



THE CENTER FOR
EFFECTIVE PHILANTHROPY

ESSENTIALS OF FOUNDATION STRATEGY

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About the Center for Effective Philanthropy

The mission of the Center for Effective Philanthropy (CEP) is to provide data and create insight so philanthropic funders can better define, assess, and improve their effectiveness and impact.

This mission is based on a vision of a world in which pressing social needs are more effectively addressed. It stems from a belief that improved performance of funders, and in particular foundations, can have a profoundly positive impact on nonprofit organizations and those they serve.

Although our work is about measuring results, providing useful data, and improving performance, our ultimate goal is improving lives. We believe this can only be achieved through a powerful combination of dispassionate analysis and passionate commitment to creating a better society.

For more information about CEP, please visit www.effectivephilanthropy.org.

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This paper is based on CEP's independent data analyses, and CEP is solely responsible for its content. This report does not necessarily reflect the individual views of the funders, advisers, or others listed above.

CEP is a nonprofit organization focused on the development of comparative data to enable higher-performing foundations. For more information on CEP's research and to download or order copies of this and other CEP reports, please visit www.effectivephilanthropy.org.

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Introduction

OVER THE PAST DECADE, THERE HAS BEEN MUCH RHETORICAL embracing of the concept of “strategy” in philanthropy. Of the respondents in this study, 89 percent told us that the word “strategy” is used at their foundation to describe how they work to achieve their goals. But it is one thing to use the word and quite another to understand what it means in the philanthropic context—much less to put it into practice.

The Importance of Strategy

In our research at the Center for Effective Philanthropy (CEP) over the past eight years, data from foundation CEOs, boards, and grantees has reinforced the idea that foundation strategy is a necessary component of effectiveness.

During interviews conducted in 2001-2002 for CEP’s first research study, we heard from foundation CEOs that strategy was essential to their understanding of how they would achieve the most impact with the resources for which they were responsible. But we also heard that CEOs were not satisfied with how they were approaching assessment of results against strategy.¹

From our surveys of hundreds of board members of foundations, we have seen that trustees perceive

their boards to be more effective when they understand and have been part of the process to develop the foundation’s strategy. Trustees are also hungry for better data to assess foundation strategy: The area of greatest dissatisfaction among foundation board members is the information they receive to assess strategy.²

In our analyses of surveys of tens of thousands of nonprofit grantees of foundations, we have seen that clear communication of foundation goals and strategies is one of the most powerful predictors of how grantees perceive a foundation’s impact.³

These findings indicate how much strategy matters to foundation CEOs, boards, and grantees. They have motivated CEP’s desire to explore what strategy means in the philanthropic context.

Strategy in Philanthropy: A Unique Challenge

Although strategy is defined as “planning in any field,” “a carefully devised plan of action to achieve a goal,” or “the art of developing or carrying out such a plan,” many of the proponents of “strategic philanthropy” have sought to import a definition of strategy that is particular to business.

¹ For more information, see The Center for Effective Philanthropy reports, *Toward a Common Language: Listening to Foundation CEOs and Other Experts Talk About Performance Measurement in Philanthropy* (February 2002) and *Indicators of Effectiveness: Understanding and Improving Foundation Performance* (August 2002).

² *Beyond Compliance: The Trustee Viewpoint on Effective Foundation Governance*. The Center for Effective Philanthropy (2005): 12.

³ *Listening to Grantees: What Nonprofits Value in Their Foundation Funders*. The Center for Effective Philanthropy (2004).

CEP Research on Strategy and Community Foundations

The CEP research on strategy described in this report and in our October 2007 report, *Beyond the Rhetoric: Foundation Strategy*, have focused on private foundations. We have recently launched a Community Foundations Strategy Study to explore strategy in the community foundation context. A report on our findings is due out in 2010.

In other research efforts, such as those focused on foundation — grantee relationships, CEP has analyzed community and private foundation data together. We have chosen to approach the strategy research effort for community foundations separately because of the very different contexts in which private foundations and community foundations operate. Community foundations, unlike endowed private foundations, face resource generation pressures — and competition for resources. The dynamics that shape thinking about strategy are therefore different for these two types of foundations.

However, strategy in the world of philanthropy is uniquely challenging, necessitating a research base that is rooted in philanthropy to inform practice. Private foundations have the opportunity to pursue social impact in the absence of the competitive dynamics or market forces that businesses and operating nonprofits face. This offers them opportunities that other organizations lack, but it also leaves them free to be unclear about how they will achieve their goals—or even not to define goals at all. Foundations can be unstrategic in their work with few consequences.

In our research on foundation strategy, we have sought first to help clarify and apply a definition of strategy that makes sense for philanthropic funders and then to understand the degree to which strategy is present—or absent—in the decision-making of foundation CEOs and program staff. While we cannot definitively prove in our research to date that foundation leaders who act strategically generate more positive impact than those who do not, our data indicates that it is the strategic ones who are best positioned to understand the difference they are making.

Our initial effort to research foundation strategy was based on in-depth interviews with 42 CEOs and program officers, resulting in the October 2007 report, *Beyond the Rhetoric: Foundation Strategy*.

- » We learned that although CEOs and program officers overwhelmingly believed that strategy is important for achieving impact, many were not using strategy in their work to achieve their goals.
- » We saw clear distinguishing characteristics in the ways in which CEOs and program officers approached their work. Based on our analyses of the transcripts of 42 in-depth interviews, we articulated a definition of strategy that is relevant to foundations: A framework for decision-making that is 1) focused on the external context in which the foundation works, and 2) includes a hypothesized causal connection between use of foundation resources and goal achievement.

STRATEGY: A FRAMEWORK FOR DECISION-MAKING THAT IS

1. focused on the external context in which the foundation works, and
2. includes a hypothesized causal connection between use of foundation resources and goal achievement.

- » We developed a typology of four approaches to decision-making using that definition, ranging from those who were not at all strategic, dubbed “charitable bankers,” to those we labeled “total strategists.”

In the new phase of research we report on here, we have sought to test our definition of strategy on a larger population of foundation leaders and to identify the “essentials” that differentiate the more strategic from the less strategic.

Why Foundation Strategy Is Different From Business Strategy

The idea that a conception of strategy that makes sense in a business context can be directly applied in a philanthropic one has been widely asserted by those inside and outside the world of organized philanthropy. In their book, *Philanthrocapitalism: How the Rich Can Save the World*, for example, Matthew Bishop and Michael Green equate the use of strategy in philanthropy with the importation of business practice.⁴ But the concept of strategy has its roots in the military; the word itself is derived from the Greek word for army.

A frequently referenced example of the application of a business conception of strategy to the philanthropic context is a 1999 *Harvard Business Review* article by Michael Porter and Mark Kramer, which asserts that foundation strategy largely depends on “unique positioning.” While this notion makes sense in business, it has less relevance for philanthropy.⁵ Private foundations, after all, do not face a competitive dynamic to the same degree that other organizations do. Unlike businesses, they are not seeking to attract customers. Although foundation leaders may surely feel competitive

with one another in the quest for a positive reputation or support for their grantees, the fact is that foundations have the opportunity to pursue social impact in the absence of the kind of competing tensions that businesses and operating nonprofits face.

Philanthropic funders are seeking to maximize their positive social impact — not to beat the competition in a defined market. In fact, for philanthropists and private foundations, it may sometimes be that replicating the activities of others, or collaborating with them, is the very best way to maximize impact on particular organizations, communities, or fields. This, along with a recognition of the distinctly challenging nature of philanthropy, appears to have been part of Warren Buffett’s calculation in making a \$30 billion gift to the Bill & Melinda Gates Foundation rather than creating a foundation of his own. “In business you look for the easy things to do,” he said at the time. “In philanthropy, you take on important problems and it’s a tougher game.”⁶

⁴ Bishop, Matthew and Michael Green. *Philanthrocapitalism: How the Rich Can Save the World*. Bloomsbury Press (2008): 6. The authors write that “As they apply their business methods to philanthropy, philanthrocapitalists are developing a new (if familiar-sounding) language to describe their businesslike approach. Their philanthropy is ‘strategic...’”

⁵ Porter, Michael E. and Mark R. Kramer. “Philanthropy’s New Agenda: Creating Value.” *Harvard Business Review* (November 1999):126. The authors note, rightly, that unique positioning is important for companies, because “a company must either produce equivalent value at a lower cost than rivals or produce greater value for comparable cost. It can only do so if it stakes out a unique positioning.” They then state that the same rules apply in philanthropy. “The goals of philanthropy may be different,” the authors concede, “but the underlying logic of strategy is the same.”

⁶ From Warren Buffett’s remarks made on June 26, 2006 at the New York Public Library.

Key Findings

1. This research affirms that foundation leaders can be classified as “more strategic” and “less strategic” based upon the extent to which they embody two defining elements: 1) an external orientation to their decision-making, and 2) logical connections between how they determine how to use their resources and the achievement of their goals.
 2. More strategic leaders also differ from less strategic leaders on four key characteristics: they tend to 1) have strategic plans that they regularly reference, 2) publicly communicate their strategies, 3) be proactive in their grantmaking, and 4) have measures by which they assess.
3. Foundation leaders’ conceptions of strategy overvalue the presence of a strategic plan and undervalue the logical connections necessary to have a strategy.
 4. Assessment of results against strategies remains a significant challenge for foundations: Staff struggle to determine the right data to collect and how to collect it — and many look for more help from their boards in these efforts.

Overview of Research Design

Data for this research was collected from CEOs and program staff through a survey administered in fall 2008. (See Appendix: Methodology.)

