

TOWARD A COMMON LANGUAGE:

*Listening to Foundation CEOs and Other Experts
Talk About Performance Measurement in Philanthropy*

THE CENTER FOR
EFFECTIVE PHILANTHROPY

Foundation Performance Metrics Pilot Study

CONTACT INFORMATION:

Phil Buchanan
Executive Director
The Center for Effective Philanthropy
20 Park Plaza
Suite 1125
Boston, MA 02116
617-956-0800 x113

philb@effectivephilanthropy.org

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ACKNOWLEDGEMENTS:

The Center for Effective Philanthropy gratefully acknowledges those whose assistance has made our work possible:

Supporters:

The following foundations have supported the Center’s work:

- The Atlantic Philanthropies*
- The Ewing Marion Kauffman Foundation*
- The David and Lucile Packard Foundation*
- The Surdna Foundation*

Advisors:

The Advisory Board for the Center’s Foundation Performance Metrics Pilot Study has provided insight, encouragement, and constructive comments throughout our research and analysis. Its members are Mike Bailin, Paul Brest, Dennis Collins, Alexa Culwell, Jonathan Fanton, Joel Fleishman, Barbara Kibbe, Rebecca Rimel, Edward Skloot, Lou Smith, Mark Smith, Page Snow, and Vince Stehle. In addition, the Study’s Committee of Experts has provided significant guidance and assistance, in particular those members who reviewed early drafts of this document and offered their comments and suggestions: David Hunter, Janice Molnar, Bill McCalpin, Ricardo Millett, and Gene Wilson. Marty Campbell also provided invaluable assistance.

Staff and Volunteers:

Many people have contributed to our work and the authorship of this paper including the Center’s staff – Phil Buchanan, Kevin Bolduc, and Debbie Liao; Volunteers – Tiffany Winne, and Roberta Towner; Founding Fellow Phil Giudice; and founders – Mark Kramer, and Michael Porter.

I. EXECUTIVE SUMMARY

Charitable foundations justly take pride in the good works they enable. But what does it mean for a foundation to perform well? And how can its performance be measured? These are the difficult questions we posed during the autumn of 2001 to 74 foundation executives, CEOs, and expert observers of philanthropy.¹

Evaluation of specific grants, or even clusters of grants, has become a widely utilized practice, and many respondents began by discussing this type of program evaluation. But our focus was different: we wanted to understand how the CEOs of large, complex foundations define success, and what information they track to determine whether their organizations are making progress.

Our interviews were the first step in the Center for Effective Philanthropy's eight-month Foundation Performance Metrics Pilot Study, scheduled to conclude in the spring of 2002. Early on, we recognized that what we were hearing deserved a wider audience, and we set out to distill our notes into a synthesis that would further the lively debate already underway. This document, therefore, represents a beginning in the Center's research efforts, not an end: it is a working document, designed to extend our conversations to a larger audience, stimulate feedback, and help us frame our continuing research. Throughout this paper, we have tried to be faithful to the interviews we conducted, using the language of those with whom we spoke wherever possible.

Our conversations centered around 18 CEOs, most from among the 100 largest private foundations in the country. As our discussions made clear, many of these CEOs are already wrestling with the dilemmas of measuring foundation performance, but each is doing so alone, or at most with informal support from colleagues.

From these discussions, an important finding emerged: the elements of a common vocabulary regarding foundation-wide performance measure-

ment exist, but are scattered. Various foundations have implemented discrete measures, but none has yet put them all together into a comprehensive framework. Each interview reflected different words and different emphases, yet several overarching themes consistently emerged.

We found that CEOs judge their foundations' performance on three interrelated activities. In order of priority, they are:

ACHIEVING IMPACT: Making progress toward the foundation's goals and delivering results.

SETTING THE AGENDA: Defining the foundation's fields of interest, specific goals, and overall approach to its work.

MANAGING OPERATIONS: Monitoring internal processes and managing the foundation's human and financial resources.

Within each of these activities, CEOs cited a few specific quantitative and qualitative measures, listed in the chart on page 4, to assess foundation performance. Each CEO tracks some of these measures, although no one currently uses them all.

The first category, "Achieving Impact," is acknowledged to be both the most important and the most difficult to measure. CEOs, therefore, use measures within the other two categories as a means to the first – accepting the inference that a well-managed organization with clear goals is likely to achieve greater impact.

Only two measures seem to be tracked universally: investment performance and the ratio of administrative expenses to assets. Such easily quantified and comparative data seem to receive the most attention. Unfortunately, these measures are widely perceived as having only a remote connection, if any, to the foundation's achievement of impact – and this was frequently mentioned by CEOs as a cause for concern.

¹ A list of the 18 CEOs and a description of the other interviewees are provided on page 15.

