

PERSPECTIVES ON PHILANTHROPY

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FOUNDATIONS: OPPORTUNITIES, OBLIGATIONS, AND OBSTACLES



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What are foundations? What opportunities do they have to achieve important societal goals? What are the obligations inherent in those opportunities? And, what are some of the dilemmas and tensions foundations face in carrying out their work. The purpose of this paper is to address these questions and to dispel the myth that giving money away is easy.

I. THE INSTITUTION AND THE OPPORTUNITY

A. THE INSTITUTION

Foundations are non-governmental, non-profit organizations that exist solely to improve the human condition. As such, they occupy a distinctive niche in our free enterprise economic system, through which the fruits of financial success can be partly returned to society in the form of philanthropic dollars applied to addressing societal issues, problems, and needs that often do not lend themselves to market solutions or governmental action.

The power of philanthropy, owes in large part to the fact that foundations have:

Significant Independence – Compared with most other institutions in our society, foundations are afforded an extraordinary level of independence and freedom from regulation and oversight. The protected legal status and financial resources of foundations combine to free them from the need to accede to pressures brought by voters, stockholders, or contributors, and to give them extraordinary power and opportunity to advance the public good.

A Long Time Horizon – Because, in contrast to government, business, and other non-profit organizations, foundations are permitted to manage their resources to last *in perpetuity*, they can take a long-term view of the societal problems they tackle and their role in addressing them. Foundations which exploit this long time horizon have the potential to look ahead, anticipate changing forces and influences, adopt appropriate funding strategies, and stick with those strategies until they bear fruit. In philanthropy, time pressures are largely self-imposed and usually non-productive (more about this later).

Neutral Standing – As a function of their privileged and protected status and independence, foundations are perceived to be neutral, objective, and credible forces for good within the communities they serve. If used effectively, this standing gives foundations significant power and leverage to mobilize the resources, leadership, and talent needed to address the large number of complex, interacting problems that characterize society today.

B. THE OPPORTUNITY

No matter the size of their assets, the nature of their legacies, the focus of their grantmaking, or the scope of their activities, every foundation has the potential to make a real difference in the lives of individuals, families, and communities. For board members and staff, serving a foundation is like

nothing else they will ever do: *the money is in the bank; their only obligation is to protect and spend it wisely; the goal is to advance the human condition; and the horizon is forever!* What an opportunity they have to:

Serve the Community – Using the foundation’s full set of resources (as we’ll see later, money is only one asset) to help meet the needs of people. Where else can an individual put his or her talents to work in directing protected assets to solving the kinds of social problems they see around them every day?

Lead, Shape, and Manage an Organization Intended to Last in Perpetuity – With most foundations, the intent is that the money will be invested and spent in such a way that financial resources will be available to contribute to the community forever. Board and staff members are really stewards of a foundation’s legacy and assets which are entrusted to them to manage and distribute prudently and wisely, today, and to make sure that they are available to fulfill the foundation’s mission tomorrow.

Grow and Learn – Serving as board or staff of a foundation represents an extraordinary chance for personal growth and intellectual stretching, and for learning about areas of human endeavor to which they’ve never been exposed. For both, informed decision making is an imperative, not a luxury, and the learning necessary for informed decisions means personal growth of a kind seldom experienced in other domains of their lives.

But, as we hear all too often, there is no free lunch and no good deed goes unpunished. With these truisms in mind, let’s look at the obligations and responsibilities that one assumes when serving a foundation as board or staff.

II. GIVING AWAY MONEY IS EASY. ISN’T IT?

A. THE FLIP SIDE OF OPPORTUNITY

The extraordinary opportunities described above are more than matched by the obligations and hard work entailed in being effective members of a foundation’s board or staff, as they grapple with how best to fulfill their special roles and responsibilities.

Obligations, hard work? Wait a minute, isn’t giving away money easy? I mean, how hard can it be to hand out money to well-meaning organizations doing worthwhile things? That’s the question going through people’s minds when they learn that you are on the board or staff of a foundation. If they’re old enough, they remember the TV show called “The Millionaire,” in which the star handed out money to supposedly deserving individuals. Or, if they’re younger, they immediately think about an organization with which they or a relative is involved – a church, soup kitchen, shelter, local health clinic, environmental advocacy organization, etc. – and figure that giving money to such worthy organizations must be a cinch.

In fact, giving away money *is* a cinch. But, giving money away *right* is very, very hard. In fact, even knowing what we mean by “right” is problematic. Let’s take a look at some of the factors that make effective philanthropy a challenge.

