



# **Foundation Strategy: Distinct Challenges**

**Kevin Bolduc, Ron Ragin, Ellie Buteau, and Phil Buchanan**

**CEP Foundation Strategy Study  
Working Paper**

The Center for Effective Philanthropy  
675 Massachusetts Avenue, 7<sup>th</sup> Floor  
Cambridge, MA 02139  
T: (617) 492-0800  
F: (617) 492-0888

[www.effectivephilanthropy.org](http://www.effectivephilanthropy.org)

As part of our ongoing effort to help define, assess, and improve foundation performance, the Center for Effective Philanthropy (CEP) is investigating just what foundations mean when they talk about strategy – if they talk about strategy at all. In our 2002 report, *Indicators of Effectiveness: Understanding and Improving Foundation Performance*, we outlined a number of measures that could be used to assess foundation performance, one of which was a foundation’s success in “Setting the Agenda/Strategy.” Although we have gained some insight into this measure from our surveys of grantees and trustees, an in-depth exploration of foundation strategy is needed to better understand whether or how strategy at foundations facilitates the creation of social impact.

We will pursue these questions in our Foundation Strategy Study: Do foundations have strategies? If so, how are they defined, developed, and executed, and what purpose do they serve?

The purpose of this working paper is to set the stage by considering the existing literature on strategy in the corporate, nonprofit, and foundation spheres. Although it is not possible to review the literature on corporate strategy comprehensively – because it is so vast – we seek here to summarize key themes to highlight similarities and differences in strategy among for-profit companies, nonprofits, and foundations.<sup>1</sup> We then explain how this backdrop relates to the research plan for our Foundation Strategy Study.

---

<sup>1</sup> For the purposes of this study, we are using the term “nonprofit” to denote tax-exempt organizations that generate revenue from donations or earned revenue, while the term “foundation” will denote grantmaking organizations – a specific subset of the nonprofit sector. Community foundations, due to the unique market-like pressures involved in

## Corporate Strategy

At least in the corporate sector, strategy is often discussed as a means of negotiating the competitive and regulatory environmental forces faced by an organization, with the ultimate goal of achieving maximal organizational performance – generally defined as profit generation or appreciation in stock price. The market context in which corporations exist is rich with feedback loops from customers, investors, competitors, and other parties. These factors encourage corporations to compare themselves with others – generating an environment defined by competition.

Many leading strategists, such as Michael Porter, have argued that developing a strategy based on “unique positioning” within the external environment is crucial to corporate success in a competitive environment. Unique positioning allows for differentiation that, in turn, attracts customers and creates a lasting competitive advantage. In addition to external influences, strategy literature also addresses the need for internal asset assessment that accounts for how well the organization’s tangible resources, such as financial assets, and intangible resources, such as human resources, IT, and organizational assets – lend themselves to an existing or developing strategy.<sup>2</sup>

While most academicians and practitioners agree on the need for corporate strategy, there is debate about the best mechanisms for arriving at a strategy. Henry Mintzberg highlights the difference between deliberate strategies that are developed based on a set of observations and

---

fundraising, may face a context more similar to nonprofits than private foundations and thus will be excluded from our study.

<sup>2</sup> Kaplan, Robert S. and David P. Norton. “Measuring the Strategic Readiness of Intangible Assets.” *Harvard Business Review*, February (2004): 55.

assumptions and emergent strategies that arise from growing coherence in ongoing organizational decisions – noting that each approach can be successful. Mintzberg and others point to the important role that leaders with a keen sense of environmental change play in the development of these strategies.<sup>3</sup> Once a strategy is developed and implemented, an organization must also be able to adapt that strategy to environmental or organizational changes. Miles and Snow's research on corporate adaptation finds that companies that fail to sense changes in the environment and adapt will likely meet with organizational failure.<sup>4</sup>

Regardless of judgments about best approaches to strategy, most practitioners and academicians agree that it is a necessary component for corporate survival. For-profit companies must align their strategies with market forces in an effort to maximize profits, or other companies will force the nonresponsive ones out of existence.