FOUNDATION PERFORMANCE METRICS		
METRICS	KEY QUESTIONS	DEGREE OF CURRENT UTILIZATION
ACHIEVING IMPACT <ul style="list-style-type: none"> • Targeted Program Goals • Strengthening Grantees • Field Effects • Leverage 	Have we been successful in meeting predetermined, program or grant-related goals? Are we improving grantee effectiveness? Have we advanced the field by influencing the thinking of public policy makers, funders, thought leaders, or the public? Do we influence others to fund our grantees?	Wide Some Limited Limited
SETTING THE AGENDA <ul style="list-style-type: none"> • Focus Areas • Goals • Approach 	Have we identified appropriate program areas? Do we have clear and achievable goals? Have we selected an effective approach?	Some Some Some
MANAGING OPERATIONS <ul style="list-style-type: none"> • Grantee Selection • Responsiveness to Grantees • Staff Recruitment, Review, and Retention • Consistency with Objectives • Investment Performance • Administrative Expense 	Does our selection process yield the right grantees? Do we treat our grantees well? Are our staff satisfied, qualified, and high-performing? Have we adhered to our articulated strategy? How well have we managed our financial assets? Are our administrative costs appropriate to our activities?	Limited Some Some Limited Wide Wide

In fact, a number of measures currently in use were described as inconsistent, strategically unimportant, and even potentially misleading. Many CEOs expressed the desire to create a more reliable vocabulary of foundation performance metrics with comparative data collected across different foundations. In particular, CEOs sought measures that would be

- comprehensive;
- repeatable over time;
- comparable to other foundations (when relevant); and
- simple, timely and inexpensive to use.

Some interviewees, to be sure, expressed concern about the idea of adding any new measures of foundation performance at all, questioning whether they could ever be constructive and accurate. A cautionary note was often sounded that such measures might become “blunt instruments” that would distort foundation behavior and decision making. Many stressed that not all measures would be relevant for

all foundations, nor would there necessarily be consistency in the conception of a “good” result on any particular measure. Indeed, for measurement to be meaningful, it must be connected to the strategy of the foundation, and because strategies vary, so too will the measures used.

Even recognizing these limitations, our discussions suggested that there is value in refining and clarifying the performance measures already in use, contributing to the development of a common language that will enable foundations to share and learn from one another’s experiences. Over the next few months, the Center for Effective Philanthropy will augment these findings with additional interviews, in-depth research on a diverse sample of two dozen major private foundations, the results of larger-scale grantee and CEO surveys, and a series of interviews with foundation trustees. With this additional data, we hope to further the field’s current efforts to develop more useful and reliable foundation performance measures.

II. INTERVIEW RESULTS

Background

“Everyone is now going to need to look at, with fewer resources, how do we become more effective?”

Performance measurement has long been a challenge for non-profit organizations: social outcomes are notoriously difficult to measure. For grantmaking foundations, however, the challenge is greater still: these foundations do not *directly* impact social outcomes, but only fund the non-profit organizations that seek to effect social change.

Despite this difficulty, pressure for foundations to find a way of measuring performance is substantial and mounting. Critics from inside the foundation field, such as the National Network of Grantmakers, as well as outside critics such as Mark Dowie, author of the recent *American Foundations: An Investigative History*, have questioned the accountability of foundations, asking, “What is the responsibility of private wealth protected by law from taxation?”²

We were surprised to find in our interviews that foundation executives and CEOs are already embracing these questions, convinced that “accountability and performance measurement will help us better reach the social outcomes we seek.” The question is no longer *whether* to measure, but *how* to do so constructively.

This sentiment appears to represent a substantial shift in thinking in the foundation field, a shift that has only been deepened by the recent downturn in the economy, the new philanthropic needs in the after-

math of the September 11 tragedy, and the related increase in public attention to the impact of charitable giving. Said one CEO, “Everyone is now going to need to look at, with fewer resources, how do we become more effective?”

In their search for useful measures, foundation leaders share a similar conception of key activities – achieving impact, setting the agenda, and managing operations – but seek more timely, consistent, and summary performance measures within these categories. In the words of a recently appointed CEO, “I still don’t know what information I need to see on a monthly or quarterly basis to understand how we are doing.”

In the following sections, we outline the ideas that surfaced in our interviews, beginning with the most challenging, and generally regarded as most important, category: achieving impact.

We then turn to the most basic, but at times most influential, aspect of foundation leadership, setting the agenda. This activity precedes all others, defining the nature of the impact to be achieved. In our interviews, however, it was seen as less significant in its own right than the end it serves. Performance measures within this category are, inevitably, the most qualitative.

The final category of activity is the management of operations and internal processes. These measures are the easiest to track, although the connection to social impact is less direct. A strong hypothesis exists among those with whom we spoke, however, that sound operations and processes within a foundation translate into a greater probability of achieving social impact.

ASKING THE QUESTION: WHY DO WE EXIST?

Some foundation CEOs have asked their organizations to consider the question of why foundations should exist at all, noting that if they cannot articulate a compelling answer, there is a serious problem. Answers, while varied, generally coalesce around a common theme: Foundations have distinct advantages that other institutions—such as government and charities—do not. They are immune from political forces, market pressures, and the necessity of fundraising. Their lack of accountability to anyone beyond their board of directors, the very characteristic that alarms their critics, gives foundations tremendous freedom to act boldly in addressing social challenges. “We are society’s passing gear,” said one foundation’s senior vice president. “We do what government cannot do and what other non-profits don’t have the resources to do.”

² *American Foundations: An Investigative History*, Mark Dowie, p. xxxix.

