Philanthropy’s New Agenda: Creating Value

by Michael E. Porter and Mark R. Kramer
During the past two decades, the number of charitable foundations in the United States has doubled, while the value of their assets has increased more than 1,100%. Foundations now hold over $330 billion in assets and contribute over $20 billion annually to educational, humanitarian, and cultural organizations of all kinds. No other country in the world can claim such substantial and widespread commitment to philanthropy and volunteerism. But are we, as a society, realizing the full fruits of this commitment?

Grant-giving foundations are intermediaries between the individual donors who fund them and the various social enterprises that they, in turn, support. But if foundations serve only as passive middlemen, as mere conduits for giving,
Some of the money that foundations give away belongs, in a sense, to all of us. That is why we look to foundations to create real value for society.

Foundations can and should lead social progress. They have the potential to make more effective use of scarce resources than either individual donors or the government. Free from political pressures, foundations can explore new solutions to social problems with an independence that government can never have. And compared with individual donors, foundations have the scale, the time horizon, and the professional management to create benefits for society more effectively.

Whether foundations are fulfilling their potential, however, is an open question. Not enough foundations think strategically about how they can create the most value for society with the resources they have at their disposal. Little effort is devoted to measuring results. On the contrary, foundations often consider measuring performance to be unrelated to their charitable mission.

If foundations are to survive and thrive in the new century, those attitudes and practices must change. True, foundations are created by the generosity of private individuals. But compared with direct giving, foundations are strongly favored through tax preferences. When individuals contribute to a foundation, then, they cross an important line. Some of the money that foundations give away belongs, in a sense, to all of us. That is why we look to foundations to achieve a social impact disproportionate to their spending. We look to them to create real value for society.

Foundations must rise to this challenge sooner rather than later. Despite the dramatic increase in the number and wealth of foundations, the resources available for solving society’s problems are scarcer than ever. Using those limited resources most effectively has immense social value, and foundations are uniquely suited to do so. But they cannot as long as their founders, trustees, and staff are unwilling to rethink what they do and how they do it. Satisfied with their historic agenda of doing good, too few foundations work strategically to do better. The time has come to embrace a new agenda, one with a commitment to creating value.

An Obligation to Create Value

When a donor gives money to a social enterprise, all of the money goes to work creating social benefits. When a donor gives money to a foundation, most of the gift sits on the sidelines. On average, foundations donate only 5.5% of their assets to charity each year, a number slightly above the legal minimum of 5%. The rest is invested to create financial, not social, returns. (Only .01% of foundation investment portfolios is invested to support philanthropic purposes.) Most of the $30 billion currently held by foundations, then, represents a future benefit to society, one that will be realized only when the money is finally given away.

We rarely stop to think about the differences between direct giving to operating charities and donations through foundations, but they are striking. When an individual contributes $100 to a charity, the nation loses about $40 in tax revenue, but the charity gets $100, which it uses to provide services to society. The immediate social benefit, then, is 250% of the lost tax revenue. When $100 is contributed to a foundation, the nation loses the same $40. But the immediate social benefit is only the $5.50 per year that the foundation gives away – that is, less than 14% of the forgone tax revenue.

Of course, the foundation will continue to pay out 5.5% of principal for many years to come. Even so, there is a substantial cost in holding so much money aside. At a 10% discount rate, for example, the present value of the foundation’s cumulative contributions after five years is only $21. After 100 years, it is still only $55. Compare that with the $100 contributed directly to the provider of social services in year one.

Regardless of the discount rate one chooses, the fact remains that we as a nation pay up front for deferred social benefits. The whole donation gets the tax break, not just the small part that is spent. Since foundations also pay almost no taxes on the appreciation of their assets, the forgone tax revenue grows even larger. Over the past decade, when the stock market has been strong, the United States has forgone tax revenue of 75 cents for every dollar foundations gave to social enterprises.

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Moreover, when philanthropy is channeled through foundations, two additional layers of costs are added. First, foundations have their own administrative costs, estimated at between $2 billion and $3 billion per year. Second, a heavy administrative burden is imposed on grantees complying with the foundations’ sometimes detailed and protracted application and reporting procedures. Such costs are very real.

