

FOUNDATION

EFFECTIVENESS

DEFINITIONS

AND

CHALLENGES

Francie Ostrower



THE URBAN INSTITUTE

CENTER ON NONPROFITS AND PHILANTHROPY

FOUNDATION

EFFECTIVENESS

DEFINITIONS

AND

CHALLENGES

Francie Ostrower

Funded By

The David and Lucile Packard Foundation

in partnership with

Grantmakers for Effective Organizations



THE URBAN INSTITUTE

CENTER ON NONPROFITS AND PHILANTHROPY

Copyright © November 2004. The Urban Institute. All rights reserved. Except for short quotes, no part of this paper may be reproduced in any form or used in any form by any means, electronic or mechanical, including photocopying, recording, or by information storage or retrieval system, without written permission of the Urban Institute.

The nonpartisan Urban Institute publishes studies, reports, and books on timely topics worthy of public consideration. The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders.

All too often, foundations have failed to institutionalize a process to establish standards of effectiveness and regularly assess themselves in relation to these standards. We draw this conclusion from a series of interviews with 61 foundation leaders (CEOs and board heads) of 42 staffed, grantmaking foundations.¹ These interviews probed foundation leaders' understanding of effectiveness, the methods they use to judge it, and how they say their foundations have changed or need to change in order to be more effective. As the following discussion shows, what is clearly needed in so many cases is for foundations to articulate specific understandings of effectiveness in relation to their own institutions, to remain attentive to these, and to ensure that they have a regular process in place by which to assess themselves in relation to the effectiveness approach they have chosen.

The interviews discussed in this report are part of the larger *Attitudes and Practices Concerning Effective Philanthropy* study, conducted by the Urban Institute and funded by the David and Lucile Packard Foundation in partnership with Grantmakers for Effective Organizations. Earlier study publications reported on findings from a mail survey of 1,192 staffed foundations. A sobering conclusion from that survey was that many grantmakers are not engaging in practices that, according to their own standards, are important for effectiveness. The interviews analyzed here further document that important practices are not being undertaken and reveal that all too often foundations have not made an institutional commitment to scrutinizing whether or not their practices match their stated beliefs.

Still, we found that many foundations are interested in issues of effectiveness, and this is likely one reason that fully 70 percent of all foundations asked to participate in this interview research agreed to speak with us (note that these foundations were randomly sampled).

The following pages demonstrate that:

- Foundations typically define “effectiveness” in broad and general terms (e.g., good grantmaking, attaining goals) and considerable variation exists among grantmakers.
- In order to make effectiveness a priority, many foundations need to clarify and specify what they believe it means to be effective. There are multiple approaches to effectiveness, and foundations need to choose one that is appropriate for themselves—but they must be clear about the choice they make.
- Often the major challenge to achieving effectiveness is that: a) effectiveness goals are overshadowed by other priorities, or b) certain dimensions of effectiveness being pursued by the foundation are not compatible with its other effectiveness goals.

¹ In nine foundations, the CEO and head of the board were the same person. In 17 other cases, we interviewed the CEO (and in one case, two co-CEOs) and the board head, and in an eighteenth case we spoke to the daughter of the head of the board (who was also a board member) and the CEO. In the remaining 15 cases, we obtained interviews solely with the CEO.

Of the 42 foundations, 13 had assets of under \$10 million, 15 had assets between \$10 and 50 million, and 14 had assets in excess of \$50 million. By region, nine were from the Northeast, 11 from the South, 13 from the Midwest, and nine from the West Coast. By type, 28 were private independent foundations (of which 17 were family foundations), eight were community foundations, and six were corporate foundations.

