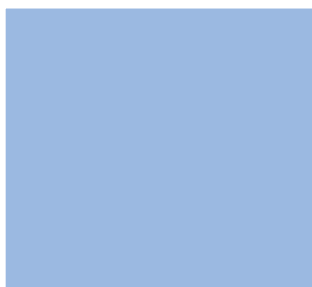
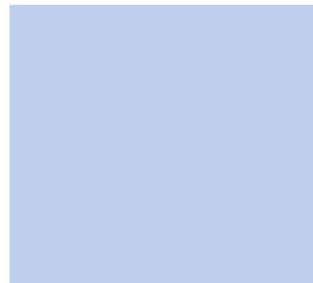
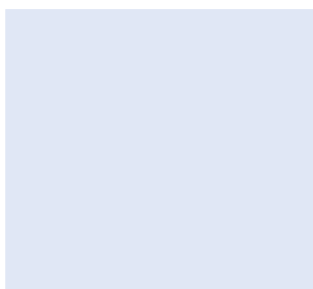


# ASSESSING FOUNDATION PERFORMANCE

*Current Practices, Future Possibilities*

November 14-15, 2002 • Boston, Massachusetts

Sponsored by The Boston Foundation



LESSONS LEARNED FROM  
A GATHERING OF  
FOUNDATION LEADERS



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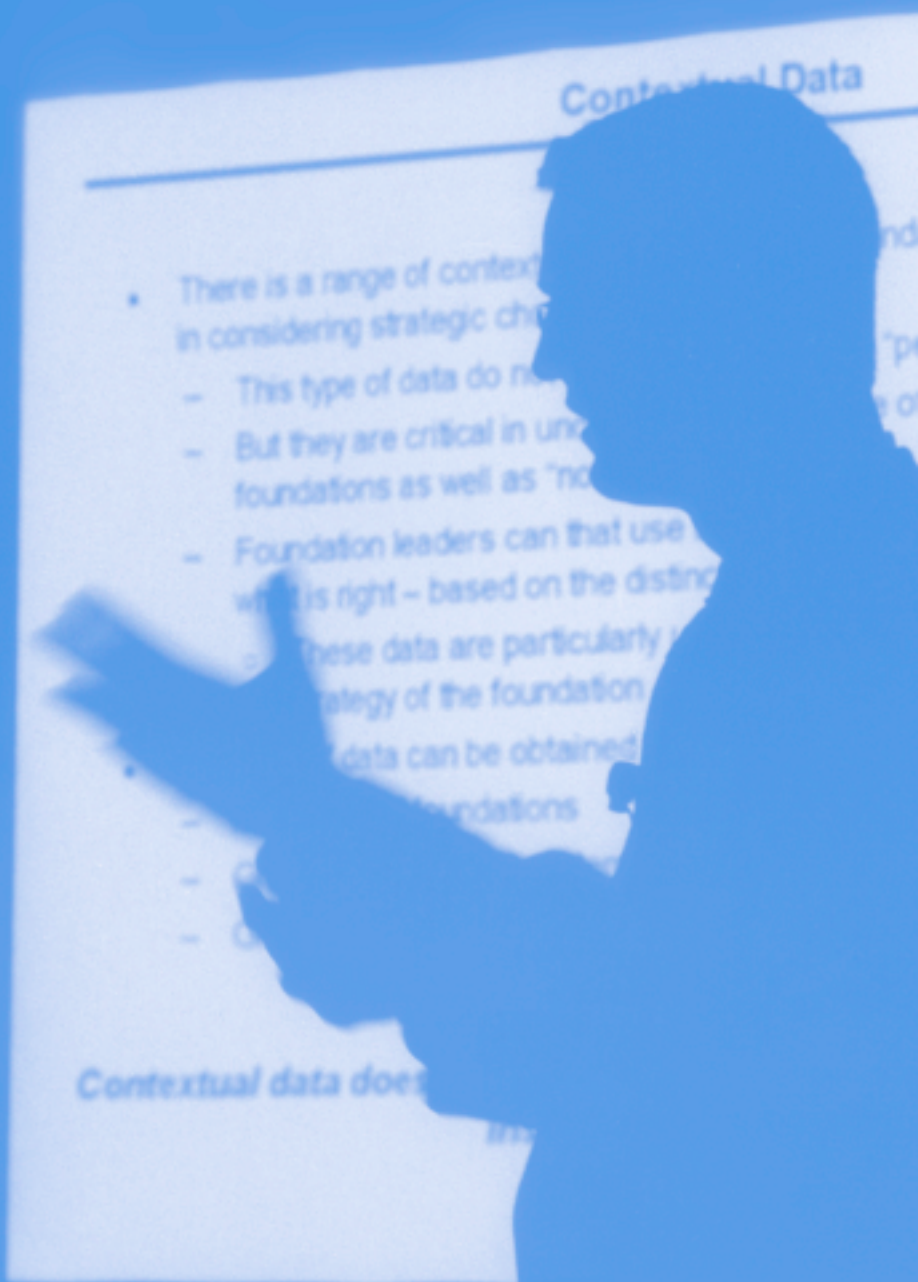
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January, 2003

Dear Colleague,

Nearly one hundred leaders from foundations across the country came together in Boston on November 14-15 to participate in The Center for Effective Philanthropy's seminar, *Assessing Foundation Performance: Current Practices, Future Possibilities*. This publication offers a summary of lessons learned and questions raised during this gathering, which was supported in part by a grant from The Boston Foundation.