Foundations, then, are an expensive way to allocate dollars to social enterprises. This is not to say that foundations cannot contribute far greater value than their added tax and administrative costs. They can. Nor do we mean to imply that the government would spend tax revenues as well as foundations do, or for the same purposes. What we are saying is that as a nation, we make a substantial investment in foundation philanthropy— one well worth making if foundations meet their obligation to perform.

How, then, can foundations increase the social impact of their work enough to compensate for their costs? At its best, a foundation brings to social problems more than money and the passion of its good intentions. The permanence of a foundation’s asset base means that it has an appropriately long time horizon in which to tackle social issues and develop expertise in its field. Thus foundation dollars can achieve greater social impact than the same monies spent by either private donors or the government. That is what we mean when we challenge foundations to create value.

Creating Value Through Others

The vast majority of foundations work through others by giving grants. (Only a small number of operating foundations provide social services themselves.) Grant-making foundations purchase social benefits from the organizations they support. However, anyone, including private donors and the government, could purchase the same benefits with the same dollars. Foundations create value when their activities generate social benefits that go beyond the mere purchasing power of their grants. They can do so in four ways. The first two are relatively well known but are rarely practiced systematically. The last two are far more powerful but far less common. All four can create value, but there is a clear hierarchy of ascending impact. Each successive approach leverages a foundation’s special assets—resources, expertise, independence, and time horizon—more than the preceding one, as the focus of activity shifts from the individual recipient to the overall social sector.

1. Selecting the Best Grantees. The process of value creation here is straightforward. Like investment advisers in the business world, foundations can use their expertise to channel resources to their most productive uses within the social sector by funding organizations that are the most cost effective or that address urgent or overlooked problems. For example, of the many organizations that seek funding for programs aimed at reducing the high school dropout rate, a foundation can select the most effective one. Thus its dollar will earn a higher social return than a dollar given less knowledgeably by an individual donor. In this way, choosing recipients and allocating funds is itself a source of value.

While most foundations recognize evaluation and selection as their primary tasks, few operate systematically to measure their own performance in order to improve the return on their future allocations. One notable exception is the Colorado Trust, a foundation that specializes in two areas: accessible and affordable health care and the strengthening of families.

The Colorado Trust is unusual in its focus on improving its own selection process by analyzing results and then incorporating that knowledge into its future decisions. For every initiative the trust underwrites, it evaluates not only the grantee’s performance but also its own effectiveness. Was the trust’s strategy for the initiative based on sound assumptions? How good were the criteria used to select grantees? By asking such questions systematically, the trust works to become more effective with each successive round of funding.

2. Signaling Other Funders. The second way to create value is a logical extension of the first. If a foundation is skilled at evaluating and selecting charities, it can magnify the value it creates by taking the additional steps of educating and attracting other donors (especially those lacking the foundation’s expertise in the area). By so doing, it effectively improves the return on a larger pool of philanthropic resources.

Attracting other funders by offering matching grants is one form of signaling, yet even it is rarely used—representing only 4% of all grants. Beyond matching grants, foundations can actively help grantees to raise additional resources and can educate other funders to improve their own selection procedures. The prevailing culture of independence among foundations, however, continues to be a barrier to such learning and the improved performance that could result from it.

3. Improving the Performance of Grant Recipients. Foundations can create still more value if they move from the role of capital provider to the role of fully engaged partner, thereby improving the grantee’s effectiveness as an organization. The value created in this way extends beyond the impact of...
one grant: it raises the social impact of the grantee in all that it does and, to the extent that grantees are willing to learn from one another, it can increase the effectiveness of other organizations as well.

Affecting the overall performance of grant recipients is important because foundation giving represents only about 3% of the nonprofit sector’s total income. By helping grantees to improve their own capabilities, foundations can affect the social productivity of more resources than just their slice of the whole. Working directly with grantees to improve performance is thus a more powerful use of scarce resources than selecting grantees or signaling other funders.

Nonprofits operate without the discipline of the bottom line in the delivery of services, though they do compete for contributions. As a result, they lack strong incentives to measure and manage their performance. Foundations can not only encourage them to do so but also bring to bear their objectivity as well as their own and outside expertise to help grantees identify and address weaknesses.

