder to present itself as responsive, democratic, enabling etc.

Advantage	Disadvantage/Risk for Funders
Allows flexibility/spread of priorities (both operating and contracting directly and indirectly tie you into narrower and longer term priorities)	Funder has insufficient knowledge in each area to select applicants and to make grants efficiently and effectively
Allows flexibility in time commitment	Short term commitment – funding less than fully effective
Allows flexibility in size of contribution	Grant recipient wastes time on further fundraising and/or cuts corners to fit size of grant
Allows flexibility in means – can attack a problem from different angles in different ways	Too many small-scale and/or short term ‘experiments’
Allows wider geographical spread of spending, potential benefit and profile	Increases transaction costs; lack of adequate geographical knowledge and networks
Involves a wider range of ‘suppliers’	Funding spread too thinly for effectiveness Increases transaction costs Problems of moral hazard in selection Allows entry/funding of inexperienced, ineffective or inefficient organisation Runs risk of duplication
Allows ‘space’ for newcomers, small organisations etc (rather than restricting access only to larger, better known organisations with an established track record) keeps barriers to market entry low	Increases transaction costs Problems of moral hazard in selection Allows entry/funding of inexperienced or ineffective or inefficient organisation

Advantage	Disadvantage/Risk for Funders
Allows provision for small scale/ minority interests and needs	Lack of public support
Encourages participation, vibrant civil society, social capital etc	Difficult to measure Measures different from production of tangible service/product
Enables responsiveness to new ideas and approaches outside the mainstream (where research suggests innovation is most likely to come from)	Risk of failure Risk of criticism from mainstream
Allows flexibility to take into account local differences	Risk of inefficiency and lack of economies of scale
Allows flexibility in drawing in other funders without elaborate legal structures of joint ventures etc	Risk of duplicated/overlapping funding Lack of 'ownership' by any one funder Complex, confused accountability
Allows freedom to try out a range of things without close specification and/or longer term commitment (can be especially important when there is uncertainty about what will work)	Lack of specification may create lack of focus
Allows the funder flexibility to avoid bearing the full historical and present overhead costs of provision	Risk of ineffective funding because not all costs are covered
Builds/draws on knowledge, reputation, experience and networks of grant recipients	Risk that the grantmaker does not develop its own independent knowledge.
Allows more immediate response without the need to appoint new staff, developing new programmes from scratch, developing new knowledge etc, and without the detailed legal processes of contracting	Risk of lack of knowledge within the organisation to select applicants and projects, avoid duplication and to make grants effectively and assess progress Inadequate specification and control
Allows experimentation/trial without high cost and commitment	Risk of failure
Distances the funder from responsibility for accountability, failure, controversy etc	Risk of 'fund it and forget it' culture; lack of learning
Avoids accusations of 'arrogance' / 'directiveness' /control by the funder; allows funder to present itself as responsive, democratic, enabling etc	Funder pushed and pulled by conflicting demands leading to short term, widely spread, ineffective funding

## The benefits of risk

Grantmakers can attempt to reduce some of these potential disadvantages, but in doing so they are likely to reduce some of the advantages of grantmaking.

For example, they can focus their priorities and stay with each priority for longer time thus reducing the risk of ineffective grantmaking, but this will increase the risk of appearing 'autocratic', putting low (or no) priority on funding other causes, reducing access to smaller groups, and so on. Funders can reduce the risks associated with easy access for smaller groups by increasing the checks in the selection process – but this may not only effectively reduce access for smaller groups but also increase the transaction costs of grantmaking and lead to accusations of slow processes and 'sitting on money'. Funders can increase the transparency of their procedures and decisions by publishing detailed criteria; but this increases the risk that applicants will use these criteria as a 'script' for a successful application.

The broader point here is that very few actions are totally risk-free. Risk is part of life and grantmaking. The reason we aren't constantly paralysed by fear is that we ignore some risks, not necessarily because they are trivial or infrequent (though that is true sometimes) but because the benefits of taking those risks outweigh the consequences e.g. crossing the road, driving cars, allowing planes to fly over built-up areas, locating airports close to cities.