If a theme emerged from our time together, it is that performance assessment for foundations is critically important as a tool for learning and improvement, and exceedingly difficult – as a result of the very nature of foundation work.

We learned about the forces that impede performance assessment. Prominent among them is a lack of accountability at the board level – described in powerful terms by Joel Fleishman of The Atlantic Philanthropies and Duke University. He also stressed his faith in foundations as “America’s primary pool of social venture capital” in a call for foundations to demonstrate the difference they make.

In a similar vein, Mark Kramer, the Center’s co-founder, painted a picture of the cultural, systemic, and organizational constraints that undermine performance assessment and improvement. He challenged foundation leaders to change “the rules of the game” to improve the impact of philanthropy.

And, to that end, we glimpsed what is possible. The Robert Wood Johnson Foundation presented its scorecard for overall performance, a creative attempt to move beyond grant and program evaluations alone to develop a summarized picture of overall foundation performance. Drawing on a variety of data sources, from grantee surveys to evaluation data to surveys of experts in its field of grantmaking, the Foundation presents its board a single

*“If a theme emerged from our time together, it is that performance assessment for foundations is critically important as a tool for learning and improvement, and exceedingly difficult.”*

page summarizing performance – with detailed back-up in an accompanying 30-page report – and tracks progress over time. The results have been powerful, leading to new insights and resulting improvements in the foundation’s strategy and operations.

We discussed the distinctive challenges of performance assessment at foundations of different types, such as health conversion foundations, community foundations, and small foundations – sharing ideas and best practices in break-out sessions. We learned from research, conducted by Christine Letts and her colleagues at Harvard University’s Hauser Center for Nonprofit Organizations, on the elements of productive foundation-grantee relationships. And we heard from CEOs who have struggled first-hand with the assessment and improvement of foundation performance, like Paul Grogan of The Boston Foundation, Anne-Marie Soullière of the Fidelity Foundations, and Ricardo Millett of the Woods Fund of Chicago.

We at the Center described the results of our Foundation Performance Metrics Pilot Study, sharing results from our interviews and surveys of foundation CEOs and trustees, our analyses of public data on foundations, and our first-ever national survey of comparative grantee perceptions. We also discussed a new tool we are developing, with the guidance and counsel of leaders in the field, that allows foundations to assess their performance as perceived by their grantees on a comparative basis.

For us, the seminar was a tremendously valuable opportunity to learn from those in the field and to clarify the most pressing needs. Our mission at the Center is to provide executives and trustees the management and governance tools needed to define, assess, and improve overall foundation performance. With funding in place for only 18 months, we are in the early days of execution against this mission. But with the help and guidance of those in the field committed to improving the performance of philanthropy, we are making great strides.

I hope that this publication, describing our seminar, provides useful information on current and prospective practices as well as inspiration to join this conversation. We look forward to hearing your thoughts on the issues raised in these pages.

Yours sincerely,



Phil Buchanan  
*Executive Director*  
*The Center for Effective Philanthropy*  
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# THE WAKE-UP CALL OF THE CORPORATE GOVERNANCE CRISIS

*“Foundations insist that grant-receiving nonprofits be accountable to them, but to whom are the foundations themselves accountable?” Joel Fleishman asked the group. “To no one but their board, the IRS, and the state attorney general, none of which does, as a general rule, an acceptable job of accountability enforcement.”*

In his opening keynote, Joel Fleishman described what he saw as perhaps the most serious problem facing foundations today – “their essential lack of effective accountability.” He suggested that the current corporate governance crisis offers lessons – and a wake-up call – for the nonprofit/philanthropic sector.

“While the governance defects of not-for-profit organizations have not had the egregious consequences of those in the for-profit sector, the problems are of the same kinds and, over the long run, could accumulate to the point that they seriously erode public and political trust in the sector,” he told the group of foundation leaders assembled. He went on to say that the danger of serious harm to the sector is actually greater because the accountability-enforcing mechanisms are weaker. “There may well be opportunities ... to learn from the for-profit governance crisis how to construct a more effective accountability-enforcing structure for the nonprofit sector,” he said.

While emphasizing his belief that foundations are beneficial participants in American society whose



*Joel Fleishman, The Atlantic Philanthropies and Duke University*

independence should be protected, Fleishman identified the particular ways foundations lack accountability and warned against the dangers of maintaining this status quo.

Because foundations do not have to raise money to survive, they do not have the built-in accountability mechanisms of nonprofit organizations, which must answer to their donors and often to their clients. “Foundations insist that grant-receiving nonprofits be accountable to them, but to whom are the foundations themselves accountable?” he asked the group. “To no one but their board, the IRS, and the state attorney general, none of which does, as a general rule, an acceptable job of accountability enforcement.”