- » Surveys were sent to 440 CEOs of private foundations in the United States with \$100 million or more in assets. Completed surveys were received from 102 CEOs, for a 23 percent response rate.
- » Surveys were also sent to 286 program staff of those foundations with \$100 million or more in assets; at foundations employing more than one program staff member, one was randomly selected to receive the survey. Completed surveys were received from 89 program staff, for a 31 percent response rate.⁷
- » In total, 191 completed surveys were received, for an overall response rate of 26 percent. Respondents to the survey represent a total of 155 foundations.

The surveys for CEOs and program staff were structured in the same way and included many identical questions. The majority of items were closed-ended with a 1–7 rating scale, Yes/No response options, or a series of categories from which to choose. The surveys also included nine open-ended items through which CEOs and program staff could express their thoughts on key issues.

It appears that the sample of respondents to this survey may represent a somewhat biased sample. We believe the respondents are likely more strategic in their approach than the broader population of foundation leaders.⁸ Yet, even with what is possibly a more strategic than typical set of respondents, our findings paint a sobering picture of the challenges of foundation strategy.

⁷ Of those program staff that completed our survey: 66 percent were program officers, 23 percent were program directors, 6 percent were vice president of programs, and 5 percent were other.

⁸ There are several reasons for our belief that the respondent population under-represented the less strategic or non-strategic foundation staff. They include the over-representation among respondents of foundations that have commissioned assessment tools from the Center for Effective Philanthropy as well as the differences between the self-reported attitudes and behaviors of this sample and those interviewed in the research we conducted for our report, *Beyond the Rhetoric: Foundation Strategy*.

Discussion of Key Findings

KEY FINDING 1: This research affirms that foundation leaders can be classified as “more strategic” and “less strategic” based upon the extent to which they embody two defining elements: 1) an external orientation to their decision-making and 2) logical connections between how they determine how to use their resources and the achievement of their goals.

APPLYING THE DEFINITION OF FOUNDATION STRATEGY DEVELOPED IN THE FIRST phase of this research, we classified foundation leaders as either more or less strategic. Based on a series of survey items representing the two elements of CEP’s definition of strategy, we classified 50 percent of respondents to our survey as “more strategic” and 39 percent as “less strategic.” The remainder could not be categorized.⁹

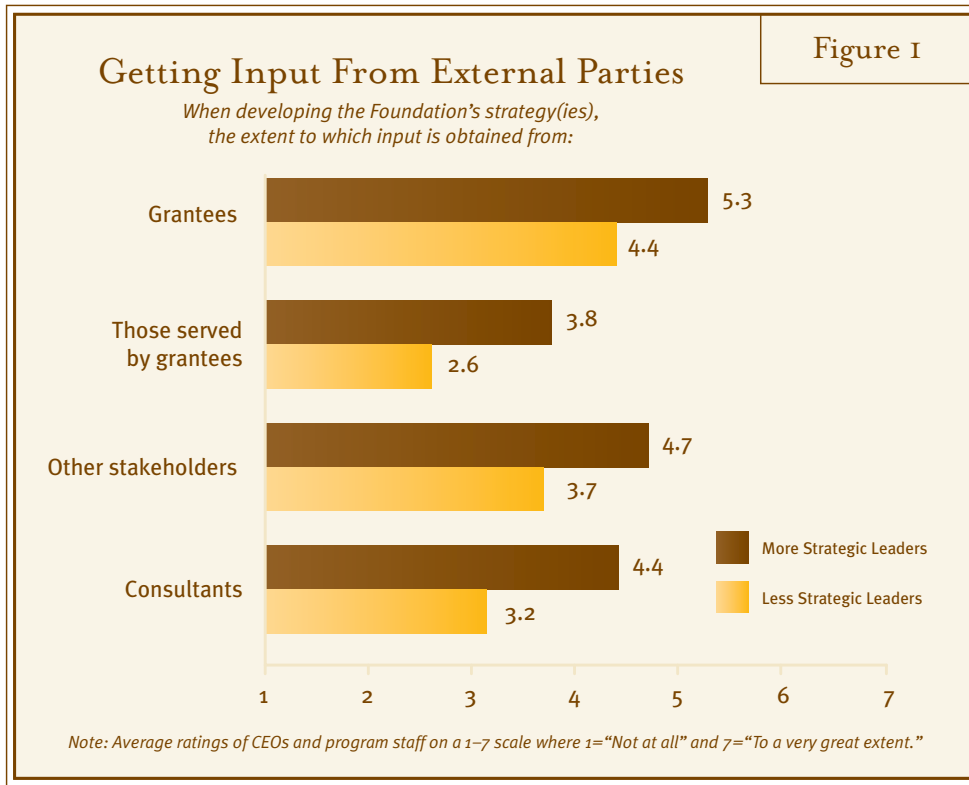
Contrary to the perception that to be strategic in foundation work is to be inflexible, unresponsive, or top-down, the more strategic CEOs and program staff were in fact more likely to look outside their foundations’ walls and seek input from stakeholders.

External Orientation

More strategic leaders are more externally oriented in their decision-making, looking outside of their foundations. When thinking about how to make decisions to achieve their goals, they look beyond the foundation’s internal processes for budgeting or grantee selection. They consider information and data about relevant issues, communities, fields, and populations—and look to existing models and best practices. They do not rely on what they already know, what their board thinks they should do, or what the foundation has done in the past.

More strategic leaders seek input from grantees, stakeholders, beneficiaries, and consultants when developing their strategies. (See Figure 1.) They are not rigid in their approach; they adjust their strategy when new research suggests a different strategy might be more effective. These findings run counter to a common

⁹ CEP used the definition of strategy it developed from the analysis in our first phase of strategy research, consisting of 42 qualitative interviews, to determine which variables to include in a cluster analysis of the survey data collected in this research effort. That cluster analysis yielded the “more strategic” and “less strategic” groups we describe. Eleven percent of respondents were not able to be classified in either group in this analysis because they did not answer all of the survey items that were used to classify respondents. Please reference the methodology appendix for more information.



perception of what it means to be strategic in philanthropy.¹⁰ In our interviews for the first phase of this research, we heard that perceived drawbacks of strategy include a decrease in flexibility to fund risky initiatives and an increase in the potential for an inappropriate power dynamic between foundations and grantees. But, contrary to the perception that to be strategic in foundation work is to be inflexible, unresponsive, or top-down, the more strategic CEOs and program staff were in fact more likely to look outside their foundations' walls and seek input from stakeholders.

Logical Connections

More strategic leaders are more likely to focus on the hypothesized causal connections between how they use their resources and how their goals will be achieved. Having a hypothesized causal connection means being able to explain how the use of the foundation's monetary and nonmonetary resources

is likely to lead to goal achievement. More strategic leaders are more likely to decide which strategies to use based on the logical fit between the strategy and the goals they wish to achieve, and they are more likely to have a logic model for their foundation or program. They are able to explain the hypothesized causal relationships between a series of actions and results—and how those results will ultimately lead to the achievement of their goals.

STRATEGY IN HIS OWN WORDS: Paul Beudet, Associate Director, Wilburforce Foundation, see page 19.

¹⁰To choose just one example, Pablo Eisenberg wrote a November 27, 2007 *Chronicle of Philanthropy* column criticizing the Public Welfare Foundation's new, more focused strategy. He argued that the Foundation "will become ... more formal, less flexible. Will such a transformation manage to preserve the heart and soul of the organization that has given so many grantees, low-income people, and advocates the inspiration and support that have made serious social change possible? Much will depend on the board's willingness to maintain that hard-earned reputation."

KEY FINDING 2: More strategic leaders also differ from less strategic leaders on four key characteristics: they tend to 1) have strategic plans that they regularly reference, 2) publicly communicate their strategies, 3) be proactive in their grant-making, and 4) have measures by which they assess.



MORE STRATEGIC LEADERS ALSO DIFFER FROM LESS strategic leaders on four key characteristics. They are more likely to:

- » Have a **board approved, written strategic plan** that they regularly reference: 89 percent of more strategic leaders, compared to 58 percent of less strategic leaders, report having a strategic plan. As we will discuss further, however, not all strategic plans contain the logic that is required to meet our definition of strategy.
- » **Publicly communicate their strategy.** Of more strategic leaders, 81 percent report publishing their strategies on the foundation’s Web site, compared to 53 percent of the less strategic leaders. Almost 40 percent of the less strategic leaders reported not publicly communicating their “strategies” at all.
- » **Be more proactive in their grantmaking,** identifying organizations or programs that target specific issues, conducting Requests for Proposals (RFPs), or directly contacting organizations or programs to initiate grants. Being proactive does not mean being top-down. Proactive funders frequently solicit feedback from a wide range of stakeholders, including grantees.
- » **Assess their performance,** using performance indicators to understand whether or not each of their strategies is helping them to achieve their goals. Whereas half of more strategic leaders use performance indicators, metrics, or other tools to assess *all* of their strategies, only one out of the 75 less strategic leaders reported doing so. Fully 55 percent of less strategic leaders are not assessing *any* of their strategies in these ways.

STRATEGY IN HER OWN WORDS: Anne Warhover, CEO, The Colorado Health Foundation, See Page 20.

¹¹ CEP tested for differences between the “more strategic” and “less strategic” groups on all items in our 50-item survey instrument. The four characteristics described here on which the “more strategic” and “less strategic” differed emerged from that analysis. Please reference the methodology appendix for more information.

These patterns clearly emerge from our analysis of the data and suggest that there are crucial differences between those leaders who are more and less strategic.¹¹ (See Figure 2.)

