

# Foundation Management in Transition\*

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## Introduction

It has been my privilege over the years to manage both large and small organizations in business, government, education and philanthropy. As I have sought to place this experience in a larger philosophical context, I have become convinced that the science of management is not only constantly changing but that, in order to understand a society's view of social organization, it is necessary to understand its vision of social order.

When American society was primarily rural and static, our social institutions reflected our concern with permanence. Survival was often assumed to be pre-ordained by the deity. To be human was to seek continuity for our culture and infinity for our ideas and to resist obsolescence for our organizations. It was no surprise, therefore, that a commitment to perpetuity was fundamental to the private foundation model that emerged.

As we moved into a rapidly changing and industrializing society, our emphasis on permanence shifted to a concern with practicality. Survival was dependent on social utility. Good institutions were those which were deemed to be useful. And being "good" and being "useful" meant being "practical". The rationale for the grant-making institution was its practicality as a free-standing alternative to governments. The private foundation was, therefore, not only a "good" institution, it was the embodiment of a fundamental social value, the idea that a good society depends as much on the "goodness" of individuals as it does on the soundness of institutions and the fairness of laws.

Today, we are shifting our vision of the social order and our view of social organization once again. Our present view is conditioned by neither the ideas of permanence nor of practicality but by the idea of "perfectability". So the emphasis is on perfecting the craft of management and operating efficiently in order to operate effectively. In this new climate of opinion we find that private foundations now emphasize the need to maximize the impact of the charitable dollar. With reductions in the social role of governments around the world, there is a perceived need to target private giving carefully to ensure that every dollar is used where it does the most good.

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This paper will address five major challenges to foundation governance and management in a time of transition. And I use the word “transition” to refer to changes in at least two important areas: the external environment of grant seeking where the old order is dying but not yet dead, a new order has been conceived but is not yet born and private philanthropy is being asked to deal with the trauma of transition, and the internal environment of grant making where public concern with the accountability of private institutions is matched by private concern with ethics and efficiency.

### **The Concern With Principles**

Not surprisingly then, the first and most fundamental challenge facing foundation management is *the concern with principles*—the idea that the practices of foundations should reflect, retain and reaffirm values. Given the ambiguity of moral language, some might argue that it is less than useful to marry the word “principles” with “philanthropy”. Yet, it is also possible that the word gives us a powerful symbol with which to grasp and understand what is fundamental when we decide on priorities, choose among grant seekers, commit resources, and otherwise serve a public good.

The use of the word “principles” seeks to keep our eyes on purpose as well as process, on the responsibility to private benefactors as well as the responsibility for public benefit, and, while cognate terms like “good” and “moral” might have been sufficient in the past to describe practices and values considered fundamental, today we need more precise language, for our moral climate is increasingly political while our political climate is increasingly moralistic.

Given the difficulty of the task, it is appropriate to ask, “Why a concern with principles?” The first answer is that they provide a framework for consistent and effective practices. A second is that they provide the public with a view of the ethical and philosophical values on which grant-making organizations base their conduct. A third answer is that the concern with principles is part of a concentrated effort to find the appropriate language to affirm the goals to which most foundation trustees and staff already aspire. It is, therefore, a public acknowledgement of a private commitment; a demonstration to those who would further regulate an already over-regulated sector, that additional government involvement is neither needed nor desirable. When self-regulation works, it is not only good private practice, but good public policy.

### **The Concern With Professionalism**

The second challenge facing foundation management is *the concern with professionalism*; the need to retain the voluntary spirit which is the basic essence of philanthropy while at the same time exposing the charitable impulse to acquired skills and shared experience.