What are the consequences of this lack of accountability? According to Fleishman they are numerous and serious. Lack of accountability allows foundations to act arrogantly in their interactions with nonprofits, Fleishman argued. It means foundations don’t have to reveal the objective facts about what they do, obscuring the lessons that can be learned from their failures as

well as their successes and undermining the credibility of the information they do provide. “Few believe that what foundations do makes a difference. They aren’t credible because they only discuss the good news and not the failed efforts,” he suggested.

## *“I believe foundations do make a difference, but where are the data?”*

This lack of accountability means foundations have little incentive to measure and seek to understand the impact of their grantmaking. “I believe foundations do make a difference, but where are the data?” Fleishman asked.

### LESSONS FROM THE CORPORATE SECTOR TO STRENGTHEN FOUNDATION ACCOUNTABILITY

Fleishman offered several ways to strengthen the accountability-enforcing structure for foundations as

well as voluntary steps foundations could and should take to be more accountable.

- Increase the effectiveness of governmental oversight of foundations and nonprofits. Fleishman pointed out the need for more enforcement personnel in the IRS Exempt Organization Division and called on a sector-wide initiative to work with and support government oversight organizations.
- Require board chairs, CEOs and CFOs to certify the accuracy of 990 and 990-PF filings.
- Require at least one board member to have financial expertise and at least one to be a lawyer.
- Formalize written criteria for board membership and create board development plans to ensure board members are recruited to meet specific, identified needs of the organization.



### FOUNDATION GOVERNANCE PROJECT: THE ROLE OF THE FOUNDATION BOARD

Foundation boards are key to setting strategy and monitoring overall foundation performance. Yet there is little research and insufficient understanding of the distinct challenges and best practices of foundation governance. And, while there are significant resources to support effective nonprofit governance, these resources are not fully suited for foundation boards to carry out their distinctive responsibilities.

The Center for Effective Philanthropy is exploring further research to better understand the unique challenges of foundation governance. The project will include chronicling the experiences of foundations that have transitioned their forms of governance to increase their effectiveness, identifying the attributes of boards that are perceived to be particularly successful at fulfilling their roles and responsibilities, and suggesting tools that would be particularly useful to foundation boards grappling with critical questions of governance.

*For more information on this project, contact Phil Giudice, senior fellow at the Center, [philg@effectivephilanthropy.org](mailto:philg@effectivephilanthropy.org), 617-956-0800, ext. 108.*

- Charge nominating committees with reaching outside existing networks of friends and acquaintances of board members and the CEO.
- Institute a periodic formal board review process.
- Charge foundation boards with directing the CEO and staff to create and implement strategic plans for grantmaking programs, benchmarks for assessing grant and program success, and metrics for measuring the foundation’s effect on the fields in which they work.

While taking the foundation field to task on the issue of accountability and impact assessment, Fleishman ended by reiterating his belief in the role of foundations and nonprofits in American society. “Foundations are America’s primary pool of social venture capital, and they have conferred enormously valuable benefits on all of us. Their independence from government and from any external control over their policy and grantmaking decision is absolutely necessary,” he argued. “The fact that they have shortcomings must not lead us either to doubt their continuing value or to circumscribe their autonomy.” In fact, it is his admiration for the foundation world and foundations’ unique role in improving lives and solving problems that fuels Fleishman’s drive to improve their accountability and thus strengthen the public’s understanding of and confidence in them.

*“Foundations are America’s primary pool of social venture capital, and they have conferred enormously valuable benefits on all of us.”*

*Joel Fleishman is senior advisor to The Atlantic Philanthropies and former president of the Atlantic Philanthropic Service Company. He is director of the Sam and Ronnie Heyman Center for Ethics, Public Policy and the Professions at the Terry Sanford Institute of Public Policy at Duke University, and he also is professor of law and public policy at Duke where he conducts research on issues of foundation performance.*



## INCREASING BOARD PARTICIPATION IN ASSESSING OVERALL PERFORMANCE AND IMPACT

Foundation boards are increasingly unsatisfied with their ability to monitor overall foundation performance and impact. Foundation board members and other seminar participants joined a conversation on the current state of board participation in performance assessment and how it can be improved.

They discussed several challenges that face boards in fulfilling this role effectively, including:

- **Culture:** Typically foundation board cultures are characterized by gentility and politeness, which too often engender a reluctance to engage in healthy criticism, admissions of failure, and candid learning.
- **Role Clarity:** While board members’ individual and collective roles are understood in generic terms, the distinct roles and challenges of foundation boards are not well defined.
- **Board Self-Assessment:** There are not sufficient mechanisms for individual board members and the board as a whole to provide and receive feedback on their performance as a board.

Several ideas surfaced about how to improve foundation governance. In general, the discussion focused on the need to identify and disseminate good foundation board practices to the field, including:

- Examples of boards of foundations that have evolved from having a focus on grantmaking to a greater focus on strategy.
- Models for handling leadership transitions, including changes in the chair and the CEO.
- Sound basic board responsibilities for foundations of varying characteristics — asset sizes, type, field focus, geographical focus, and other.

# THE ROBERT WOOD JOHNSON FOUNDATION'S SCORECARD OF FOUNDATION PERFORMANCE

The Robert Wood Johnson Foundation has devised, and is constantly refining, a comprehensive system to provide its board and staff leadership an annual assessment of the foundation's overall performance. In introducing their approach, Dr. Lewis Sandy and Maureen Michael discussed the process the foundation uses to collect data, present it to staff and board members, and make decisions based on the information.