KEY FINDING 3: Foundation leaders’ conceptions of strategy overvalue the presence of a strategic plan and undervalue the logical connections necessary to have a strategy.

WE ASKED RESPONDENTS HOW STRATEGIC THEY ARE IN THEIR WORK TO ACHIEVE their goals. Those who perceive themselves as being more strategic are also more strategic according to how we classified respondents in this research. But when comparing how respondents define what it means to be strategic with how CEP defines what it means to be strategic, an important difference arises.

Respondents seem to agree with the first half of our definition of strategy: having an external orientation to their decision-making. But their conception of strategy fails to emphasize the need for logic, stressing instead simply the presence of a strategic plan.¹²

Testing a New Logic: The Stuart Foundation’s Child Welfare Program

Foundation leaders who are strategic continually test the logic underlying existing strategies for achieving their goals.

The Stuart Foundation in California seeks to improve life outcomes for children and youth in the foster care system. Before 2000, strategies in the child welfare field operated under the assumption that it was not possible to find permanent homes for older foster youth. That assumption turned out to be flawed.

The Foundation commissioned consultants to research the issue. Based on data and the experiences of those working on the ground as well as of foster children themselves, the Foundation recognized that improving the number of youth aging out of the system with “permanency” in the form of a lifelong connection to a caring adult — including through legal adoption — would help improve life outcomes. In 2000, the Foundation sponsored a gathering of representatives from state government, county agencies, and nonprofits that support children in foster care. “Our consultants shared their findings about places where others were having success in finding families for older foster children,” says Stuart Foundation President Christy Pichel.

“That meeting helped change people’s frame of mind about what could be done.”

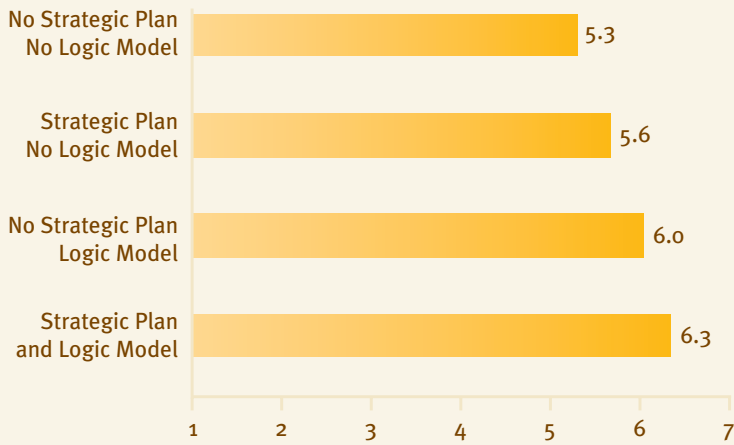
The Foundation made a multiyear operating support grant to start the California Permanency for Youth Project. Launched in four counties, and with continued funding from the Foundation, the program has since expanded because of the evidence that facilitating lifelong connections for foster youth is possible. To date, overwhelming numbers of young people assisted by the California Permanency for Youth Project have found lifelong connections to adults. The push for “permanency” is now a national one, with the support of some of the largest foundations in the country, including the Annie E. Casey Foundation. (A case study on the Stuart Foundation’s approach is available at www.effectivephilanthropy.org.)

¹² A regression analysis was conducted on the item “To what extent are you strategic in your work to achieve your goals/the Foundation’s goals?” The final model concluded that the items representing the extent to which the respondent has a hypothesized causal connection did not factor into what predicts respondents’ perceptions of how strategic they are in their work. The final model had an R-squared of 50 percent.

Making Decisions Based on Logical Fit

When deciding on a strategy to use, the extent to which the decisions are made based on logical fit between the strategy and goal achievement.

Figure 3



Note: Average ratings of CEOs and program staff on a 1–7 scale where 1=“Not at all” and 7=“To a very great extent.”

Having something that is labeled a “strategic plan” and having thought through the step-by-step logic of how specific resource and programmatic decisions will ultimately lead to impact are not one and the same.

To be sure, having a strategic plan is important. Indeed, it is one of the characteristics differentiating the more and less strategic leaders in this research. But in addition to having an external orientation to decision-making, CEP’s definition of strategy also includes the presence of the logical connections that inform why a particular strategy might lead to the achievement of goals. While many

in the field may assume that strategic plans include this logic, our data indicate that this is often not the case.¹³

We asked respondents the extent to which decisions about what “strategies” to use are based on the logical fit between those “strategies” and goal achievement. Those who reported having only a strategic plan reported basing decisions on the logical fit between the strategy and goals to a lesser extent than those who reported having both a strategic plan and a logic model.¹⁴ (See Figure 3.) Having something that is labeled a “strategic plan” and having thought through the step-by-step logic of how specific resource and programmatic decisions will ultimately lead to impact are not one and the same. Of the survey respondents who were classified as “less strategic,” more than half had a strategic plan, yet only one percent had a logic model.

¹³ Henry Mintzberg has made the distinction between having a strategic plan and being strategic. He argues, “Many practitioners and theorists have wrongly assumed that strategic planning, strategic thinking, and strategy making are all synonymous, at least in best practice.” He argues that “planning cannot generate strategies. But given viable strategies, it can program them; it can make them operational.” Mintzberg, Henry. “The Rise and Fall of Strategic Planning.” *Harvard Business Review* (1994).

¹⁴ Respondents were asked to rate “When deciding on a strategy(ies) to use to achieve your goal(s), to what extent are decisions made based on the following: Logically the strategy(ies) is the best fit with achieving my goal(s)” on a scale from 1–7, where 1 indicated “Not at all” and 7 indicated “To a very great extent.” To examine whether ratings on this item differed by whether or not respondents had a strategic plan, as well as whether or not they had a logic model, a two-way analysis of variance was conducted, and follow up mean comparisons were examined.

A logic model is developed by thinking through, in detail, why decisions and their resulting activities will lead to certain desired outcomes, or what Paul Brest and Hal Harvey describe as “a linked set of causes and effects.”¹⁵ And while many foundations have promoted the use of logic models by grantees, our research suggests that a majority of foundations have not embraced logic models for themselves.¹⁶ Only 48 percent of respondents reported having a logic model, either for their program or their foundation. This compares to the 74 percent who report having a board-approved, written strategic plan for either their program or their foundation.

While many foundations have promoted the use of logic models by grantees, our research suggests that a majority of foundations have not embraced logic models for themselves.

In foundations’ work, goal achievement is often complicated by many interdependent contextual factors. Strategy therefore requires a set of hypotheses that are constantly reexamined. This level of detailed logic must be spelled out—and then continually tested and revisited—for foundation leaders to be able to make decisions that are strategic and to ensure that they are contributing to progress towards their goals.

Revisiting Logic: The Gill Foundation and Hate Crimes

Sometimes, a foundation recognizes flaws in its own logic, necessitating revision of strategy.

The Gill Foundation’s mission is “to secure equal opportunity for all people regardless of sexual orientation or gender expression.” Former Executive Director Rodger McFarlane described in a 2007 interview with CEP a case where the logic underlying one of the Foundation’s strategies, related to hate crimes, had to be revisited.

“We fought very hard to advance hate crimes legislation, which is a laudable goal, and we have achieved much of that in many places,” McFarlane said. “The problem is, if you look at your outcomes, your movement outcomes, the incidence of violence continues to increase while we increase hate crimes protection. There is no cause and effect there.”

The passage of hate crimes legislation turned out to be, by itself, ineffective in reducing hate crimes. But the Foundation revisited its logic in the face of the data, and modified its strategy to include a focus on enforcement. According to McFarlane, “What we did find was that when police departments and prosecutors aggressively prosecuted perpetrators — put that message out on the street — we did have an impact. We made certain cities in certain states much safer.” (To read CEP’s full case on the Gill Foundation see CEP’s report *Beyond the Rhetoric: Foundation Strategy*. To watch a video of Former Executive Director Rodger McFarlane discussing strategy, please visit www.effectivephilanthropy.org.)

¹⁵ Brest, Paul and Hal Harvey. *Money Well Spent: A Strategic Plan for Smart Philanthropy*. Bloomberg Press (2008): 48.

¹⁶ W.K. Kellogg Foundation. *Logic Model Development Guide* (January 2004).

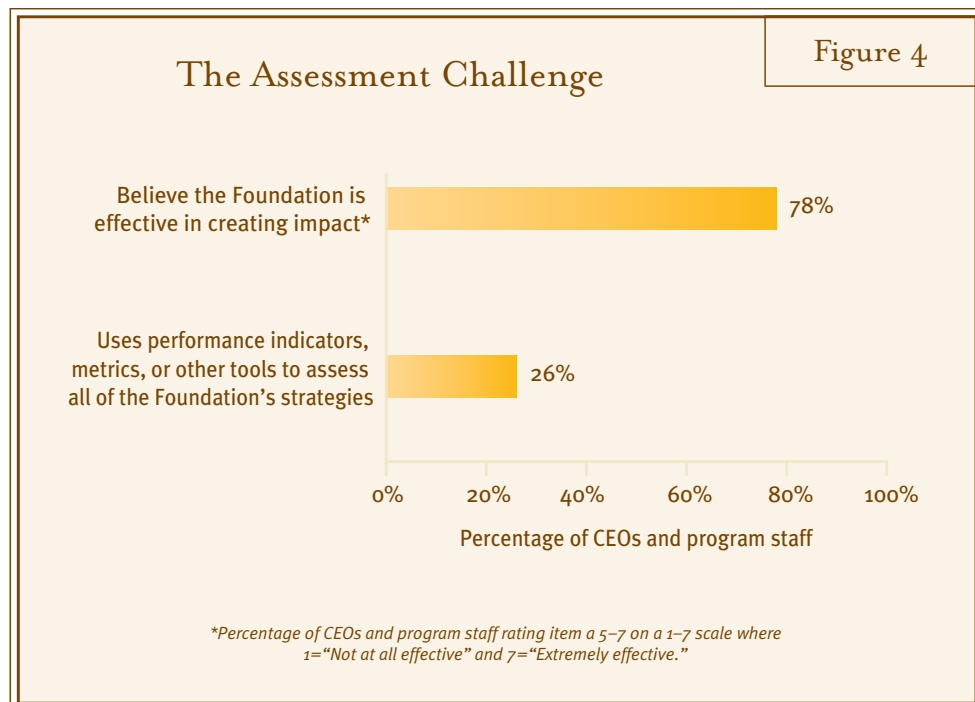
KEY FINDING 4: Assessment of results against strategies remains a significant challenge for foundations: Staff struggle to determine the right data to collect and how to collect it and many look for more help from their boards in these efforts.