Like other organizations in the non-profit sector, some of our foundations compete for the best minds and the best managers to support their missions and priorities. While their levels of remuneration and direct benefits are far

different from those in the profit sector, they seek, nevertheless, to attract and retain the most talented people. Recently I was asked how foundations could do a better job. I made the following suggestions which have worked for me:

- 1) Good organizations attract good people when they are effectively led and efficiently managed. I have always believed that the best managers are people who articulate the vision, create the environment, and provide the space which good people need to do great things. The primary skill is use of their power to activate power in others.
- 2) Talented people can be found on the margins as well as in the mainstream of society. I regularly encounter people with good skills, good work habits, fine intellect and great integrity who do not fit the traditional mold and are not in traditional places. Organizations which make an effort to capitalize on society's pluralism not only benefit from a richer creativity but are often the most exciting places to work, manage and govern.
- 3) The time is past when non-profit organizations can afford to recruit or retain people because they are committed rather than because they are competent. Employing non-performers is a disservice to the individuals involved and a disincentive to others.
- 4) A good organization operates with a good remuneration policy. We must move away from the myth that we can, or should, try to compete for the most competent employees with low compensation and/or minimal reward systems. While the most committed may voluntarily choose to accept the lower levels of compensation offered in the non-profit sector, an organization which seeks the most talented people must be willing to pay reasonable wages for reasonable work.
- 5) Effective use of staff and the development of more systematic procedures for program planning and decision-making are important but it is also important that private foundations avoid some of the negative aspects of "professionalism". A few non-profit and voluntary association executives have made it a point to complain to me about their treatment by some foundations. When respect for applicants, modesty of manners and openness were called for, they found instead an attitude of hardened skepticism for any new ideas. I have even heard complaints that some professional staff members give the impression they have lost the capacity for enthusiasm.

At a time in which charitable incentives are often under attack, private foundations need to maintain a good relationship with others in the non-profit sector who share their commitment. Poor public relations or poorly focused grant-making programs serve no one well—neither the grantor interested in maximum return nor the recipient interested in increasing the resources available for philanthropy.

Professionalism in foundation management should mean: mastery of proven techniques, learning from the experience of others, effective recruitment and staff development, and an understanding that organized philanthropy should be both a craft and a calling. As a craft, it has to do with acquired skills which enhance the capacity for compassion. As a calling, it has to do with selflessness, humility and the commitment to community. But professionalism must not be confused with credentialism, i.e., the delegation of responsibility to those who claim a knowledge monopoly based on training or credentials. Actually, the word which best describes what I have in mind is "entrepreneurism" where the emphasis is on flexibility and risk-taking, on judgment and wisdom. The tension between the entrepreneurial and credential cultures in economic life is also to be found in organized philanthropy. We romanticize daring and the lack of rigidity but we reward order, security and the "proven track record".

### **The Concern With Performance**

The third challenge facing foundation management is *the concern with performance*, the periodic need to assess impact and to determine whether the foundation is achieving its desired objectives. While philanthropy is probably more art than science, any consideration of grant making must consider not only efficiency in management, but effectiveness in evaluation.

The responsibility for performance lies with both trustees and staff but since most foundations are run by trustees with little or no staff support, it is the role of trustees which most concerns me. It is for this reason that the Council on Foundations has been exploring how best to help trustees exercise their responsibilities, recognizing that governance and management are reverse sides of the same coin. We now think that we have found an effective model in a new *Self-Study Guide for Foundation Boards*. The self-study model is a questionnaire designed to address issues related to the trustee's dual responsibility to the donor and the public. It raises questions about both policy and performance.

Why is the Council on Foundations devoting so much time to improving the oversight role of trustees?

First, members of the tax-writing committees of our Congress are increasingly interested in how private foundations are administered. Second, the role of foundations in American life is of such importance that it demands the best efforts and fullest commitment of all those involved. Third, the role played by trustees in making American philanthropy a success is paramount and crucial, and, fourth, a critical factor in ensuring the effectiveness of a foundation's board of trustees is the readiness of the board periodically to undertake systematic self-scrutiny of its structure, mode of operation and performance.

#### *Self-Study*

In encouraging such self-study, the Council is joining in a spreading movement of non-profit organizations throughout the United States which have similarly recognized the crucial role that boards of trustees play and the

importance of stimulating and assisting them in the self-appraisal of their performance. Yet there are many ways in which grantors differ from their grant-seeking counterparts, so the Council's self-study poses questions uniquely designed to address the issues, concerns, and activities that are peculiar to foundations. All such activities and responsibilities may not apply to, or be appropriate for, all foundations, however, so every effort has been made to address common concerns and generic issues while allowing each board of directors to delve into the subtle dynamics which make each foundation unique.

The self-study begins with the foundation's mission and program interests. The charter or by-laws usually provide the staff and board with basic guidance, but each foundation should attempt to define further and clarify its purpose or mission based on those provisions.