We tend to see risk as something negative – 'look before you leap' – but we also recognise the need to take risks to gain benefits – 'nothing ventured, nothing gained'. Instead of seeing risk in terms of 'the potential for harm', it is more appropriate to define risk in terms of its potential for both harm and safety. Nothing is under all circumstances and for all people risk-free; but nothing, or very little, is under all circumstances and for all people without benefit/desirable consequences. Risk creates value in business and, in grantmaking, risk is a necessary ingredient of experimentation, innovation and accessible grants. Innovation is incompatible with trial without error. Innovation requires trial and error combined with learning, looking back and adjustment.

For venture capitalists and certain types of investors, risk is seen as something positive; high returns only come from risky ventures. Indeed, in parts of the financial services industry, service providers are now required to advise potential clients that risk is part of the nature of the enterprise, hence the warning that your investments may go up as well as down. This is a slogan that might well be adopted by grantmakers – some grants may be effective; others may not, but that is the nature of the game. In other financial services, such as banking, considerable effort goes into reducing the risks of lending to individuals via formulaic credit-rating procedures, but it is acknowledged that lending to organisations/businesses involves more complex considerations not so easily captured in standard questions and procedures. Again grantmakers might take note of this.

In other sectors, risk is less widely acknowledged/tolerated. In the public sector, and in publicly quoted businesses, risk tends to be viewed negatively and considerable regulatory effort goes into reducing risk, or the appearance of risk. The voluntary sector, including foundations, talks about taking risks but it is often unclear what this means. For voluntary organisations funded by statutory bodies and/or working in heavily regulated areas (e.g. children, health etc) taking certain sorts of risks is, in effect, ruled out.

## Special dilemmas for the Big Lottery Fund

Avoiding risk – prevention – is usually seen as better than dealing with its potentially harmful consequences. But that is only true: (i) if we can anticipate all the risks in advance, and know how to avoid them without losing other potential benefits; and (ii) if avoiding risk does not induce rigidity and reduce learning and resilience to cope with new risks in future. Too much prevention can itself sometimes create risk if preventive measures get in each other's way and induce a spurious feeling of safety.

So there is a strong argument to suggest that, rather than trying to anticipate every risk/danger (which is probably impossible), it is better to inculcate the capacity to respond resiliently i.e. to learn from experience to cope with untoward events.

Although the Fund is not a charitable foundation as the term is commonly understood, in many respects, it behaves very much like such organisations, is sometimes viewed as such by the wider voluntary sector, identifies with its foundation peers and draws some of its Board members, staff, values and practices from the foundation world. For those reasons it is worth looking briefly at the accountability of foundations, and then at the Fund's special dilemmas.

### **Grantmaking foundations and accountability**

Grantmaking foundations derive their power not so much from their resources per se but from their resource independence. Unlike statutory organisations, foundations are not constrained by considerations of electoral approval. Unlike fundraising voluntary organisations, foundations are not constrained by thoughts of future donor and member support. Unlike businesses, foundations do not have to please customers, lenders or shareholders in order to survive. In theory, endowed foundations need to court neither customers, voters nor reputation in order to stay in business.

This freedom from the constraints of pleasing customers, voters, shareholders, donors and so on, and the light regulation of foundations, has had a number of profound effects on the way in which foundations see their roles, the expectations others have of them and the way in which they work. Lack of close regulatory and popular scrutiny combined with a traditional philosophy of gift-giving has enabled foundations to 'give without counting the cost'. Until very recently, foundations made grants with very little consideration of efficiency and effectiveness, requiring very little accountability from grantees. Although this approach had a number of disadvantages, it also enabled foundations to:

- fund groups and causes that do not command voter or popular support
- experiment and innovate without fear of failure
- give grants unrelated to performance measurement considerations/criteria
- adopt a hands-off approach to the way in which grantees work
- spread grants widely and often thinly

## Big Lottery Fund and accountability

- determine the size and duration of the grant according to the rules and needs of the foundation (e.g. formal and informal guidelines concerning maximum size and length of grant) rather than what might be required to achieve an outcome
- support a wide range of new, small organisations that would be unlikely to comply with requirements for, say, receipt of public money
- give grants with minimum bureaucracy both prior to and after grantmaking
- keep overhead costs to a minimum.

These characteristics provided the basis of how foundations saw their roles and the expectations others had of them. Foundations, and others, saw the 'good foundation' as one that took risks, did not interfere in grantees' management, and kept bureaucracy and overheads to a minimum.

Conversely, voluntary organisations expected that foundations would give small grants without any very clearly specified outcome, would not require detailed information either before or after a grant, would not 'interfere' in what they did, and so on. By extension many of these values, practices and expectations were transferred to the National Lottery Charities Board (NLCB) and later the Community Fund and the Big Lottery Fund.