A. Achieving Impact

“If a foundation doesn’t have a system for measuring impact, you can rest assured that achieving impact isn’t viewed as very important.”

FINDING: All foundations interviewed conduct formal evaluations of the impact achieved by selected grants. Yet significant barriers exist to using these evaluations as a means of assessing overall foundation performance: grant and cluster evaluations are costly, and often cannot be aggregated in a timely and probative way across all foundation activities.

Three other measures were also reported, based on the foundation’s ability to

- help grantees improve their performance,
- influence thinking broadly in its fields of interest, and
- leverage other sources of funding.

These measures are seen as indirect indicators of impact, but are more easily applied across different program areas. A few foundations track one or more of these measures, although none of the foundation CEOs we interviewed track them all.

Assessing impact is extremely hard. The typical large, private foundation makes hundreds of grants annually across multiple program areas. As difficult as it is, many CEOs feel passionately that impact assessment is of critical importance. “If a foundation doesn’t have a system for measuring impact, you can rest assured that achieving impact isn’t viewed as very important.”

All of these foundations have put in place rigorous programs to evaluate specific grants or clusters of grants. In the words of one CEO, “Effectiveness of the foundation is based on the success of the program area, and that is really a sum of the effectiveness of the grants. It seems to me that there is no way to talk about foundation performance without measuring the impact of our grants.”

ACHIEVEMENT OF TARGETED PROGRAM GOALS

If foundations could readily measure the impact of each grant and the resulting progress toward program goals, they could assess their performance directly. Several interviewees suggested that, if the program areas within a foundation are few enough, and the goals clear enough, such an approach should be possible.

One foundation, regarded as a leader in evaluation, routinely reports to its board on progress made toward the goals in several program areas. To do so,

THE CHALLENGE OF MEASURING FOUNDATION IMPACT

Regardless of opinions about program evaluation, there is general agreement that moving from grant-specific evaluation to foundation-wide performance assessment is extremely difficult. There are three primary challenges: timeliness; ability to summarize or aggregate; and establishing causality.

1. TIMELINESS. Rigorous program evaluation is protracted and costly. Said one evaluation director, speaking of a particularly helpful program evaluation, “this took us well over a year and a tremendous amount of resources. It’s hard to imagine our being able to do anything comparable for all our program areas.” Said a CEO, “You really can’t measure the things we do well except over a 10- or 20-year period.”

2. AGGREGATION. The goals and objectives of each program area, and even of different grants within a program area, can be very dissimilar, and the evaluation measures applied are neither uniform nor comparable. Evaluating success, said one CEO, is like looking at “tributaries running into a stream,” but without any way of consolidating the results.

3. CAUSALITY. A final complication is isolating the foundation’s role in achieving results. One foundation, which sought to address the issue of global warming, established two goals, which the board endorsed, for that broad program area: heightening public awareness of the issue, as measured by public opinion polls, and reducing the rate of increase in carbon dioxide levels. The Board regularly monitors these indicators to determine progress. The key challenge, however, comes in establishing a causal link between the foundation’s activities and these outcomes, given the numerous external factors—as well as other funders—that influence these indicators. Ultimately, this foundation has decided to sidestep the issue: “We measure progress,” said a vice president, “but absolute causality requires too much money and too much time to establish.”

the foundation finds that the board must be engaged in setting the goals, and the goals themselves must be limited in number, described in specific and measurable terms, and include interim indicators arrayed along an explicit time line. Because the board was deeply engaged in the selection of goals in the first place, and routinely reviews and modifies them, these sessions are extremely productive. Other foundation leaders, however, expressed frustration in their efforts to use program evaluation to assess overall foundation performance.

Beyond this example, we found that impressions about the usefulness of grant evaluation were mixed. Some CEOs find that the “evaluation program has given [them] tremendous insight,” deepening their understanding of what worked and helping to communicate the effectiveness of their approach to other foundations. Other CEOs find that the information produced in evaluations is rarely helpful or actionable. In the words of one, “I haven’t seen an evaluation worth a damn, [the data becomes] so hyper-specific as to be meaningless.”

The challenge, then, comes in finding other ways of measuring impact that cut across grants and program areas. Three such measures emerged in our discussions

- strengthening grantees
- influencing the field
- leveraging other funds

STRENGTHENING GRANTEES

If a foundation can help its grantees improve their own performance, it is likely that the foundation has achieved some degree of impact: when grantees operate more effectively, the issues they address will be impacted more significantly.

One foundation, for example, has embraced the idea of “institution-building” as its primary objective. Its goal is to increase dramatically the performance and scale of a small number of grantees, providing substantial funding for a number of years, and work-

ing closely with management to track continuously a range of financial and operational grantee performance measures. Considerable effort has been dedicated to defining these measures in collaboration with the grantees, and a number of interviewees expressed a strong interest in developing more generally accepted measures of grantee financial and operational performance that could be monitored routinely.

In addition to tracking indicators of grantee performance, several foundations use periodic surveys to probe grantees’ perceptions of whether and how the foundation has strengthened grantee performance. Serious questions were raised, however, about the candor and usefulness of grantee responses absent a larger context in which to interpret them. One CEO noted that his foundation had scored highly in a survey of its grantees but, in the final analysis, he didn’t know what to make of the results. What was an average score? How candid were the grantees given that they were evaluating a crucial source of funding? Here too, a need was expressed for better ways of collecting comparative and reliable data that would allow foundations to understand how their own performance has affected their grantees.

