

Maximizing Foundation Effectiveness

Aligning Program Strategy, Organizational Capacity, Strategic Planning, and Performance Assessment to Achieve Success

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In 2005, the leaders of the Heinz Endowments realized that the foundation was not achieving its full potential for impact. Staff members were frustrated with the foundation's vague goals and strategies and the board wanted to emphasize outcomes more. "There was a real sense that we were doing too much to be effective," Endowments Chairman Teresa Heinz said.

The Pittsburgh-based foundation decided to engage in a comprehensive strategic planning process to set priorities and create a road map for how it would change. The new plan was completed in 2007 and called for its five grant-making programs to be more sharply focused and closely integrated, and to direct at least a third of their resources over the next five years to three long-term strategic initiatives.

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But the planning went beyond just grantmaking. Grant Oliphant, the Endowments' Vice President of Programs and Planning, noted that they "also had to look at the organizational values that guide it, the systems that support it, the structure through which it is managed, and the culture in which decisions are made. Examining those issues over the ensuing months transformed a simple planning exercise into a more complicated organizational change process." Oliphant concluded: "effective philanthropy often seems spontaneous, but doing it right demands meticulous planning."¹

Why Increase Philanthropic Performance?

There were approximately 71,000 foundations in the United States in 2006, more than double the number just a decade ago. Yet the \$40 billion in grants those foundations made during that year represented only about 2% of non-profit revenues, less than other sources, such as individual donors.² This has led many foundations to strive for a "bigger bang for the buck," in order to create a wider ripple effect and amplify their impact. Greater scrutiny by regulators, the media, and the public has also contributed to a laudable desire within the foundation community to be more accountable and to better demonstrate results.

Just as importantly, as more foundations have sought to strengthen the capacity of their nonprofit grantees, some have recognized that foundations themselves should try to better practice what they preach -- to build their *own* organizational capacity to be more effective. A 2005 Urban Institute study found that many foundations are not engaging in practices that, by their own standards, are crucial for effectiveness. For example, of funders who say that having a strong infrastructure is important, 30% never or rarely provide staff development opportunities. And 33% of funders who say that evaluation is important don't engage in it.³

According to Grantmakers for Effective Organizations, organizational effectiveness is "the ability of an organization to fulfill its mission through a blend of sound management, strong governance, and a persistent rededication to achieving results." To examine your own foundation's effectiveness, answer these questions:

- Are your foundation's intended outcomes clear?
- Are you dedicating sufficient resources to adequately influence the problems you are trying to address?
- Does your grantmaking rarely seem too scattershot and uncoordinated?
- Are outsiders clear about your foundation's activities and purposes?
- Is your foundation governed or managed as well as you think it could be?
- Are your board and staff focused enough on responding adequately to external issues, not just internal processes?
- Have your foundation's goals and strategies been recently examined and evaluated?

If any of your responses were "no," keep reading to learn more about how to be more strategic and strengthen your foundation's performance.

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Exhibit 1: Continuum of Categories of Strategic Decision Making for Foundations

**Less
Strategic**

**More
Strategic**

<u>Charitable Bankers</u> (25%)	<u>Perpetual Adjusters</u> (25%)	<u>Partial Strategists</u> (25%)	<u>Total Strategists</u> (25%)
<ul style="list-style-type: none"> ■ No use of strategy ■ Vague foundation-wide goals ■ Internally focused on history and process ■ Reactive grantmaking ■ No or little assessment 	<ul style="list-style-type: none"> ■ Little use of strategy ■ Some defined goals and implicit planning ■ Decision-making framework mostly internally based ■ Mostly responsive grantmaking ■ Little assessment 	<ul style="list-style-type: none"> ■ Some use of strategy ■ Multiple goals and implicit planning ■ Internal and external data to make decisions ■ Mix of responsive and proactive grantmaking 	<ul style="list-style-type: none"> ■ Significant use of strategy ■ Clear goals and explicit planning ■ Externally focused, with lots of analysis and feedback loops ■ Mostly proactive grantmaking ■ Ongoing assessment at many levels

Source: Center for Effective Philanthropy

How Strategic Do You Want Your Foundation to Be?

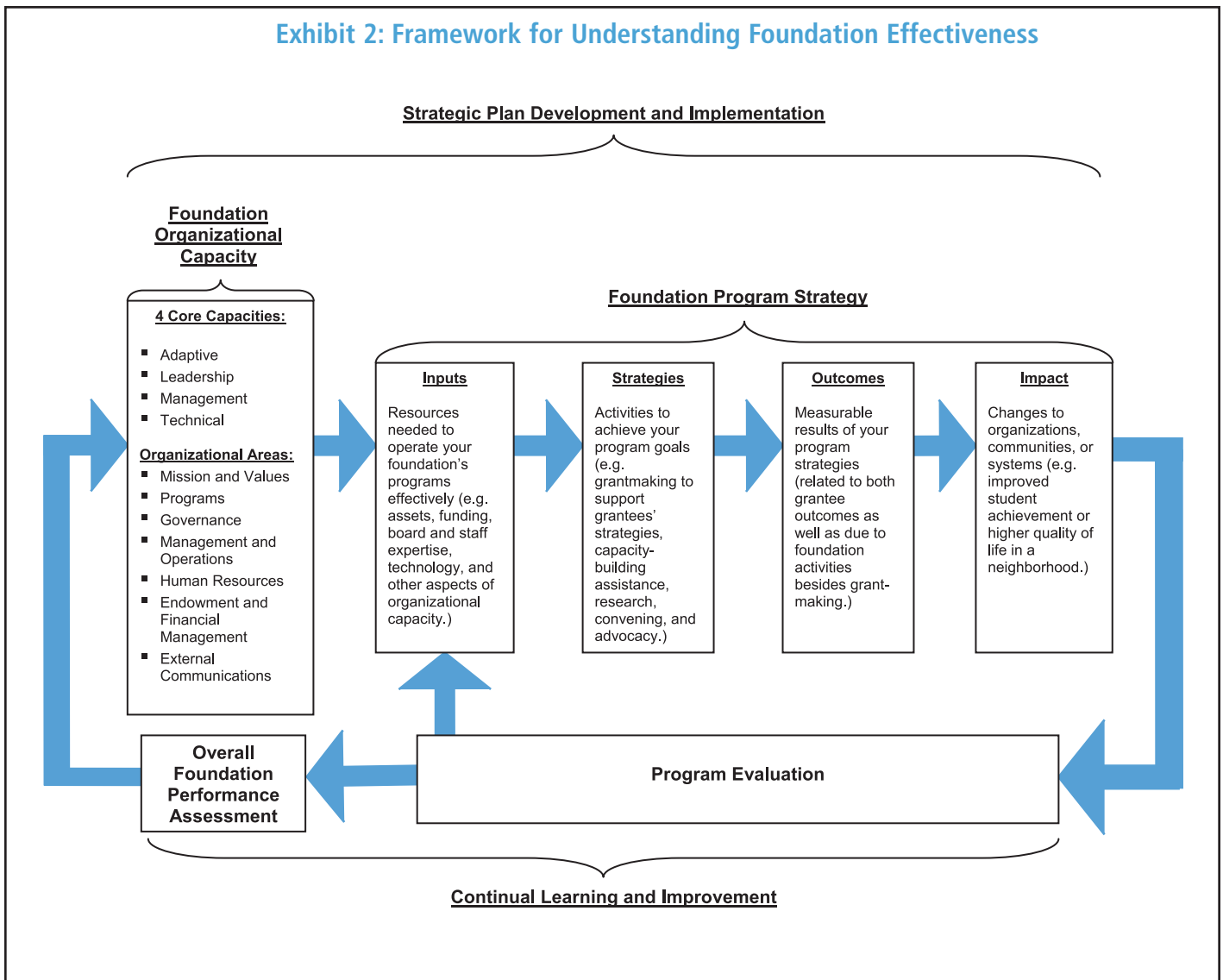
Strategy is a decision-making framework, based on a foundation's external context and internal capacity, for selecting goals and activities to achieve results. The Center for Effective Philanthropy (CEP) recently studied the extent to which U.S. foundations used strategy.⁴ CEP discovered that although most foundations believe that being strategic can help them have a greater impact, many foundations do not act strategically. The study found that most foundations fall along a spectrum, with about one quarter in each of four "profiles" shown above in Exhibit 1, from less to more strategic. More strategic foundations have

clearer goals and strategies and better ongoing assessment.