If the mission and related program interests are clearly defined, grant seekers will know what the foundation funds, staff will know how to direct its efforts, and the public will understand the charitable purpose of the foundation and the reason for its special tax status.

The role of the board is to ensure that the mission is clearly stated and, because it stands apart from the day-to-day operations, administrative preoccupations, and special interests of staff, the board is in a unique position to lead, seek consensus and stimulate action.

#### *The Grant-Making Process*

The second area of concern about foundation performance should be with the grant-making process. The preservation and enhancement of the foundation community are based on the relationship between grantors and grant seekers. That relationship should be one of mutual respect, candour, and understanding, with each investing the necessary time and attention to define clearly the purposes of the grant, the expectations with regard to reports related to financial and other matters, and the provisions for evaluating and publicizing projects.

The process for receiving, reviewing, and deciding on grant applications should be established on a clear and logical basis and should be followed in a manner consistent with the foundation's policies and purposes. Foundations that clearly describe for grant seekers such concerns as program interests, geographic restrictions, and preferred ways of receiving applications usually find their tasks are made easier.

Annual reports or pamphlets provide an excellent way to communicate answers to these important questions and can help to reduce a large number of unnecessary telephone inquiries. A short explanation of the grant-making process in an annual report will also help a grant seeker to understand the timing involved and will help to demystify the grant-making process. Annual reports also provide an excellent way to inform the general public about the foundation's purpose and activities. Foundations in the United States that send an annual report to public officials, regional

associations, and the Foundation Center find this to be a good way of keeping others informed of their work. These foundations realize that they share a responsibility for strengthening the understanding and support of private grant-making initiatives among government officials and the public.

### *Effectiveness of the Board*

The effectiveness of a foundation's performance is strongly related to the effectiveness of its board. A productive board is usually one that has periodically taken the time thoughtfully to sort out its duties, critically review its organizational structure and rules of procedure, and update its by-laws, policy or operational documents. Committee structure depends upon the board's size, the frequency of meetings, and the workload that can be placed on individual members. Periodic critical review should also determine, among other things, if a few people are making most of the board's decisions, if responsible minority opinions have the opportunity for full board consideration, and if lines of communications with staff are open.

### *Post-Grant Evaluation*

A self-study by a board of directors is a good way to evaluate governance and management, but how about grants? How can the foundation best determine whether it, as grant maker and the receiving organization as grant receiver have achieved their common goals? A recent survey of the members of the Council on Foundations found post-grant evaluation to be a major concern, yet few foundations have systematic procedures for evaluation.

In 1967, the Ford Foundation established an in-house evaluation office. In the 1970s, the Robert Wood Johnson Foundation spent \$10 million to evaluate 15 major medical programs. During the same period, government social programs often required a systematic assessment of results. The academic community soon got into the act and developed specialties in the methodology and techniques of evaluation. A new social science discipline emerged.

While there is still disagreement about the most effective process for evaluation, the advantages are being increasingly recognized. Post-grant evaluation usually takes one of three forms: a program evaluation; an assessment of an entire program area like medical research, educational scholarships or child development; or project evaluation, measuring the success of individual grants; or it may be a process evaluation, an examination of the way decisions are made and whether the best programs are being funded.

Should you use staff or consultants for evaluation? The answer you get to that question varies from foundation to foundation. As a foundation executive, I found advantages and disadvantages to both. My staff were familiar with the foundation priorities and what we were trying to achieve. However I was always concerned about the need to impress upon the board or outsiders the fact that they had a vested interest in success, so I found it best to use a mix of staff and consultants, capitalizing on the knowledge of staff but combining it with the fresh perspective and independence of a consultant.

There is increasing talk of evaluation by grant receivers—asking them to evaluate a foundation’s programs and staff. Such an approach requires strict anonymity, but it is worth trying.

The bottom line for evaluation, according to Bill White, president of the Mott Foundation, is to help a foundation fulfil two purposes: “First, to make sure the foundation’s objectives are on target and that the grantees are meeting those objectives; and second, to keep the foundation continually informed as to whether it should be changing its overall objectives or its funding pattern.”