INFLUENCING THE FIELD

A key impact measure in the eyes of many CEOs is the foundation’s ability to affect thinking in its fields of interest by “aggregating and leveraging resources to move the field to a different place.” While widely viewed as important, the dispersed nature of field effects makes them extremely difficult to measure.

One foundation regularly uses visiting teams of outside experts to assess whether, within particular programmatic areas, the foundation is impacting the field and, if so, whether that impact is seen as positive. Another periodically surveys over 1,000 constituents about their impressions of the foundation’s work. Other CEOs see the ability to leverage funds, respect among their peers, or media coverage for the foundation and its grantees, as indirect indicators of their influence within the

field. These indicators of awareness among other foundations or the general public are closely linked to the reputation of the foundation, an important factor that emerged frequently in our discussions (see sidebar: “Thinking About Reputation”).

In general, we found little formal measurement of field effects, despite wide agreement about their importance. Foundation CEOs desired more insight into the degree to which field effects could be measured, but recognized the difficulty of distinguishing constructive influence from mere visibility and recognition. The increased use of outside visiting teams that can subjectively assess a foundation’s influence within a field may hold promise as one means of better measuring these effects.

LEVERAGING OTHER FUNDS

The third indirect impact measure that was widely cited by CEOs was the foundation’s ability to influence others to fund its grantees or projects, generally known as “leverage.” Much like helping improve grantee performance, if the foundation helps its grantees obtain additional funding, it is likely that those grantees will be able to achieve their social objectives more rapidly and effectively.

Here again, the foundation’s reputation among its peers is key. One smaller foundation prides itself on its ability to initiate new projects and then

consistently attract the support of larger national foundations. Some foundations even provide their grantees with tangible assistance in fundraising – ranging from technical assistance to introductions to potential funders.

For most foundations interviewed, measurement in this area is an informal exercise that relies on peer networking and anecdotal information. Some foundations survey their grantees’ perceptions of funding influence, but only one actually consistently analyzed the funding growth of its grantees over time.

Taken together, it seems likely that tracking leveraged funds, analyzing grantees’ perceptions of the foundation’s helpfulness in securing additional funding, and measuring the grantees funding growth over time, both in number of funders and total support, can give a reasonably accurate picture of the funding influence achieved.

* * *

Achieving impact is widely agreed to be the ultimate goal for foundations, and yet this is the area where measurement of results across all foundation activities is the most difficult and, therefore, least developed. Few foundation executives we spoke with expressed confidence in their current ability to assess impact, but there was a widely shared sense of resolve among all of them to push further in this area.

THINKING ABOUT REPUTATION

Reputation was repeatedly discussed by CEOs as highly important – both in its own right and as a means to achieving the foundation’s ends. “My first responsibility is to protect the foundation’s reputation,” said one CEO. Said another, “Reputation has two dimensions. First, are we behaving in a way that is honorable and not sleazy? Second, how well known are we for what we do?”

In the absence of widely accepted measures of performance, reputation can easily become a surrogate for effectiveness. One foundation engages in formal surveying and “brand audits” to assess its reputation. For many others, measurement of reputation is an informal exercise, largely driven by word of mouth within the foundation community and press coverage of the foundation or its grantees.

A foundation’s reputation can be an important factor in its ability to leverage other funds or influence thinking within a field, serving as a legitimate indirect measure of impact. However, the strong emphasis on reputation makes some CEOs uncomfortable, because they see it as driven more by a desire for recognition than a means of achieving impact. “I worry that my board is more interested in the foundation’s reputation because it makes them feel good than because of what the foundation actually achieves,” said one CEO.

B. Setting the Agenda

“You have to know what you’re working on. You have to make it public. And you have to be willing to be judged on it.”

FINDING: All foundation CEOs interviewed agreed that a foundation must first decide in which fields or areas of emphasis it will focus, and second, what it intends to accomplish in specific, measurable, and achievable terms. Finally, given the first two choices, a foundation must decide which approaches will be most likely to achieve the desired results – often referred to as a “theory of change.”

Measurement of results in this area is a largely qualitative assessment by the board, CEO and program staff of whether the foundation has the ‘right’ goals and an effective approach.

A decade ago, some foundations were content to fund a disparate collection of projects within their fields of interest, trusting that they had done their part and that their grantees would be in the best position to identify and fill social needs. As one CEO described it, “letting a thousand flowers bloom.”

None of the CEOs we interviewed, however, subscribes to this approach today. These CEOs believe that foundations must know at the outset what they are seeking to achieve. “You have to begin with the end in mind,” said one foundation CEO. “You need a well-articulated roadmap.”