The Big Lottery Fund is different from independent charitable foundations:

- it spends money raised from the public, and is subject to oversight/accountability from Parliament
- it has the support of Government but this also means that the Department for Culture, Media and Sport (DCMS) expects success; and there is a risk that the Fund will be seen as too close to government
- it operates on a huge scale
- it is required to have a wide geographical spread
- it is expected to be accessible to small and large groups
- given the necessity for fairness, transparent and accountable procedures and due diligence, there is a risk of accusations of 'sitting on money' and slow application processes
- given its semi-public status, media scrutiny and lack of understanding of grantmaking, it is expected to have low overheads
- as the largest Lottery distributor, it has been given and has accepted a remit to lead on innovation and best practice
- the Big Lottery Fund is subject to fluctuations in income over which it has no control

- it is expected to please everyone both because it is a semi-public organisation and because there is an assumed connection between ticket sales and the popularity of causes funded
- it is seen as spending 'public'/'the public's' money though neither is technically true.

This list highlights the fact that the Big Lottery Fund is subject to two broad sets of requirements. On the one hand, it is subject to requirements more like statutory grantmakers; on the other hand, it is assessed in terms of values and expectations derived from the practice of independent endowed foundations. To complicate matters further, the application of these not entirely compatible expectations is played out in a highly risk-averse culture and under tabloid scrutiny.

Like many other grantmaking bodies, the Big Lottery Fund has multiple goals. It also has a longer list of stakeholders than many other grantmaking bodies.

## Multiple goals

The Big Lottery Fund has multiple goals (as stated in various papers). Its overarching goal is:

- 'bringing real improvements to communities, and to the lives of people most in need' (Mission statement).

It also has other goals/principles in how it achieves this overarching goal:

- 'intelligent' grantmaking, leading on best practice
- multiple programmes and areas of benefit; a portfolio of approaches to funding the voluntary and community sector, including infrastructure support, building cross-sectoral partnerships, capacity-building and increased support for grant applicants and grant recipients
- funding large regenerative national projects
- launching new and innovative programmes
- using a wide range of delivery mechanisms, open programmes, strategic programmes, allocations, local priority setting, and delegation to award partners
- complementing government's strategies to strengthen the voluntary sector, develop the voluntary sector role in service delivery, encourage social enterprises and promote civic renewal

- working in partnership with the voluntary, charitable, community and statutory sectors to develop programmes that complement government strategies
- taking into account local need and delivering Lottery funding to where it is needed most
- being open and accessible, keeping people informed and listening to them, and 'streamlining' application processes
- being more efficient so more funding can directly benefit communities
- learning from its grantmaking and applying this internally and sharing it externally
- building on existing good practices, promoting best practice and improving standards of service
- spreading 'good messages' from evaluation of programmes
- contributing to increasing public involvement in grantmaking.
- devolved administrations – departments, civil servants, politicians/advisers
- political parties
- the public
- the media
- potential applicants/funding partners
- organisations working in areas funded
- regional government /assemblies/development agencies/local authorities /strategic partnerships
- Camelot
- independent charities, pressure and campaign groups and their representative umbrella groups
- business and industry
- grant recipients and beneficiaries
- minority groups.

## Multiple stakeholders

The Big Lottery Fund has multiple stakeholders including:

- Whitehall – departments (Education, Health, DCMS, Home Office) /senior civil servants/political advisers
- Westminster – Cabinet/ Ministers/MPs/Lords

Without more detailed study it is impossible to say what expectations each of these categories expects from the Big Lottery Fund, and there are almost certainly different expectations within each group.