### **Nonprofit Organization Strategy**

Much of the literature addressing nonprofit strategy draws heavily from the concepts put forth in the corporate sector.<sup>5</sup> As in the corporate environment, the need to generate resources introduces nonprofits to some aspects of competition. The concepts of unique positioning, responsiveness to the changing external environment, and appropriate alignment of internal resources can help nonprofits be maximally successful in generating contributed and earned revenues and in

---

<sup>3</sup> Henry Mintzberg defines strategy as “a pattern in a stream of decisions.” He has written extensively on the role that decision-making patterns have played in the formation of strategy in various types of organizations. This cited article is one example. Mintzberg, Henry and James A. Waters. “Of Strategies, Deliberate and Emergent.” *Strategic Management Journal*. Vol. 6 (1985): 257-272.

<sup>4</sup> Miles, Raymond. Snow, Charles C. Meyer, Alan D. Coleman, Jr., Henry, J.. “Organizational Strategy, Structure, and Process.” *Academy of Management Review*. July (1984): 546-562.

<sup>5</sup> For example, Brown and Iverson applied the Miles and Snow strategy typology – a parsing out of organizations' patterns of movements through the adaptive cycle (see Appendix A) – to nonprofit organizations as a way to understand board composition and structure. Brown, William A. and Joel O. Iverson. “Exploring Strategy and Board Structure in Nonprofit Organizations.” *Nonprofit and Voluntary Sector Quarterly*, Vol. 33, no. 3 (2004): 377-400.

attracting volunteers.<sup>6</sup> However, resource generation is not (we hope) the ultimate goal of nonprofits. Rather, nonprofit organizations focus on creating social value – or impact – with the resources they possess.

Strategies to create maximum social value may not be identical to those best-suited for resource generation. This tension can create potential disagreement among nonprofit stakeholders – recipients and contributors – about which strategies and activities to choose. Mark Moore proposes that this dynamic calls for a view of nonprofit strategy distinct from that of corporations. Moore argues that, unlike corporations that focus solely on the best strategy to generate profit, nonprofit strategy must account for the interplay (and potential tension) between the creation of social value, the development and maintenance of legitimacy and support, and the resource generation necessary to sustain the operational capacity to deliver that value.<sup>7</sup>

Moore and others also highlight the challenge of optimizing strategy given the difficulty measuring actual social value created. Different stakeholders and organizations use various proxies for success – such as provision of services to a certain number of people – but the indirect nature of these success measures limits nonprofits’ ability to determine whether a particular strategy needs to be modified.

---

<sup>6</sup> The competitiveness of the nonprofit sector may be growing. Government contributions are an increasingly limited resource (Abramson, Alan J and Salamon, Lester M. “The Nonprofit Sector and the Federal Budget: Fiscal Year 2006 and Beyond.” *Nonprofit Sector Research Fund Working Paper Series*. The Aspen Institute, 2005.). Additionally, as exemplified by the wake of the many disasters that have taken place in the recent past – 9/11, the tsunami that hit Southeast Asia, hurricanes in the American South – individual donor contributions are also limited and donors can fatigue (Moore, Jim; Beauregard, Renee; Hanson, M.L.; Maclean, Charles; and Robnett, Teri. *Final Report: Fundraising in Light of Recent Disasters*. 2005). These decreases in contributed revenue can emphasize the need for nonprofits to develop a unique positioning both to maximize their ability for their appeals to be heard by donors and to compete against other nonprofits and corporations in developing earned revenue.

<sup>7</sup> Moore, Mark. “Managing for Value: Organizational Strategy in For-Profit, Nonprofit, and Governmental Organizations.” *Nonprofit and Voluntary Sector Quarterly*, Vol. 29, no. 1, Supplement (2000): 183.

Despite these differences, nonprofits do share some of the same basic realities with businesses, such as the pressure to meet payroll and pay rent. Ultimately, nonprofit organizations that are unresponsive to environmental pressures might be forced to shut down.

### **Foundation Strategy**

Endowed private foundations face no such resource-generation worries. While foundations do monitor, and even fixate, on the returns generated by the investments in their endowments, this resource pressure is in some ways artificial. Levels of foundation spending are often within the discretion of the board of directors, but many foundations do not consider spending down the endowment to be a viable option.

This freedom from resource-generation pressure creates an opportunity for foundations to pursue social impact in the absence of the competing tensions that nonprofits face. Yet it also allows foundations the freedom to be unclear or opaque about their goals – or simply not to define any goals at all. This is particularly true given the challenges of assessing foundation performance, which are even more significant than those that face nonprofits. For foundations, there is no imperative that compels the development or modification of a strategy. Indeed, foundations may make the conscious choice not to respond to environmental changes because of a belief that to respond would be to compromise mission or goals. In short, under current law, foundations that meet minimum payout and other basic regulatory requirements can exist in perpetuity regardless of their sensitivity to any external pressures presented by the environment, making these organizations fundamentally distinct from for-profits or nonprofits.

