



## MANAGING FOUNDATION EFFECTIVENESS: THE CASE FOR ASSESSMENT

In his kickoff address to the seminar, Center for Effective Philanthropy (CEP) Executive Director Phil Buchanan noted that the attention being paid to foundations these days is focused on “not exactly uplifting stuff.” All too often, the only news being reported is about stagnation in grantmaking budgets, abuse and calls for regulation, and efforts to reduce administrative spending in response to pressure from lawmakers.

“But today,” Buchanan went on to say, “I want to tell a different story about foundations...about the creation of a new language of performance assessment for foundations...[that] is providing a platform for learning and improvement.” Buchanan argued that this new language of assessment can “allow foundations to do more good and to speak much more powerfully about what they are doing.”

### CHALLENGING THE “MYTH OF ASSESSMENT”

The critical question, Buchanan suggested, is how can we tell how well a foundation is performing? Some compare foundation work to business investing. “This perspective goes something like this,” explained Buchanan. “Foundations provide money to organizations and look for results in return. This is an investment, just like a business investment. It should be measurable, just as a business investment is.”

“But unlike in business, there is no universal measure of return for foundations,” Buchanan continued. “Some foundations fund efforts to promote literacy, and others fund efforts to promote peace and security. The impact of these efforts cannot possibly be measured in equivalent units.”

For these reasons, others believe that measuring overall foundation impact is impossible and futile. “You’ve all heard these arguments,” Buchanan said. “People say, ‘This is all just navel gazing: a waste of time and money.’”



PHIL BUCHANAN, THE CENTER FOR EFFECTIVE PHILANTHROPY

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—Phil Buchanan

Buchanan acknowledged the problems inherent in attempting to define a solid chain of causality from grants to end results. An individual grant from a foundation often makes up only a small part of a grantee’s or a project’s total budget. While specific grants, grantees, and programs can be productively assessed, it is difficult to aggregate results to a measure of foundation-wide effectiveness, especially for large foundations that make hundreds of grants in several program areas. Moreover, it is hard to obtain timely data because measurable changes — even if they can be linked to an individual foundation’s efforts — may only become visible after many years, or even decades.

“It is not surprising that many foundations have grown frustrated with their own evaluation efforts,” said Buchanan. However, he urged foundation executives not to give up on assessment. Instead, he proposed abandoning what he called the “myth” that a single, precise, foundation-wide measure of impact relative to resources expended is achievable for most

foundations. Once that hurdle is passed, he said, “then we can roll up our sleeves and figure out what we can productively assess.”

A single data set will never be able to definitively answer the question: How effective are we? “The best alternative,” Buchanan suggested, “is a series of indicators that, taken together, are suggestive of an answer to the larger question.”

“What we need is a common language of assessment that is particular to foundations,” Buchanan continued.

Buchanan used the framework laid out in CEP’s *Indicators of Effectiveness* (August 2002) as a productive starting point for developing this new language of assessment. He went on to offer three reasons for adopting such a language.

### A FORCEFUL RESPONSE TO SCRUTINY

“First,” he argued, “foundations need to respond more forcefully to the current media and legislative scrutiny they face.” Buchanan urged foundations to move beyond defensive responses to criticism by presenting “a positive, improvement- and data-based case that foundations are rising to a challenge they have set for themselves.”

He noted that foundations can already tell a story about the substantive steps they are taking to improve their performance. For example:

- Eighty foundations, almost all among the largest 300 in the country, have commissioned Grantee Perception Reports® (GPRs) from CEP, and nine have made the results public. The results from a GPR provide a practical basis for understanding how well a foundation is doing in the eyes of its most important partners.
- Fifty-three foundations have joined CEP’s governance project “because of their desire to optimize their boards’ functioning,” said Buchanan.
- Forty-two of these foundations have voluntarily made changes in their governance practices, such as adding whistleblower and conflict-of-interest policies, increasing the independence of their audit committees, and strengthening CEO reviews.

- Membership in Grantmakers for Effective Organizations (GEO) is growing, and a significant majority of GEO members report taking steps to assess their foundation-wide effectiveness.

### GUARDING AGAINST ADMINISTRATIVE EXPENSE BECOMING “THE UNIVERSAL MEASURE OF PERFORMANCE”

Second, Buchanan noted that, in the absence of other indicators, administrative expenses may become the default universal measure of performance. “Many board members are frustrated by the staff’s inability to provide data on foundation performance,” said Buchanan. “So they seize on the tangible and simply insist on the lowest possible administrative cost ratio.”

While acknowledging that it is certainly important to monitor administrative expenses with an eye to keeping a handle on them, Buchanan argued that a narrow and single-minded focus on administrative expense alone puts at risk other functions and characteristics that CEP’s research has shown grantees value in foundations. (See *Listening to Grantees: What Nonprofits Value in their Foundation Funders*, April 2004.) “And doing well in these [other] areas does not come for free,” said Buchanan. Consequently, shortsighted efforts to slash administrative costs can actually undermine a foundation’s performance.

### A BASIS FOR IMPROVEMENT

Most importantly, a language of assessment fuels “learning as a basis for improvement,” Buchanan maintained. “This is what it’s all about,” he said, asserting that foundations that have participated in the GPR and other new assessment processes with CEP have received vital insights – both positive and negative – about their performance. “And they are acting on what they learn,” said Buchanan. “Changes that foundations make [in response to the results of GPRs] do, in turn, affect grantees and the people and issues they seek to address.” (See “From Assessment to Action: Acting on Grantee Perception Report® Results,” page 8.)

### REAL AND MEASURABLE IMPROVEMENTS

Buchanan concluded by saying he saw reasons for optimism about further progress in developing and

adopting a relevant and useful language of assessment. “We are inspired in our work by how seriously the data and insights foundations have received are being taken, how hard foundations are working to change, and how much is being improved,” he said. “We believe this change is yielding real, positive social impact on issues from racial equality to diversity to education to environmental preservation.”

*The full text of Buchanan’s remarks is available on CEP’s web site at [http://www.effectivephilanthropy.org/seminars/seminars\\_past.html](http://www.effectivephilanthropy.org/seminars/seminars_past.html).*



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