Selecting the desired ends and agreeing on the means to get there are clearly understood responsibilities for the CEOs with whom we spoke and are among the primary ways they exert leadership within their organizations. Working between the Board and the program officers, CEOs set their foundation’s agenda through three interrelated choices

- selecting fields of focus or emphasis
- establishing specific and achievable goals
- choosing an approach

Depending on the history and mission of the foundation and the degree of family involvement, CEOs may have more or less freedom within this set of choices, but ensuring clarity about the answers is seen as a key element of their jobs. “Everyone can agree on the importance of having grantees define their mission, strategy, and objectives and holding them accountable as a condition of effective management,” said one CEO. “Well, the same should apply for foundations, too.” Based on our interviews, it increasingly does.

SELECTING A FIELD

Nearly all interviewees concurred that “maximizing the impact of grantmaking” can best be accomplished by limiting the number of fields in which the foundation works, allowing program officers and evaluation staff to develop the expertise to select grantees most effectively and make a more meaningful contribution to the field. This logic of deep focus is so compelling that four of the foundations we met with have recently completed – or are in the process of undertaking – a dramatic reduction in the number of program areas they fund, and a fifth is actively considering a similar change. In the words of its CEO, the foundation has “too many moving parts, too many different pieces” to be effective.

EXITING A PROGRAM AREA

In December 1997, the James Irvine Foundation, which focuses its grantmaking in the state of California, made the difficult decision to exit its program in health. Studying the external environment, and in particular the creation of large regional health care conversion foundations, Irvine executives determined that, during the preceding six-year period, total foundation dollars spent on health in California had increased 13-fold, and Irvine’s share of that giving had fallen from 17 percent to 2 percent. The executives concluded that other foundations were now better positioned to lead in this area. “The opportunity to exert philanthropic leadership” will continue to “reduce over time,” noted an Irvine report on the issue. While acknowledging that “there is still significant need” the Foundation concluded that “other foundations are actively addressing those needs” allowing Irvine to focus on areas in which it could better leverage its distinctive strengths.

After reaching the decision, the Foundation phased out its efforts gradually, over a two-year period, working to communicate clearly with the affected grantees and to assist them in securing replacement funding.

Eliminating a program area can be extremely difficult. The fields funded by a foundation are often determined by its staffing. Changing fields, said several CEOs, is often tantamount to changing personnel and, as a result, it rarely happens. “We’re good at setting things up,” observed one CEO, “but less good at closing them down.” This CEO is convinced, however, that foundations should not be afraid to dismantle programs if their goals have been met, external factors change, or if significant progress cannot be demonstrated after a reasonable time.

Throughout our interviews, we found an unmistakable trend toward narrowing the number of fields in which a foundation operates, and a widespread consensus that spreading limited resources over many fields reduces effectiveness and increases administrative burdens. For example, one CEO was concerned that his foundation’s guidelines included a program to reduce conflict in the Middle East, to which less than 1% of the foundation’s overall grant budget was allocated. What is the cost, he wondered, both to our foundation and the grant applicants, of publicly stating that we fund this area? And what impact can we possibly achieve?

ESTABLISHING SPECIFIC AND ACHIEVABLE GOALS

All CEOs interviewed agreed that, once the areas of focus have been determined, clear goals must be articulated throughout the organization. Some goals will be specific to program areas, while others may be crosscutting. Either way, CEOs suggested that the foundation’s goals must be achievable. “If we execute our plan well and don’t succeed,” said one CEO, “then we’ve picked the wrong goal. . . . It is not about choosing what’s most important. It’s about choosing where you can win.” The foundation, this CEO argued, must bring a distinctive ability to impact change in the area it selects, and its goals within that area need to be realistic. “We try not to pick goals that aren’t achievable anymore.”

Qualitative assessment of whether a goal has been sufficiently well-defined, and whether it is achievable, is viewed as a key measure of success for all the CEOs with whom we spoke, and is often an important component of the board’s evaluation of CEO performance. “You have to know what you’re working on,” said one CEO. “You have to make it public. And you have to be willing to be judged on it.”

CHOOSING AN APPROACH

Even though CEOs were near unanimous in their commitment to proactive goals, there was considerable variation in the choice of approaches to achieving those goals — or what is often called a “theory of change.”

Affecting policy, several CEOs believe, is the way foundations can have the greatest impact. Others focus on growing promising grantees “to scale:” working closely with the grantee over a period of years to jointly develop, fund, and implement a detailed business plan. Another invests heavily in independent research to advance the field and complement the work of its grantees. Yet others prefer a hands-off approach to grantee relations, staying away from any internal management issues, and making grants only in response to grantee requests.

Several CEOs argued that grantmaking to independent non-profits is not always the best way for a foundation to achieve impact. “You can make a difference beyond just making a grant,” said one CEO, whose foundation has established its own operating organizations to directly address social issues. Another foundation interviewed is beginning to move away from grantmaking because, as one executive put it, “grantees don’t take our expectations seriously. We can often do it better ourselves.”

Our interviews surfaced dozens of potential approaches and combinations of approaches. Many foundations use different approaches in different program areas.

TOWARD A BALANCED PORTFOLIO: MANAGING RISK

Several CEOs discussed the importance of managing the foundation’s “portfolio” of grants to ensure a balance. “Some things we do will have clear objectives that are likely to be met, others will be more speculative. We try to manage to ensure an appropriate balance.” Another foundation assesses its grantmaking to ensure that it is not just supporting the tried and true — that it is funding innovation and that its selection process doesn’t eliminate risk-taking. This foundation, the Charles and Helen Schwab Foundation, is seeking to develop an “Innovation Index” that answers the question, as one vice president put it, “Is what we’re doing really a leverage point? A good idea that can take wings?”