-
- Many foundations need to develop, formalize, and expand their methods for determining whether or not they are meeting their standards of effectiveness. This is not to be confused with current widespread calls for quantitative measures, as useful as these measures may sometimes be. There is a tendency to attribute lack of self-assessment to an absence of hard measures. But this study emphasizes that a bigger obstacle to achieving effectiveness and measuring progress toward it is that all too often foundations have not clarified what they mean by effectiveness. Absent a clear conception of effectiveness, foundations cannot assess (quantitatively or otherwise) whether or not they have achieved it, and risk adopting measures first and then adjusting their conceptions of success to fit the measures.
 - When it comes to difficulties in defining and achieving effectiveness, foundations that are otherwise quite different, with respect to size and type, often face quite similar challenges.
 - The problem of defining and achieving effectiveness for foundations is deeply shaped by their unique insulation from external forces. Unlike businesses and many other types of nonprofits, foundations will not go out of business if they fail to sell a product or attract clients. This means that foundations can function ineffectively with little external feedback or consequences. Accordingly, foundations *must* find ways to obtain fresh perspectives and objective data on their performance to serve as a “reality check” on their own perceptions. Note that community foundations do have to attract donors, and thus are uniquely dependent on an external audience. While this promotes accountability to numerous individual donors who have specified particular wishes concerning the use of their donations, this is not the same as having a process for dealing with the overall effectiveness of the foundation as an organization.

The *Attitudes and Practices* study did not start out with a predetermined definition of effectiveness, but sought to understand what effectiveness means to foundations themselves. Likewise, we made no assumption that there is any single way to define effectiveness that is suitable for all foundations and have elsewhere detailed the often dramatic differences in approach taken by foundations of different sizes and types. It also became clear that there are major effectiveness issues in the field that are common to foundations of varied types and sizes, and that is illustrated in this paper.

That said, there is one important component of our focus and boundary to this study that should be stated explicitly—namely that the very use of “foundation effectiveness” as a framework for analysis implies that, at least at some level, foundations are conceived as having (or are trying to formulate) distinct *organizational* identities, policies, and operations. The foundation effectiveness framework is not applicable to some foundations that conceive of themselves not as organizations at all, but as instruments or extensions of individual philanthropy. For instance, one interviewee said that his foundation defines effectiveness as giving large sums to institutions of interest to the donors’ family, and is “as close as you will get to an incorporated rich woman or rich man . . . or in this case, two or three individuals’ philanthropy.” We encountered only a small number of such foundations, probably because we only studied foundations with at least one staff mem-

ber (even if that staff member was only part time). Most foundations in the United States have no staff and it is likely that many of these are also extensions of individual philanthropy. Our organizational framework of analysis is not applicable to those foundations, which are more appropriately analyzed from the perspective of *individuals*' philanthropic effectiveness, including whether or not using a foundation as a vehicle enhances or detracts from effectiveness. This is a very important area for analysis, but it is one that is outside the scope and data of this study. It is very important as well that those who discuss "foundation effectiveness" recognize that the organizational terms in which they typically speak will not resonate with a vast number of foundations in this country, and, if they do want to reach those institutions, they will need to pursue a separate strategy.

A striking finding of our study as well, however, is that the "organizational" versus "extension of individual" philanthropy distinction does not mechanically map onto the small versus large asset size difference among foundations, or onto the family versus professionalized foundation distinction, although these are clearly related. We spoke with small foundations that had quite clear conceptions of institutional mission, while the foundation described above as an extension of individual philanthropy is quite large. Moreover, we spoke with family foundations that were deeply concerned to make the foundation an effective *organization* with professional and structured operations and a clear mission, even as these reflected family priorities. In some cases, foundations were a hybrid, such as one that divided its giving so that part went to institutions of interest to the donor while part was done through programmatic guidelines and review processes. Thus, even when focusing on foundations conceived of as organizations, those concerned with foundation effectiveness will also need to incorporate the individual and personal side of philanthropy into their thinking, because for many foundations finding a way to meld organizational operations and family values and dynamics are key to creating effective foundations.