While most foundations say they want to be more strategic, many do not fully understand what that means nor make the commitment of time and resources to successfully realize that aspiration. There may, in fact, be institutional limits to their ability to do so. For example, a family foundation may be constrained by the donor's intent, and community foundations often have restrictions related to donor-advised funds, have limited discretionary funding, and may need to serve a wide geographic area, thereby limiting their ability to concentrate their efforts.

There may also be undesirable outcomes related to having a narrower strategic focus. In its 2004 report *Responsive Grantmaking is*

Exhibit 2: Framework for Understanding Foundation Effectiveness



Strategic, the California Wellness Foundation noted that, after originally designing highly structured five- to ten- year initiatives through competitive Requests for Proposals, it found that many community-based nonprofits were thereby shut out and suffered financially. The foundation later revised its strategy so that it now provides core operating support and less restricted project support in response to unsolicited letters of interest.⁵

Each foundation's leaders must decide for themselves the appropriate strategic level. A good way to start is by reviewing Exhibit 1: locate your foundation on the continuum shown there. Is that the optimal location for your foundation? Is that where you would like to be in five years?

A Framework for Understanding Foundation Effectiveness

Exhibit 2 (on the previous page) shows a comprehensive framework that can be employed to comprehend and increase a foundation's effectiveness. The framework begins with designing a program strategy for achieving impact — which can later also serve as a template for program evaluation. Then, since form follows function, it requires an assessment of how a foundation's organizational capacity can be strengthened to support and successfully carry out its program strategy. Strategic planning enables a foundation to pull together plans to devise a program strategy and build that organizational capacity. Finally, it requires ongoing evaluation to make continuing improvement and an ultimate assessment of overall foundation performance.

Exhibit 2 is, of course, a conceptual framework and is not strictly a linear and sequential progression. But it does indicate the importance of each part and the necessity of using a holistic and iterative process that addresses each activity. A partial or disjointed approach will only yield partial or disjointed results. For example, without clear goals, strategies, and plans, it will be very hard to evaluate programs and assess performance. Likewise, a foundation that creates a clear program strategy but does not then dedicate adequate attention to enhancing organizational capacities — such as those related to staffing, governance, opera-

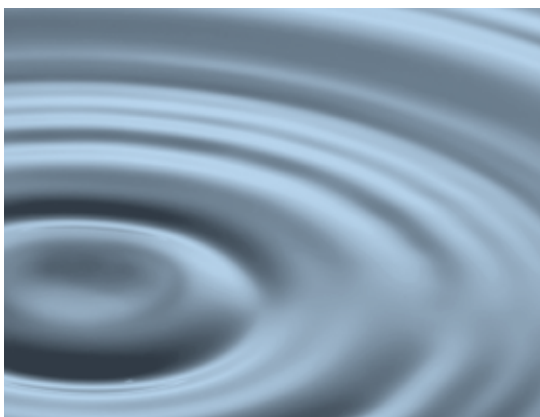
tions, or communications — will find itself struggling. And if program evaluation and performance assessment are neglected, program strategy and organizational learning and planning will suffer.

The four major components of the framework in Exhibit 2 form the structure of this paper:

1. Designing a program strategy for achieving impact;
2. Building the organizational capacity a foundation needs to create the impact it desires;
3. Aligning plans for programs and building organizational capacity through a strategic planning process; and
4. Assessing performance and making course corrections.

This paper is based on TCC Group's more than 28 years of working with philanthropies, ranging from small family foundations with no employees to global ones with large staffs. It is written primarily for board and staff members of private foundations, although other types of funders may also find it beneficial. Since this paper briefly touches upon a number of major topics, footnotes refer to sources of additional information on these subjects and more resources are included at the end on page 23.

Without clear goals, strategies, and plans, it will be very hard to evaluate programs and assess performance.



Designing a Program Strategy

In *Strategic Giving: The Art and Science of Philanthropy*, Peter Frumkin writes that "one of the important gaps in philanthropy is in the area of strategy." He says that funders "have invested heavily on the back end of philanthropy, spending a considerable amount of money on evaluation and assessment of the impact and effectiveness of funded programs. Comparatively little time and money has been devoted to the front end, especially to thinking systematically and creatively about the full range of interventions available and the underlying causal claims that are embedded in giving."⁶

A foundation with a robust program strategy has the best chance of achieving success and, later, of assessing its performance. Devising a program strategy requires carefully articulating a foundation's purpose, developing a clear understanding of the larger environment in which it operates, creating well-defined and integrated goals and strategies, and then evaluating programs and using what is learned to modify them.⁷ This step-by-step process involves:

Considering the Foundation's Charter, Mission, and Values

At the outset, think about the constraints under which the foundation might be operating that influence program strategy, such as a founding donor's stated intent or the philos-

ophy of a corporate foundation. Also consider whether the mission statement is clear or should be revised to be more precise and relevant. Reflect on the other values that may guide the foundation's work.

Scanning the Field to Assess Needs, Define and Comprehend Problems to be Addressed, and Identify Comparative Advantages

Crucial to the process is identifying the problems the foundation is attempting to alleviate and, secondarily, conducting an external assessment to understand their underlying nature and the range of possible solutions. Social, economic, and political trends affecting the foundation's work must be taken into account, as well as stakeholders' perceptions of the foundation's work. Lastly, find out what other funders are doing in the areas on which the foundation wishes to focus.

Both quantitative and qualitative methods should be used to collect this data, including:

- literature review - ground the assessment in a thorough understanding of existing knowledge related to needs and effective practices and models.
- interviews - obtain in-depth, candid information from stakeholders and experts.
- surveys - gather specific information from a wide array of constituents, including staff, trustees, and grantees.
- discussion groups - conduct these before and/or after interviews or surveys, to better understand certain perspectives.
- benchmarking - research the lessons learned by similar funders and catalog their good practices.

The ultimate goal of this research is to articulate and precisely assess how the foundation's additional resources would make the greatest impact, leverage others' investments, fill any gaps, and avoid duplicating efforts.

Creating a Clear Logic Model for Programs

Constructing a logic model, like that shown below in Exhibit 3, can assist greatly by providing a visual depiction of a theory of change — the causal connections between what actions the foundation takes (like grantmaking and other activities) and the change it hopes to thereby effect (such as a vibrant region with opportunity for all.) Logic models are often employed for evaluation, but they are also useful for upfront planning. They can help go beyond simply defining a vague set of program areas for possible funding by bringing structure, rigor, and specificity into the strategy development. They also encourage systematic thinking about what resources are needed, where and how they can be applied,

and what effects they can realistically have in the short and long terms. If a foundation has multiple programs, logic models may be created for each one.⁸

To create a program logic model, begin with Impact and Outcomes (on the right of Exhibit 3) and work towards the Strategies and Inputs on the left, describing first the desired long-term impact and outcomes and then determining the strategies and resources needed to achieve those ends. Make sure that short-term outcomes are measurable. And stay focused on the reality of the resources and organizational capacities that the foundation needs in order to get the job done.