The Robert Wood Johnson Foundation has a clear foundation mission, four agreed upon goals, and

explicit theories of how it can most effectively create change and reach its goals.

While the foundation had a long history of program evaluation, senior foundation leaders realized that this level of evaluation was not enough to answer the board's question, "How are we doing as a foundation?" and the staff's question "How can we do better overall?"

"We learn a lot from grant and program evaluations, but something was missing. In a few cases we were



## USING "INDICATORS OF EFFECTIVENESS" TO IMPROVE FOUNDATION PERFORMANCE

The Center for Effective Philanthropy's executive director, Phil Buchanan, presented the findings of the Center's Foundation Performance Metrics Pilot Study and fielded questions about the Center's research from seminar participants. He outlined the current state of performance assessment, describing the results of a series of interviews with foundation CEOs and other leaders and a major survey of CEOs of the country's 225 largest foundations.

Buchanan went on to describe a framework for assessment of foundation performance and the potential for comparative grantee perceptions to inform a number of the measures described in that framework. He provided case examples based on the Center's independent survey of grantees of 23 foundations conducted in 2002.

Buchanan's full presentation can be downloaded from the Center's Web site, [www.effectivephilanthropy.org](http://www.effectivephilanthropy.org)

The Foundation Performance Metrics Pilot Study, funded by The Atlantic Philanthropies, The David and Lucile Packard Foundation, and the Surdna Foundation, culminated in the release in August 2002 of the report, *Indicators of Effectiveness: Understanding and Improving Foundation Performance*. This report, and an earlier Study report entitled *Toward a Common Language: Listening to Foundation CEOs and Other Experts Talk About Performance Measurement in Philanthropy* can also be downloaded from the Center's Web site.



*“The major benefit of focusing strategy is sharpening your idea about how you can make change. But the perfect measure doesn’t exist and trying to get there is a fruitless search.”* —Lew Sandy



*Dr. Lewis Sandy, Robert Wood Johnson Foundation*

able to show that our grants and programs had accomplished their specific goals, but we were not achieving our desired overall outcome because the strategies we’d decided on weren’t working,” Sandy told the group in explaining how they knew program-level evaluations were not sufficient to answer their questions of overall foundation performance.

So, Sandy and his colleagues developed a system for assessing performance at three levels: the program level, which they were already doing; the strategy level, through evaluations of clusters of programs and projects; and the organizational level. They then synthesize a subset of this information and present it in a scorecard allowing staff and board to see progress on key indicators in one, simple format.

Collecting the data and creating the scorecard gives the staff an opportunity to step back and talk about how the organization is doing. The scorecard is then presented to the board, which discusses it in an annual three-hour session and uses the information to help set direction for the foundation.

#### ELEMENTS OF THE SCORECARD

The scorecard’s key indicators show progress on four dimensions — program, service, impact, and staff. They are informed by a variety of evaluation information, research and data:

- Confidential grantee surveys annually provide information on key aspects of service.
- Surveys of rejected applicants inform their assessment of the foundation’s communications and application processes.
- Surveys of private and public decision-makers help the foundation understand the context for pursuing its strategies and gauge its reputation in the fields it wishes to advance.
- Public opinion surveys give information on the public’s health care priorities and test the effectiveness of public awareness efforts.
- Surveys of foundation employees, conducted every other year, allow management and the board to hear staff perceptions of how well the foundation is meeting its core commitments, including its management and program targets and its commitment to staff.
- Information culled from journals helps the foundation understand the reach of its sponsored research and evaluation projects.
- Data from the foundation’s grants management database provide additional information on

the foundation-grantee relationship as well as an overview of where and how the foundation is investing funds.

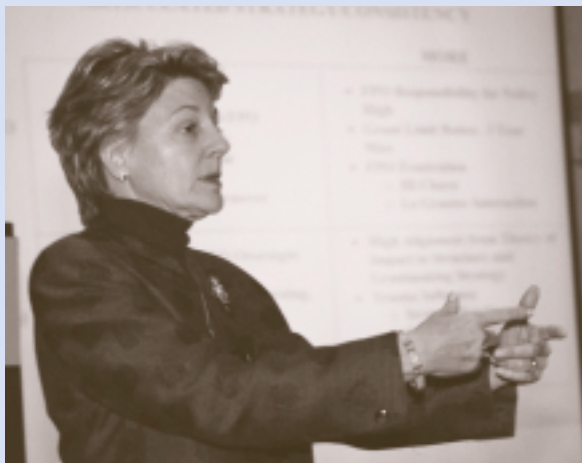
- Other administrative data provide information related to the foundation's internal operations.

Measuring impact in its program areas is the most challenging part of the foundation's assessment effort. The search for the perfect measure of social impact often frustrates foundations in their attempts to assess their performance and stymies their efforts altogether, according to Sandy. The Robert Wood Johnson Foundation, instead, looked for intermediate indicators in each program area that could be measured in the short-term and give some sense of their progress toward reaching their goal.