The Complexity of the Problems. Foundations exist to contribute to improving the human condition, whether it be by improving the health and well-being of individuals; strengthening families and communities; protecting the environment and natural resources; improving international relations and reducing the threat of war; or supporting economic development in the Third World. By their very nature, however, these kinds of societal challenges are extremely complex. They involve the behaviors of individuals, social systems, and political processes; their underlying causes may encompass everything from genes to the environment; and their roots are often deep-seated, long-standing, and difficult to elucidate, much less change.

Resource Limitations. No matter how rich the foundation, its resources are meager compared to the magnitude of the societal problems it exists to help solve. In most cases, only governments have the kinds of resources required to even begin to address the kinds of complex problems mentioned above. *The critical challenge facing foundations is using their resources in a focused and strategic way to identify and engage social issues and social change processes with highly targeted efforts and maximum leverage.*

Assessing Outcomes. Foundations strive to make a difference in some specific aspect of the lives of people in the communities they serve. Yet, perhaps the most significant challenge they face is knowing if their programs are reaching their goals. First, there is the difficulty of even defining exactly what a programmatic goal should be. For example, should it be to reduce the number of births to unwed teens in a community, or to increase the number of young women served by community-based programs? While setting quantitative goals for ultimate outcomes is attractive from programmatic and accountability perspectives, doing so may not be realistic, given the complexity of the social processes involved. Second, it is extremely difficult to demonstrate that the foundation's efforts had an impact. Not only are reliable and timely data hard to come by, but once a change is discerned, it is even harder to attribute that change to the foundation's actions. In fact, it may well be that, despite the foundation's best efforts, the change measured was in the wrong direction. Returning to our example, while the number of unwed teens reached by the agencies supported by the foundation increased significantly, the number of out-of-wedlock births to those women may have also increased, due to economic forces, requirements of entitlement programs, or other secular trends completely out of the foundation's control.

Reinventing the Wheel. There is little accumulated knowledge in the field of philanthropy about what works and what doesn't. The experience gathered over the decades by thousands of foundations struggling to effect social change is not readily accessible to those grappling with the same problems today. Important efforts are being made by organizations like the Council on Foundations, various "affinity groups" of foundations with shared goals and interests, and even some foundations; and, modern communications technologies such as the World Wide Web are certainly facilitating increased access to information and people. Yet, there are still no effective central resources to which foundation board members and staff can turn to learn about the experiences of others in maximizing the effectiveness of philanthropy in addressing specific social challenges. As a result, instead of learning from those who have gone before them, and, perhaps, replicating their successes and avoiding their failures, foundations constantly reinvent the wheel, squandering precious money, time, and energy.

Partnering. Given the immensity of the social challenges foundations exist to meet, the limited resources they bring to the table, and the nature of their principal modus operandi – grantmaking – it is a

practical necessity that most foundations form partnerships with others pursuing similar goals – grantees, other foundations, and government agencies. Yet, true partnerships are extremely difficult to create and sustain. By “true,” I mean relationships in which the partners share goals, outcome indicators, approaches, responsibility, and, in some cases, funding. True partnerships with grantees are illusory, because of the imbalance of power that is inherent in a relationship in which one party has resources that the other covets. True partnerships among foundations exist more in rhetoric than reality, due mostly to the independence and differing operational styles and time-lines that characterize these institutions. And, true partnerships between foundations and governments are rare as a result of their vastly different organizational structures, decision making processes and time frames, susceptibility to external pressures, and the suspicion with which they sometimes view each other.

B. THE NATURE OF THE BEAST

By its very nature, the world of philanthropy is idiosyncratic and decentralized. Or, as is commonly heard among observers of the field, *"if you've seen one foundation, you've seen one foundation!"* One need only peruse foundation annual reports and study the results of the annual surveys conducted by the Council of Foundations, to recognize the tremendous diversity among foundations in terms of the source and magnitude of resources, board composition, staff size, substantive focus, organizational structure, management style, and grantmaking approach.

The remarkable independence afforded foundations as a result of their legal status and endowments makes it possible for them to set aside considerations of popularity or profitability and move beyond pre-existing agendas to promote social progress as they define it. While this lack of clear *external* accountability is one of philanthropy's major assets, it is also one of its greatest weaknesses. Unlike most other societal institutions, there are no commonly accepted standards against which to measure the effectiveness and impact of foundations. This lack of benchmarks and performance criteria is exacerbated by the fact that many foundations believe their mission to be changing social conditions and institutions in such a way as to bring about major improvements in people's lives – an outcome that is not easily quantifiable, measurable, or attributable.

A major implication of the independence, diversity, and decentralization of the field of philanthropy is that, while it may be possible and useful to develop model guidelines, standards, performance criteria, and assessment strategies for the field, each foundation will have to adapt them to suit its particular situation. Important factors such as origin of assets, mission, board composition, geographic purview, and economic, cultural, and political context, vary significantly from foundation to foundation, influencing what they do, how they do it, and how they assess their impacts.