Exhibit 3: Program Logic Model for a Foundation

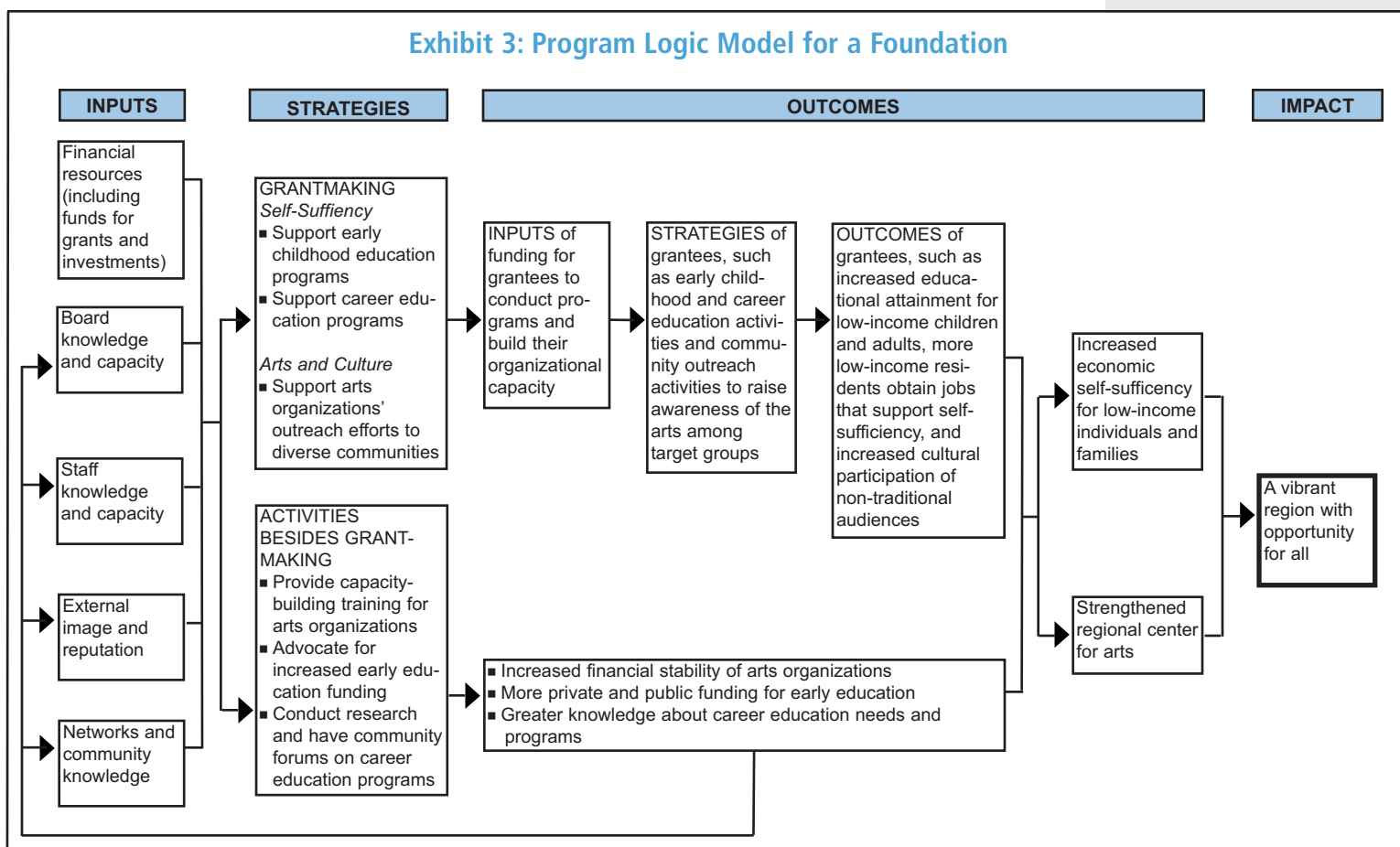


Exhibit 3 suggests delineating grantmaking strategies and activities besides just funding (also described in more detail on page 11). Just as a grant recipient receives funding as an input from a foundation and then implements strategies to achieve results, so the foundation, if it directly pursues activities such as research and convening, must implement strategies to realize the desired impact.

An additional benefit to program logic models: once completed, they can later also be used as the framework for evaluation. Program planning and evaluation are together a dynamic process; as program activities occur, they should be evaluated, validated, or modified, and programs adjusted accordingly.

Constructing a program logic model should not be a "staff only" exercise: key stakeholders should be involved so they can understand and agree to the intended outcomes for each program strategy. Board members should be engaged to some extent since they are responsible for guiding the foundation and setting its strategic direction.

Setting and Aligning Goals and Strategies

Key to preparing a program logic model is setting goals and determining the strategies for allocating resources to achieve them. Foundations often try to address a large problem with insufficient resources and cast too wide a net. A foundation can usually optimize the effectiveness of its grantmaking by focusing on a smaller number of program areas over a longer period, deepening its experience and knowledge over time. The Phoenix-based

Flinn Foundation, for example, decided in 2002 to drop several program areas and commit all of the foundation's resources through 2012 to enhancing the competitiveness of Arizona's biomedical research enterprises, which has resulted in increases in biotech business start-ups and jobs in the state.⁹

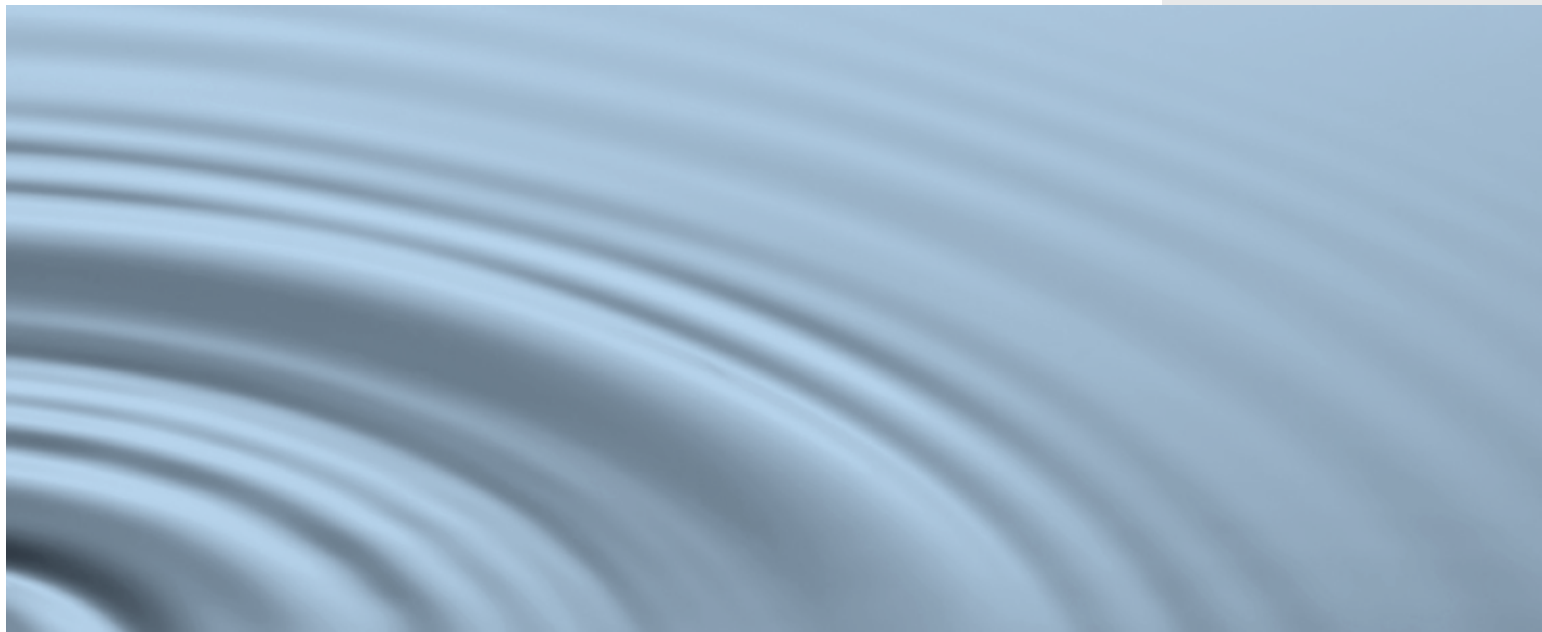
How can a foundation narrow its scope? The late Paul Ylvisaker, a foundation expert, suggested that funders select for support:

- areas of concentration with the greatest need and biggest unfilled gaps;
- people and institutions of unusual capacity and/or influence that will set the pace and standard for others;
- organizations threatened by diminishing resources and/or public support;
- ideas and approaches that have the power to move people and institutions; and
- points of leverage that connect at small inputs to redirect larger forces.¹⁰

An excellent example of a small input that resulted in major change was the Carnegie Corporation's \$35,000 grant in the mid-1960's for a feasibility study on children's television that led to the creation of *Sesame Street*.

Not only must a foundation determine what it will support, but also how it will do so. Five critical questions must be answered by a foundation when determining how to support its identified programs:

Constructing a program logic model should not be a "staff only" exercise: board members should be involved to some extent so they can understand and agree to the intended outcomes for each program strategy since they are responsible for guiding the foundation and setting its strategic direction.



1) How reactive or proactive should grantmaking be?