Consider the David and Lucile Packard Foundation. It spends $12 million a year assisting nonprofits in management, planning, restructuring, and staff development. One grant, for example, was used to teach an environmental organization how to be more effective at marketing and fund-raising. The Intercultural Center for the Study of Deserts and Oceans (CEDO) is a Mexican-American partnership that promotes sustainable use of the desert and upper gulf region of California. CEDO succeeded in bringing attention – and tourists – to the area, but it lacked the marketing expertise to benefit from the increased tourism. The Packard Foundation’s grant paid for marketing consultants who taught CEDO how to turn tourists into members, creating an ongoing revenue stream for CEDO far greater than the Foundation’s $50,000 grant.

The Echoing Green Foundation, created by venture capitalist Ed Cohen, gives $1.4 million a year to improve the performance of the nonprofit sector even more broadly. It invests in social entrepreneurs, individuals with the drive and vision to catalyze social change. It aims to build a community of public-service leaders who share their experience, knowledge, and energy with one another. To date, Echoing Green has funded more than 300 fellows who not only pursue their own projects but also visit with one another to share best practices. The lessons learned are recorded, distributed to all grantees, and made publicly available.

The range of ways in which foundations can assist nonprofits goes well beyond making management-development grants. Foundations can become fully engaged partners, providing advice, management assistance, access to professional service firms, clout, and a host of other non-cash resources. Improving the performance of grant recipients often requires

Foundations Create Value in Four Ways

Each successive approach leverages a foundation’s special assets more than the preceding one as the pool of resources affected grows from a single grant to an entire field.

1. Selecting the best grantees
   Each dollar will earn a higher social return than a dollar given by a less knowledgeable donor.

2. Signaling other funders
   By attracting other donors, a foundation effectively improves the return on a larger pool of philanthropic resources.

3. Improving the performance of grant recipients
   Helping a grantee to improve its own capabilities increases its overall effectiveness as an organization and thus improves the return on all the money it spends.

4. Advancing the state of knowledge and practice
   Such agenda-setting work makes every dollar spent in the field – by philanthropists, government, and other organizations – more productive.

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In the fall of 1998, for example, the Charles and Helen Schwab Family Foundation in San Mateo, California, joined with the Peninsula Community Foundation and the Sobrato Foundation in a $2 million, two-year initiative to address internal issues of management and growth at 16 local family-service agencies. Every eight weeks for the life of the project, foundation staff members meet with all 16 agency directors. Management experts are brought in to address relevant topics. As a result of the group discussions, three of the grantees have decided that they can operate more efficiently if they merge, and foundation staff has worked closely with them to accomplish the merger. Because technology management has surfaced as a major issue, the foundations have researched and funded technology needs at several of the agencies.

4. Advancing the State of Knowledge and Practice. Foundations can create the greatest value by funding research and a systematic progression of projects that produce more effective ways to address social problems. At its best, such work results in a new framework that shapes subsequent work in the field—making every dollar spent by philanthropists, government, and other organizations more productive.

Foundations are uniquely positioned to study a field in depth. They can set a new agenda and change both public sentiment and government policy. The green revolution, for example, had its roots in research sponsored jointly by the Ford and Rockefeller Foundations in the late 1950s and early 1960s. Concerned with world hunger and population growth, the two foundations created research institutes that developed new strains of wheat and rice that doubled and tripled crop output per acre.

Within six years, India doubled its rice production, and Mexico, once an importer of wheat, became an exporter. Nigeria and Colombia created their own research institutes modeled on the foundations’ research. The Rockefeller Foundation subsequently disseminated its results to organizations from 28 developing countries. Altogether, many millions of the world’s poorest people benefited from the knowledge created by those two foundations.

Studies by the Carnegie Foundation have had a similarly powerful impact on education in the United States over the last 95 years. In 1904, Carnegie funded research by Abraham Flexner on the state of medical education, which revealed a widespread lack of standards. This study revolutionized the teaching of medicine in the United States. Over the next 20 years, nearly half of the medical schools in existence were closed, and the model curriculum that Flexner proposed still serves as the basis for medical training across the country.

The Carnegie Foundation subsequently funded hundreds of studies in the field of education, first in other areas of professional education, such as law, engineering, and business. In each field, the research influenced the spread of new and standardized models of education.