How Foundations Define Their Effectiveness

Foundations typically defined what effectiveness means in their foundations in highly general terms. The wide-ranging answers given and comparatively low percentages citing any one component testify to the variability of definitions of effectiveness in the field. The generality of the responses is indicative of the fact that so many foundations have not really thought through the specific meaning of effectiveness within the context of their own institution. The most commonly mentioned components of effectiveness were:

- Good grantmaking/strong grant quality (17)
- Attaining foundation goals (14)
- Financial performance (primarily achieving a good return on investment of the corpus) (14)
- Helping a geographically defined community (12)
- Having an impact (12)

-
- Strong fundraising (mentioned by five of the eight community foundations)
 - Between six and eight foundations mentioned bringing about change, implementing donors' wishes, and having a strong board. Smaller numbers mentioned a host of other effectiveness components, such as the following: having a strong infrastructure; professional operating procedures; a good reputation; responsiveness to the community and/or grantees; narrowness/breadth of funding (narrow funding for some, broad funding for others); types of monies granted or withheld (e.g., one foundation advocates capacity-building grants, one said effectiveness partly means not funding administrative expenses); engaging the family (family foundations); and engaging employees (corporate foundations).

One thing that is noteworthy about foundations, however, is that they can and sometimes do function for periods of time *without* a definition of foundation effectiveness. A typical transition is when a foundation seeks to move from the foundation as an expression of individual philanthropy (usually the individual donor's) to a vision of organizational effectiveness. We encountered examples of this situation. In such cases, the family runs the foundation even as they try to develop a definition of what effectiveness will mean and reshape its mission and operating procedures in line with that vision. The phenomenon is not necessarily limited to family foundations—for instance in one case a donor had left funds to establish a foundation in her will and named a (nonfamily) person to administer it, but without any specification of what the foundation's purpose was to be, something that was worked out in subsequent years.

Community foundations clearly have a distinct conception of effectiveness (as compared with private foundations), based in the legal requirement that they pass a public support test and their need to raise money as well as give it away. Accordingly, fundraising and responsiveness to donors and the community as a whole was a major theme among community foundations. Several private foundations also define effectiveness as broadly serving a local community, but for them it is a choice, while for community foundations it is seen as an integral part of their mission. Community foundations explicitly say that they believe effectiveness means something different for them, and that it would be unacceptable for them to adopt approaches that are appropriate for private foundations. For instance, one community foundation interviewee said that private foundations can “just do their thing” but community foundations “ought to reflect the community.” For some community foundations, however, integrating and achieving a balance between their need to raise funds and serve donors, and serving the community broadly in their grantmaking can be an ongoing challenge.

How Foundations Assess Their Effectiveness

The most common method foundations (about half) used to assess their effectiveness was to require grantee reports. The information requested in those reports apparently varies considerably, from financial reports to confirm that money had been used for intended purposes to requests for outcome measures. Some foundations had particular measures for certain types of grants. For instance, a foundation that supports extended school day programs

collected information on student grades. Site visits, investment performance indicators, surveys (of donors, the community, grantees), board feedback, and evaluations were other methods cited, though by relatively small numbers of foundations. Moreover, it is not clear how much follow-up there is in foundations' use of the information. For instance, one foundation acknowledged that it requires grant applicants to submit a logic model but invests few resources in follow-up at the "back end."

Although foundations typically discussed methods of assessing their effectiveness in general terms, some specifically indicated that evaluation activities had strengthened their performance. For instance, one foundation used the results of cluster evaluations to strengthen future grantmaking. Thus, an evaluation of grants it had made to transitional housing programs for women indicated that the more successful programs provided women with follow-up support for a period after women left the shelters—consequently, the foundation now looks for this feature in programs that it supports. Likewise, a corporate foundation that supports elementary and high school education did an internal evaluation that showed the foundation had an opportunity to help this field by connecting grantees with one another and sharing the experiences learned by past grantees, which it went on to do.

Most of the foundations we spoke with, however, said they have no formal method of assessing their effectiveness, and relied on anecdotal evidence, impressions, and informal feedback. For instance, one small family foundation characterized its self-assessment method as "seat of the pants"; a medium-size independent foundation said its self-assessment has been largely impressionistic (though it is starting to do evaluation); and a large community foundation said it does get grantee reports, but otherwise relies on informal impressions and its own sense of whether the community is doing important things that the foundation is part of.