Very broadly, however, it may be true to characterise expectations as follows:

The Big Lottery Fund stakeholders	Key Expectations of the Big Lottery Fund
<p>Whitehall – departments (DCMS, Education, Health, Home Office) /senior civil servants/political advisers</p> <p>Westminster – Cabinet/Ministers/ MPs/Lords</p> <p>Devolved administrations – departments, civil servants, politicians/advisers</p> <p>Political parties</p>	<p>To undertake multiple programmes and areas of benefit; a portfolio of approaches to funding the voluntary and community sector, including infrastructure support, building cross-sectoral partnerships, capacity-building and support for grant applicants and grant recipients</p> <p>To use a wide range of delivery mechanisms, open programmes, strategic programmes, allocations, local priority setting, and delegation to award partners</p> <p>To complement government’s strategies to strengthen the voluntary sector, develop the voluntary sector role in service delivery, encourage social enterprises and promote civic renewal.</p> <p>To fund large regenerative national projects</p> <p>To launch new and innovative programmes</p> <p>To work in partnership with the voluntary, charitable, community and statutory sector to develop programmes that complement government strategies, take into account local need and deliver Lottery funding to where it is needed most.</p> <p>Not to create needs/projects that will require subsequent funding from government (although some may also see the Big Lottery Fund as a ‘laboratory’ for potential future provision/policy)</p> <p>Success without failure</p> <p>Avoidance of risk</p> <p>Accountability</p> <p>Low overhead costs</p> <p>To spend funds without delay</p> <p>To make large numbers of grants</p>
<p>The public</p> <p>The media</p>	<p>Funding of a wide range of causes appealing to purchasers of Lottery tickets</p> <p>Speedy application processes</p> <p>Avoidance of risk</p> <p>Success without failure</p> <p>Low overhead costs</p>

<b>The Big Lottery Fund stakeholders</b>	<b>Key Expectations of the Big Lottery Fund</b>
<p>Potential applicants/funding partners</p> <p>Organisations working in areas funded</p> <p>Regional government, assemblies, development agencies, local authorities, strategic partnerships</p> <p>Other grantmakers</p>	<p>Accessibility/minimum bureaucracy in application/decision process</p> <p>Support to make a good application</p> <p>Funding for their areas</p> <p>Openness and accessibility</p> <p>Partnerships</p> <p>Avoidance of duplication/overlap</p> <p>Participation in defining needs and responses</p>
<p>Camelot</p>	<p>Support for a spread of popular causes in the hope that this will increase sales of Lottery tickets</p> <p>Maintenance of trust in all Lottery activities, lack of negative publicity</p>
<p>Independent charities, pressure and campaign groups and umbrella bodies</p>	<p>Independence of government</p> <p>Support for advocacy work</p> <p>Partnership working</p> <p>Avoidance of duplication of funding</p> <p>Filling gaps in funding</p>
<p>Business and industry</p>	<p>Support for regeneration</p>
<p>Grant recipients and beneficiaries</p>	<p>Full cost recovery funding</p> <p>Funding for core costs</p> <p>Longer term funding to ensure outcomes</p> <p>Flexibility in the terms of the grant</p> <p>Proportionate, not overly demanding performance accountability</p>
<p>Minority groups</p>	<p>Funding for particular and unpopular interests</p> <p>Accessibility</p>

## The power of stakeholders

Of course, not all stakeholders are equal. Some have more rights/legitimacy than others in law. For example, Parliament does have the right to require accountability from the Big Lottery Fund whereas the media, and the voluntary sector, have no legal right to expect this. The problem, however, is that stakeholders with no or few legal rights may nevertheless be able to exercise powerful informal sanctions.

For example, it could be argued that having bought a Lottery ticket the purchaser does not acquire any rights to determine the way in which that money is spent (in the same way as the donor to Oxfam relinquishes the right to direct in detail what is done with the money – the money now belongs to the charity not to the donor). However, whereas the donor to a charitable foundation cannot take back the money, the purchaser of a Lottery ticket can stop buying tickets (although it is not clear how likely this is).

Similarly, the voluntary sector has no legal right to participate in the choice of the Big Lottery Fund's priorities, and the Fund exists to serve disadvantaged people not the voluntary sector. Nevertheless the voluntary sector may behave as though it has such rights and can use adverse publicity to undermine the Fund's reputation.

## Internal stakeholders

There may be a further complication within the Big Lottery Fund. As the product of a merger between two somewhat different organisations with different histories, provenance, organisational cultures and so on, different stakeholders within the Big Lottery Fund may have different values and expectations, or may rank the goals above differently. This will affect the way in which pressures and trade-offs between different risks are perceived.