Most foundations lie somewhere on a continuum between two extreme approaches to making grants — that is, between waiting to receive unsolicited requests and, on the other hand, assertively seeking out and guiding grantees to develop projects. More reactive foundations may post some general guidelines, wait for proposals to arrive, and fund individual projects across various programmatic areas. While this approach can enable a foundation to be responsive and quick to take advantage of new opportunities, it can also lead to too much passivity in determining goals and priorities and limited impact.

Other foundations are more proactive by finding grantees that will further their identified aims. They tend to set very specific goals, design initiatives, and then, through an intensive due diligence process, select certain high-performing nonprofit organizations for long-term support. One advantage of this approach is that it often enables a foundation to increase its ability to address root causes of a problem and to create sys-

tem-wide change. But while this engaged approach can often generate very positive results, it can also be too top-down and rigid, providing insufficient opportunity for creativity and initiative by grantee organizations.

Many foundations choose to strike a balance between being responsive and proactive. For example, some dedicate a portion of funding to a small number of focus areas, for which strong nonprofits are selected through a competitive process, and reserve the balance of funding for less directive grantmaking, enabling the foundation to also respond to innovative ideas and new needs as they arise. Such a course was adopted by The Commonwealth Fund: it sets aside roughly 10% of its grantmaking funds in an account used to respond flexibly and quickly to worthy opportunities that do not fit within the foundation's core programmatic strategies.¹¹

2) What types of grants can be made?

Most foundations have limits on the type of grants they may make, imposed by the donor, board, or staff. Certain foundations, for instance, provide only seed funding for new, innovative projects and avoid supporting

ongoing programs. Others primarily fund direct program costs, and do not support any indirect organizational costs to cover overhead such as administrative staff salaries and rent. Some do not offer support for endowment or capital projects.

If a foundation determines that such restrictions are impeding fulfillment of its goals and desired outcomes, it might consider loosening them. The Edna McConnell Clark Foundation found that by providing flexible general operating support to grantees and building in more accountability into these grants, it was able to provide working capital that allowed grantees to test new ideas and manage their growth.¹²

Endowment and capital grants, used judiciously, can also produce potent results. Endowment funding for a mature institution can play a critical role in stabilizing its operations. Likewise, for certain nonprofits whose programs rely heavily on facilities, such as a youth services or performing arts organization, support for "bricks and mortar" can be pivotal to achieving their missions.

3) What is the optimal time horizon for grant-making?

As Jack Murrah, President of the Chatanooga-based Lyndhurst Foundation, observes, "you have to be in the game for a long time to build trust, to form collaborations that work. You cannot begin to think about meaningful change in the short-term." Grant periods longer than a year may serve a foundation better because they can enable grantees to have more flexibility in completing their work and allow more time to effect real change. Essential to the success of longer term grants are periodic check-in points and opportunities to re-negotiate terms.

The timing of grantmaking also relates to the foundation's endowment strategy. The majority of foundations still plan to exist into perpetuity to fulfill the donor's wishes or to have lasting influence on a community or field. Yet more foundations are choosing to spend down their endowments faster in

Exhibit 4: Evaluation Purposes and Audiences

<u>Purpose/Goal:</u>	<u>Primary Audiences</u>	Internal
Accountability to the foundation mission	Board	
Improved grantmaking decisions	Board and Program Staff (Directors and Officers)	
Improved grantee performance/learning	Board, Program Staff and Grantees	
Program model development and replication	Nonprofit Sector	
Improved field-level knowledge base with respect to root problems and their solutions, including "best practices"	Nonprofit and Philanthropic Sectors	
Mobilizing more philanthropic, governmental, community and individual resources for addressing a problem	Nonprofit Sector, Philanthropic Sector and the Public	
		External

Table created by Peter York, TCC Group

order to magnify their impact and, in some cases, follow the wishes of donors who are interested in seeing the results of their giving while they are still living. When the Aaron Diamond Foundation was founded in 1986, for example, it set a date for its own termination in 1996, creating a sense of urgency that focused its AIDS research grants. This infusion of vital funding helped lead to the breakthrough development of protease inhibitors, which suppress the HIV virus and prolong the lives of millions.

4) How active should a foundation be during each stage of the grant cycle?

Much philanthropy is front-loaded and transactional, geared toward preparing a docket, awarding grants, and getting the money out the door. But a foundation's interest in the project or organization should not end with writing the check. Successful grantmaking requires the foundation to dedicate time and resources to monitoring grants and collaborating closely with the grantees throughout the duration of the funding.

5) What other activities beyond grantmaking can a foundation pursue to help achieve its goals?

Besides awarding grants, there are many other ways a foundation may be able to further its goals and achieve impact, including:

- **Research:** A foundation can conduct its own research to help advance the state of knowledge, enlighten dialogue, and set the agenda.
- **Advocacy:** Although foundations are prohibited by federal law from lobbying lawmakers directly, they may inform debate on issues related to changes in public policy.
- **Convening:** Another key direct role a foundation can play is to bring together nonprofits, other funders, experts, and community members, in person or virtually, to help them share knowledge, discuss mutual concerns, and create common goals.
- **Capacity building:** Directly providing management and governance assistance can also amplify a foundation's impact.
- **Mission-related investments:** A foundation can use the power of its assets to further its goals by issuing low-interest loans to nonprofits to aid with cash flow and capital financing needs and by screening for social responsibility the investments in the foundation's endowment portfolio.

While a foundation can provide grant support to nonprofit organizations to conduct some of these activities — such as research, advocacy, and capacity building — it can also choose to do them directly in a more engaged manner.

Evaluating Programs and Using the Findings to Make Improvements

The program strategy framework will also provide the basis of the foundation's evaluation plan. That is why clear articulation of program goals and activities at the beginning is essential to later evaluation. Having an evaluation plan at the outset and evaluating as the funded activities are occurring enables refine-

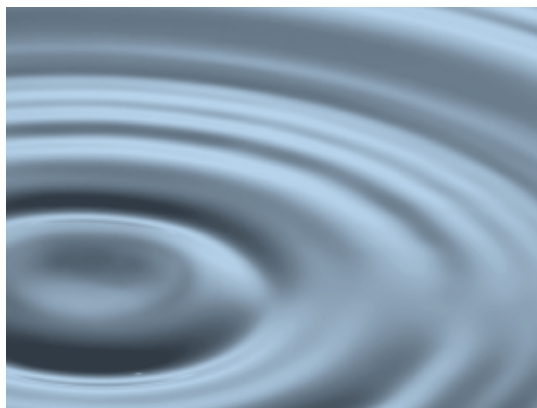
ments based on what is — and is not — working.

Evaluation can encompass several purposes and audiences. As shown in Exhibit 4, (on the page to the left) evaluation goals can range from foundation accountability to grantee learning, with audiences ranging from internal stakeholders such as board and staff to external constituents like the grantees. The purpose and audience for evaluation should be clear and the focus must be on *improving, not proving* — it should be a learning experience, not just an accountability-focused report card.

The foundation needs to determine the levels its evaluation will focus upon, including the grant, grantee, initiative, and program. Foundations can use the program logic model as an organizing framework to assist in determining how much concentration there should be on evaluating strategies, short-term outcomes, and long-term impact. The levels and degree of rigor chosen will determine how much time and money is needed for successful evaluation.

Ideally, evaluation work should be integrated into a foundation's governance and communications functions. Involving board members in evaluation, at least in a "big picture" way, enables them to understand the lessons the foundation is learning and help decide how it can improve its work. Disseminating evaluation findings to grantees and others in the community and field allows them to learn from them as well.¹³

With a carefully developed program strategy, a foundation can come closer to being a "Total Strategist," with clear goals and explicit planning, as described in Exhibit 1. But designing a sound program strategy is far from the end of the job. As former Robert Wood Johnson Foundation President Steven Schroeder emphasizes, "execution trumps strategy." "At the end of the day, what matters is the strength and usefulness of what has been built, not how elegant was the blueprint."¹⁴



Building the Organizational Capacity Needed to Achieve the Desired Program Impact

With a well-designed program strategy in place, a foundation must then turn to assessing and developing its organizational infrastructure so that it can execute its strategy well.

All aspects of a foundation's internal capacity — including governance, management and operations, human resources, endowment and financial management, and external communications — should be scrutinized. As more grantmakers seek greater organizational effectiveness for nonprofits, foundations need to better understand how to build their own organizational capacities.

As depicted in Exhibit 5 on the next page, a foundation needs to build four core capacities:

- **Adaptive Capacity:** a foundation's ability to monitor, assess, respond to, and stimulate internal and external changes.
- **Leadership Capacity:** the ability of a foundation's staff and board leaders to inspire, prioritize, make decisions, provide direction, and innovate.
- **Management Capacity:** a foundation's ability to ensure the effective and efficient use of organizational resources.
- **Technical Capacity:** the ability of a foundation to implement all of its programs and other key organizational functions.

Adaptive and leadership capacities are the primary elements, with management and technical capacities playing a secondary role. The highest performing foundations tend to have strong adaptive and leadership capacities -- they are externally oriented, reflective, nimble, inventive, and influential.

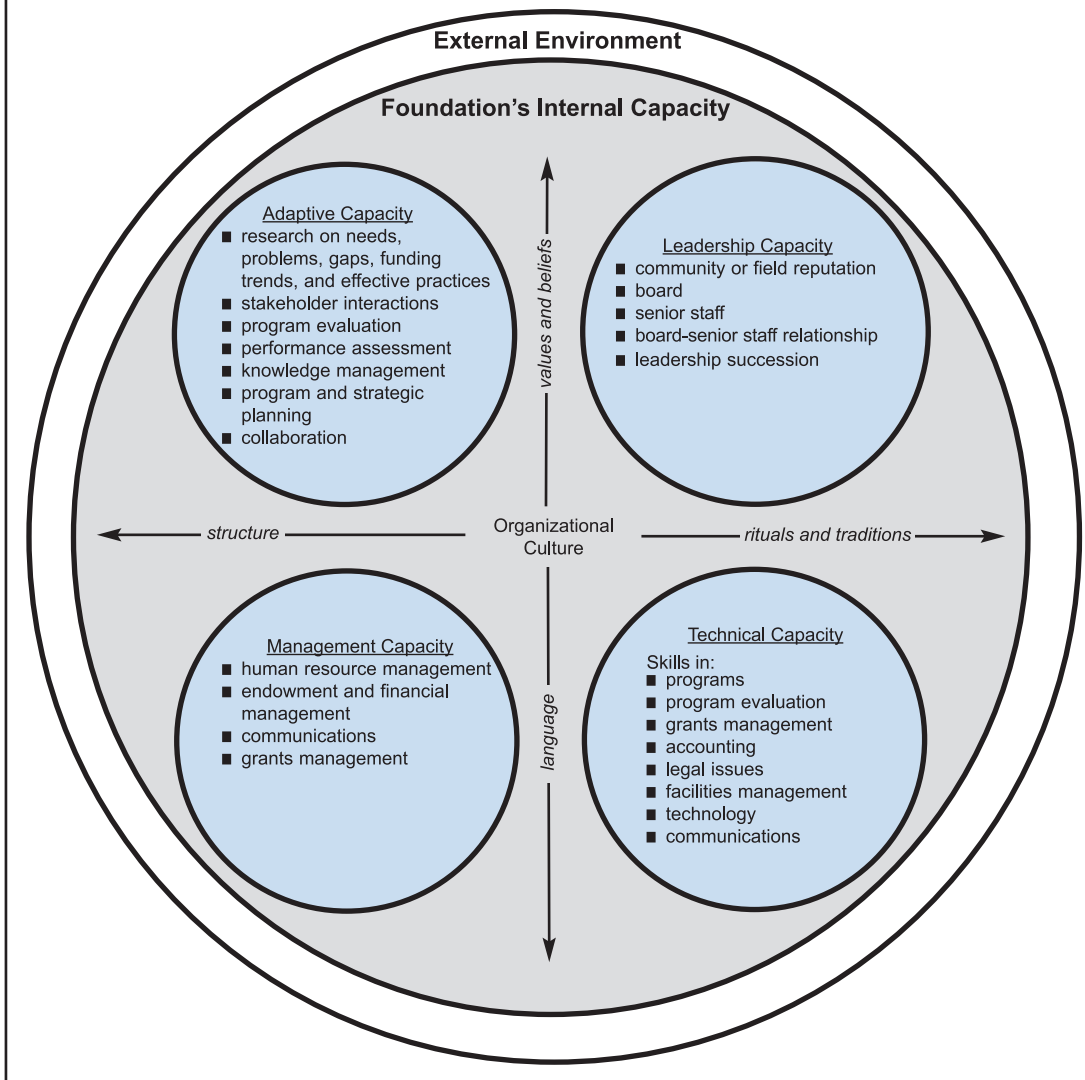
A foundation with weak adaptive and leadership capacity but strong management and technical capacity may operate efficiently but have programs that are not highly effective.

Organizational culture — the unique history, language, rituals, values, and beliefs of each foundation — also greatly influences each of the four capacities. A healthy organizational culture at a foundation engenders open communication across all levels of the organization and enables board and staff alike to feel energized about their work.

Organizational proficiencies in the four core capacities that high-performing foundations have in common are described on pages 14 and 15. With a better understanding of each of the four core capacities, it is a good time for your foundation to assess its capabilities in each area, perhaps during a board meeting discussion. Where is your foundation doing well? What are areas for improvement? Which core capacities do you need to strengthen?

The highest performing foundations tend to have strong adaptive and leadership capacities -- they are externally oriented, reflective, nimble, inventive, and influential.

Exhibit 5: The Four Core Organizational Capacities of Foundations



Initial focus should be on the leadership and adaptive areas because if those are weak it will be difficult to make progress in general. Adaptive capacity is predicated on excellent board and staff leadership, since they are responsible for the assessment, planning, evaluation, and learning that make a foundation agile, innovative, and relevant.

Keep in mind that your foundation's organizational capacity is a key "input" for its program strategies, as shown in the program logic model in Exhibit 3. By strengthening your foundation's ability to effectively implement its program strategy, you can enable grantees to implement *their* programs well and eventually have a greater impact themselves.

Adaptive Capacity

Highly adaptive foundations are flexible learning organizations that employ data-driven decision-making processes. Strong adaptive capacity includes these traits:

- ***Thorough research related to needs assessment, problem analysis, promising practices, funding patterns, and other environmental changes in order to inform the development of effective strategy*** — including continuous examination of the outside environment to keep abreast of emerging opportunities; learning about all factors that contribute to the problems being addressed and the resources being devoted to solving them; and using research to help guide planning efforts (see pages 6 and 17).
- ***Regular interactions with and feedback from external stakeholders, especially grant seekers and grantees*** — including communicating with constituents in order to remain responsive, transparent, and accountable and ensuring that communication is two-way (the Center for Effective Philanthropy's Grantee Perception Report is an excellent tool for obtaining grantee feedback).
- ***Systematic and learning-oriented program evaluation*** — including evaluation efforts that enable a foundation to comprehend how well strategies are working, why they are performing the way they are, and ways to enhance them (see page 11).
- ***Recurrent and candid organizational performance assessment*** — including appraisal that "holds up a mirror" to the foundation and allows it to understand the strength of its capacities and diagnose ways to make improvements (see pages 12-13).
- ***Well-organized and ongoing knowledge management*** — including synthesizing the data collected through needs assessment, stakeholder feedback, program evaluation, and organizational assessment and creating information management systems that are high-tech, low-tech, and no-tech.
- ***Periodic and thoughtful program and strategic planning*** — including using the knowledge gained to inform the foundation's efforts to create plans on the programmatic and organizational levels, to make the most of its financial and human

resources (see program planning process on pages 6-11 and organizational strategic planning process on pages 16-19).

- ***Constructive collaboration with funders and other key stakeholders*** — including avoiding working too independently to address problems and considering partnering with other grant-makers to address gaps and reduce duplication of effort.

Leadership Capacity

Foundation leadership — including both senior staff and board members — must articulate a clear vision, set priorities, align strategies and resources, motivate others, and maintain a commitment to complete the necessary work. Well-led foundations exhibit these characteristics:

- ***Solid community or field reputation and leadership*** — including an ability to "get people to the table" to leverage human and financial resources; exercising external leadership through convening, conducting research, raising awareness, and advocating for change (see page 11); and prudently using power to elevate issues, frame possible challenges and solutions, and inspire people.
- ***A board that is knowledgeable about programs, has diverse perspectives, and is engaged in many roles*** — including helping to develop the foundation's mission, vision, and strategy; overseeing investments, finances, and grantmaking; directing and assessing executive staff; ensuring ethical and legal integrity; serving as an ambassador for the foundation outside of board meetings; ensuring sound governance by being well-informed about the foundation's programs, asking probing questions, and engaging in respectful debate; and striving for a heterogeneous board composition that ensures a variety of viewpoints.
- ***Strategic and respectful staff leadership*** — including staff leaders who comprehend the foundation's programs well and work together effectively with the board to establish the organization's future vision and strategies; a chief executive who manages the organization and directs other staff effectively; and staff leadership that is modest and uses their authority respectfully, in light of the financial power they hold.