FOUNDATION LEADERS' PERSPECTIVES ON THE SUCCESS OF THEIR WORK ARE QUITE POSITIVE.

Almost all respondents in this study reported that they believe their goals are addressing the issues most in need of attention in their areas of interest, fields of interest, or program areas. Nearly all said it is likely that some or all of their goals would be achieved. More than 75 percent think their foundation is effective in creating impact, though only five percent think their foundation is extremely effective in creating impact.

Without solid data, on what basis can foundation leaders learn about what is working and what is not so they can decide whether to continue with a strategy or change course?

These impressions of effectiveness are not always rooted in data, however. (See Figure 4.) Respondents do report using a variety of data sources to inform their sense of progress against strategy but not necessarily defined performance indicators or metrics. Instead, they more often rely on anecdotal information such as conversations with stakeholders and site visits. Just 26 percent of survey respondents reported using indicators, metrics, or other tools to assess *all* of their strategies; an additional 39 percent use indicators, metrics, or other tools to assess *some*



of their strategies. And overall, only eight percent could describe the specific types of information or pieces of data that lead them to believe that they are likely to achieve at least some of their goals.

Without solid data, on what basis can foundation leaders determine what is working and what is not so they can decide whether to continue with a strategy or change course? We asked survey respondents what would cause them to stop using a strategy, and the most frequently cited reason was when a strategy did not seem to be working. But respondents who say they would stop using a strategy because it was not working were no more likely to be using indicators to assess progress against their strategies, which raises the question, how would they know whether their strategies are failing?

Performance assessment clearly continues to challenge foundation leaders. It is tempting—and many critics of foundations have succumbed to the temptation—to criticize foundations for the lack of better performance data. But our research over the past eight years suggests that such critiques should at least be accompanied by an acknowledgment of how much more complex performance assessment is for foundations than it is for other types of institutions.

This complexity is exemplified in the types of challenges that program staff who responded to our survey report facing when assessing strategies to achieve their goals:

- » **Technical challenges.** Foundations are often working to achieve goals with full awareness that it will take years, even decades, to do so; that many of the outcomes they are working towards are extremely difficult to quantify; that results are not easily aggregated across different programs; and that, given the many potential forces affecting the complex problems foundations are often seeking to address, a causal connection between foundation efforts and progress can be difficult to demonstrate.
- » **Resources and support.** Particularly given the significant technical challenges in foundation performance assessment, adequate resources are required, but some program officers say they do not have time to devote to the process—and

Assessing Performance: Program Staff Perspectives

Assessment of how well foundations are progressing toward their programmatic goals continues to present significant challenges for program staff.

Technical Challenges

Program staff overwhelmingly refer to a variety of technical challenges related to the nature of the problems their work addresses. “Our investments are generally quite long term with respect to the results we are buying,” says one program staff member, “therefore, it is difficult to sift through short-term data to make rational decisions about short-term adjustments and the impact they may or may not have on long-term results.” Another describes the multi-layered challenges of “getting the metric and data source right. Some things ... can be difficult and expensive to track, and then add to that the challenge of linking/assessing our role.” Foundations struggle with “how to quantify intangible progress (i.e., a stronger sense of community)” as well as how to identify the causal role they play in the complex efforts they fund. “These are very difficult goals to achieve. We have purposely kept the bar very high, but we are not in full control of all of the factors that will contribute to the achievement of these goals. Some might take until longer than 2015 to attain.”

Resources and Support

These technical challenges make assessment time-consuming to address, calling for significant organizational commitment. But program staff struggle with finding the “time and staff that can assist when needed” and the “lack of time to properly assess and detail findings.” Efforts for program staff to engage in assessment can further be hampered when the “CEO has other priorities” and “decisions are being made on board intuition.”

Grantee Capacity and Skill

The challenges extend beyond the foundations’ walls. The difficulties grantees face in assessing their performance hampers foundations’ assessment efforts. “Nonprofits are still not very sophisticated in planning outcomes and then tying this back to the impact on the people served,” says one program staff member. “No information is collected by grantees, and there’s been little assistance from the foundation to assist them in this capacity.”

others say they are unable to engage in assessment because it is not valued by other key players in their organization.

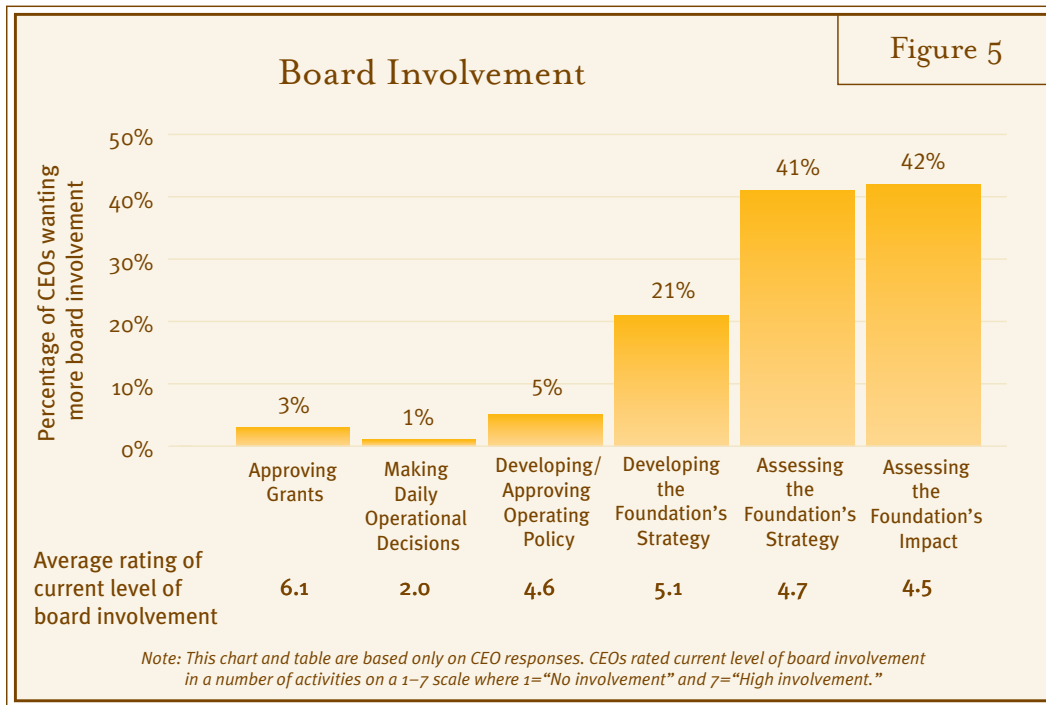
- » **Grantee capacity and skill.** Program staff also cite a lack of skill, time, or knowledge on the part of the grantees they fund to be able to collect the data the foundation needs to assess its performance.

Our research suggests that many CEOs are looking for more help from their boards in these efforts. Foundation CEOs are generally satisfied with the level of board involvement in most areas of foundation work, but a substantial proportion want the board to be more involved in assessment. More than 40 percent of CEOs say they want more board involvement in assessing strategy, and the same proportion want more board involvement in assessing impact. (See Figure 5.) This finding is strikingly similar to what we reported seven years ago in our report, *Indicators of Effectiveness: Understanding and Improving Foundation Performance* (August 2002). CEP's previous research on foundation governance has shown that trustees, too, want greater involvement in these integral areas of a foundation's work.¹⁷ Yet, for some reason, it is not happening.

Those CEOs who report that their boards are more involved in assessment of impact report better relationships with their boards—and more confidence in the impact the foundation is creating.

Perhaps one reason is that board involvement in assessment requires sharing a common understanding with the staff of what the foundation is working to achieve. But only half of the CEOs in this study reported that there is a completely shared understanding among the board, CEO, and staff, of the goals the foundation is working to achieve. Our analyses demonstrate that when this understanding exists, there is also likely to be agreement among the board, CEO, and staff that the strategies used are the most appropriate ones to achieve the goals.

When there is greater agreement on goals and strategies, there is greater board involvement in



¹⁷ *Beyond Compliance: The Trustee Viewpoint on Effective Foundation Governance*. The Center for Effective Philanthropy (November 2005).

assessment. And those CEOs who report that their boards are more involved in assessment of impact report better relationships with their boards—and more confidence in the impact the foundation is creating.¹⁸ (See Figure 6.)