Theorists disagree about whether this unique situation negates the need for distinctive positioning. Porter and Kramer's work in this area suggests that unique positioning and activities, such as differentiating according to the relationship of internal strengths and weaknesses to the external environment, facilitate the creation of social impact.<sup>8</sup> Others believe nonprofit and corporate conceptions of strategy are not necessarily relevant to foundations. Fulton and Blau, of the Monitor Institute, argue that optimal foundation strategies could cross organizational boundaries and take the form of collaborative systemic change efforts. Further, these joint strategies could focus on communal, rather than organizational, effectiveness and the building of shared philanthropic capacity.<sup>9</sup>

In fact, the magnitude of social changes desired by foundations is frequently so vast that no single foundation has enough resources to achieve them, calling into question whether unique strategic positioning contributes to impact. For example, if a cure or vaccine for AIDS were to be discovered, the resources required to vaccinate all people would likely exceed the capacity of any one foundation. However, a group of foundations could contribute funds for a vaccine's production and dissemination – creating immense social impact by saving the lives of millions of people. Given the foundation community's vast resources and almost boundless discretion, they may, in fact, be well-positioned to take on jointly such a task that might have little market incentive for corporations or political incentive for governments. If foundations declined to

---

<sup>8</sup> Porter, Michael E. and Mark R. Kramer. "Philanthropy's New Agenda: Creating Value." *Harvard Business Review*. November-December (1999): 121-130. Kramer and Porter are CEP co-founders.

<sup>9</sup> Fulton, Katherine and Andrew Blau. *Looking Out for the Future: An Orientation for Twenty-First Century Philanthropists*. The Monitor Company Group, LLP (2005).

participate because of a concern that they were not uniquely positioned to do this work, they would arguably be doing so at the expense of positive social impact.

The question of foundation strategy is further complicated by the fact that foundations frequently have multiple programs, which often have independent goals and strategies. While the essential role of executive and trustee leadership is generally agreed upon in the case of strategy development in the corporate and nonprofit context, executive management and trustees in foundations often delegate significant authority to program officers to develop program strategies.<sup>10, 11</sup> But the lack of a common unit of social impact measurement may impede the ability of foundation leadership to assess the differential success of program officers in developing these strategies. This assessment challenge is, of course, even further complicated by the fact that foundations are typically one step removed from the issues and problems they seek to address through their grantmaking to nonprofits.

Finally, although strategy is a ubiquitous element of corporate and nonprofit theory and a growing part of foundation discourse, some foundations still hesitate to use the word “strategy” at all. Foundation leaders that resist embracing strategy cite a variety of reasons, including a belief that flexibility, responsiveness, and pluralism are important foundation strengths that could be undermined by the implementation of strategies. Despite the assertion by some academicians

---

<sup>10</sup> According to Mintzberg, strong leadership is central to the development and implementation of most strategic types. Mintzberg, Henry and James A. Waters. “Of Strategies, Deliberate and Emergent.” *Strategic Management Journal*. Vol. 6 (1985): 257-272.

<sup>11</sup> For example, a study of strategy development at the W. K. Kellogg Foundation highlighted the primacy of program officers in the decision to move from a hands-off, monitoring relationship with grantees to a more collaborative and intimate approach called the “Impact Services Model.” Lake, Karen E.; Reis, Thomas K.; and Spann, Jeri. “From Grant Making to Change Making: How the W.K. Kellogg Foundation’s Impact Services Model Evolved to Enhance the Management and Social Effects of Large Initiatives.” *Nonprofit and Voluntary Sector Quarterly*. Vol. 29, no. 1, Supplement (2000): 41-68.

and practitioners that a robust and environmentally responsive strategy can help foundations create greater social impact, the current reality is that there remains significant disagreement about the meaning and relevance of strategy for foundations.

### **Next Steps**

CEP's Foundation Strategy Study will attempt to study empirically whether foundation leaders generally view their organizations as having strategies, and, if so, how those strategies relate to several broad themes common in the literature we have reviewed: How are organizational strengths or assets deployed in response to contextual pressures? How do organizations assess success in value (or impact) creation? How does leadership affect strategy design and implementation?