Thus, foundations' assessment of their strengths and priorities with respect to improvement often are based on anecdotal or impressionistic information. Staff and board may receive informal feedback, but it is quite likely that such feedback comes from a limited network of people, and, as foundations themselves acknowledge, it is likely to be positive. Foundations differed in the extent to which they felt confident and comfortable relying on their own impressions or anecdotal evidence. For instance, some local grantmakers said that it is relatively easy for them to "see" the results of their activities because they are in the community. Some foundation staff felt it was important to obtain formal assessments, but their boards did not. In one case, a CEO, skeptical of the highly positive face-to-face feedback they always receive, wanted to do a blind study. The board, though, viewed this as an unnecessary expense, feeling that trustees' contacts in the community gave them adequate feedback about the foundation's performance.

Foundations, at least private ones, are uniquely buffered from external cues or consequences about the effectiveness or ineffectiveness of their behavior. If they are to get an "objective" (i.e., detached) or external perspective, they need to take the initiative to seek it out. But that is something that some foundations clearly feel they need not do, or do not want to do. According to one CEO, his foundation does not know if it is achieving its goals and needs an evaluation. But, he explained,

I've talked with my chairman . . . and his approach is in theory it's a great idea, but why is getting one guy to critique our work going to be—why is he going to

be smarter than the . . . fabulous people we have on our board of trustees? So we have to come up with an evaluation approach that is going to give us more than one person's subjective view of the work that we're doing.

Yet this very foundation, like many others, feels that it performs a valuable service for its grantees by providing them with *its* (external) input and accountability requirements. This disconnect was not a subject often raised by foundations, but one CEO made a rare allusion to it when he contrasted his foundation's demands for strong governance among grantees as a criterion for receiving a grant with the quality of the foundation's own governance. He said:

It's funny, because . . . we always look at, from our grantee(s), or people applying, one of the things we look at is . . . their board effectiveness. And at times we've felt . . . that maybe we didn't have the most effective board—the most engaged board. And so it seemed a little hypocritical and asking me to be a little hypocritical, to pass judgments on others, when our own board maybe isn't the most efficient and effective.

What Foundations Say Would Make Them More Effective

Many foundations say they would be more effective if they changed in some way, but either do not know how to accomplish the needed change or feel unable to do what is necessary for certain reasons. The most common areas for improvement cited by foundations were:

- Better understand how to evaluate the foundation, its impact, progress toward meeting its goals, and/or grant outcomes, and do more evaluation (14).
- Add staff (12). Five of these 12 were community foundations, making this (along with increased visibility) one of the most commonly mentioned needs among community foundations.
- Strengthen grant application and review procedures (10).
- Have more financial resources (10). Four of the 10 were community foundations.
- Increase foundation visibility (9). Five of these nine were community foundations.
- Greater focus (8).
- Greater impact (7).

Among the other things mentioned by smaller numbers of foundations were the following: better monitoring of grants; clearer definition of goals; strengthening the board in some way; greater family involvement (family foundations); and changing the types of activities supported (e.g., one thought they should start giving capacity-building grants, another that the foundation should give less operating support).

We asked interviewees about whether they felt that the foundation would make the changes they think are required and about the challenges to implementing them. Their responses gave considerable insight into why foundations often are not behaving in ways that are consistent with their own effectiveness standards. Sometimes it was because effectiveness was not the true priority in the foundation. In other cases, it was because

one component of effectiveness was prioritized at the expense of another with which it was not consistent. The following are some examples:

- One mid-size family foundation's definition of effectiveness includes setting goals and tracking progress toward them. However, the foundation currently has no formal way to judge where it stands in relation to its goals and feels the goals are broad and vague. Thus, despite the foundation's growing concern with having a greater impact, it has not yet defined what impact it wishes to have.
- A large community foundation realized that many small funds it traditionally accepted were too costly to run, and established a goal that funds must cover their own administrative costs. Implementing that shift has been difficult, though, because the foundation culture says the foundation is also there to help the "little guy" get into philanthropy. Similarly, a small community foundation has not raised its fees (although they are inadequate) because it fears angering people in the community.
- A mid-size private foundation's definition of effectiveness includes bringing about change and having an impact. Yet the foundation often makes grants (for nonprofits to build facilities) that it does not believe bring about change because it feels there is a need for the grants in the community.
- A small business foundation feels it would be more effective were it to give fewer and larger grants. However, as a regulated utility, the company is expected to support many institutions in the community.
- A mid-size community foundation feels that it needs to do better public relations, but acknowledges that it cannot do that and heighten its visibility without getting a clearer sense of organizational identity and direction.

Foundations are not monoliths, however, and in some instances the need for improvement cited was in the eyes of staff but not the board, or among some but not all trustees. Here, the obstacle to change is a lack of consensus around the value of making the change. For instance:

- The head of the board of one large family foundation believes that including more non-family members on the board would help strengthen the foundation, but other family members object and there is concern that non-family members would not be as attuned to honoring the donors' intent.
- The CEO of a corporate foundation believes it would benefit from an evaluation, but corporate staff view evaluation as an "academic" exercise and do not see its value.

Certain characteristic themes emerged among particular types of foundations. For family foundations, one theme was tensions that arise between value placed on keeping many family members engaged (sometimes defined as a part of foundation effectiveness) and making decisions based on considerations of what would be most effective for the foundation as an organization. One example was when a value on getting a clear and

specific mission and theme established clashed with the recognition that family members uninterested in that mission or theme would be unhappy or leave. For some community foundations, attention to donor needs and those of the nonprofits in the community can be difficult to balance.

Changes Foundations Made to Enhance Effectiveness

Foundations offered many examples of things that they had done to enhance their effectiveness, and it is clear that for many, becoming more effective is a process with multiple components that unfolds over time. In a few cases, changes were dramatic in their extent and consequence. Yet a lesson to be learned from these foundations is that seemingly small or incremental changes can yield considerable benefits.

The most commonly mentioned changes foundations made concerned shifts in what they support (12) and changes in their financial investment policies (9). Six foundations said they started to be more active in seeking out what needs they should address (rather than waiting for applications to come to them) and in becoming more organized and professional in their operations. For community foundations, increasing donor services was a major theme, and six of the eight said they had made changes to accomplish this. Five family foundations noted having done things to encourage greater family involvement. Examples of changes made include:

- Multiple foundations moved from accepting grants on an ongoing basis to setting grant application deadlines with fixed schedules for reviewing and making decisions. One such foundation said this helped them make better grant decisions: previously, they sometimes had no money left at the end of the year and were unable to fund a very strong application. By reviewing groups of applications at once, they are more able to make an informed choice and feel they have a process that is fairer to applicants.
- Over time, a foundation started to fund advocacy because its experience convinced trustees that they needed to address the “root causes” of the problems in their field of interest.
- One large foundation decided that its policy of active involvement in grant implementation was inappropriate for its grants to local organizations. The CEO said the foundation would drive itself and grantees “nuts” in its efforts to impact local grantees’ operations. For centralized programs where the foundation works with a small number of groups, it is very actively engaged in program development and tries to have an impact. By contrast, it decided that when you give money all around the country to local institutions “all you can do is put out your money and get some kind of report.” The foundation therefore supports what the organization does, but does not try to change it.

A change that many foundations expressed satisfaction with was to become “less reactive” in their funding and to more actively try to understand important needs and find grantees to fund. For instance:

-
- After it was initially founded, one foundation did all its funding based on whatever applications it received. As time went on, “it became clear we were getting . . . kind of desperate proposals” from organizations asking for help to raise money to save land in the community before it got developed. The foundation wanted to support land conservation but felt that since it was always responding to emergency situations, it did not have time to really think about its choices or how development issues related to other community goals. The foundation still does a great deal of its grantmaking in response to proposals received. Yet it also launched an initiative in which it offered organizations funds to buy land, but required those organizations to submit proposals explaining their strategic objectives and making the case for the importance of their proposed activity.
 - A corporate foundation felt it needed to “energize” itself and brought in a new foundation director who started raising questions for discussion and opened up new options for how it might operate. Among other things, the foundation decided that its strategy of just making grants in isolation to solve urban problems in the community was not working. Thus, the foundation started seeking community partners and getting out into the community to learn more about the problems it was trying to help solve. Said the CEO, “Pausing to say, ‘Are we making a difference?’ stopped us, humbled us, made us say [that to accomplish] change you have to partner . . . and you must be long-term.” The foundation also started to use its resources and connections to contribute in ways other than as a grantmaker in order to help causes it cares about.