No consensus emerged about whether any one approach was uniformly preferable to another, but all CEOs considered themselves responsible for overseeing the selection of an approach and making a qualitative determination that the approach was likely to be effective in achieving the foundation's goals. Put another way: Each CEO felt accountable for ensuring that the foundations approach was logically consistent with its goals and strategy.

* * *

While there was no uniformity in measuring how CEOs can tell whether they have chosen a reasonable number of fields, achievable goals, and effective approaches, there was a consensus that successful foundation performance depends on making these choices deliberately and well. Although informed by the values, ambitions, and expertise of both the board and program staff, these decisions are, finally, qualitative judgments by the CEO.

c. Managing Operations

“Process is important because it’s the means to the end. It’s just as important for foundations as for grantees.”

FINDING: CEOs monitor a range of internal processes and financial metrics, but pay the greatest attention to operational measures that are easily quantified and comparative across foundations, such as investment returns and administrative expenses, although these are widely seen as loosely related—at best—to the foundation’s primary objective of achieving social impact. These basic financial metrics are tracked by all foundations interviewed.

Other internal processes tracked by CEOs include overseeing the grantee selection and due diligence process, the foundation’s responsiveness to its grantees, staff recruitment and retention, and alignment of operations with the foundation’s stated objectives. Most foundations tracked some of these measures, but none tracked all.

Just as foundations, in evaluating the non-profits they fund, have recognized the connection between measures of operational capacity and impact, the same thinking applies to foundations themselves. “Process is important because it’s the means to the end,” said one CEO. “It’s just as important for foundations as for grantees.” The operational measures outlined here are based on a strong hypothesis, widely shared by the CEOs we interviewed, that those foundations that use their own resources well and achieve operational excellence will also achieve greater social impact.

CEOs tend to pay most attention to those measures with easily available and relevant benchmarks: asset performance, administrative expenses, and staff compensation and retention. CEOs and others are quick to point out that these measures, while most frequently tracked, have the least direct link to social impact or mission. Even so, the power and utility of comparable benchmarks were universally recognized and desired.

We found that operational measures generally fall into two categories

- internal processes
- financial metrics

I. Internal Processes

Grantee Selection. Several CEOs noted that their foundations were heightening the attention paid to the selection process. One suggested, “Our due diligence should mimic what happens in the private sector.” Key questions here related to the consistency of the due diligence process, the uniformity of its implementation, and the quality of grantees chosen. Several CEOs mentioned recent steps to make their foundations’ selection processes more consistent, however, few systematically tracked implementation or results.

In theory, the quality of the selection process can also be inferred from a retroactive assessment of grantee performance. Foundations can assess whether grantees are still in existence, whether they are growing, and whether their financial condition is strong and improving. Although these questions were mentioned by a number of CEOs, only the one foundation we met with that is entirely dedicated to building the capacity of selected grantees currently monitors the answers.

CEOs also cautioned that these measures must be used thoughtfully. For example, they pointed out that some grantee organizations may fail or cease to exist, but this does not necessarily mean the decision to fund the organization was a poor one. Even growth is not a universally applicable measure. “You have to be careful about the assumptions behind your measures,” cautioned one interviewee.

Responsiveness to Grantees. We found a strong and widely shared hypothesis that the foundation’s responsiveness to its grantees affects the grantees’ ultimate performance. Program officers sometimes interact with grantees in ways that sharply increase workload without any perceived benefit. The result is that the grantee devotes less time to executing the mission of the organization. Said one CEO, “The customer service end of our work is appalling. There is a desperate need for this field to be accountable to grantees.” Others were less severe in their assessment, but worried that grantees had to spend too much time chasing after grants, or fighting to get their calls returned.

Several potential metrics of foundation responsiveness were cited, grouped around three issues – turnaround time, accessibility, and ease of interaction. While there was wide consensus regarding the usefulness of these measures, they were rarely tracked. A significant number of the foundations interviewed conduct periodic surveys of their own grantees, but absent any benchmarks in the field, have no ability to place their performance in any larger context.

Staff Recruitment, Review, and Retention. Many CEOs see the quality of management and program staff as a direct influence on the foundation’s overall effectiveness.

Ultimately, grantees’ interactions are with the people who work for the foundation, and the performance of those people determines the quality of both grantee selection and responsiveness. The attractiveness of the foundation as an employer, therefore, is a central concern of many CEOs and, as a result, they monitor a variety of related performance indicators, such as recruitment, retention, compensation levels, and diversity.

An important related measure is the use of staff performance reviews. Several CEOs believe that clear staff performance goals, with written annual reviews, are essential for individual effectiveness, and therefore, affect the foundation’s overall performance. Three CEOs suggested that the existence of a thoughtful, rigorous, widely-implemented process for defining job descriptions and goals was, in itself, a measure of effectiveness. However, our interviews surfaced a wide range of performance review processes. A few foundations require written annual performance objectives and formal annual reviews of all staff throughout the foundation. The majority of those interviewed, however, rely on more informal processes, such as occasional discussions between CEOs and program staff to ensure that they are “on the same page.”