Much of the discussion and debate in the field about performance assessment takes place in isolation from the challenge of developing goals and strategies, as though they were separate, rather than inextricably linked. The discussion often pays insufficient attention to the idea that, without clear goals and well-articulated strategies—that include clear logic—assessment is a challenge. We have reported in the past that CEOs are looking for more timely, actionable interim measures—what we have called “Indicators of Effectiveness”—to inform their learning and improvement. But such interim indicators can only be defined when the logic of a strategy is outlined in detail.¹⁹



Vague Goals

Foundation strategy requires clear connections between decisions about the use of resources and foundation goals. But what about the goals? Our research demonstrates that many foundation goals lack specificity.

We analyzed respondents’ goals to ascertain their specificity based on whether respondents mentioned issue areas, target populations, or geographic locations. We also analyzed how well-defined those issue areas, target populations, or geographic locations were. Even for foundations focused on similar areas, respondents’ goals varied dramatically in their specificity. One respondent, for example, described a goal of simply “strengthening organizations.” By contrast, a different respondent described a similar goal in this more specific way: “Strengthen the nonprofit sector: Assist [our state’s] nonprofit organizations [with] their effectiveness in terms of improved governance, transparent financial operations, creativity, and sustainability.” And yet another respondent described a related goal this way: “To enable organizations with whom we partner to develop scorecards and internal systems for evaluating the impact of their work.”

A lack of specificity of goals makes strategy development, as well as assessment, difficult, if not impossible. But the majority of goals (66 percent) that respondents are working to achieve focus on broad issue areas and lack reference to a target population. Despite being provided the room to share up to three examples, 40 percent of respondents to the survey did not even provide a single specific goal. One respondent wrote, “Our work is based on a very broad trust agreement written [many years ago]. Almost anything can fit in our very wide goal posts.”

¹⁸ A chi-square was conducted to examine whether CEOs who report that a completely shared understanding of goals exists among staff, CEO, and board members are more likely to report a completely shared agreement among those parties that the strategies used are the most appropriate to achieve their goals. T-tests were conducted to examine the relationship between CEOs reporting a completely shared understanding of goals across these parties versus the level of board involvement in assessing impact and strategy as well as the relationship between CEOs reporting a completely shared agreement on strategies at the foundation and the level of board involvement in assessing impact. Finally, correlations were run to examine the relationship between level of board involvement in assessing impact as reported by CEOs, CEOs relationship with their boards, and the extent to which CEOs rate their foundation as being effective in creating impact.

¹⁹ *Indicators of Effectiveness: Understanding and Improving Foundation Performance*. The Center for Effective Philanthropy (August 2002).

Conclusion

WE FOUND THAT THE TWO ELEMENTS OF CEP'S DEFINITION of strategy—a framework for decision-making that is 1) focused on the external context in which the foundation works and 2) includes a hypothesized causal connection between use of foundation resources and goal achievement—can be used to differentiate between more and less strategic foundation CEOs and program staff. In addition, we have in this research identified four key characteristics that further differentiate the more strategic from the less strategic.

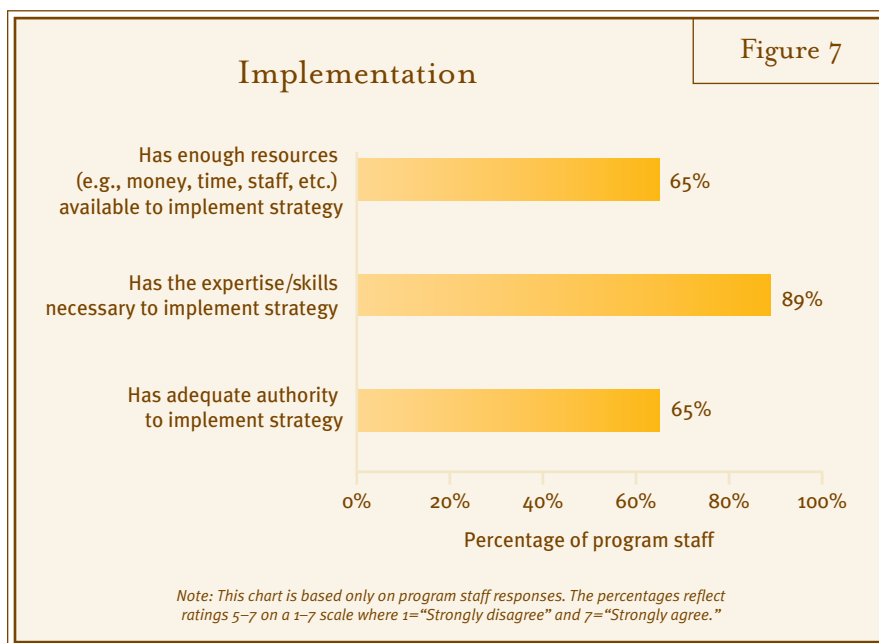
Our research suggests that many foundation leaders lack in their work the kind of clearly articulated logic our definition of strategy requires. To be strategic, foundation leaders must work according to concrete hypotheses that connect their everyday decisions to the achievement of their stated goals.

They must then ask if they are making decisions in ways that are consistent with those hypothesized connections—or whether the underlying logic needs to be revisited. This thinking also facilitates the development of interim performance indicators by which they can gauge progress and, if necessary, reevaluate and modify strategies.

Our research highlights a topic we have explored in past research efforts: the challenge of assessing foundation performance. Foundation leaders are quite optimistic about their effectiveness, but they lack solid evidence to support that optimism. Few foundations have performance indicators for all their strategies, and many foundation leaders are looking to their boards for more involvement in performance assessment. To make progress, CEOs and boards need to begin with a discussion of goals

Implementation Challenges

More than one-third of program staff report not having enough resources—monetary and nonmonetary (time and staff)—to implement their strategies. While having enough resources is critical to carrying out a foundation's strategy, foundation staff also need to have the necessary expertise and skills, as well as the adequate authority, to implement strategies. Nearly 90 percent of program staff believe they have the necessary skills and expertise to implement their strategies. But one-third do not believe that they have adequate authority to implement their strategies. (See Figure 7.)



and strategies. We see in our analysis the important relationships between shared understanding of goals, agreement on strategies, involvement in performance assessment, and perceptions of impact.

We cannot prove definitively that more strategic approaches result in greater impact than less strategic ones, but it is only the strategic foundations that have a chance at persuasively making the case for their impact. They are assessing and using what they learn to improve. They are also more likely to be hearing from key constituencies and partners about their work. Indeed, our findings contradict the common perception that to be strategic is to be isolated from feedback and data of various kinds.

Less strategic foundation leaders cannot articulate the logic behind what they are doing and how it contributes to the achievement of their goals, and they collect little assessment data. For less strategic foundation leaders, knowledge of impact is even further out of reach.

We cannot prove definitively that more strategic approaches result in greater impact than less strategic ones, but it is only the strategic foundations that have a chance at persuasively making the case for their impact.

The positive news is that the field has a number of examples of foundation leaders who have made efforts to put the necessary elements together to move from being less to more strategic in their work. CEP has developed case studies of foundations at which leaders have moved from being less strategic to more strategic, such as the Flinn Foundation, and others that are working to do so, such as The Duke Endowment. Their stories hold lessons for others and suggest that, as challenging as it is, foundations of various sizes, focuses, and structures can be strategic. We have also included in this report excerpts of interviews with two foundation leaders who exemplify in their approaches the essentials of foundation strategy: Paul Beaudet of the Wilburforce Foundation and Anne Warhover of The Colorado Health Foundation.

We hope that as foundation leaders compare their approach to their own work with the characteristics that define the more strategic leaders in this research, they will be motivated to confront with greater commitment the distinctive challenge of foundation strategy.

To aid in that effort, CEP has made available, with the release of this report, a free, Web-based strategy self-assessment that will allow foundation leaders to learn—based on answers to a few questions—how strategic they are in their work and whether they are exhibiting the characteristics that are typical of the more strategic leaders. It is available at www.effectivephilanthropy.org.

We encourage foundation leaders to use this report and the accompanying self-assessment to reflect on their decision-making approaches. We also hope they are used at meetings and retreats during which foundation leaders reflect on their decision-making approaches today—and how they may want to change them tomorrow.



Strategy in Their Own Words

Paul Beaudet, Associate Director, Wilburforce Foundation

Wilburforce Foundation, located in Seattle, Washington, was founded in 1990 and has an annual grantmaking budget of \$11 million.

CEP: WHAT ARE THE KEY GOALS YOUR FOUNDATION IS WORKING TO ACHIEVE?

BEAUDET: We're working to protect wildlife and wildlands by creating a network of protected core reserves, corridors, and buffer zones in western North America, from the Rockies to the Coast, from the Mexican border to the Arctic. Our work is grounded in science—and respect for the work, knowledge, and perspectives that our grantees bring to the work that we're doing.

CEP: HOW DOES THE EXTERNAL CONTEXT — WHAT'S GOING ON OUTSIDE OF THE FOUNDATION ITSELF — INFORM YOUR STRATEGY?

BEAUDET: We look at conservation opportunities, threats to the landscape, the capacity of the groups with whom we work, and the need for our funding relative to the investments being made by other funders. We look at things like climate change, the policy framework that we're operating under, the political situation, the state of conservation science, and what we know about wildlife populations. We look at the social and economic context, because, clearly, working to protect wildlife has an impact on ranching communities in the southwest and on native communities in British Columbia. And we do this in partnership with our grantees.

Listening to our grantees has helped us decide how to move ahead in some key ways. For example, when we first started working in the coastal temperate rainforest in British Columbia, we were working with organizations that were reaching out and building relationships with the First Nations. At first, our strategy focused on developing those relationships to nurture and affirm a conservation ethic, because native communities had asserted their rights and title to the provincial lands that were being logged and were likely to be key to deciding the fate of the forests.

