



THE FOUNDATION EFFECTIVENESS IMPERATIVE



Phil Buchanan, CEP's first and current Executive Director, delivered these remarks at the Five-Year Anniversary Celebration.

Speeches about foundations often begin with this observation: Charitable foundations enjoy a level of freedom that is unrivaled by other types of institutions in our society.

Freedom from scrutiny. Freedom from feedback. Freedom from competitive pressures. Freedom from worries about meeting payroll.

Although many have made this point, others have disputed it or tried to downplay it. Sensing danger from the outside, some foundation leaders have tried to argue – with a straight face – that foundations are subject to meaningful oversight: that foundations are not so free. But the fact is, relative to other institutions, foundations enjoy unrivaled freedoms. It's a fact. One that should be acknowledged and celebrated, not disputed, because the fact that foundations – you – are so free is among your greatest strengths.

Why? Because this freedom allows you to play a unique role – a role offsetting those whose only allegiance is to shareholders, or to 50.1 percent of the voters in their district. Or to those whose aspirations must be tempered

by their need to package a successful fundraising appeal. Unlike other institutions, foundations – particularly private foundations – are institutions, as Joel Fleishman has noted, capable of doing much good, for the very reason that they are so free.

True, foundation giving represents only 12 percent of charitable giving, as we all know.

But this country's large foundations in particular are crucial institutions because they can take on and support and bring attention to issues that – for all kinds of reasons ranging from a lack of profit incentive to cold political calculation – others ignore. Disease in Africa. Access to health care in the U.S. Poverty. Discrimination against gays and lesbians. Religious freedoms.

So we need these unique institutions, foundations. ... We need you to be effective.

We need you to be effective in the pursuit of your goals. We need you to be effective even if some of you are working in pursuit of goals others of you oppose. Because foundations, when effective, are crucial contributors to the vitality of our nonprofit sector, our society, and our democracy.

And our mission at CEP is to foster your effectiveness through the development of comparative data. Because understanding whether a foundation is really effective absolutely requires comparative data. Otherwise, effectiveness is just a mantle any foundation leader can claim.

Developing comparative data is what we set out to do five years ago. Our goal was to develop comparative data that allows foundation leaders to assess and improve their overall performance – their effectiveness – in pursuit of whatever goals they define.

When we began, we realized that very little research had been conducted on questions of foundation

effectiveness. So we decided to start by listening. We asked foundation CEOs and trustees what data they used to assess their foundations' effectiveness. Their answers were sobering. In many – most – foundation boardrooms, the only data regularly reviewed were administrative cost ratios and reports on endowment performance. So, here were foundations, large ones, operating in isolation from any data about their overall effectiveness – but often believing passionately that they were effective, and even proclaiming so. Publicly, forcefully, and unequivocally.

When we moved the discussions from what was to what might be, many foundation leaders were able to describe their ultimate performance measure: impact relative to resources expended. A simple ratio. Impact relative to resources expended. But most conceded that this measure was only theoretical. Foundation impact could never be boiled down to a single number. Why?

First, because establishing a causal connection between grants and outcomes is often impossible. The median grant size for even the large foundations whose grantees we have surveyed is just \$50,000... and often accounts for a fraction of a project or organization budget.

Second, because even if causality could be claimed, grant results cannot simply be aggregated. There is no common unit of impact measurement – no ROI – across the activities funded by foundations, and there never will be. To pretend otherwise is pure fantasy.

Third, because it can take decades to know whether results have been achieved. Melinda Gates, for example, acknowledged recently that it would be 20 years before even the Gates Foundation really understood the results of its school reform efforts.

So impact relative to resources expended, while the right theoretical measure, cannot be calculated. The problems of causality, aggregation, and timeliness – and a dozen others that I won't even mention – get in the way.

We learned, as we listened, how challenging assessment of overall foundation effectiveness really is. But, with your encouragement and help, we decided to take on the challenge. To build a set of indicators that, taken together, tell us about foundation effectiveness. No one data set or organization has all the answers. But we

have begun to develop what we have called a "language of assessment" that is particular to foundations. This is our focus. And, in five years, and with lots of support, we have accomplished a great deal.

We have surveyed 30,000 grantees about their candid, confidential perspectives on 180 foundations; we have also surveyed many of these foundations' declined applicants. Well over 100 of those foundations, including many of those represented here, have commissioned Grantee Perception Reports – GPRs – illustrating how they are perceived on myriad dimensions relative to how other foundations are seen by their grantees on the same dimensions.

Our grantee survey research has led to important insights that we have publicized in our research reports. For the first time, for example, foundations could understand, based on broad and rigorous research described in our report *Listening to Grantees*, what nonprofits really valued in their relationships with their foundation funders.¹

It's one thing to read a research report. It's another to put yourself on the line and obtain detailed results on how grantees view your foundation – compared to how peer foundations are seen by their grantees. Delivering GPRs, we have seen tears and rage and elation – elation that hard work is appreciated by grantees. We have had our credentials questioned; our methodologies questioned; our youth questioned. We have heard foundation leaders argue that grantees are merely a means to an end and that their views are unimportant. We have heard the GPR derided as a survey about grantee "happiness" when, of course, not one question refers to happiness.

But, mostly, overwhelmingly, we have seen foundations take seriously, and act on, the results, as so many of you have, because you know that grantees are foundations' agents of change. You heard some of the stories earlier today. Some of the most dramatic ones tend to be kept more private, and have led to long overdue and significant improvements – in staff, or priorities, or goals, or processes: in some cases, all of the above at a single foundation. GPR results have led to dramatic and positive changes – changes based on new realizations. New realizations that goals are unclear or misguided. New realizations that processes or services designed to help grantees aren't viewed as helpful. Or affirmation that they are.