Staff-related measures are widely applied across foundations, frequently through benchmarking studies by human resources consultants or, in some cases, through informal sharing of confidential information among CEOs. While useful data exist in this category, we found a desire for still more robust information. One CEO, for example, noted that the field still does not have a common conception of the skill set necessary for a given position – such as a

THE IMPORTANCE OF GOVERNANCE

Board functioning is seen by foundation CEOs as a major factor in overall foundation performance. Indeed, CEOs see the board as a critical audience for foundation-wide performance measures. There was general agreement regarding what constitutes effective governance but wide variation in practice. Essential responsibilities include the fiduciary obligation to steward the foundation’s resources, attention to the strategy of the foundation, and appointment and evaluation of the chief executive officer. CEOs were unanimous that their boards exercised fiscal oversight by monitoring budgets, investment performance, and administrative expenses. However, some boards were much more involved in defining goals and setting strategy, while others were bogged down in reviewing detailed grant docket.

We found a particularly wide range of variation about whether and how the board evaluates CEO performance. In some cases, the board and CEO agree on written objectives at the start of the year, and the CEO reports on progress made against each one. In other cases, CEOs confessed that there was no formal evaluation process at all: the board was satisfied if it had a general sense that things were “going OK.”

Very few of the foundations interviewed engage in a systematic board self-assessment to evaluate the directors’ perceptions of their own effectiveness. One foundation, however, has an annual review process led by the board chair, with input from the CEO.

program officer – making it difficult to compare compensation or assess quality meaningfully.

Consistency with Stated Objectives. Given the importance of clear goals and emphases, an important indicator is simply the degree to which the foundation's operations are consistent with its stated objectives. This measure was emphasized in particular by the outside experts and academicians with whom we spoke. Three specific types of measures that could be evaluated in this regard were suggested: spending by program area versus stated priorities; allocation of staff resources relative to priorities; and grantee perceptions of the foundation's adherence to its stated guidelines and objectives.

Relatively few CEOs discussed this category of measure – perhaps because they are confident in the consistency between stated strategy and operations for their foundations, or perhaps because the necessary internal processes have not been put in place to make such an assessment.

2) Financial Processes

Investment Performance. All CEOs we interviewed mentioned investment performance as an important measure of performance that is essential to their role as steward of the foundation. Moreover, asset performance is easily understood, measured, and benchmarked. While it does not speak to the impact achieved, superior asset performance translates into more dollars available to serve the foundation's mission.

Only one of the CEOs with whom we spoke discussed program-related investments as a component of the foundation's strategy, and none attempt to measure the social impact of the foundation's investments. In other words, investment performance is generally considered

in isolation from the social mission of the foundation – at least for the overwhelming number of foundation executives with whom we spoke.

Administrative Expenses. All CEOs wanted to understand where their ratio of administrative expenses to grants fell in the larger universe of foundations. However, virtually every interviewee cautioned against the simplistic notion that higher proportional administrative costs necessarily indicate poor performance. Different agendas, in particular, the number of fields funded and the approach chosen, can result in very different expense ratios.

Several interviewees also observed that administrative expenses are reported inconsistently by different foundations, leading to difficulty in making accurate comparisons. As one CEO pointed out, even the basic question of which numbers get added into the denominator and numerator in calculating the expense ratio has never been uniformly agreed upon among different foundations. Referring to the intricacies of accounting principles in business, he suggested that foundation accounting was similarly complex, but lacked a clear enough set of guidelines to make comparisons reliable.

* * *

Operational measures, both internal process- and finance-related, are clearly seen as important elements of a foundation-wide performance measurement framework. While none of the potential categories of measures described in this section definitively demonstrates achievement of social impact, taken together, these measures hold the potential to give CEOs and boards valuable insights into the overall effectiveness of the foundation.

ADMINISTRATIVE COSTS AND PERFORMANCE

CEOs were unanimous that a foundation should not be considered a poor performer merely because of higher administrative costs, if the costs were linked to achieving the foundation's goals.

The Kauffman Foundation in Kansas City, for example, has chosen to maintain high-caliber conference facilities for use by their grantees and other non-profits in the greater Kansas City community. This decision was made based on an assessment that such space was badly needed, but the incremental staff required drives up the foundation's administrative costs.

Rockefeller Brothers Fund in New York prides itself on its close interaction with grantees and its ability to help grantees raise money from other foundations. As a result, it is deliberately staffed at a higher level than its peers.

Executives at both foundations still evaluate and report their administrative costs against a peer group, but they do it with a clear understanding of the implications of the decisions they have made.

III. TOWARD A COMMON VOCABULARY

Some have cautioned against the abstract concept of performance metrics – which conjures up images of inflexible formulas that rank diverse foundations in unhelpful or even harmful ways. Yet, our findings suggest that CEOs currently use a number of measures, beyond program evaluation, to monitor their foundations' performance. Each foundation has developed its own combination of metrics independently, described in different language, and applied in different ways. There seems to be some consistency, however, in the metrics of performance that foundation CEOs find helpful and, taken together, they offer the possibility of a more comprehensive performance framework from which foundation leaders may draw.