For instance, reducing the number of uninsured people is a key strategy in pursuit of the foundation's goal

to assure that all Americans have access to basic health care at a reasonable cost. A central way foundation staff believed they could address this was by funding activities that supported greater enrollment of eligible children in public programs like the State Children's Health Insurance Programs and Medicaid. They were then able to track whether public policy barriers to enrollment decreased and enrollment itself increased. They began counting those states that did not require face-to-face meetings or asset tests for enrollment, as well as the number of children enrolled in these programs with 12-months of continuous coverage.

Sandy and Michael emphasized that a key to begin the effort of overall performance assessment is to try to measure what matters most. Sandy encouraged foundations to decide what their theory of change is and then measure something that is relevant. "Refine it if it's not perfect," he said, but there is value in



*Christine Letts, Harvard University*

### **RETHINKING NONPROFIT-FOUNDATION RELATIONSHIPS: PRELIMINARY FINDINGS**

A productive relationship between a foundation and its grantees is widely considered critical to the foundation's success, but, according to Christine Letts, the essential elements to ensuring a good relationship are not well understood. Letts laid out preliminary findings from her recent research on the

value exchange between nonprofits and funders that suggest characteristics of these relationships that contribute to greater impact for both foundations and nonprofits.

In the study, Letts and her associates at the Hauser Center for Nonprofit Organizations, Bill Ryan and Jane Preston, looked at 100 grant relationships as described by representatives from both foundations and nonprofit organizations. They explored how nonprofit executives and program officers view better and worse grant relationships and more and less productive interactions.

Letts, Ryan and Preston are still completing the research project. In 2003, they plan to publish findings detailing what they learned and recommending how these critical relationships between foundations and nonprofits can be improved to achieve better outcomes for foundations, nonprofits, and their constituents.

Published findings will be available on the Hauser Center's Web site, [www.ksg.harvard.edu/hauser](http://www.ksg.harvard.edu/hauser).

*Christine Letts is the Rita E. Hauser Lecturer in the Practice of Philanthropy and Nonprofit Leadership and Associate Director of the Hauser Center for Nonprofit Organizations at the Kennedy School of Government at Harvard University.*

making an effort to measure as a start. “Starting with any measure and working to make it better over time is really worth the effort,” emphasized Michael.

#### AN EVOLVING SYSTEM OF PERFORMANCE ASSESSMENT

The Robert Wood Johnson Foundation plans to continue to refine and improve its system of performance assessment. The foundation intends to incorporate more syntheses of formal grant and program evaluations into the scorecard. It also will institute a trustee survey to solicit their ideas for improvement. Foundation staff

are working on ways to create a public version of the scorecard that they can share with the field.

#### HOW HAS IT HELPED? WHAT HAVE THEY LEARNED?

Sandy and Michael highlighted several of the benefits of undertaking such an effort. Some benefits they could have anticipated, they said; others were more serendipitous.

- The assessment process has provided formal time to reflect on performance.

*“Starting with any measure and working to make it better over time is really worth the effort.”* –Maureen Michael



Maureen Michael, Robert Wood Johnson Foundation

- It has produced new data for management and staff to use in a variety of ways.
- It has provided a forum to allow the staff and board to identify areas for follow-up and improvement.
- And, it has engaged the trustees more fully in the work and the strategic direction of the foundation.

They left seminar participants with the lessons they have learned in the process of implementing such a comprehensive performance assessment process.

- To be successful, you must have the buy-in of leadership, as well as staff and grantees.
- Engaging the board invests them in the process.
- Engaging the staff in identifying problems and solutions builds their commitment to making needed change.
- Creating a “safe” forum for critics and listening carefully provides needed and valuable information.
- Perfect measurements are hard to find, but there’s value in the search for good measures and a commitment to improving them over time.
- Finally, and critically, clarifying targets and strategic objectives sharpens everyone’s thinking about change.

*Lewis Sandy, M.D., is the executive vice president of the Robert Wood Johnson Foundation and leads the foundation’s strategic planning efforts, program and budget development and management, and operations. He has both M.D. and M.B.A. degrees, and in addition to management and grant programs positions at the foundation, he continues to practice and teach medicine.*

*Maureen Michael is the program officer of the Robert Wood Johnson Research and Evaluation Unit where she helps to manage Health Tracking, a network of projects aimed at understanding changes unfolding across the country’s health care system. She has held posts at the Department of Health and Human Services, the National Institute on Aging, the Domestic Policy Advisor’s office, and in the office of Senator Bill Bradley.*



### **IN THE PUBLIC EYE: THE CHALLENGES OF PERFORMANCE ASSESSMENT IN HEALTH CONVERSION FOUNDATIONS**

Health conversion foundations, formed to protect charitable assets when nonprofit health providers convert to for-profit entities, are relatively new foundations with often large endowment sizes. They have often been created in the midst of controversy, sometimes as a result of court action, under the watchful eyes of the media, regulators, politicians, and the public. Because of this scrutiny, these foundations face a greater pressure to be publicly accountable — spurring a need for solid performance assessment.

In a discussion session, leaders of health conversion foundations said they feel pressure to show quick results, though achievement of the goal of improving the health status of people in their communities is a long-term process. In this environment, health conversion foundation leaders expressed a need for both near-term indicators of progress as well as longer-term assessment of program results.