In 1967, the Carnegie Commission on Higher Education set the model for requirements in liberal arts undergraduate education that most universities follow today. Carnegie also studied and promoted standardized testing and is responsible for creating the Educational Testing Service in Princeton, New Jersey.

It is work of this kind—not only pursuing knowledge breakthroughs and establishing pilot projects but also pushing them through to fruition—that we tend to associate with foundations of an earlier era. Today some foundations are carrying out activities with such potentially high impact. The Pew Charitable Trust, for example, recently created the Pew Center on Global Climate Change to study global warming, educate the public, and coordinate international negotiations.

Despite cutbacks in government funding for social programs, foundations can still create enormous value by advancing the state of knowledge and practice in the social sector. Unfortunately, too few take this path.

Foundations Need Strategy

In practice, the four approaches to creating value—selecting grantees, signaling others, improving the performance of nonprofits, and creating and disseminating new ideas—are mutually reinforcing, and their benefits are cumulative. The more foundations are able to improve the performance of social enterprises, create new knowledge, and influence larger public and private sector efforts, the greater will be their impact.

But the ability to create value in any of these four ways requires a real strategy. Unfortunately, the word “strategy” has been so overused in the foundation world that it has become almost meaningless. “Strategic giving” now refers to almost any grant made with some purpose in mind. Rarely does a foundation’s strategy serve—as it does in business—as a definition of its distinctiveness and a discipline that dictates every aspect of the organization’s operations.

In business, a company’s strategy lays out how it will create value for its customers by serving a spe-
cific set of needs better than any of its competitors. A company must either produce equivalent value at a lower cost than rivals or produce greater value for comparable cost. It can do so only if it stakes out a unique positioning or a distinctive way of competing that is tailored to the kind of value it has chosen to deliver. [To learn more about the fundamentals of strategy, see Michael E. Porter, “What Is Strategy?” HBR November–December 1996.]

The goals of philanthropy may be different, but the underlying logic of strategy is still the same. Instead of competing in markets, foundations are in the business of contributing to society by using scarce philanthropic resources to their maximum potential. A foundation creates value when it achieves an equivalent social benefit with fewer dollars or creates greater social benefit for comparable cost.

In both cases—business and philanthropy—strategy means embracing the following principles:

1. The goal is superior performance in a chosen arena. For a foundation to achieve superior performance, its activities, investments, and grants, taken together, would achieve greater social impact per dollar expended than any other organization tackling the same objective. Aiming for superior performance is not a matter of self-aggrandizement or zero-sum competition among foundations. It is the best way for foundations to raise their overall contribution to society.

In practice, of course, precise, apples-to-apples measures of peer performance among foundations are hard to come by. But that doesn’t mean that foundations should abandon the goal of superior performance. At the very least, a foundation can measure its own performance over time, challenging itself to continual improvement. The Ewing Marion Kauffman Foundation, for example, has taken the reduction in high school dropout rates as a primary objective of its Youth Development division. Over ten years of constant experimentation and careful evaluation, the Kauffman Foundation has fundamentally changed its approach because it has learned that community partnerships and the attention of caring adults is more powerful than direct educational reform. As a result, it has been able to redirect its funding to achieve greater results with the same dollars and to demonstrate superior performance.

A foundation should also measure its own success by the performance of the organizations that it funds. This view is not widely held today. However, because grant-making foundations can create value only through others, they must accept responsibility for the success or failure of their grantees. For a foundation to be successful, its roster of grantees, taken as a group, should perform consistently better than average. Of course, not every grant will succeed—progress usually requires taking calculated risks. But superior social performance per dollar of funding should be the aim.

As a starting point, it is important that foundations accept the legitimacy of the goal of superior performance. Then they must be committed to measuring results and acting on what they learn.

2. Strategy depends on choosing a unique positioning. No organization can achieve superior performance if it tries to be all things to all people. The starting point for strategy is to limit the number of social challenges the foundation addresses. A foundation must determine where it will make its impact and how.

Consider the Avina Foundation, created in 1993 by the Swiss philanthropist Stephan Schmidheiny. Avina works in the environmental field—that is where it seeks to have its impact. However, limiting its work to one or a few fields is not the same as having a strategy. Within the broad category of environmental work, Avina pursues a more pointed target: sustainable development in Latin America. Of all the ways to foster sustainable development, Avina has chosen to promote environmentally friendly business practices. Avina is thus very clear about both dimensions of positioning—where it will make its impact and how.

Because the most effective philanthropy is driven by motivated, knowledgeable, and passionate people working on issues they care about, choosing the right positioning involves understanding the foundation’s culture—its values, history, and often the priorities of its original donor or current trustees. Ultimately, positioning revolves around asking the question, How can our foundation create the greatest value, given everything we know about our foundation’s culture, passions, expertise, and resources, about what other funders have done or are doing, and about the problems we wish to address?

Consider again the Charles and Helen Schwab Foundation, which is positioned to strengthen the organizational capacity and management of human-
service and family-service organizations. This choice of how to make an impact was influenced by the trustees’ appreciation of the importance of sound management, but even more by staff investigation within the field, which showed that very few funders provide this kind of support. Positioning thus reflects both personal values and a realistic assessment of opportunities, strengths, and weaknesses.

3. Strategy rests on unique activities. Every major activity of the foundation—its selection process, the size, mix, and duration of its grants, the composition and roles of its staff and board, the types of nonmonetary support it provides grantees, and its evaluation and reporting procedures—must then be tailored to its positioning.

In the field of education, the Philanthropic Ventures Foundation in Oakland, California, for example, focuses on grassroots funding. In 1995, PVF created the Teacher Resource Grants program. Working within the large field of education, PVF chose a specialized positioning appropriate to its small size. PVF provides inexpensive but badly needed classroom materials to teachers in its region—materials that are useless if they don’t arrive quickly, when the teacher needs them.

PVF notified more than 6,000 teachers that grants of up to $1,500 would be available for classroom materials, field trips, or teacher training courses. (After a year of experience, PVF lowered the ceiling to $500 per grant.) Teachers refer to the program as the “fax-grant program” because the foundation takes requests by fax, and then sends an answer within one hour of receipt and a check within 24 hours.

Since its positioning is to help under-resourced teachers and it makes thousands of small grants, the Philanthropic Ventures Foundation developed a no-paperwork rule, freeing teachers from time-consuming grant applications. PVF finds that an elaborate process around the receipt, investigation, consideration, and funding of grant requests is not necessary in its chosen area.

PVF is a perfect example of a foundation that tailored its activities to create value. Only by doing things differently from others, in a way that is linked tightly to what the foundation seeks to accomplish, can it achieve greater impact with the same grant dollars or enable its grantees to be more successful. Tailoring activities to strategy is the way a foundation institutionalizes and reinforces its distinctive strengths.

4. Every positioning requires trade-offs. To achieve excellence at what it does, a foundation must forgo opportunities in other approaches and in other fields. Deciding what not to do is the acid test of whether a foundation—or any organization, for that matter—has a strategy.

For the Philanthropic Ventures Foundation, that means saying no to many interesting opportunities in education. It means saying no to large concentrated grants or multiyear initiatives that might create model programs, train teachers differently, or even affect public policy. Such grants would require not only a different allocation of funds but also different staffing and a different operating model geared toward research and deliberation. The point is not that one goal is more worthy than another; it is that positioning requires trade-offs.

This aspect of strategy is particularly difficult for foundations. So many organizations clamor for their help, every grant seems to do some good, and there is so little accountability for results. It is hard to resist the pressure to oblige a trustee or a colleague. Even foundations that start out in one field find themselves drawn into many others. But if superior performance is the goal, making trade-offs is essential.

The State of Current Practice

There has been no comprehensive study documenting foundation practices or the effectiveness of foundation giving. However, available data paint a picture that is far from the approach we are advocating. Strategy demands focus, yet foundations generally spread their resources—both money and people—too thin. A fragmented pattern of giving and the constant pressure of responding to individual grant requests leaves little time for developing expertise, assisting grantees, or examining social problems in depth. Staff members are frequently trapped by the tyranny of the grant cycle, with barely the time to write up pending grant requests between board meetings. (See the exhibit “Resources Are Scattered....”)