### **The Concern With Public Policy**

A fourth challenge facing foundation management is *concern with the public policy which regulates philanthropy*; the idea that a democratic society works best when it respects and reinforces the contribution of all three sectors of its social and economic life. In the United States each tax deduction has its own unique history and serves a particular set of interests. And, not surprisingly, each has some group of citizens battling to protect it in the name of good public policy. In the debate about incentives for charitable giving, we in the United States have had to make the point clearly and consistently that those who seek to retain the charitable deduction are not a special interest seeking to maintain a private benefit, but private citizens seeking to retain a public good. In Canada as well as in the United States, you cannot afford to be too modest about disclosing the good foundations do or too timid to come together to protect the principles and promote the practices that lie at the heart of the western democratic way of life.

Organized philanthropy is part of a larger sector which includes not only voluntary giving, but voluntary service and voluntary association. By the end of 1984, this sector in the United States had come to include more than 800,000 organizations, 93 million volunteers, seven million full-time jobs and \$74 billion in charitable giving.

While foundation giving represents only five per cent of total giving in the United States, it has had an impact far beyond the actual dollars contributed. Communities have been significantly changed, educational institutions revitalized and severe social problems alleviated because of the benevolence of the donors who created foundations and the trustees who governed them.

Yet as we once exaggerated the contributions of government and under-emphasized the role of private, voluntary efforts, the opposite is now true. We tend to overemphasize the potential of voluntarism and private giving and understate the social role of government. The genius of our western democracy, however, has been the remarkable pragmatism which has allowed us to blend private voluntarism with tax-supported services. Our challenge as foundation trustees and managers is to find a way to focus the national debate about the social role of government on both the potential and the limits of the grant-making sector.

## **The Concern With Personnel**

The fifth and final challenge I wish to put before you is *the concern with personnel*. Here I am concerned about board composition as well as management responsibility. A primary requisite for effective governance is to be sure that the men and women responsible for the foundation's policy directions have the skills, commitment, knowledge and background necessary for effective decision-making.

The larger society to which a foundation is linked is often served more effectively when the board's membership includes individuals who represent a variety of viewpoints, personal backgrounds, and occupations. This diversity does not require that members see themselves as representations of special groups or interests, each member should serve the interests of the foundation and the society as a whole.

It is the board's responsibility to ensure that the foundation has the appropriate resources to carry out its purpose. For some foundations, this means full-time staff; for others, it means a part-time program consultant, accountant, or lawyer. For most foundations, it simply means the oversight of a volunteer board of trustees, often with only a post office box and sometimes not even a telephone number.

We might expect to find a correlation between foundation size and management size, but this does not necessarily follow. There are some very large foundations that operate with only a bookkeeper, while much smaller ones may employ multiple staff. The decision whether to employ staff—and if so, how many—depends on how a foundation chooses to use its resources. It has been my experience that the availability of staff to help make a good idea better can greatly add to the impact of a grant.

An area of increasing public concern in the United States is the number of women and minorities who occupy key staff positions in foundations. The most recent management survey by the Council on Foundations found that while women are now the majority of paid staff, 94 per cent of foundations with assets over \$100 million (74 per cent overall) have men in top positions. Minorities, now 13 per cent of reported foundation employment, are gaining visibility, but there have been only modest changes in the number at the top.

These facts did not go unnoticed in the 1983 Congressional hearings on foundations. The chairman of the Oversight Subcommittee of the House Ways and Means Committee sharply questioned foundation witnesses about their performance in this area.

## **Conclusion**

One final point needs to be made. The industrial age was an era of management. The new information/services age will likely be an era of leadership. Scientific management tended to separate thinking from doing, those who were planners from those who executed plans. Private foundation staff members, like other



managers of non-profits, will need to integrate these two activities and see them as reverse sides of the same coin.

The disciplines most closely associated with professional management have been those which sought to impart knowledge-specific skills like finance and accounting. But the disciplines associated with organizational leadership in the new age will be those of ethics, civics and psychology.

The sum of the matter is this: foundation management in the new age will require attention to principles, professionalism, performance, public policy and personnel. It will require an understanding of purpose and a clearly defined process, but in the end it must enhance the capacity for compassion. It must enable donors to express formally what de Tocqueville described as “habits of the heart”.