# FIDELITY'S HISTORY OF FOUNDATION PERFORMANCE ASSESSMENT



*“We found that foundations were increasingly using performance measures for individual grants but lacked them for overall foundation management.” — Anne-Marie Soullière*

Measuring foundation effectiveness and the effectiveness of grant recipients has been a way of doing business since the Fidelity Foundation and the Edward C. Johnson Fund were established in 1965, Anne-Marie Soullière, CEO of both organizations, told seminar participants.

She described her foundations' aim to fund nonprofits where they can add lasting value as a key strategy for increasing impact. A central way the foundations do this is by giving nonprofit organizations the benefit of Fidelity's experience and expertise in planning, information technology, human resources, security, design, and construction—along with funding. They

seek to create a relationship that is “almost like a consulting experience” and focus funding to encourage the highest standards of management and long-term self-reliance in nonprofit organizations so that they can more effectively address needs and solve problems in communities.

In keeping with Fidelity's on-going commitment to assessing its own performance and understanding outcomes, the foundations' established qualitative and quantitative measures 15 years ago to determine how many projects have been successful, which ones resulted in important innovations, and which ones failed and why.

## PERFORMANCE ASSESSMENT FOR SMALL FOUNDATIONS

The challenge of limited resources at smaller foundations forces them to be creative in finding information about how well they're doing and how they could improve. While most small foundations require some kind of reporting from grantees, few discussion session participants said they had the time to thoroughly review reports and discuss them with grantees. They have limited resources to do grant- and program-level evaluations and little time or money to do more formal data collecting or surveying on the impact of their work.

While all were worried about limited resources, they acknowledged the need to take incremental steps toward more formal assessment of performance. Simply gathering grantees together and encouraging candid discussion of the foundation's strengths and weaknesses in working with them can be an important first step. Working through consortia with other small foundation on performance assessment is another promising possibility.

Despite the resource constraints, many argued that increasing administrative dollars spent on assessing and improving performance has the potential to leverage their grantmaking for greater impact.



A benchmarking exercise in 1991 allowed the foundations to measure themselves against other comparable funders – family foundations, foundations associated with financial services companies, and foundations of similar size. In this assessment Fidelity compared missions, governance structures, operating procedures, grantmaking protocols, evaluation mechanisms, financial and administrative efficiency, and use of information technology. Among the key findings were that “foundations were increasingly using performance measures for individual grants but lack them for overall foundation management.”

Assessment of overall foundation performance continues to be a priority for Fidelity. In addition to periodic large-scale undertakings like the benchmarking exercise and cluster evaluations, Fidelity develops annual measurable goals for major projects and grants

administration, and the staff’s compensation is tied to their success in meeting these goals. They perform program- and grant-level evaluations working with grantees to create low-burden measures of impact tailored to the goals and objectives of the nonprofits as well as the promised outcomes of the grants. The organizations also use an annual Gallup survey to gauge employee satisfaction and hear clear messages about ways to improve the processes, management, and support staff need to be most effective.

*Anne-Marie Soullière is foundation president of Fidelity Investments where she has served since 1987 as chief executive of the Fidelity Foundations and the Edward C. Johnson Fund. Her career has included posts at the New England Conservatory of Music, the National Endowment for the Arts, and Yale University. She serves on the boards of various nonprofit organizations, foundations and universities.*

## THE CENTER FOR EFFECTIVE PHILANTHROPY’S GRANTEE PERCEPTION REPORT (GPR)

### A NEW TOOL FOR ASSESSING OVERALL FOUNDATION PERFORMANCE

The Center for Effective Philanthropy has collected the first national, comparative data on grantee perceptions of foundation performance and is now offering foundations the opportunity to receive a Grantee Perception Report (GPR) assessing their performance on key dimensions relative to other foundations. The GPR, which is in a pilot phase, gives a CEO, board, and staff a summarized understanding of grantees’ perceptions of a foundation’s relative and absolute performance as well as timely, detailed data on many performance dimensions.

#### CHARACTERISTICS OF THE GPR

##### Confidential

Foundations receive a report that identifies their performance relative to a set of relevant peer foundations. Foundations are identified only in their own reports, and the performance of comparison foundations are not identified in any way.

##### Comparative

Every grantee survey will tell a foundation that grantees like them. Viewed in isolation, the results are of limited value and reliability. The GPR allows a foundation to better understand its distinctive strengths and areas for improvement relative to a relevant set of peer foundations.

##### Comprehensive

The GPR includes summaries and detailed data on many aspects of a foundation’s activities of interest to foundation leaders, from operational measures such as administrative burden on grantees or time to approve a grant, to questions about non-monetary assistance and impact on the grantee and field.

##### Customized

The GPR is customized to respond to the specific objectives of a foundation. The Center works with each foundation to understand its priorities, conduct customized analyses, establish a target response rate, and choose the appropriate group of peers for comparison from its database of large foundations.

##### Cost Effective

Because of the support of its funders and the economies of scale associated with the Center’s survey efforts, it can offer foundations this report at a lower cost than many other grantee survey options. A discount is available for members of Grantmakers for Effective Organizations (GEO).

##### Credible

The survey has been well tested and reviewed by foundation leaders and experts in survey design. The Center is an independent and impartial third party, improving the validity of data collected from grantees.