With the exception of the simplest quantitative measures, such as asset growth and administrative expenses, there is no common vocabulary to permit sharing among foundations nor any coordinated attempt to collect these measures more efficiently. Those measures that are currently objectively quantifiable and comparable receive disproportionate weight. Throughout the interviews, CEOs and senior executives expressed a desire for better defined, comparable measures of success that were more directly linked to their primary objective of social impact. Their desire is for data regularly presented in more organized, summarized, and contextualized forms – and for measures that are comprehensive, repeatable over time, comparative (when relevant), simple, timely, and inexpensive to use.

Over the next months, we will seek to test, analyze, and refine the performance measures that have emerged from the interviews summarized here, as well as to surface additional ideas for useful metrics. We will focus on a subset of large, private foundations: surveying their grantees, trustees, and CEOs and analyzing other

data related to their grants and their grantees. We will not publicly make any connections between the data we develop and a specific foundation, but will instead seek to determine the range of results, the correlations among them, and the implications for the potential utility of different performance measures.

We do not expect to answer definitively the question of how to measure overall foundation performance most effectively: our objective is to advance the discussion, demonstrate that certain measures are potentially useful, and begin to forge a common language that will permit foundations to learn from each other's experiences. Along the way, we will develop baseline data that will allow those foundation executives who wish to do so – and it is clear that many do – to compare their foundations to others along various dimensions. We believe this contextual information will give more meaning to measures that would otherwise be difficult to interpret.

In subsequent research efforts, we hope to expand our work to engage questions related to the particular challenges of performance measurement for other important segments, such as smaller family foundations and community foundations. Much of the language we seek to develop will be applicable to all foundations, but some will need to be tailored through the development of dialects, in a sense, for different segments within the foundation world.

We hope that our findings are of practical use to those who must make difficult decisions everyday about the strategy and operations of foundations. Our ultimate goal is to advance this discussion among those at foundations across the country, for the sake of increasing their effectiveness in creating the social impact that they work so hard to achieve.

FOUNDATION CEO INTERVIEWS

Michael Bailin,* President, Edna McConnell Clark Foundation
 Paul Brest,* President, William and Flora Hewlett Foundation
 Colin Campbell, President & Chairman, Colonial Williamsburg Foundation,
 former President and CEO, Rockefeller Brothers Fund
 Dennis Collins,* CEO, James Irvine Foundation
 Alexa Culwell,* CEO, Charles and Helen Schwab Foundation
 Christine DeVita, President, Wallace-Reader's Digest Funds
 Jonathan Fanton,* President, John D. and Catherine T. MacArthur Foundation
 Sunny Fischer, Executive Director, Richard H. Driehaus Foundation
 Joel Fleishman,* former President, The Atlantic Philanthropic Service Company, Inc.,
 currently Senior Advisor, The Atlantic Philanthropies
 Irving Harris, Chairman, The Irving Harris Foundation
 Ira Hirschfield, President, Evelyn & Walter Haas, Jr. Fund/ Chairman, F.B. Heron Foundation
 Ricardo Millett,** President, Woods Fund
 Rebecca Rimel,* President & CEO, Pew Charitable Trusts
 Edward Skloot,* Executive Director, Surdna Foundation
 Lou Smith,* President & CEO, Ewing Marion Kauffman Foundation
 Mark Smith,* President, California HealthCare Foundation
 Nikki Will Stein, Executive Director, Polk Brothers Foundation
 Isabel Carter Stewart, Executive Director, Chicago Foundation for Women

In addition to the presidents and executive directors listed above, we interviewed a number of senior executives at these foundations and at numerous others – from large, private foundations such as the Andrew W. Mellon Foundation, to community foundations such as the Boston Foundation, to family foundations. In total, 74 discussions were held, including 18 foundation CEOs or former CEOs; 18 foundation vice presidents, evaluation staff, and program officers; 30 academicians, outside observers of philanthropy, or executives of key foundation associations; and 8 executives of grantee non-profit organizations. This document is based on our interviews and attempts to reflect them as accurately as possible. It does not, however, represent the consensus of all those interviewed.

* Member of the Foundation Performance Metrics Pilot Study Advisory Board

** Member of the Foundation Performance Metrics Pilot Study Committee of Experts

ABOUT THE CENTER FOR EFFECTIVE PHILANTHROPY

The Center for Effective Philanthropy is a nonprofit research and educational organization. The mission of the Center is to provide trustees and executives with the management and governance tools needed to define, assess, and improve overall foundation performance. The Center achieves its mission through three ongoing activities: focused research studies, data collection and analysis, and educational programs. It was founded by Mark Kramer, a foundation expert, and Michael Porter, the Bishop Lawrence University Professor at Harvard Business School and a leading international authority on strategy. Phil Giudice has also contributed to the founding of the Center.

For more information, please visit our website at www.effectivephilanthropy.org or contact a member of the Center's staff at (617) 956-0800:

Phil Buchanan, Executive Director, extension 113
Kevin Bolduc, Senior Associate, extension 112
Debbie Liao, Associate, extension 114
Carrie Miller, Administrative Assistant, extension 116