## Multiple goals and multiple stakeholders = multiple pressures

Pursuing its multiple goals and satisfying the diverse expectation of its multiple stakeholders creates a range of incompatible pressures on the Big Lottery Fund. For example, it is not possible to:

- be innovative without the risk of failure (it is also difficult to be innovative and experimental while being focused on pre-determined targets and outcomes)
- deliver funding to where it is needed most without funding some causes that do not command popular support (i.e. if causes do command popular support then they are likely to be able to raise funds themselves)

- engage in 'intelligent' grantmaking and good practice without developing knowledge and skills and evaluation to learn from experience – all of which cost money, increase overhead costs, and require being open about learning from failure as well as success
- be open and accessible to small groups without running the risk of some 'lost' grants (whether through fraud or, more likely, well-intentioned ineffectiveness)
- work in harmony with government goals and strategies without running the risk of being seen as 'too close' to government
- work in partnership with other funders without running the risk of some loss of control over agenda-setting, accountability and 'ownership' of success and failure.

In short, it is not possible to bring 'real improvements to communities, and to the lives of people most in need' without taking a range of different types of risk.

## Dealing with risk

Funders adopt different approaches to handling risk, some proactive and some reactive.

### Risk, tolerance and capacity

#### *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 by 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 grantmaking
- 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 grantmaker's 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.

#### *Goals, values and organisational cultures*

Goals and values will have a profound effect on what is considered to carry negative rather than positive risk. For example, some grantmakers may value their reputation for accessibility and low bureaucracy; others may value their reputation for taking political risks, challenging the established order.

Organisational culture more generally will also have an effect on perceptions of positive and negative risk. In many ways, risk-taking is built into the culture of grantmakers in that they may describe themselves as 'risk-takers'. But it is often unclear what types of risk they see themselves as taking. Between organisations, and within any one organisation, staff and trustees may have very different cultures of risk in terms of both what type and what level of risk they are prepared to take. They may all agree that they are risk-takers but mean very different things by this.

Starting with the list above it may be useful for staff and trustees to identify what they mean by 'risk-taking' and then consider the level of risk they consider appropriate in each type.

Grantmakers also need to consider how their views on risk-taking fit with other organisational values. For example, is it possible to be a learning organisation without taking risks? Is it possible to be innovative without taking risks? Is it possible to be accessible without taking risks? Are there some organisational goals and values that discourage risk-taking? For example, how does emphasis on achieving pre-specified outcomes, targets, performance measurement and accountability fit with different types of risk-taking? (For grantmaking organisations with investment income there is a range of other questions including whether it is possible to maximise income without taking investment risks).

#### *Skills and other resources*

The grantmaker's skills and other resources will also affect what types of risk it assumes e.g. does the organisation have the time, resources, knowledge, networks, and tolerance of overhead costs effectively to manage a large programme of small grants?

### *Identifying risks and tolerance*

Each type of risk and ways of dealing with it carries different potential for harm and benefit. Thus the organisation's first step in dealing with risk is to identify:

- what risks it is taking and of what type
- what risks it is prepared to take and of what type
- which risks it can reduce without losing other benefits or increasing other harms.

The types of risk the grantmaker is most vulnerable to, which it cares most about, and which it can tolerate will vary between grantmakers. Responding to all risks as though they have the same probability, level of impact and involve the same potential for harm and benefit is a recipe for a system paralysed by its own procedures.

### **Constructing a heat map**

One method of carrying out this sort of analysis of risk is to construct an organisational 'Heat Map' that tags exposure to risk in different colours to highlight different risk concentrations. The map can then be used as a basis for conversation and further analysis by Board and staff. In business, a heat map requires regular review, maybe as often as monthly.

Alongside creation of a heat map, organisations need to develop a culture in which Board and staff automatically look at risks, and ways of dealing with them, in terms of potential for harm and benefit. Merely considering the positive and negative aspects of any given risk, or way of dealing with a risk, transforms risk assessment.

In dealing with risk, it is important to be constantly aware that measures to reduce risk will create or exacerbate other risks.

Based on the heat map, the grantmaker is in a better position to devise a risk strategy. This should be stress tested against different scenarios. In business, worst case scenarios and fatal risks are usually relatively clear. What are worst case scenarios and fatal risks for grantmakers? For endowed foundations, fatal risks are very unclear, if not non-existent i.e. as resource-independent organisations, endowed foundations cannot 'die', although they could be subjected to an investigation by the Charity Commission leading ultimately to loss of charitable status. For grantmakers dependent on income from fundraising, issues of reputation, loss of public trust and income as well as greater regulation/control and loss of charitable status are more powerful threats.

### **Increasing checks and controls**

Dealing with risk is often seen as a matter of increasing checks and controls to anticipate potential for harm in advance. So, for example, it may be suggested that grantmakers can manage risk by:

- creating advisory committees or referees to scrutinise grant applications
- bringing in consultants to strengthen the grantee organisation
- creating a steering committee for each grant/project
- establishing break points in grants/ projects
- instituting close monitoring, regular visits or meetings
- requiring funder representation on the management committee
- bringing the project in-house for intensive care.

But increasing checks and controls, although useful to a degree, has various weaknesses over and above the obvious ones of cost and feasibility for large scale grantmakers:

- risks have the potential for harm and benefit, and taking measures to reduce harm often also reduces the potential for benefit
- this approach assumes that all potential harms can be anticipated in advance
- too many, or disproportionate, checks can increase costs and significantly reduce the speed at which the organisation can work
- risks are of different types for which organisations have different levels of tolerance and levels of capacity to deal with.

### **Relying on others**

One approach to dealing with risks the organisation does not have the skills and capacities to handle is to rely on others. A widely used way of doing this is to use the standards or actions of others as a proxy for trustworthiness.

### *Proxies for trust in efficiency and effectiveness*

Charity registration is one of the most commonly used proxies for trustworthiness. The difficulty with relying on checks by other organisations is that the checks have to be 'fit for purpose'. So, for example, the problem with relying on registration with the Charity Commission as a measure of trustworthiness or effectiveness or good management is that these qualities do not necessarily follow from registration. Charity registration is a test of charitable purposes and is not designed to indicate anything about the wider qualities of the organisation.

There is a range of other more or less explicit indicators grantmakers may use to assess trustworthiness, efficiency and effectiveness. Grantmakers may find it useful to make a list of the assumptions they explicitly and implicitly use as indicators. Some proxies are based on the standards of others, others are more amorphous. The following list may provide a starting point in identifying which assumptions you use.

- charity registration
- other standards/benchmarks e.g. Investors in People etc
- receipt by the applicant of funding from another reputable funder
- other awards (e.g. prizes, certificates etc)
- age of the applicant organisation
- level of income
- applicant organisation's own account of its achievements
- reputation of director, key staff etc
- Board members and patrons
- composition of Board
- governance structure
- presence of equal opportunities and other policies
- evidence of strategic planning
- evidence of a business plan
- sound finances
- low overhead costs
- involvement of volunteers
- applicant organisation has a good reputation in the field
- applicant organisation is known to others in the geographical area
- applicant organisation, or a member of Board or staff, is known to someone in the grantmaking organisation
- correctly completed application form
- previously funded.

Trustees and staff will undoubtedly want to reject some of these proxies and add others of their own. It is important that this exercise is as open as possible, giving people the opportunity to bring to the surface often deeply-rooted, taken-for-granted assumptions. For example, in more than one grantmaking organisation I have worked with, an application letter written on coloured paper in violet ink would immediately be rejected.

The point is not that these indicators have no value but that they do not always tell you what you think they tell you, and they may be good indicators of some types of risk and poor indicators of others. For example, funding by another organisation is only a reliable proxy for trust in efficiency and effectiveness if you assume that the other funder did not simply rely on evidence of funding by yet another funder. The composition of the Board, or the presence of 'big name' patrons may tell you more about the age and popularity of the organisation than it does about its efficiency and effectiveness. The age of an organisation tells you very little about the possibility of 'rogue risk'.

More generally, the past is a not wholly reliable guide to the future; and in using all process and structure-based proxies it is important to remember that the most stylish kitchen, with all the best gadgets for time-saving and cleanliness, does not necessarily produce a great meal. For these reasons it is important to be very clear about:

- the explicit and implicit proxies used
- their fitness for purpose (i.e. what they may reasonably suggest and what they may not)
- which types of risk they may protect you against and which they may not.

### *Outsourcing assessments/decisions*

There are other ways of using others to deal with risk. For example, a grantmaker unwilling to tolerate the risks of giving grants to large numbers of smaller, local organisations might contract out that task to another body with greater local knowledge. This not only has the advantage of increasing local knowledge but also of distancing the organisation from the potential risks of wrong decisions. However, this approach potentially reduces the control of the grantmaker, requires new procedures for managing and monitoring the agent, and may also run the risk of being seen as giving an over-large share of resources to one organisation. In addition, being subjected to monitoring and accountability procedures, the agent may become as, if not more, risk-averse than the original grantmaker.