The average foundation, for example, makes grants in ten unrelated fields every year, where fields are such broadly defined areas as education and health care. Fewer than 9% of foundations make 75% or more of their grants in a single field, and only 5% focus more than 90% of their grants in one field. Such scattered giving is inconsistent with a clear strategic positioning.

Nor do the data suggest that many foundations are taking advantage of their unique ways to create value. Among the largest foundations, with assets in excess of $1 billion, each professional employee...
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Closely with grantees over extended periods of time to improve their performance. Foundations, which should be able to take the long view, tend to focus on grant making quarter-to-quarter.

Finally, while foundations express a strong interest in innovation and advancing the state of knowledge about society’s problems, very few fund studies that explore the relative effectiveness of different approaches to a given problem. Only 8.8% of foundation grants went to research, and most of that was in basic medical and scientific areas. Funding studies or data collection is rare, and foundations generally see them as less desirable than current social services.

Instead of funding research, many foundations seek to promote innovation through seed grants that are designed to establish and support specific new programs. There is little benefit, however, in starting new initiatives if they do not survive and grow. Too often foundations overlook projects aimed at fostering the growth and replication of new initiatives, or they fail to support the grantee over an appropriately long time span. They rarely do the upfront research and postevaluation needed to ascertain if their programs have been successful and have continued to thrive after the initial period of seed grant support.

Resources Are Scattered... across too many fields...

The largest 6% of foundations contributed approximately 74% of all grants.

The data show that resources are spread thin at foundations of all sizes, but the problem is more acute at the smaller foundations.

Handles approximately seven grants per year (and up to 100 times as many grant requests). There are, on average, just three professional employees for every field in which the foundation makes grants. Staff at the largest foundations may well have sufficient time and expertise to evaluate grants, but it is hard to see how even the most dedicated staff could have much time to assist grantees. The smaller the foundation, the more stretched the staff. Among the hundreds of foundations with $50 million to $250 million in assets, there are five times as many grants per professional, and an average of two staff members handle grants in 11 unrelated fields. The smallest foundations often rely on the volunteer efforts of trustees, making it almost certain that many decisions are reached with little formal evaluation at all.

Those broad metrics also suggest that foundations are not using the more powerful forms of value creation beyond selection. Foundations rarely contribute resources other than financial support. Only 2.2% of foundation grants were designated to improve the grantees’ performance. Ninety-five percent of all foundation grants are for one year. Although one-year grants are sometimes awarded for several years in a row, there is little evidence that foundations exploit the opportunity to work more closely with grantees over extended periods of time to improve their performance. Foundations, which should be able to take the long view, tend to focus on grant making quarter-to-quarter.

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In some ways, however, the overall failure to evaluate the results of foundation grants is the most telling danger sign of all. Almost no money is set aside for program evaluation. Many foundations are ambivalent about whether funds should be spent on evaluation and whether assessing the performance of past grants can improve future grant making. This ambivalence about evaluation is reinforced by the performance criteria used to judge foundation staff. These tend to emphasize the paper trail of pregrant analysis and recommendations and give little credit for achieving the real-world results that motivated the grant in the first place. Program evaluation, therefore, has only a downside: failure risks censure, but success adds no reward.

The evaluations that do take place are often problematic in three ways. First, they are limited to reports as to whether the money was spent as intended (output evaluation); they do not attempt to measure social impact (outcome evaluation). Second, many of the evaluations are done by the grant recipients themselves, who invariably seek further support from the foundation. How objective and reliable are these reports likely to be? Third, even in the few cases where the social impact of a program is measured by an outside consultant, it is usually assessed at the single grantee level, in isolation from the foundation’s other grants. Therefore, it does not reflect the foundation’s success in reaching its overall goals.

Certainly, evaluation may at times be costly and complex. But given clear goals at the outset, it is always possible. The criteria to evaluate a job-training program will differ from those used to evaluate a funding program for young artists. But meaningful criteria can be established for both.