C. SOME INHERENT TENSIONS, CONTRADICTIONS

If the above hasn't yet convinced you that giving away money “right” isn't a piece of cake, let's look at some of the tensions and contradictions that are inherent in grantmaking and in the organizational strategies through which foundations attempt to carry out their missions .

Proactive Vs. Responsive Grantmaking. Over the last decade, there has been a growing trend among foundations to decide how to attack the social problems that constitute their mandates, design and generate initiatives for addressing them, and invite organizations to submit proposals for support. This approach is referred to as proactive, strategic, or initiative grantmaking, as contrasted to responsive grantmaking, the more traditional strategy in which grants are awarded in response to unsolicited proposals. From the perspective of some foundation boards and staffs, proactive grantmaking is a way for a foundation to deploy its resources in a coherent, comprehensive, and integrated manner to address complex social problems. From the perspective of prospective grantees, however, such grantmaking seems to be yet another attempt to "raise the bar" over which organizations must jump in order to receive the support they need to sustain their operations. At its extreme, these organizations resent what appears to be arrogance on the part of foundation staff who, through their use of strategic initiatives seem to be saying, *"we know best how to solve the problems on which you are working every day."*

With the passage of time, and the growth of experience with different approaches to grantmaking, a consensus appears to be emerging that the most effective grantmaking programs are those that comprise a portfolio of strategic initiatives, responsive grantmaking, and discretionary funds set aside for targets of opportunity. Foundations initially enamored with strategic approaches have come to appreciate the value of responding to ideas proposed by organizations "in the trenches and on the ground" grappling with the realities of social change on a daily basis, while those funding solely through responsive mechanisms have come to recognize the advantages of strategic initiatives in permitting more focused, integrated efforts to effect change.

Innovation vs. General Operating Support. Paralleling the trend toward proactive grantmaking has been the growing tendency for foundations to fund programs they consider to be innovative, creative, and imaginative, rather than those seeking support for ongoing operations. In part, this represents frustration with the seeming ineffectiveness of existing approaches to complex social problems, and with the organizations employing them. In part, it is the natural tendency of boards and staff to want to be associated with something new, different, and exciting. The danger in the eyes of some is that foundations may pursue innovation for the sake of innovation – or, as some see it, difference for the sake of difference – when providing support for what has already been shown to work may, in fact, be the best approach.

This love affair with innovation has significant consequences for the grant-seeking community. First, it forces organizations desperately in need of support for ongoing operations to invent projects that appear to fulfill a foundation's criteria for creativity. While doing so may help the organization reach new levels of effectiveness, it may actually distort and diffuse its mission, further stretch its resources, and dilute its effectiveness. Second, it puts organizations who receive support for specific projects in the position of having to: demonstrate the effectiveness of those projects, rather than the organization's overall impact; collect data they might not otherwise collect; and prove that their projects were responsible for the changes measured. Third, organizations whose administrative structures are already stretched, must now account separately for expenses associated with new projects. What's worse, in the eyes of some, is that organizations desperate for funding to support their core programs and operations may be forced to be as creative in writing proposals and in reporting on expenditures, activities, and outcomes as they are in the carrying out their programs.

Again, what appears to be emerging is an approach that combines the best features of each of these approaches: (i) targeted support for projects *proposed by organizations* for the development and demonstration of innovative projects designed to take them and their programs to the next level; and (ii) general support for organizations with proven track records in operating programs that make a difference in areas of central interest to the foundation.

Grants as Charitable Donations vs. Grants as Investments. The drive to catalyze innovation in addressing social ills, coupled with the move to a more proactive approach to grantmaking, has led some foundations to apply venture capital strategies to their grants programs. This is true especially among new foundations established by entrepreneurs whose success in the “new economy” have made them wealthy. To them, it is natural to apply to philanthropy the practices that made them successful entrepreneurs – a strong emphasis on return on investment; the setting of goals with measurable outcomes (the “bottom line”); active involvement in the organizations being supported; and insistence on sound financial practices. Underlying “venture philanthropy” strategies is the view that foundation grants are investments in the organizations being supported, rather than the more traditional view (and legal definition) of grants as charitable donations. This shift in perspective has important implications for how foundations define their goals, select implementation strategies to employ, select grantees, relate to those grantees, and measure the progress of funded projects. It also affects the kinds of people they hire to become program officers, and how those officers divide their time between developing programs and assisting existing programs, since a central element of the venture capital approach is devoting significant time and energy to helping weaker investments succeed.

