BEYOND THE RHETORIC:
FOUNDATION STRATEGY

THE CENTER FOR
EFFECTIVE PHILANTHROPY

Authors

Kevin Bolduc
Ellie Buteau, PhD
Greg Laughlin
Ron Ragin
Judith A. Ross

For more information, contact

Kevin Bolduc
Vice President, