

The 10 Essential Elements of Investing

Essential Element 9 Build inside



Beaver Investing

The investment guide for Canadian foundations and charities
Third edition

Written: February 1, 2019
Updated: April 30, 2020

In Essential Element 8: Own the plan, we suggested that institutions develop an investment plan with the active engagement of board and management, as well as explaining their thinking in the investment plan, so that we they easily share this with new members of the organization. We had thought the present paper would simply cover the theme of sticking to the plan. However, on further reflection, we decided to resolve this theme at a higher level. We decided that the most sustainable way to stick to a plan is by teaching the plan within our organization (to be covered here) and using the plan as a way to communicate our strategy and leadership outside the organization (to be covered in Essential Element 10: Build outside). In this paper, we will discuss sticking to a plan by building a learning organization that is firm on key principles but flexible on learning and improving. We will focus on choosing teachers within the organization to explain the investment approach; developing a transition plan to teach the investment approach when new members join the organization; and developing a learning plan to encourage continuous learning and development.

Teachers

Foundations and charities invest for periods of a generation or longer, creating an inherent challenge in maintaining continuity of knowledge over time. Board members typically serve for less than five years, while executive directors, like executives in other fields, are unlikely to work for the same organization for a decade or longer. For these and other reasons, organizations have policies and procedures, which help to establish a standard way of operating even when people change. While policies are necessary, however, they are not sufficient. New members of an organization come from different backgrounds and have different experiences, which can easily cause a committee of five members to have at least five different interpretations of the same policy. The solution to this challenge is to build an organization that has an in-built capacity to learn and teach.

To do this, organizations need teachers. At a minimum, we recommend that foundations and charities appoint one board member and one member of management as teachers who will teach others about the organization's approach to investing, bringing the investment plan to life as part of the organization's strategy and helping new members to understand why the organization invests the way it does. If possible, we recommend having two board members and two members of management, to create additional capacity and continuity. We should choose teachers who have at least a moderate knowledge of investing but above all who are committed to learning and improvement and who will inspire this culture in the organization. The same qualities are needed for an investment manager, since part of the value of this role is serving as an advisor and consultant to the teachers within the organization.

Transition plan

The transition plan is for changed conditions (assumes new board or management members), while the learning plan, to be discussed later, is for regular conditions (assumes no change of members within the organization).

For board and committee members, the board teacher should orient the new board member by providing them with a copy of the investment plan, together with any literature that helps them to

understand the thinking behind the plan (such as The 10 Essential Elements of Investing). In particular, the board teacher should arrange several one-to-one meetings with a new member to explain the investment approach and how it supports the organization's strategy. The approach to governing can be quite variable from one organization to another, so the board teacher should take time to explain how to prepare for, contribute to and learn from an investment committee or board meeting. In turn, the new board member should read the investment policy together with any supporting literature and expect to learn particularly actively in the first 3-6 months. The new board member needs to adapt to the role of a fiduciary investor, which will likely involve a very different emphasis to their previous experience, such as running a business or investing in an individual capacity.

For management team members, investment will be one of many responsibilities at a small or medium organization. We recommend that the management teacher pick one or two ways of anchoring knowledge of investing with a new manager, usually the strategic plan or the business plan. It is important for a new manager to see that investment matters for the organization. Properly understanding the investment approach is about leadership (doing the right things), which sets up management for success (doing things right). The new management team member, like the board member, should read the investment policy together with any supporting literature. The management teacher should help the new member anchor the process of investing to one big thing such as the strategic plan and teach them how investing supports the organization's purpose and objectives.

Learning plan

Board members will find important sources of learning in the annual review of investment performance and in the investment plan itself. Also, as discussed in Essential Element 4: Simplify, some boards choose to build a learning theme into each board meeting (such as learning how other organizations manage spending to allow for inflation) and reflect on this theme over the course of several board meetings. This is important not just because of the subject matter but because of the focus it puts on reflection (versus reacting to the news of the day) and of the way it compares practice to that of other organizations (showing that an organization's challenges are not unique). Both board members and managers should build carefully on this practice of peer-group practice, not for the usual purpose of comparing investment performance over the short term but for building investment capacity that will last over the long term. Workshops and seminars with peer organizations, to discuss a few themes of common interest, are a good way to build this capacity.

Teachers, whether at the board or management level, enhance learning by carrying out extra reading and reflection on key learning themes identified for the board meetings or for other priority themes that emerge. The investment manager serves as a coach to the teachers and this learning relationship is particularly important in building and sustaining investing knowledge that supports the strategy over the long term, especially for small organizations where systems and processes might not always be fully developed.

Conclusion

We started with a simple premise of having an investment plan and sticking to the plan. Yet we have seen there is more to this challenge than meets the eye. Foundations and charities are often set up to last in perpetuity but their board and management team members do not. To build and sustain organizational knowledge that lasts over years and decades is not a simple matter. To succeed, organizations need to go beyond merely having an investment plan and conducting meetings. They need to be able to orient new members to the organization, explain their approach to investing and show how this supports the strategy as it evolves over time. This builds capacity inside the organization. The other opportunity, as we will see in the final part of this guide, is to build capacity outside the organization, providing leadership to others who are investing for the public good.