But the views of grantees and applicants are by no means the only source of performance feedback. Our Staff Perception Report helps foundations to know the confidential and comparative views of their staffs. How does this relate to a foundation's achievement of its impact goals? Pretty directly, it turns out – because, how can a foundation expect to achieve its goals unless its staff understand those goals? And are motivated and empowered to pursue them?

Our Comparative Board Report looks at foundation board functioning and it, along with the accompanying board facilitation we provide and our report Beyond Compliance, have led foundation boards to overhaul the way they function – often focusing more board time and energy on strategy and assessment.²

So we now have done a lot of work and collected a lot of survey data. And analysis of this data, described in our research reports, has challenged conventional wisdom on a range of issues.

So, with all that data in hand, and with the experiences of the past five years: What is an effective foundation? We know enough now not to believe those who promise easy answers to this question – those who say that the key, for example, is for foundations to operate more like businesses. Those who promote this perspective miss the point.

They miss the point that foundations' comparative advantage as institutions is that they are free and do not have to act like businesses – accountable to investors in pursuit of profit. And they miss the point that, as business guru Jim Collins has observed, most businesses are mediocre. Why, Collins asks, would we want to emulate the mediocre?³

So there are no easy answers when it comes to foundation effectiveness. No simple calculations. No frameworks ready for quick importation from other sectors. No one ratio. No easy answers.

Foundation effectiveness takes many forms. But, drawing on our research and our experience, I'd suggest that effectiveness does require five elements:

- First, foundation effectiveness requires specific goals that can be articulated succinctly and consistently by trustees, program officers, and other staff. This seems simple. Basic.

> Yet a surprising number of the CEOs and program officers we have interviewed during our ongoing study on foundation strategy could not articulate specific goals.

- Second, foundation effectiveness requires a strategy. A clearly conceived set of grantmaking and other activities that relate to the achievement of goals. Some might call this a theory of change. Whatever we call it, it's essential, and its development should be rooted in an awareness of other funders and other actors – and, when possible, in data about what works. We have seen some very clearly thought-through strategies.

> But, here, too, many we have interviewed have struggled. And clarity of communication of foundation goals and strategy is one of the lowest-rated dimensions by the thousands of grantees we have surveyed.

- Third, foundation effectiveness requires measurable indicators of effectiveness that relate to goals and strategy. Those indicators must come from a wide variety of sources and be comparative in nature.

- Fourth, foundation effectiveness requires leaders who make the indicators real – holding individuals responsible and confronting performance issues head-on.

> We have seen tremendous unintentional variation within foundations when we segment GPR results by program area – or program officer. We have seen some foundation leaders confront clear performance issues directly and productively – working with individuals to help them to improve or, in some cases, moving them out. But we have also seen leaders look the other way, even acknowledging that, though the issues are real, they prefer not to deal with them.

- Fifth, foundation effectiveness requires boards that are engaged deeply in definition of goals and strategy and who insist on reviewing performance indicators on a regular basis – and holding the CEO accountable for results. Boards need to engage the difficult work of assessment, and they know it. Our research has revealed that assessment is the

area of greatest board dissatisfaction and the area in which boards most want to spend more energy.

These are not easy things to do. They entail personal risk. They require personal courage. They necessitate a kind of impatience and dissatisfaction with the status quo that is not always found within foundations.

Your freedom means that no one will compel you to do these things.

But, for you and your foundations to be effective – as we need you to be – this is what you must do. Foundation leaders should not be able to tout their effectiveness without backing it up; without subjecting themselves, as most of you have, to the painful process of assessment.

We at CEP must do our part, too. We need to continue to expand our tool offerings. We need more frequently to work with foundations to combine our assessment tools into a holistic assessment that draws insights across results. We need to expand our collection of operational data, and offer you easier, online, real-time ways to create reports illustrating your data relative to a self-selected set of peers. We need to continue to conduct more qualitative research, highlighting exemplars and innovative models.

The results of this effort will be that five years from now, a greater number of foundation leaders are as committed as are those of you in this room to foundation effectiveness. And that they are literally surrounded as they do their work by a rich array of comparative data to allow them to assess their effectiveness and chart a path of improvement.

This may seem a daunting challenge. But five years ago, when CEP was being discussed by Phil Giudice, Kevin Bolduc, and me in our 800-square-foot office with no street-facing windows, we really didn't allow ourselves to imagine that more than 140 foundations would use our assessment tools. Or that you'd take the results as seriously as most of you have. Or that well over a dozen foundations would make your assessment reports – sometimes including disappointing findings – public. Or that so many of you would help us to design new tools, to plan our research studies, to fund us to innovate and conduct research. Or that so many of you would read our research reports and make them the topics of board and staff retreats.

This progress is inspiring. It suggests that, because of our shared belief in the unique opportunity charitable foundations have to do good – to make an impact, we can accomplish a great deal together.

We can make this country's large charitable foundations yet much more effective in pursuit of their goals, whatever they may be. We can stop debating whether foundations are subject to sufficient oversight. We can talk instead about a much more important issue: whether or not they are effective in the ways only foundations can be; whether they are using their unrivaled freedoms to do what other institutions cannot; whether foundations – whether you – are catalyzing the kinds of important changes – in our society and in our world that, perhaps, only you can.

Thank you all for your support, encouragement, and counsel. And for your commitment, every day, to making your foundations effective in pursuit of their impact goals. And thank you for being here today.