We listened to our grantees as their strategies evolved to include conservation science, market campaigns, and the development of an economic development fund for timber-dependent communities. All of that culminated in a historic protocol agreement on land use planning that laid the groundwork for the conservation of more than ten million acres of forest in the coastal temperate rainforest. That deal was affirmed by conservation groups, timber communities, First Nations, and the provincial and federal governments of Canada, so it was really a big win. And

we will continue to heed our grantees as we fine-tune our strategy there to assure that new ecosystem based management practices are implemented using the best scientific principles.

CEP: WHAT ARE THE UNDERLYING HYPOTHESES THAT GUIDE HOW YOU MAKE DECISIONS TO ULTIMATELY ACHIEVE YOUR GOALS?

BEAUDET: Our priorities are informed by our values and by science. Our strategies support a series of core outcomes that appear in our logic model: addressing grantee relationships, grantee capacity, and grantee outcomes that, taken together, advance our mission and vision.

At the very basic level, solid relationships with grantees are critically important because grantees are a very good source of information for us. They are the ones doing the on-the-ground work. They're likely to have a much more nuanced and deeper understanding of the context for the work that needs to be done in the particular places that we care about.

If we have high-quality, long-term, trust-based relationships with grantees, we believe that we'll have better knowledge around which we can make smart investments in their organizational and programmatic capacity, helping them to more efficiently and effectively achieve their outcomes.

Since our investments are initially predicated on a clear alignment between a grantee's programmatic outcomes and our own, if they can achieve their outcomes, we are confident that we will see the kind of sustained change that is consistent with our mission, that is, policies and practices that protect wildlife habitat.

Our logic model, foundation-wide strategic framework, and individual place-based strategies all affirm outcomes that are categorized by grantee relations, grantee capacity, grantee outcomes and sustained change.

Anne Warhover, CEO, The Colorado Health Foundation

The Colorado Health Foundation, located in Denver, Colorado, was established as HealthOne Alliance in 1995. The name changed to The Colorado Health Foundation in 2006 when the Foundation adopted its new strategic plan. The Foundation has \$1 billion in assets.

CEP: WHAT ARE THE KEY GOALS YOUR FOUNDATION IS WORKING TO ACHIEVE?

WARHOVER: We are trying to make Colorado the healthiest state in the nation, and everything we do is tied to that overall vision. We have three goals. The first is that all people of Colorado have access to the components of healthy living, nutritious food, and the opportunity to be physically active. The second is that all people of Colorado have health coverage. The third is that all people of Colorado receive quality, coordinated health care.

CEP: FOCUSING IN ON YOUR FIRST GOAL, WHAT ARE THE STRATEGIES YOU USE TO ACHIEVE THAT GOAL?

WARHOVER: Under healthy living, [our] strategies are to create healthy schools where students are served healthy food, where physical activity is part of the school day, and where they learn about how to stay healthy, and where they can get medical services through school-based health centers. We also promote healthy communities where people can buy fresh fruits and vegetables and where it's safe for children to play outdoors and for adults to be more active.

CEP: HOW DOES THE EXTERNAL CONTEXT — WHAT'S GOING ON OUTSIDE OF THE FOUNDATION ITSELF — INFORM YOUR STRATEGY?

WARHOVER: We started with an environmental scan to get the basic facts around barriers to becoming the healthiest state in the nation and determined that those barriers start with healthy living. There are a significant number of people in Colorado who simply do not have access to or knowledge about the components of healthy living.

We get a lot of our information from the people working in the trenches, the grantees themselves, and other community interests like the business community. We go around the state frequently. Two or three of us will go into a community, we'll get somebody in the community who knows who to invite and we bring them all together in a roundtable and have them give us information and we just are sponges. It is amazing to me how different it is from community to community.

We also look to research and best practices. One of our policies in developing strategies is that they should be evidence-based. Most of our program officers are content experts, not philanthropy experts. So they'll do the research, and they'll say, well, this shows that it has some possibilities or that it was tried and it worked in West Virginia. Enrollment is a great example of that—how outreach and enrollment work to get people into public programs. There are things that have been tried that just do not work, and there are other things that have been tried that do work. We know what those are.

We do turn down grants frequently because we determine that the strategy isn't going to work. But what we don't want to do is stifle innovation. [If a] grantee wants to tweak a strategy a little bit in this way, this way, and this way, and then comes up with a hypothesis of why they think that tweaking actually makes it a better strategy, we will consider that. So we want to find a balance between risk, risk of innovation, and making sure that [our strategies] are really based on some pretty good evidence.

CEP: WHAT ARE THE UNDERLYING HYPOTHESES THAT GUIDE HOW YOU MAKE DECISIONS TO ULTIMATELY ACHIEVE YOUR GOALS?

WARHOVER: We think that access to the components of healthy living is the key goal to achieving the status of healthiest state. If people have access to healthy living—to food that is healthy, to opportunities for physical activity—they are likelier to be healthier. That's part of our hypothesis. What we found in our

research was that there are many underserved, which we define as either poor or living in communities in Colorado that are without access to healthy food. Some may be middle income but they are underserved because they do not have access.

For example, in parts of southern Colorado and in Denver neighborhoods, the impediment is simply a lack of access. When there is a lack of access to opportunities for healthy living, it is easy to adopt a culture of fast food eating and snacking. There aren't enough grocery stores. There often isn't good nutrition in the schools. Many schools are not prioritizing the health of their students, which we know is very important to their ability to learn. So that's why creating healthy schools is one of our key strategies. Why do we think that school nutrition will change the culture of kids? Because we know from research that if kids learn to eat well early on, they will continue those habits. So why is school the place to teach them and not parents or somewhere else? Because it's a place where they all are and you can have rules in schools that you can't have in homes.

CEP: DO YOU HAVE A BOARD-APPROVED, WRITTEN STRATEGIC PLAN?

WARHOVER: Yes. We have a strategic plan that we completed about four years ago [that] the board approved. And we have refined it and fine-tuned it. Then we had the board approve the measurable results that they wanted us to achieve.

CEP: DO YOU PUBLICLY COMMUNICATE YOUR STRATEGY(IES)?

WARHOVER: Yes. If we're going to be held accountable for achieving results, then we have to find the partners who will get us there. We can't do any of this work ourselves. So by publishing our strategies, we attract partners who will get us results.

We've published strategies and then we also give examples of grants that fit into those strategies so people can see them in action as well as in a statement. But we learned from surveying our grantees and from an evaluation of our Web site, which is where most applicants go to get the information they need, that people can learn about the measurable results we are going for but they don't see anything there that really tells what strategies we think are the best to use. So we are now in the process of making our strategies more explicit on our Web site, and having a better mechanism for getting them out.

CEP: DO YOU/DOES THE FOUNDATION PROACTIVELY SEEK OUT GRANTEES TO FUND?

WE DEFINE PROACTIVE AS: IDENTIFYING ORGANIZATIONS OR PROGRAMS THAT TARGET SPECIFIC ISSUES, CONDUCTING REQUESTS FOR PROPOSALS (RFPs), OR DIRECTLY CONTACTING ORGANIZATIONS OR PROGRAMS TO INITIATE GRANTS.

WARHOVER: We do a lot of proactive grantmaking but also some responsive grantmaking. What really matters is finding the right organizations, wherever they are, that are in the best position to implement those strategies. We'll never get 100 percent but we try hard to make the funder-grantee relationship much more mutual by explaining to grantees that we are accountable for achieving these results and they are the only ones who can get us there. And therefore, we need them more than they need us. They can go somewhere else and get

money. But we can't go anywhere else to get a highly qualified, well-led and managed partner to deliver on these results for us. We think a lot of innovative ideas come from responsive grantmaking, too, and so we always want to be open to that, as well, and we are. You don't have to be invited to apply.

CEP: HOW DO YOU ASSESS YOUR STRATEGY(IES)? DO YOU USE PERFORMANCE INDICATORS, METRICS, OR OTHER TOOLS TO ASSESS YOUR STRATEGY(IES)?

WARHOVER: Some of the criteria that we used were let's keep it simple, let's make sure it's available, and let's make sure it's meaningful. Is there some research that shows that increased physical activity three times a week is going to lead you to a healthier lifestyle or help with obesity? Obviously, measuring healthy living is very difficult because you have to wait for a long time to see if what we're doing works. So we came up with six interim indicators to tell us that we're going in the right direction:

- » Increasing the number of children and adults who engage in moderate or vigorous physical activity
- » Number of people who eat adequate amounts of fruits and vegetables. Again, the hypothesis being if you do that, you're probably eating healthier
- » Increasing access to healthy food and drink in vending machines
- » Increasing access to recreational exercise
- » Increasing the number of parents who are educated on child development, nutrition, and preventive health care
- » Increasing the number of people who are self-managing their chronic disease(s)

If we can show the needle changing positively in those directions, we think that will be some indication that our interventions at the school and community level are working.

The first grantees are now reporting the results. But we won't have those accumulated to report to the board or to the public on how we are doing for a little while. And even then we can show what our grantees did, but we will still have to look at the big picture. We can't just stop at saying we enrolled 25,000 more people when the state has more uninsured than ever. Less formally, we also measure our impact through the Colorado Health Report Card.

CEP: WHY IS IT IMPORTANT TO ASSESS YOUR STRATEGY(IES)?