Organizational Capacity Attributes

of High-Performing Foundations

- ***A strong partnership between the senior staff and board*** — including relationships that are based on mutual respect, trust, commitment, and communications.
- ***Leadership succession plans for the chief executive and board officers*** — including cultivation of individuals on the board to eventually take over leadership roles in the future; using board committees to foster responsibility and experience in emerging leaders; and preparing contingency plans for replacing the chief executive and other staff.

Management Capacity

Although some foundations are cautious about spending on administrative costs, it is essential that a foundation has adequate resources that are well-managed. A foundation can enhance its management capacity by cultivating these attributes:

- ***Effective human resource management*** — including clear job descriptions for all staff and a good recruitment program to attract diverse, talented employees who can help the foundation achieve its objectives; receptive and considerate employees who are able to manage collaborative relationships with external stakeholders; leaders who give staff clear guidance, link individual and program goals, assess staff performance regularly, and encourage teamwork and collegial problem solving; and training for staff members who need to be proficient in grantmaking techniques, program area topics, and such technical matters as how to read nonprofit financial statements.
- ***Sound endowment and financial management*** — including managing the foundation's endowment well and obtaining a reasonable rate of return on any investments; developing and adhering to budgets; meeting distribution requirements; complying with government regulations; paying bills on time; keeping accurate financial records; creating financial statements regularly and making them available; and using financial data to inform decision-making.
- ***Clear and proactive external and internal communications*** — including enhancing the foundation's transparency and accountability by communicating clearly to external audiences through a web site, publications, and other means about pro-

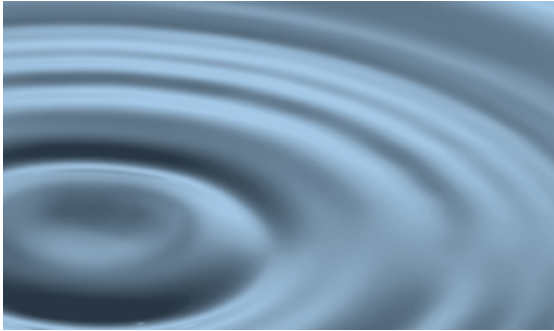
gram goals, activities, and results and providing for effective internal communications with clear channels for each staff member and regular opportunities for progress updates and reflections on lessons learned.

- ***Strong grants management*** — including keeping track of proposals, grant approvals, disbursements, and reports and managing this information flow effectively so as to generate useful knowledge and program evaluation.

Technical Capacity

Technical capacity refers to the operations of a foundation and confirming that board and staff have the skills needed to get their work done well. Foundations can ensure they have these competencies by hiring staff that possess them, training employees, or utilizing outside contractors, such as evaluators, lawyers, or accountants. Specifically, foundations need sufficient skills in the following areas:

- ***Programs***, to enable the foundation to effectively set goals and implement strategies.
- ***Program evaluation***, to assess impact, learn, and make refinements.
- ***Grants management***, to administer the grantmaking process well.
- ***Accounting***, to adhere to sound financial management practices.
- ***Legal issues***, especially related to the foundation's structure and compliance and taxation matters.
- ***Facilities management***, to manage, operate, and maintain space to house the foundation's staff and work.
- ***Technology***, to store, track, analyze, and distribute data.
- ***Communications***, to convey information to foundation audiences.



Aligning Program Strategy with Organizational Capacity Plans Through Strategic Planning

Strategic planning is an ideal way to integrate a foundation's processes for developing its program strategy and internal capacity, as the Heinz Endowments learned during their planning effort described above. A strategic plan includes:

- A statement of the foundation's mission, vision, values, and goals;
- A description of the strategies for programs, as well as other organizational areas, such as governance, staffing, and systems; and
- An action plan that explains the timeline, responsible parties, and costs for implementation.

Although foundations have the advantage of possessing secure financial resources and are not compelled to generate revenues to survive, they are nevertheless responsible for allocating those resources well. An organization-wide strategic planning process helps a foundation understand and address external forces and internal issues, set priorities, communicate its future plans with external audiences, and, ultimately, improve the foundation's overall effectiveness.

Many foundations encourage their grantees to create strategic plans, but do not do so themselves. Grant Oliphant of the Heinz

Endowments states: "Why shouldn't we subject ourselves to the same planning rigors that we so readily expect of our grantees? The discipline of strategic planning forces an organization to think more realistically about its goals and its capacity to achieve them."¹⁵ Why do some foundations resist strategic planning for their own organization? Some might be skeptical because they have participated in poorly designed planning processes that were too time-consuming and expensive and resulted in plans that sat on a shelf. Others may think that a comprehensive foundation-wide planning process is too difficult or they want to avoid making tough decisions or being constrained by the resulting plan. In fact, it is easy for most foundations to operate without a comprehensive road map for the future since they are under little pressure to have one.

Yet many foundation leaders have found strategic planning to be a very beneficial discipline that forces them to reflect and make more meaningful decisions. The Altman Foundation, based in New York City, used strategic planning to help its board, staff, and grantseekers obtain a consistent understanding of the "what and why" of their grantmaking and to streamline internal communications and decisionmaking. It also made it possible for them to create clear funding guidelines, which helped grantseekers to better grasp the foundation's priorities. "The Altman Foundation's new system of objectives and strategies allows us to show more clearly how the foundation's priorities translate into programs and approaches on the ground," comments Vice President and Executive Director Karen L. Rosa.

Many foundations encourage their grantees to create strategic plans, but do not do so themselves. Grant Oliphant of the Heinz Endowments states: "Why shouldn't we subject ourselves to the same planning rigors that we so readily expect of our grantees?"

A comprehensive strategic planning process is based on five major steps:

- 1) Planning to plan
- 2) Taking stock of the internal and external environment
- 3) Setting priorities and future direction
- 4) Developing a strategic plan
- 5) Implementing and refining the plan

1) Planning to Plan

Both board and staff leadership should confirm they are ready to embark on the planning process and express a willingness to address difficult questions and change old behaviors. Forming a joint board-staff committee to guide the process is a way to ensure broad engagement and buy-in. At the Knight Foundation, a board-staff team oversaw a strategic planning effort in 2000 from start to finish, reviewing the scope of work, tracking its progress, and providing ongoing direction.

The process should be inclusive so that all constituents have a stake in the outcome. All foundation staff should be included to some degree, since their support will be needed to implement the decisions that are made. Input from additional stakeholders — particularly other funders and prospective, current, and former grantees — should be encouraged. Community foundations will also want to engage their donors.

At the outset, clarify the work plan, schedule, and roles and pose a set of critical questions to address through the planning process. A planning process can take over a year if it entails extensive research and involves many participants, but the schedule can be accelerated to as little as several months if participants are clear about their issues and challenges.

2) Taking Stock of the Internal and External Environment

During this stage, assess what is—and is not — working well internally and analyze external opportunities and threats. This phase is characterized by gathering and analyzing data that will inform the choices in the next phase, so avoid jumping ahead to decision-making at this point.

Start by documenting the current program strategy in the form of a logic model to serve as a baseline (see Exhibit 3, page 7). This will help clarify assumptions and frame questions for later in the planning process.

Next, assess needs in the community or field, how stakeholders perceive the foundation, and what other funders in its interest areas are doing in order to identify problems, gaps that need addressing, resources available to build upon, comparative advantages, and effective practices (see page 6). The Pennsylvania-based

Brandywine Health and Wellness Foundation, for instance, collected census and other health-related data, interviewed a sample of community leaders, and studied current service providers to begin strategic planning discussions on how to best to use the foundation's resources.

Also look inward to examine the foundation's own core capacities (see pages 12-15) and performance (see below, pages 19-21.) After gathering data on the external environment as well as the foundation's internal capacity, summarize and synthesize it, and begin thinking of possible consequences for the future.