Conclusion

Our discussions with foundations of varied sizes and types yielded some sobering findings that bear careful thought by all concerned with foundation effectiveness. The foundation field exhibits a diverse array of missions, values, and approaches. From the perspective of this paper, the issue of foundation effectiveness lies not in trying to determine which missions, values, and approaches are better. Rather, the issue is that what various foundations do have in common is a pervasive failure to institutionalize a regular and ongoing process by which they establish standards and evaluate themselves in relation to these standards. They revise their missions, they fix problems, they explore new practices, they develop new strategic plans—but this is not the same as integrating into the core of their organizational operations and procedures an ongoing process for holding themselves accountable, both to themselves and to others.

There are no external pressures on foundations that can force them to take these measures—as noted many times, a foundation will not go out of business because it is ineffective. Thus, if foundations are to put processes in place that make them effective organizations, then that can only occur through a clear commitment from the board, with the participation of the staff, that is then translated into a specific set of evaluatory processes and standards that become a regular part of foundation operations. In short, without voters or consumers to do it for them, foundations must impose a set of disciplines upon themselves to ensure that they are regularly and systematically evaluating

their performance. While many of the measures that would help foundations achieve that end are well-known and seemingly simple in theory, they are apparently often not being implemented in practice. From this perspective, the central steps that any foundation, regardless of size or type, should take are:

1. Develop a clear and specific mission statement.
2. Establish a clear method by which to evaluate whether or not the foundation is carrying out its mission.
3. Stay aware of the tendency for inertia to set in and undermine the foundation's ongoing commitment to self-assessment.
4. Establish a board consensus in tandem with staff to evaluate the foundation in regard to its effectiveness. A willingness to commit to the organization's evaluation process should be an expectation of every board member. Every effort must be made to build in ongoing board and staff commitment to developing and adhering to procedures by which the foundation evaluates itself.
5. Every foundation should be prepared, at any time, to produce for itself or others a statement of how the foundation is performing relative to its mission—a statement that can be substantiated in terms of concrete evidence and not simply the foundation's own impressions.

The ways that individual foundations choose to implement these steps, and the self-evaluative processes they create for themselves, may vary considerably. Likewise foundations must take care that an institutionalized process not become an overly rigid or bureaucratized set of procedures that can also detract from the institution's ability to be responsive and effective.

Foundations cannot satisfy the obligation to develop standards and processes by which to evaluate themselves solely by requiring that their grantees demonstrate grantees' own effectiveness. Indeed, in order to make effectiveness a priority, perhaps the best thing any foundation can do to is to imagine that it must reapply to renew its own funding by showing that it is an effectively functioning organization.

Acknowledgments

Funding for this project was provided by The David and Lucile Packard Foundation and is gratefully acknowledged. Members of the Grantmakers for Effective Organizations Research Task Group served as an advisory committee for the study and their input is gratefully acknowledged. Many thanks to the foundations who participated in the interviews and made the study possible. For their assistance, the author also thanks Carol Larson of The David and Lucile Packard Foundation, Barbara Kibbe, Kathleen Enright and Edward Pauly of Grantmakers for Effective Organizations, Stanley Katz, James Allen Smith, and the following current and former members of the Urban Institute: Elizabeth Boris, Catherine Herrold, and Erica Lagerson.



**The Urban
Institute**

2100 M Street, NW
Washington, DC 20037

Phone: 202.833.7200

Fax: 202.429.0687

E-mail: paffairs@ui.urban.org

<http://www.urban.org>

November 2004