WARHOVER: Everybody has to be accountable in this world. We start by thinking about who is our customer, who is our stakeholder, to whom do we owe our accountability, and that is the people of Colorado. This isn't our money. This is their money. And so how can you possibly be accountable without showing results and having some objectivity to your results? You can't just fling your money in all different directions and hope that some of it sticks. You have got to have strategies that will help you get to those results.

Case Studies

Changing the Approach at The Flinn Foundation

(To read CEP's full case study on The Flinn Foundation, visit www.effectivephilanthropy.org.)

The Flinn Foundation has made a concerted and organized effort to become more strategic in its work. Flinn's mission "to improve the quality of life in Arizona" has remained constant over the past decade, but the substance of its work has changed dramatically. Before 2001, the Foundation's work was spread broadly in the health field, the arts, and education.

But in 2001, Flinn honed its focus to a fine edge, deciding to devote the majority of its grantmaking to helping develop Arizona's bioscience economy. In addition, the Foundation has gone beyond grantmaking to take the lead in identifying priorities and shepherding major initiatives to strengthen the state's biomedical infrastructure.

Becoming More Strategic

Several factors led Flinn to change its approach. First, the Foundation was undergoing a transition in the composition of its board. "New members were asking fundamental questions about how you forge a cohesive grant program that will do justice to the intent of the donors," says retired president and CEO John Murphy. These questions launched an open dialogue with more experienced board members about the history and purpose of the Foundation. "We began asking ourselves, 'What are we really about? What's the intent here? How does all this fit together? How many of these things can we do?'" says Murphy.

The Foundation identified several steps that it believed were logically connected to its overall objective of making Arizona competitive in biotechnology within 10 years (by 2012).

- » Build research strengths
- » Form a coalition of statewide leaders in business, academia, and government to contribute to the infrastructure concept
- » Develop public and private-sector funding commitments to the research infrastructure
- » Transfer new ideas and concepts to commercial possibilities, and
- » Strengthen math and science education for students in pre-school through college

These were the steps that foundation leaders hypothesized would lead to a stronger biotechnology industry — creating more jobs and opportunities in the state.

External Orientation

At the same time that Flinn's leadership was reexamining the Foundation's approach to its mission, Arizona was facing an economic downturn. And although people often view Arizona as a retirement state, Murphy says, "Its median age is among the younger of the states. So we're attractive to all the young people who are seeking careers and jobs." With the economic base in peril and an influx of new people, the state was facing enormous infrastructure needs such as more schools, hospitals, highways, and parks just to keep up with the population growth.

The state's economic outlook, coupled with an emergence of new foundations in Arizona that had greater wealth than Flinn and that were funding in similar areas, opened up a new opportunity for the Foundation. "As we looked at both the environmental assessment of what was happening around and within our state as well as what was happening in health care, in concert with reviewing our donor's intent, we began to realize that there was a special niche for this foundation," says Murphy.

Flinn's leaders believed that the tighter focus, combined with more targeted funding would lead to greater impact. "We chose a less-is-more approach," says Murphy. "We won't make as many grant commitments but they'll be far more significant in terms of impact on recipients, and also more fundamental to that organization because the funds are used more flexibly to build institutions rather than on a narrow project for a few years."

Proactive Grantmaking

Before its transformation in 2001, the Foundation was making an average of 100-150 grants per year, funding a wide range of projects in areas ranging from teen pregnancy to cross-border issues with Mexico. Today that number has dropped to single digits. "And that's probably the most significant expression of this change," says Murphy. "We're far more targeted and focused. We choose the projects that we do fund using a screen because of several issues that we examine and consider, because essentially we now are involved in institution building."

As part of its more strategic approach, Flinn no longer accepts unsolicited grant requests. Instead, grants are awarded through a request for proposal process or by invitation. Because it is making fewer grants, those it does make are larger, longer-term, and support multidisciplinary, collaborative efforts involving research teams at the state's public universities and nonprofit research institutions.

Grants do not support a specific disease, discipline, or single investigator's interests. Furthermore, Flinn leverages its grant dollars, making strategic commitments by providing either matching or challenge grants or by making grants that are large enough to attract the interest of others who would then add value to the project.

Assessment

To ensure progress on its goals, Flinn engaged a well-regarded consulting team to identify specific strategies to accomplish those goals as well as a series of metrics to help assess the effectiveness of those strategies. Among primary measures are the following:

- » The rate of growth in NIH grants

- » The creation of new high-paying jobs in the biotech sector
- » The growth and/or expansion of biotech companies, and
- » The commitment of resources, public and private, within the state to this sector

As of 2008, the results from the new strategy are evident. Murphy credits the progress to a collective effort. "In terms of the ultimate goal of creating a thriving bioscience sector here, we're well on our way. The arrows are up in terms of research funding, externally generated research funding flowing into the state, but also in terms of the number of new businesses and jobs, high-paying jobs — it's one of the fastest growing segments of our economy now. We can take justifiable pride in having contributed to that stimulus."

Moving Toward Strategy at The Duke Endowment

Balancing the intent of its donor with a desire to increase its effectiveness, The Duke Endowment has been taking an increasingly strategic approach to its work.

With a mission "to serve the people of North Carolina and South Carolina by supporting selected programs of higher education, health care, children's welfare, and spiritual life," The Duke Endowment was charged by its founder, James Buchanan Duke, to support specific institutions.

Mr. Duke's indenture did provide a bit of leeway, however. Recognizing that times change, he left Endowment trustees with broad discretion to make grants for charitable purposes that are in accordance with his original wishes. Using that discretion, the Endowment's staff and board are reexamining the way they approach their work and making changes that they hope will garner greater impact. "We want to achieve more gain from the dollars we're putting into the Carolinas," says President Gene Cochrane. "That's the main driver. Some of it, too, is to keep as current as we can with the region's issues."

Striving to respond more effectively to today's needs, The Endowment's leadership also aims to deepen the reach of its four divisions (Health Care, Child Care, Education, and Rural Church). In practice, this new approach includes focusing grantmaking "upstream" toward prevention, funding research and collaborations, supporting evidence-based practices, and assessing the impact of grants made using a common framework across the four grantmaking programs.

Logically Connected

Rhett Mabry, vice president and director of The Endowment's

Child Care division, remembers what motivated him to initiate a new approach to the division's work. After giving a speech criticizing the child welfare system, he turned his focus to considering how The Endowment could make a difference. "I asked myself, 'What could we do to make it more effective? How could I be more constructive?'" he says.

Mabry subsequently documented the answers to his questions in a white paper promoting the idea that the system would be more effective if it was accountable for the well being of children rather than for metrics like length of stay and recidivism. The white paper led the Child Care division to adopt a different hypothesis, based on logic and informed by extensive conversations with others in the field, that an effective child welfare system would be one that is more focused on child well-being. Mabry cites the board's openness to change as key to allowing this new direction to evolve.

After changing focus, the division has continued to develop its goals. "We wanted to improve the quality of services provided and move more money upstream. Even for us those were process objectives. Now we want to help children in the system reach developmental milestones and prepare for adulthood, which are goals that are more focused on child well-being," Mabry says.

To that end, the Child Care division no longer limits its funding to children's homes and adoption placement agencies as it did a decade ago. Today it also awards grants to programs that provide mentoring, prevent child abuse, and advocate for children — with a heightened focus on prevention, supporting new research, and use of evidence-based practices. "If you work in this field long enough you've heard the analogy, 'You can sit down in the river and pull them out, or you can go further upstream and try to stem

the flow of children into the system as much as possible,” says Mabry. “Some of it is just logical. On the evidence-based side, I think staff and the board have moved toward paying more attention not to who we fund necessarily, but what we fund in terms of its effectiveness.”

Externally Oriented

In the field of child welfare, there are well-researched treatment interventions and prevention strategies that Mabry thinks should be more broadly used in North Carolina and South Carolina. The Endowment itself does not measure the effectiveness of existing programs: it turns to external sources of information, such as the California Clearinghouse for Evidence-Based Practices Web site, which provides information about the relevance of particular practices to child welfare as well as the strength of the research and data supporting these practices.

And the Endowment does not conduct this work in isolation: A few years ago, it funded a statewide task force on the prevention of child abuse and neglect and child maltreatment. An organization called Prevent Child Abuse North Carolina took a leadership role and brought funders together, in concert with the Institute of Medicine in North Carolina. Thirty-eight recommendations resulted from this statewide task force, one of which was to more broadly disseminate evidence-based practices. As a result of that statewide task force, The Endowment joined a group of public and private funders that meet every six weeks to go through the process of identifying the evidence-based practices that could be used to help families.

A More Proactive and Supported Implementation

Staff in The Duke Endowment’s Child Care division have moved from a more responsive grantmaking approach to a mix of responsive and proactive grantmaking, developing new initiatives rooted in evidence-based research and best practices. These changes occurred partly as a result of the concern that they were funding, as Mabry describes, “a lot of things that sound good, but that we weren’t really sure were effective.”

When Mabry moved into the Endowment’s Child Care division 10 years ago, it was almost exclusively responsive. “People would come to us with ideas, we would consider the ideas, and we’d either say yes or no.” And, although he saw benefits to that approach, it was clear that there was a need for the Endowment to do more. “We think there are areas that we can take leadership in, too, and some of those are specific initiatives,” says Mabry. “We’re also trying to create incentives for organizations to move in a certain direction by stating our willingness to consider such grant opportunities.” Mabry describes the process of moving to more proactive grantmaking as an “evolution over time” rather than an immediate change.