While some foundations are adopting the venture capital approach to grantmaking, its suitability for philanthropy is being widely debated by people both within and outside the field. Balancing the view that, as part of the call for greater accountability, foundations should be more concerned with the return they receive on the investments they make, is the view that, in the end, foundations achieve their goals by identifying and supporting good people and good organizations carrying out successful programs, and providing the resources they need to carry out their work most effectively.

Social Change vs. Service Delivery. Another tension in philanthropy is between supporting organizations providing services aimed at helping people in immediate need, and funding organizations attempting to catalyze long-term social change so that the need for those services is reduced. An example is the choice between providing support for a center for battered women to help them increase the number of women they can serve, or supporting the development and implementation of public policies and programs aimed at reducing the number of women in need of services, by preventing abuse before it leads to violence. Sometimes the contrast is characterized as eliminating the root causes of social ills rather than treating their symptoms. However it is conceptualized, it is the focus of intense debate both within and outside philanthropy.

On the one hand, a strong case can be made for foundations being the only social institutions with the financial and political independence and long time-horizon it takes to mobilize the resources and will necessary to bring about social change. And, it is highly satisfying to participate in activities that have the potential to make an enduring difference in the lives of people for generations. On the other hand, a strong case can be made for the humanitarian imperative of protecting and enhancing the well-being of those in need now. And, it is much easier to quantify services delivered and people helped than it is to assess the contribution of a foundation to change complex social systems and structures.

Demonstrating Impacts vs. Contributing to the Process. Related to the growing demand for greater accountability in philanthropy is the increasing attention being paid to program assessment and evaluation. Talk among foundation boards and staff these days is all about outcomes and how to measure them. This move toward demonstrating program impact is not only understandable, but is an indication of the seriousness with which foundation boards are taking their responsibilities. However, there is the danger that the preoccupation with measurable outcomes and objective evidence may prevent foundations from tackling the kinds of big issues they are so well positioned to address, and from taking the kinds of risks that only they can take.

Further, foundations may be misleading themselves and others by attempting to apply rigorous scientific evaluation to areas that, by their very nature, are multi-dimensional, ambiguous, and ever changing. The fact is that the large number of complex, interacting factors acting on any social process makes it extremely difficult to demonstrate the singular contribution of a foundation program to a change in that process. Thus, if foundations fund only those programs that lend themselves to quantitative evaluation, they may be limiting their purview to problems with limited scope, and programs with narrow objectives. If the search for quantitative bench-marking of programs is taken too far, foundations will end up focusing their attention on programs whose results are most measurable rather than those that are most important.

Considerations such as these, along with the growing disenchantment and disappointment with traditional “hard hat” evaluation methods, are leading many foundations to reassess their approaches to demonstrating program impact. What is emerging from these self-reflections is a growing conceptualization of *philanthropy as a continuous learning process in which foundations and their grantee organizations partner in the development, testing, refinement, and adoption of new strategies for improving the lives of those living in the communities they serve.*

Production vs. Learning. A more internal, organizational tension is that between the imperative to develop, prepare, and award grants in order to meet payout requirements, and the oft-stated, but less often realized, desire to nurture, monitor, assess, and learn from funded projects. This tension might be characterized as between the production side of grantmaking – getting the money out the door – and the learning side of grantmaking – gaining knowledge from the experience of grantees about what works and what doesn't, and using that knowledge to improve the effectiveness of grantees, to enhance foundation programs, and to advance the particular field of interest. Many see this learning function of foundations as the most important element of what they do; yet, few have figured out how to avoid having the important crowded out by the immediate.

In part, this situation reflects the tyranny of the grant cycle; in part, it reflects the reward structures within foundations. It is a fact of life that, in the real world of grantmaking, the grant cycle (proposal processing, due diligence on applicants, preparation of compelling write-ups for the board, and the awarding of grants) becomes the predominant force driving the work of the staff, absorbing most of their time and energy, and leaving little for the learning part of their jobs. In most foundation settings, staff barely have time following each board meeting for a collective sigh of relief before they must launch directly into the next round of proposals. Unfortunately, this often means that monitoring ongoing grants, reading reports, visiting grantees, and reflecting on their experiences is something staff dream about and plan for, but seldom get to.

Further, there are few incentives for staff to devote their time to assessing, learning from, or reflecting on, funded programs. Given the difficulty of evaluating the effectiveness of grantees and their programs and the impact of the foundation's grantmaking initiatives, it is easier to judge and reward staff on the production of paper products and their adherence to the deadlines inherent in the grant cycle. Thus, reward structures in most foundations place a premium on providing the board with high quality proposal justifications and optimistic and "rosy" reports on ongoing programs, and on the completion of elements of the internal grants process, rather than the achievement of desired program outcomes.