## Conclusion: Making choices

The discussion above has suggested that:

- grantmaking is by its very nature a risky business
- risk is ever-present and has the potential for benefit as well as harm
- risks take different forms and their nature depends on where you stand and what your goals are
- dealing with one type of risk may reduce other benefits and increase other harms
- the Big Lottery Fund faces risks both because it is a grantmaker and because it has many and sometimes conflicting goals and is subject to the different expectations of multiple stakeholders.

Grantmaking is a matter of making choices between goals and ways of reaching those goals, between values and principles and between the expectations of different stakeholders. To a greater or lesser degree, depending on their type, grantmakers face a range of strategic, operational and relationship choices.

### Strategic choices include:

- focussing on the alleviation of symptoms vs. understanding their causes
- focussing on short-term 'quick wins' vs longer term change
- maintaining independence of government vs. working with government to achieve lasting change and greater leverage, or subsidising state activities
- allowing donor control where this is not compatible with responding to greatest need and/or making the most effective use of money
- remaining true to the founder's formal and informal intentions vs. responding to change and innovation
- balancing professionalisation of giving with space for 'out of the box' thinking
- balancing responsible stewardship of funds with real risk-taking and innovation
- maximising income vs. remaining true to principles and mission
- maximising income for grant-making vs. spending on infrastructure and organisational capacity to increase effectiveness.

### Operational choices include:

- balancing the pressure to make grants quickly with the time needed to ensure well-planned applications, sound selection processes and effective grants
- funding those with reputation and proven track record vs. funding the new and the untried
- funding those known to the grantmaker vs. equal chances for all applicants
- regular monitoring of grant recipients vs. allowing flexibility of grant recipients to respond to changing circumstances
- funding only those with the capacity for sustainability vs. taking chances on change
- responding to open applications vs. proactively choosing priorities
- responding to demands and needs vs. staying close to priorities set and principles chosen
- giving a small number of large grants for maximum impact vs. a larger number of small grants for maximum spread
- giving longer term grants (tying up resources) vs. retaining flexibility via shorter term grants

- funding core costs vs. funding project costs with an obvious time limit
- giving applicants all they ask for (encouraging dependence) vs. funding for failure (too little for too short a time).

### **Relational choices include:**

- working with other funders (including other foundations) vs. maintaining independence and encouraging diversity and pluralism
- maximising the independence of grantees vs. ensuring control to secure maximum outcome value of the grant
- publicising existence and work vs. fears of overload on grantmaker, and raising expectations among potential grantees
- maintaining a degree of privacy to allow freedom to fund unpopular causes etc vs. 'maximising transparency and accountability' (adapted from Anheier and Leat, 2002, p50-52).

With the exception of the last choice (incompatible with the Big Lottery Fund's status, accountability structure and Freedom of Information legislation), the Fund faces all of the choices above to a greater or lesser degree. But whereas endowed independent grantmakers have the luxury, and the problem, of making all or most of these choices for themselves, the Big Lottery Fund, by its nature and the requirements imposed upon it, is more constrained in its choices.

For example, the Big Lottery Fund has little choice about its level of independence from government; it does not have a choice about publicising its existence and work, and, as noted above, it does not have a choice about its level of transparency and accountability.

The important point is that all grantmaking is a matter of making choices and trade-offs: you cannot have it all ways, and each way carries both positive and negative risks.

## References

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## Further research

With growing pressures for demonstrable public benefit, emphasis on efficiency, effectiveness, performance measurement and accountability, it seems likely that discussion of risk and ways of enhancing positive risk and managing/reducing negative risk will increase. Further work of benefit to the Big Lottery Fund and other grantmakers might include:

- ▶ Study of use of agents/partners in grantmaking, exploring different rationales and supposed benefits of outsourcing grantmaking; different models and structures; different arrangements for monitoring and accountability; costs, benefits and effects.
- ▶ Study of approaches to risk – positive and negative – in other sectors and industries. Further consideration of approaches in the financial services industry may be particularly useful.
- ▶ Study of cultures of risk-taking, identifying what staff and trustees in different types of grantmaking organisations mean by 'risk', what risks they are prepared to take and why, and what measures are employed to avoid/reduce negative risks.
- ▶ Study of what indicators of trust, efficiency and effectiveness grantmakers formally and informally use and how these relate to different types of risk.

## Notes