As part of its move to more proactive grantmaking, the Endowment added a level to its grantmaking that, according to Mabry, focuses

on “trying to move organizations toward employing or deploying evidence-based practices.” And they use a strict definition of what evidence-based practice means: “We consider evidence-based interventions to be those that have at least two randomized control trials supporting their effectiveness and have been replicated in a real-world setting,” he says.

The Endowment plans to go beyond disseminating evidence-based practices to taking a leadership role in creating the infrastructure to ensure it is being done correctly and consistently. “It’s one thing to say we’re funding evidence-based practice, it’s another to create an environment with the training, ongoing monitoring, and data collection needed to do it effectively,” says Mabry. “There is a framework that’s necessary in funding evidence-based practices.”

Creating a Framework for Assessment

In addition to supporting evidence-based practices to increase the effectiveness of its work, the Endowment is creating a framework to assess its impact as a whole. As part of that effort, its leadership has recently revamped its grant applications, creating common definitions across its four divisions.

Finding common definitions that cut across all four divisions has not been easy, says Cochrane. “It took us a year to get agreement among our staff because the terminology in one area was just so foreign in the other. When you use the term ‘evidence-based,’ it means different things in health care, in religion, and in child care, so getting consensus on what those words mean was huge,” he says. The process required bi-weekly meetings with all four divisions and some help from outside consultants. “To have help from somebody who was not a part of this organization was the key,” Cochrane says.

The new applications, introduced in July 2008, pose specific questions that, among other things, ask grantees to cite evidence that will support their approach, key factors that will make the program sustainable over time, and the specific measures that will define success.

But assessment remains a formidable challenge for The Duke Endowment. As Mabry explains, “We’re struggling with what are the appropriate milestones for children in child welfare...in the child welfare system you’ve got children who’ve been severely damaged, so what might be an appropriate milestone for some children may not be an appropriate milestone for a child who’s come through a more difficult situation.”

Noting that complacency is an “occupational hazard in philanthropy,” Mabry says that The Duke Endowment is well-positioned to continue refining its approach. “We’ve got a board that’s very comfortable with change. We’ve got a leader who’s very comfortable with change. We, the staff, want to do it. Our board wants us to do it. And I think we’re all driven to try to be better. Those are the key elements,” he says.

Appendix: Methodology

This research report represents the second phase of CEP's work exploring foundation strategy. The findings presented in this report are based on data collected from surveys of CEOs and program staff. All research and analyses were developed and executed by CEP staff. Our definition of strategy, which we tested in this phase of the research, was developed through the qualitative analyses described in our October 2007 report, *Beyond the Rhetoric: Foundation Strategy*.

Sample

CEP developed surveys to better understand how foundation CEOs and program staff make decisions and use strategy in their work. Private foundations in the United States that had \$100 million or more in assets, according to the most up-to-date Foundation Center data available in fall 2008, were targeted for inclusion in this study. CEOs and one randomly selected program staff member from foundations that had program staff were sent surveys.

Program staff were identified through foundation Web sites and the use of the Foundation Center's Foundation Directory Online. Only those foundation staff with a title suggesting they were involved in program work were included in the program staff survey.²⁰ In total, 440 CEOs and 286 program staff were sent surveys in fall 2008.

We received completed surveys from 102 CEOs and 89 program staff representing response rates of 23 percent and 31 percent, respectively. The CEOs and program staff who responded to our survey represented 155 foundations. We received both a CEO and a program staff response from 36 foundations.

More than half of the survey respondents were at their current foundation for fewer than six years. The number of program staff members at respondents' foundations ranged from zero to 180, with a median of 4. In addition, 20 percent of the foundations represented in this data set had dedicated evaluation staff at their foundations. Ten percent of foundations represented in this study had the original donor still serving on their foundation's board, and 57 percent had relatives of the donor serving on the board. Only five percent of foundations were reported to have plans to spend out their assets in a fixed number of years.

Method

The surveys for CEOs and program staff were structured the same way and included many identical questions. The CEO survey included a total of 50 questions and the program staff survey included 51 questions. Both surveys were a mix of closed- and open-ended items. Each survey included nine open-ended written-response items. The surveys included items related to the development and use of goals, strategies, and performance indicators. The items were developed based on the findings from the first phase of our research, described in *Beyond the Rhetoric: Foundation Strategy*, as well as questions raised by those findings.

CEOs and program staff were sent a paper copy of the survey with a cover page including a link to an online version of the survey. A cover letter included information on the purpose of the survey and a statement of confidentiality. Two reminder emails were sent to all CEOs and program staff for whom email addresses were available; post-card reminders were sent to the remaining CEOs and program staff.

Quantitative Analyses

Before performing quantitative analyses on the collected data, a t-test was conducted to ensure that CEOs and program staff ratings did not statistically differ. For the overwhelming majority of items, average responses did not differ between CEOs and program staff. Therefore, the data from both groups were combined to form one dataset, with only a few exceptions.

To analyze the quantitative survey data from CEOs and program staff, a combination of independent samples t-tests, paired samples t-tests, chi-square analyses, analysis of variance tests, correlations, and regression analyses were used. An alpha level of 0.05 was used to determine statistical significance for all statistical testing conducted for this research. Effect sizes were examined for all analyses. Only findings reaching a medium effect size are discussed in this report.²¹

To affirm CEP's definition of strategy, a two-step cluster analysis was conducted on the dataset. Six variables were included in the cluster analysis. The items entered into the cluster analysis were those

²⁰ Titles that we determined were appropriate included: Vice President of Programs, Program Officer, Program Director, Program Manager, and Grants Officer. Titles that were excluded were positions such as: Grants Manager, Grants Administrator, Program Associate, and Program Assistant.

²¹ Cohen, J. "A Power Primer," *Psychological Bulletin*, 1 (112), 1992: 155–159.

that represented CEP's definition of strategy, which was based on our qualitative research conducted for the first phase of this study, described in *Beyond the Rhetoric: Foundation Strategy*. Two clusters of respondents resulted: a cluster of "more strategic" respondents and a cluster of "less strategic" respondents. Fifty percent of the sample fell into the "more strategic" cluster and 39 percent were classified as "less strategic." Eleven percent of respondents were not classified because they had not answered one of the items used in the cluster analysis. Fifty-three percent of CEOs and 54 percent of program staff fell into the "more strategic" cluster.

Using t-tests, the average ratings of individuals within each of the two clusters were compared on all items in the survey. For those items on which the more- and less-strategic respondents differed, effect sizes were calculated. The four key characteristics described in the report were identified based on this analysis.

Respondents were asked to rate to what extent they are strategic in their work to achieve their goals on a scale from 1–7 where 1 indicated "Not at all strategic" and 7 indicated "Very strategic." To understand what best predicted how strategic respondents perceived themselves to be, we conducted a multiple regression analysis. This regression explained 50 percent of the variation in how strategic respondents rated themselves to be. Whether or not the respondent has a strategic plan was the strongest predictor in this analysis. Because CEO and program staff self-ratings of how strategic they perceived themselves to be differed statistically on this item, the role of respondent (i.e., whether they were a CEO or program staff member) was controlled for in the regression analysis.

Respondents were also asked to rate "When deciding on a strategy(ies) to use to achieve your goal(s), to what extent are decisions made based on the following: Logically the strategy(ies) is the best fit with achieving my goal(s)" on a scale from 1–7, where 1 indicated "Not at all" and 7 indicated "To a very great extent." To examine whether ratings on this item differed by whether or not respondents had a strategic plan, as well as by whether or not they had a logic model, a two-way analysis of variance was conducted. The main effect of having a logic model was statistically significant; the main effect of having a strategic plan was not statistically significant. The interaction between the presence or absence of a strategic plan and a logic model was not statistically significant. The mean rating of respondents with a strategic plan and a logic model was statistically significantly higher, with a medium effect size, than the mean rating of respondents with a strategic plan but no logic model.

The survey included an item asking about the level of understanding among staff and CEO, staff and board members, and CEO and board members on goals. We also asked about the level of agreement among these same groups on whether the strategies chosen were the most appropriate ones. In addition, we asked the board's level of involvement in various activities as well as whether the CEO wanted more, less, or the same level of board involvement. T-tests, chi-squares, and correlations formed the basis of the findings depicted in Figure 6. Because CEO and staff ratings statistically differed on their ratings of board involvement in foundation work, only CEO data was included in these analyses and only CEO data is reported on for these items in the report.

Qualitative Analyses

A coding scheme for each open-ended item was developed. The coding scheme identified themes and reoccurring ideas within the respondents' answers to the open-ended questions. One coder coded all responses to an item, and a second coder coded between ten and twenty percent of the responses for a given item; a minimum of eighty percent inter-rater agreement was achieved for the coding of each open-ended item. Selected quotations were included in this report; these quotations were selected to be representative of the themes seen in the data.

Choice of Profiled Foundations and Leaders

The Duke Endowment, Gill Foundation, and Flinn Foundation were chosen based on the classification of individual leaders we interviewed in the first phase of our research as "Partial Strategists" or "Total Strategists." Leaders at The Colorado Health Foundation, Stuart Foundation, and Wilburforce Foundation were selected based on the results for individual foundation leaders who participated in a pilot version of CEP's strategy self-assessment.

Note about Funders of CEP

CEP receives grant support of varying levels from nearly 50 foundations. Several of the foundations profiled in this report provide grant support to CEP, although this was not a factor in their inclusion here. The foundations mentioned in this report and their amount of annual funding are as follows: Colorado Health Foundation (\$10,000); Stuart Foundation (\$50,000); and Wilburforce Foundation (\$5,000). A complete list of funders of CEP, by level of support, can be found on our Web site, www.effectivephilanthropy.org.

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