3) Setting Priorities and Future Direction

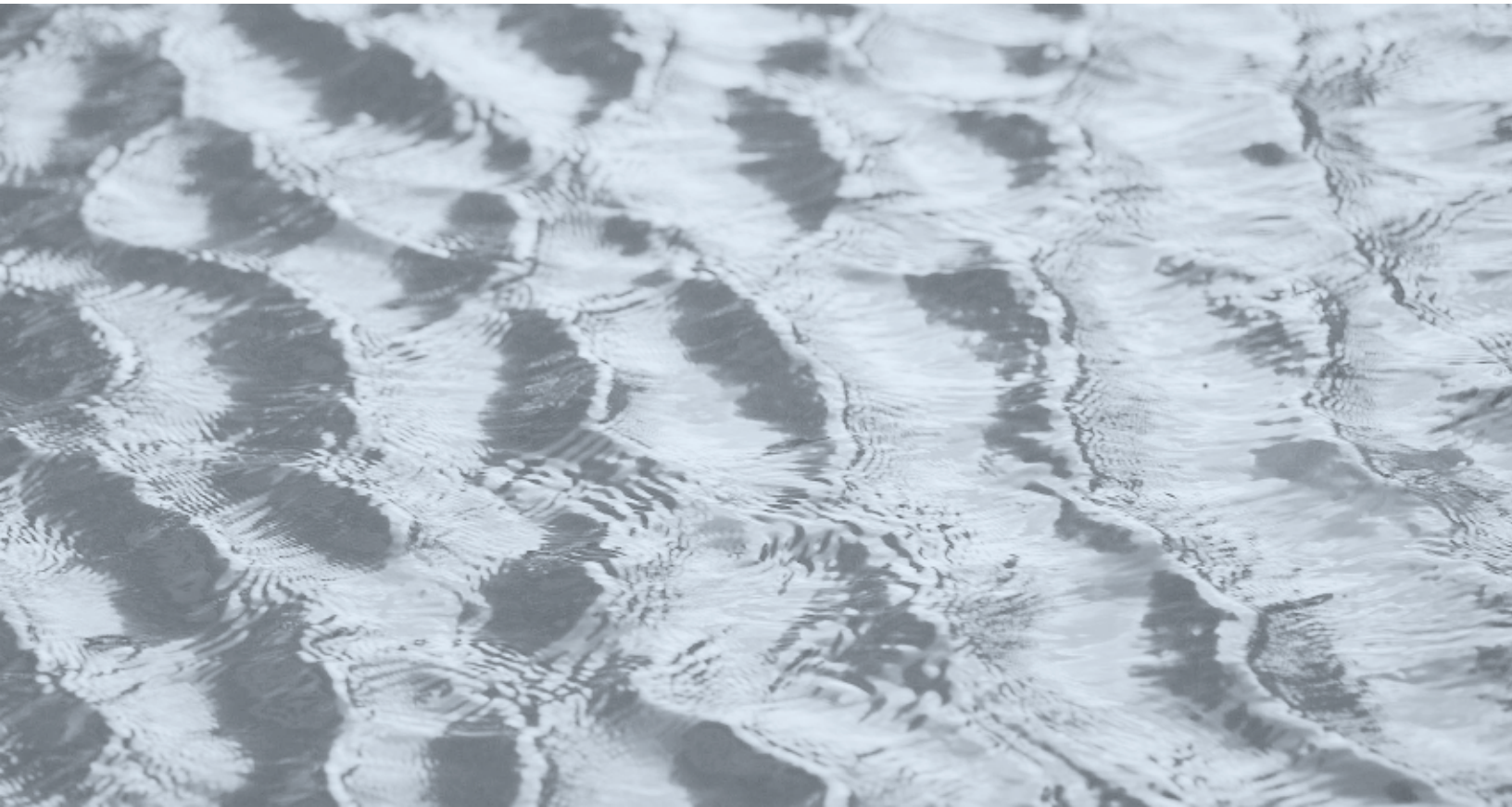
This phase is often accomplished during a retreat that involves both board and staff leaders. At this time, they reflect on the findings of the previous "taking stock" phase and their implications for the foundation's future direction. For example, after conducting a study of the field, the Emily Hall Tremain Foundation, which supports people with learning disabilities, found that its work in funding a nationwide learning disabilities

public awareness campaign had become less compelling. "We saw that we could be more effective by redirecting our resources toward programs that explicitly address the needs of children, educators, and service agencies," says Tremain President Stewart Hudson.

Consider possible future scenarios and articulate an image of where the foundation wants to be in five to ten years. Once the foundation's general long-term vision is clearly expressed, flesh out some of the major goals and strategies necessary to achieve it. Then begin to contemplate how the foundation's own organizational capacities might need to change in order to make this vision a reality.

4) Developing a Strategic Plan

The strategic plan is the detailed blueprint for the foundation's future. Initiate this stage by developing the new program strategy (see pages 6-11). This may be expedited by forming a working group to affirm the current program theory or to create an alternative aspirational logic model that outlines the new activities and outcomes to be



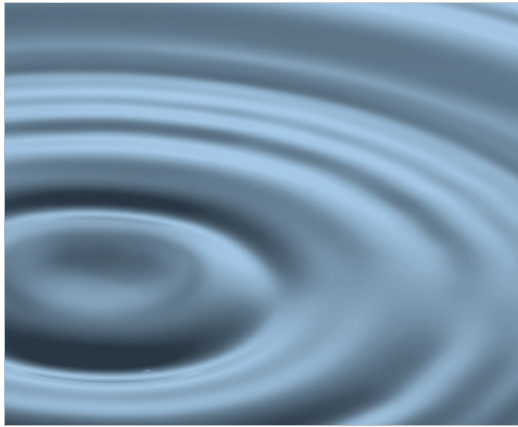
achieved. As mentioned earlier, this will also serve as the framework for later program evaluation.

At this point, the foundation's core organizational capacities must be appraised in light of their ability to execute the program strategy (see pages 12-15) and, where necessary, a plan to strengthen and align them proposed. This could be accomplished by forming teams to set objectives and strategies in such areas as governance, systems and operations, and communications. A case in point: during a work group meeting on staffing, the Community Foundation of Greater Buffalo determined that it could enhance its program strategies by hiring a knowledge management officer to organize research and information about community needs and program outcomes.

Lastly, create an implementation plan that serves as an organizational "user's guide" to the strategic plan. It spells out the cost, duration, priority, and accountability for each strategy and tactic. After the plan is complete, this can also become a tool for monitoring progress.

5) Implementing and Refining the Plan

Once approved by the board, implementation of the plan begins. The ideal plan will lay out a clear map for all participants, but it is also important that the plan not be viewed as carved in stone. It is a living document that, to be kept alive, must be monitored and altered as circumstances dictate. Regular opportunities for assessing and refining the plan should be embedded as an ongoing discipline at the foundation. Those who participated in forming the strategic plan should remain open to change when unanticipated consequences and opportunities arise. As the foundation progresses and the outside world changes, modifications along the way are almost certain if the plan is to be kept relevant.



Assessing Overall Foundation Performance and Making Course Corrections

Assessing a foundation's performance presents numerous difficulties. First, there is no single universal measure of success, like the value of stock represents for profit-making companies. In addition, results often depend on factors outside a foundation's control, such as the economy or government policies.

Frequently it is hard to find or claim a direct causal connection between a grant and any consequent impact, particularly if the problem being addressed is a large one. Finally, there may appear to be no pressing need to evaluate a foundation's performance since there are few immediate consequences of ineffective performance: unlike for-profit corporations, foundations have no obligation to generate revenues and therefore have little market feedback and competition.

Despite these challenges and lack of incentive, however, it is essential to measure a foundation's performance if it is to learn, improve, excel, and be a more accountable steward of resources. If a foundation does not appraise itself, critics may conduct their

own assessments and develop their own performance metrics, which may be inaccurate or unfair.

The key to successful performance assessment for the foundation is to create a range of performance indicators, nurture an organizational culture that values learning, and acknowledge and learn from any errors.¹⁶

Developing a Sufficient Array of Performance Indicators

The strategic plan should serve as the basis of the foundation's performance assessment framework since it outlines the goals for all aspects of the foundation, including programs as well as other organizational areas such as management and governance. As the foundation implements its plan, it should track each measurable performance indicator that is linked with a strategy. When Kathy Merchant began as Executive Director at the Greater Cincinnati Foundation in 1997, the foundation lacked an organizational strategic plan or any performance measurement systems. So she began by working with her board to first create a strategic plan and then, based on the plan, produced a set of assessment tools for appraising the foundation's financial results, donor solutions, internal competencies, and learning.¹⁷

Some foundations rely just on one main source to assess performance, such as the results of the Center for Effective Philanthropy's Grantee Perception Report, which, although quite beneficial, focuses on customer satisfaction. Other funders concentrate on evaluations of their grantmaking programs, ignoring other significant aspects of their organization. Use the table on pages 14 and 15 to appraise progress in each of the core organizational capacities — adaptive, leadership, management, and technical. The wise foundation leader will choose enough indicators to adequately reflect the entire scope of the foundation's work.

Tracking *too many* performance indicators, however, may lead to frustration. When the Wallace Foundation tried to improve its performance assessment, it created a comprehensive scorecard that examined how every aspect of

the foundation's activities was contributing to meeting the foundation's goals, including program progress, investment returns, operating expenses, staff capabilities and diversity, public outreach, and reputation. Wallace Foundation President Christine DeVita eventually discovered that "this level of detail proved unhelpful in creating a usable management and planning tool for staff use, or in communicating our progress clearly and concisely to our board." "In organizational performance assessment, *less is more*," she asserts.¹⁸

The James Irvine Foundation strikes a manageable balance between being comprehensive and selective in their performance assessment indicators. The foundation developed six main elements for performance measurement. Three relate to program impact: inputs; outcomes; and results, learning, and refinements. The other three relate to institutional effectiveness: leadership; constituent feedback; and finance and organization.¹⁹

Cultivating a Culture of Learning Among Board and Staff

Performance measurement works best in an open and safe environment in which both staff and board feel free to discuss what is and is not working well, what they have learned, and how they can refine the plans for future activities. Internal discussions should go beyond "show and tell" sessions to foster respectful and candid debate regarding how the foundation is doing and how it should alter its strategies.

A range of methods are available to learn about the foundation's performance. Start with individual grantee reports; they should be studied carefully. As soon as program activities commence, evaluation activity should begin. Examine clusters of grants to assess broad-strategies. Conduct surveys of a range of stake-

Performance measurement works best in an open and safe environment in which both staff and board feel free to discuss what is and is not working well.

holders, including foundation employees, board members, grant recipients, and rejected grantseekers. Analyze the foundation's financial trends and results. Display the data using visual methods such as scorecards or dashboards to monitor performance.

Having the Courage to Admit Mistakes

To achieve social impact through philanthropy, a foundation must take risks — and risk always involves the possibility of mistakes. Melinda Gates says of the Gates Foundation, "the list of lessons we learned is about as long as the mistakes we have made." But by using the same experimental-model approach that scientists utilize to recognize and learn from failure, foundations can make great strides. As Melinda Gates expresses, "we're learning, we're trying things and we're changing."²⁰

In an unusual move in 2007, for example, the Hewlett Foundation released a report critical of its Neighborhood Improvement Initiatives, a 10-year, \$20 million program which aimed to decrease poverty in three Bay Area neighborhoods, but which did not meet the foundation's expectations for sustainable community change.²¹

Historically, foundations have been much more willing to acknowledge successes more than their disappointments. But, gradually, some are realizing that candid discussion of mistakes can enhance accountability—and help prevent other funders from making the same errors.

Moving Forward to Achieve Success

While making a foundation more effective is hard work, the rewards of successfully doing so can be extremely gratifying. As Grant Oliphant of the Heinz Endowments reflects, the intense organizational change process the foundation underwent during its strategic planning "became especially messy, but the product is not only a plan notable for blending continuity and change, but also, we believe, an organization better equipped to react nimbly to changes in the community and the world around us."²²

If your foundation wants to begin this process, know that you are not alone: other foundations who have gone through the process may be available to give guidance and help. Grantmakers for Effective Organizations, the Center for Effective Philanthropy, and (for foundations with no or few staff) the Association of Small Foundations can possibly identify foundations who may provide mentoring and assistance.

Try to make steady progress to design a high-impact program strategy, build organizational capacity, assess overall performance, and align these processes through strategic planning, so that you, too, can maximize your foundation's effectiveness.

Finally, don't discount less analytical, more intuitive approaches to increasing effectiveness. As Gayle Williams, Executive Director

of the Mary Reynolds Babcock Foundation, observes, "logical thinking is essential to the work that we do in foundations, and it is essential to the work that the organizations we fund do, too — but it's not sufficient. It's dangerous for us as professionals in philanthropy not to balance our attention to the logical, the mind-centered ways

of knowing with more intuitive-, gut-, and heart-centered ways of knowing."²³

If you employ the rational, step-by-step methods outlined above to make a foundation more effective, be sure to allow room for serendipity, improvisation, and intuition in the process, too.

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About TCC Group

For over 28 years, TCC has provided strategic planning, program strategy development, evaluation and management consulting services to foundations, nonprofit organizations, corporate community involvement programs and government agencies. During this time, the firm has developed substantive knowledge and expertise in fields as diverse as community and economic development, human services, children and family issues, education, health care, the environment, and the arts. From offices in New York, Philadelphia, Chicago, and San Francisco, the firm works with clients nationally and, increasingly, globally.

Our Clients

We serve a wide range of funders. Among our grantmaker clients are such leading foundations as The Ford Foundation, the John S. and James L. Knight Foundation, the David and Lucile Packard Foundation, the Freeman Foundation, and the William Penn Foundation. Yet, we also have served smaller foundations such as the Brandwine Foundation in Philadelphia and the Mary J. Hutchins Foundation and Keefe, Bruyette & Woods, Inc. Family Fund in New York City. Corporate grantmaker clients include Goldman Sachs, Pfizer, and UBS PaineWebber.

Our Services to Philanthropies

In an age of impressive growth and increased scrutiny of the philanthropic sector, TCC has the skills, background, and resources necessary to help foundations increase their effectiveness. Many TCC staff have firsthand experience working as program officers and directors of philanthropies of all sizes.

The following are our services:

Needs assessment

We help funders analyze marketplace information to gain a better understanding of needs in a specific area of operation or focus.

Strategic planning

We assist grantmaking organizations to focus their missions, identify internal strengths and weaknesses as well as external opportunities and challenges, articulate a vision of what they want to accomplish, determine the resources they will need to accomplish their goals, and lay out a plan and timeline for achieving their objectives.

Program planning and strategy development

We help funders identify and focus on those programs and strategies that most clearly address their long-term vision and mission and have the greatest potential for impact.

Design and/or management of program initiatives

We help funders assess initiatives under consideration, identify potential grantees, develop Requests for Proposals, review and evaluate specific proposals, and implement and monitor the initiative's ongoing grantmaking.

Planning for new foundations

We help donors create a mission, a vision, and strategies for giving, and assist in setting up systems for doing so.

Full-service foundation management

We assist new or existing foundations by handling all administrative and grantmaking services, including creating and maintaining a grants database and other records, reviewing and evaluating grant proposals, sending out grant and decline letters, paying bills, working with investment advisors and accountants, and facilitating board meetings.

Design and/or management of capacity-building initiatives

We work with funders to plan and implement initiatives that direct support to a cohort of organizations over a defined time period to address specific capacity-building needs. We can design and coordinate the initiative, provide "case management" services to grantees, monitor and maintain quality control, and communicate about the initiative to internal and external audiences.

Organizational assessment of grantees

Our Core Capacity Assessment Tool (CCAT) allows funders to analyze their grantees' strengths and provide recommendations for future growth and change. It can be administered to a cohort of nonprofits as a tool for determining the need for long-term capacity-building services or as a grantee benefit.

Evaluation system planning

We design evaluation systems, processes, and tools for the purposes of effective planning and decision-making. We also help executives and staff increase their understanding of evaluation theory, design, implementation and data collection.

Program evaluation

We evaluate philanthropic organizations' programs, initiatives, internal processes and capacities, and systems.

Evaluation of capacity-building initiatives

We work with funders evaluate their capacity-building efforts, both long and short-term, by providing a critical combination of program evaluation and organizational assessment. We utilize findings to evaluate capacity-building resources, strategies, and activities – not just outcomes.

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