In Phase I of this study, we will conduct qualitative interviews with a random sample of foundation CEOs and program officers in an effort to better understand how private foundations define and implement strategy. These interviews will explore the locus of strategic control, comprehensiveness and specificity of strategies, the development and revision processes, the relationship between strategy and the external context, the consistency of strategy implementation, and methods of progress assessment. The insights gleaned from Phase I will be published in a short paper and will guide our approach to Phase II of the study, which may include an in-depth examination of specific foundation program types and a large-scale survey of CEOs and program officers. This research will culminate in the production of a major report describing these themes for wide distribution in the field.

## Appendix A: Frequently Cited Strategy Research

Name	Focus	Thesis	Components
Fulton, Blau	Foundations	Philanthropy in the United States is changing, and to make choices that are most likely to achieve high impact in the future, foundations will need to understand the ways in which their environmental context is shifting toward a more integrated approach to social impact across organizations and sectors.	Factors leading to the new ecology of social benefit: <ol style="list-style-type: none"> <li>1. <i>Privatization</i>: power shift from public institutions to business</li> <li>2. <i>Connection/Acceleration</i>: technologies of information sharing are increasing in speed and number</li> <li>3. <i>Multiplication</i>: population growth leads to more social need</li> <li>4. <i>Diversification</i>: wealth is in new hands, and social service providers are from new backgrounds</li> <li>5. <i>Observation</i>: more people are participating in and critiquing the social sector, and the need for accountability and transparency is increasing</li> <li>6. <i>Reflection</i>: there is more knowledge about the social sector than ever before</li> </ol>
Kaplan, Norton	Corporations, (nonprofits by extension)	An organization's assets, both tangible and intangible, must be aligned with its strategy.	Intangible assets: <ol style="list-style-type: none"> <li>1. <i>Human capital</i>: the skills, talent, and knowledge of employees</li> <li>2. <i>Information capital</i>: databases, information systems, networks and technology infrastructure</li> <li>3. <i>Organization capital</i>: culture, leadership, alignment between people and strategic goals, internal knowledge sharing</li> </ol>
Miles, Snow	Corporations	Organizations adapt to environmental change to maintain effective alignment by developing mechanisms and processes to execute a strategy.	Adaptive cycle: <ol style="list-style-type: none"> <li>1. <i>Entrepreneurial problem</i>: convert insight into a definition of an organizational domain, a specific good or service, and a target market or market segment</li> <li>2. <i>Engineering problem</i>: create a system to achieve the solution to the entrepreneurial problem using technology, communication, and control linkages</li> <li>3. <i>Administrative problem</i>: reduce uncertainty within the organizational system</li> </ol>
Mintzberg	Universal	An operational definition of strategy as a pattern in a stream of decisions provides key insights into the nature of strategy development with respect to leadership plans and intentions versus what organizations actually do.	<i>Deliberate strategies</i> are those realized as intended.  <i>Emergent strategies</i> are patterns or consistencies realized despite, or in the absence of, intentions.
Moore	Nonprofits	Nonprofit strategies are necessarily distinct from corporate strategies and are more similar to strategies in the public sector for two reasons: <ol style="list-style-type: none"> <li>1. <i>Value creation</i> = achievement of social purposes, not financial performance</li> <li>2. <i>Revenues</i> come from other sources than customer purchases</li> </ol>	Three components of an alternative strategy model (for public sector managers) that can be applied to nonprofits: <ol style="list-style-type: none"> <li>1. <i>Public value to be created</i>: managers should focus on creating a strong statement of intended social impact (mission), the achievement of which should be the focus of the organization's strategy and processes</li> <li>2. <i>Sources of legitimacy and support</i>: managers should focus on finding supporters from many sectors and backgrounds to sustain the work</li> <li>3. <i>Operational capacity to deliver value</i>: managers should make sure they have the internal assets to achieve their goals</li> </ol>
Porter, Kramer	Foundations	Foundations need strategy to most efficiently create value in the form of greater social benefit.	Four types of value creation: <ol style="list-style-type: none"> <li>1. Selecting the best grantees</li> <li>2. Signaling other funders</li> <li>3. Improving the performance of grant recipients</li> <li>4. Advancing the state of knowledge and practice</li> </ol> Principles of strategy: <ol style="list-style-type: none"> <li>1. The goal is superior performance in a chosen arena</li> <li>2. Strategy depends on choosing a unique positioning</li> <li>3. Strategy rests on unique activities</li> <li>4. Every positioning requires trade-offs</li> </ol>