Consider the San Francisco-based Roberts Enterprise Development Fund, which focuses on creating employment for the homeless and indigent. Working closely with its grantee Rubicon Programs, REDF developed 25 criteria that not only measure the success of job-training programs but also help Rubicon to manage the programs more effectively. In addition to the most obvious criteria—changes in employment stability, wages, and job skills—REDF and Rubicon found that related factors such as substance abuse and even qualitative factors such as the trainees’ own assessments of their success in reaching personal goals were all meaningful measures of outcomes the program was trying to achieve.

Without evaluation, a foundation will never know whether or not it has been successful. The most basic premise of strategy—striving for superior performance—is violated if performance is not measured.
Addressing the New Agenda

How can foundations begin down the path we have outlined? A number of foundations, including those operating under the new rubric of venture philanthropy, are already moving in the direction outlined here. But none that we have encountered has gone all the way. Putting these elements together into a coherent whole will require developing a strategy, aligning operations with that strategy, and revising the foundation’s governance so that the strategy can be monitored effectively. Responsibility for such change lies ultimately with the trustees and directors, who are the fiduciaries accountable for the use of the foundation’s (and society’s) funds.

To develop a strategy, the place to start is positioning. This always requires systematic thought and research into important social challenges that are not being addressed well by others. The goal is not necessarily to identify the most important problem, since many are important. What matters is how effectively the foundation can contribute to its solution.

Second, a foundation can learn from prior efforts within its chosen area of funding. Do current socioeconomic trends favor one approach over another? What are other organizations doing in the field? Can the work of this foundation reinforce or complement theirs? Can we uncover root causes of the problem?

Third, what unique strengths will enable this foundation to create value most effectively in its field? Part of the answer to this question comes from examining objectively where the foundation has made the greatest impact in the past. It also comes from a realistic assessment of weaknesses.

Scale plays an important role in the choice of strategy. A foundation needs enough resources to pursue its particular way of creating value. Larger foundations may well have the scale to work in more than one field. If they choose to do so, each area must have its own strategy and tailored operations. All foundations, however, can create more value by putting a greater proportion of their resources to work. This means stepping up the rate of giving in their chosen fields and investing a portion of their investment portfolios to support their philanthropic work.

Once the foundation has chosen a strategy, it can begin to realign its operations. A foundation, like any enterprise, is a collection of many activities. Each activity—how proposals are solicited, for example, and how grantees are supported—must be tailored to the chosen strategy. A particularly important aspect of operational alignment is the development of measures to help the foundation know whether or not it has been successful.

Operating strategically will require most foundations to rethink their governance systems. Change will be difficult in an environment where the pressure of processing grants and getting the money out the door extends beyond the staff to the boardroom. Today boards of all but the very largest foundations discuss and approve specific grant allocations at their meetings. Without goals or strategy, they have no way to delegate the grant selection process to staff and no framework through which to evaluate their experience. The Chicago-based Crown Foundation, in an effort to break this cycle, considers grant requests at only two of its quarterly board meetings each year; the other two are reserved for discussing policy, reviewing performance, and studying issues in more depth. Boards need to move away from the operating function of approving grants to focus on setting strategy and evaluating outcomes.

With goals, a strategy, and evaluation mechanisms in place, staff could have greater independence to make grant decisions themselves on a more timely and flexible basis. At the Colorado Trust, the board considers and approves multiyear, multimillion-dollar initiatives that have clearly defined goals and a clearly articulated strategy. Once the board sets the framework, program staff has the authority to make individual grants for the life of the initiative. Staff members, then, have greater responsibility and more freedom to make decisions on individual grants, and the board has the time to study the field, set overall strategies, and assess staff performance.

For those who care deeply about social problems and work tirelessly to make a difference, current foundation practices not only diminish effectiveness, they inevitably reduce the satisfaction that donors, staff, and trustees derive from their work. Scattered funding, arm’s-length relationships with grantees, and a lack of awareness of outcomes necessarily create a divide between the foundation and the ultimate results of its work. Acting strategically is much more difficult. But for trustees and staff alike, it will be far more rewarding as well.

Improving the performance of philanthropy would enable foundations to have a much greater impact on society. Foundations could play a leading role in changing the culture of social sector management. They could spearhead the evolution of philanthropy from private acts of conscience into a professional field. Until foundations accept their accountability to society and meet their obligation to create value, they exist in a world where they cannot fail. Unfortunately, they also cannot truly succeed.