*To download a sample GPR, go to the Center’s Web site, [www.effectivephilanthropy.org](http://www.effectivephilanthropy.org). For information on participating in the Center’s next round of surveying and receiving a GPR, contact the Center’s associate director, Kevin Bolduc, at 617-956-0800 x112.*

# MINIMIZING “GAMES” FOR BETTER ASSESSMENT AND GREATER OUTCOMES

Ricardo Millett, a veteran foundation professional and professor who has focused much of his work on planning and performance evaluation, brings this experience to his new position as president of the Woods Fund of Chicago. He is using it to define how the foundation can most powerfully make progress on the issues of poverty in Chicago, to understand the internal and external barriers to this progress, and assess whether or not it is being successful in its efforts.

Millett, who served most recently as Director of Evaluation at the W.K. Kellogg Foundation, criticized what he called the “grantseeker/ grantmaker game” that leads grantseekers to promise inflated outcomes in order to get their proposals funded. This gamesmanship is particularly costly to smaller foundations working with grass roots nonprofits. The outcome, according to Millett, is more often than not that the grantee fails to reach the promised outcomes and grant-level evaluations show that “despite all the money we throw at this, nothing’s happening.” At a basic level, he argued, achieving impact is maximized when this game is minimized and outcomes are reasonable and achievable. The challenge for smaller foundations, “us little guys,” he said, is to figure out how to cut through the game between grantseeker and grantmaker.

He suggested several approaches he was trying in his new position as foundation president. He emphasized

the need to create more honest, trusting, and transparent relationships between grantmakers and grantseekers in order to allow learning and growth on both sides and ultimately improve outcomes for people in the community.

The Woods Fund begins with a theory of participatory policymaking that requires the foundation to create ways to capture information from grantees and those less advantaged and least powerful in the community. Foundation staff use this information along with the ongoing involvement of their grantees to help the foundation set and implement strategies for change.

“We have a determination to add value,” said Millett. The way the Woods Fund has endeavored to do that is to leverage their grantmaking by emphasizing “learning while doing” that extends from the foundation staff, to grantee staff, to the people most affected by poverty and other critical challenges facing their neighborhoods in Chicago.

*Ricardo A. Millett is the president of the Woods Fund of Chicago. He has long-term experience in evaluation and planning in the philanthropic field, including positions as director of program evaluation at the W.K. Kellogg Foundation, vice president of planning and resource management at the United Way of Massachusetts Bay in Boston, and associate professor of research and evaluation at Atlanta University.*

*“Achieving impact... is maximized when game-playing is minimized... and outcomes are reasonable.” —Ricardo Millett*



# IMPROVING FOUNDATION PERFORMANCE: THE CHALLENGE IS MORE THAN EVALUATION

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**D**rawing on themes and issues heard during the two-day seminar, Mark Kramer suggested that the obstacle to the effective use of evaluation by foundations is not the difficulty of measuring results but the systemic, organizational, and cultural barriers that discourage organizational learning.

Pointing to the \$100 million that foundations spend each year to evaluate programs they fund, Kramer said that the attention and resources foundations are putting to evaluation are not bearing the fruit they should.

The current state of evaluation within foundations limits their potential for the kind of social change of which they're capable, he told the group. Foundations are positioned to be social innovators, able to experiment with new approaches to social change, learn the lessons of what works and what doesn't, improve their own performance, and disseminate results. The lack of good evaluation in the field, however, prevents this from happening as it should.

## Why Does Good Evaluation Matter?

Kramer outlined three critical purposes evaluation serves in the field of philanthropy: accountability, learning, and teaching.

- **Accountability.** Evaluation allows foundations to oversee the use of funds by grantees that receive them, giving evidence of both foundation and grantee accountability.
- **Learning.** Evaluation strengthens foundations' ongoing and future strategy and programs by providing them information about what works and what doesn't.
- **Teaching.** The dissemination of results, positive and negative, allows the field as a whole to benefit from the foundation's experience.

However, there are issues in the field and within foundations themselves that get in the way of achieving these three objectives – and this has serious implications for the ability of the foundation field to fulfill its potential.

## The Barriers to Effective Evaluation in Foundations

Many of the country's 55,000 foundations don't do any kind of evaluation. Among those that do, Kramer said, evaluation results are often not used by program staff to make decisions about future grants or by foundation leaders to satisfy their fiduciary responsibility, and they are rarely, if ever, disseminated more publicly.

Kramer suggested three systemic barriers to foundations' effective use of evaluation to increase knowledge within the organization and make needed changes.

- **Absence of performance standards.** There is an absence of market or regulatory pressures on foundations to perform well.
- **Lack of honest criticism.** The positive reinforcement that comes from the act of philanthropy makes honest feedback and constructive criticism rare in the foundation world.
- **Underperforming boards.** Foundation boards are generally reluctant to assess performance and hold staff accountable.

## ABSENCE OF PERFORMANCE STANDARDS

Foundations' legal obligations for accountability are limited to a fiscal check that the appropriate percentage of assets have been distributed to nonprofits and that there has been no self-dealing. There are no accepted industry standards, no way to compare the performance of different foundations, and no penalties for ineffectiveness, he said. This lack of accountability



*“The obstacle to the effective use of evaluation by foundations is not the difficulty of measuring results but the systemic, organizational, and cultural barriers that discourage organizational learning.” —Mark Kramer*



leads to a reluctance to accept evidence of failure and make needed organizational changes. Without external pressure for performance, foundations lack the built-in imperative to evaluate and report on their work.

#### DISINCENTIVES FOR HONEST CRITICISM FROM GRANTEES

“Even if performance did not matter, foundations might still want to know how they are doing,” Kramer told the group. “The bigger obstacle is that they are constantly being told they are doing a good job.” This tendency toward constant positive feedback from grantees is understandable, he said, when criticism risks the ability to raise funds. Without routine evaluation of grants and mechanisms for all grantees to give honest feedback, the system discourages criticism by individual grantees, and foundations miss the opportunity to hear an honest assessment of strategy and results.

#### UNDERPERFORMING FOUNDATION TRUSTEES

Because of the lack of external performance pressure, the board of trustees is the only group to which a foundation is truly accountable. But foundations boards, said Kramer, generally do not set clear performance goals and hold staff accountable for meeting them. “If trustees demanded excellent performance, measured progress toward the foundation’s goals, held staff accountable for results, and had the expertise to critique grantmaking decisions and strategies, then evaluation would be essential to the foundation staff’s successful job performance,” he said.

#### Constructive Change to Improve Evaluation

The effective use of evaluation is, therefore, a problem of management and leadership rather than the refinement of evaluation methodologies. Kramer called on foundation leaders to make performance of their

foundations their single highest priority. “It’s the only way change will happen,” he told the group. This goes for CEOs and trustees, and boards, particularly, must set expectations and hold foundation staff accountable to them.

- Expectations should be reasonable, and boards must be satisfied with what their resources will enable them to achieve.
- Transparency, consistency, and candor in decision-making must be reinforced throughout the organizations, both at the board and staff levels.
- Failure must be expected and tolerated, yet persistent failure should not be allowed.
- Boards must accept higher administrative ratios justified by the improved results effective assessment brings.

With these changes and significant improvement in the way foundations conduct and use evaluations, he told the group, “We would see an environment that distinguishes between success and failure, tracks performance at all levels, has the appropriate staff expertise, and encourages organizational learning through clear performance incentives. The by-product would be a far healthier nonprofit sector.”

*Mark Kramer is the co-founder of The Center for Effective Philanthropy, managing director of the Foundation Strategy Group, and former chair of the Jewish Funders Network. He has over 20 years of experience in the foundation world as a trustee and philanthropic researcher. He also is a contributor to Harvard Business Review, The Chronicle of Philanthropy, and Foundation News and Commentary. This article and his talk at the seminar are based on a working paper under development with Professor Bill Bickel of the University of Pittsburgh.*



## SETTING THE AGENDA: LOOKING BACKWARD TO MOVE FORWARD

Paul Grogan, *The Boston Foundation*

Searching a foundation’s past with a critical eye toward its failures but also a willingness to claim credit for success can be a powerful way to set the agenda for

*“The best foundations have been venture philanthropists from the beginning.” —Paul Grogan*

its future, Paul Grogan told the dinner crowd during his evening keynote. As the new president and CEO of The Boston Foundation, Grogan focused first on the foundation’s history and the stories that chronicled its accomplishments and failures. It was through these stories that he came to understand what The Boston Foundation had meant to the community in the past and where its moments of greatest leverage had occurred. This process of discovery allowed him and the foundation staff and board to see the foundation’s greatest opportunities for impact and set the agenda for the future.

Examples Grogan used in his keynote speech of “prescient investments” included the foundation’s early backing of litigation that forced the clean-up of Boston Harbor. He also cited the foundation’s pioneering investment in the Boston Aquarium, what some at the time called a quixotic undertaking to revitalize Boston’s abandoned waterfront district. Success of the foundation – and the field – is rooted in the judgment of people over time, he told the audience. Culling the lessons of this history of “smart people with great judgment making bets” is one good way to develop a strategy to succeed.

*Paul Grogan joined The Boston Foundation as president and CEO in July 2001. Prior to that he served as president and CEO of the Local Initiatives Support Corporation and vice president for government, community and public affairs at Harvard University. He is co-author of the book, Comeback Cities: A Blueprint for Urban Neighborhood Revival.*

### ACCOUNTABILITY, COMPETITION DRIVE ASSESSMENT IN COMMUNITY FOUNDATIONS

Unlike many private foundations, community foundations have clear lines of accountability to donors and, because of the community-based nature of their work, stronger lines of accountability to their local nonprofit grantees and community members.

In addition, they face increased competition for resources from commercial donor-advised funds. Not only must community foundations evaluate program results and demonstrate impact on the community, they also have to satisfy individual donors’ desire for superior financial and social investment returns.

The result is significant pressure to assess performance and communicate results. Participants in a discussion session agreed that a strong performance assessment system geared to the distinct needs of community foundations could be a powerful advantage in facing these challenges.





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*The mission of the Center for Effective Philanthropy is to provide executives and trustees the management and governance tools needed to define, assess, and improve overall foundation performance.*

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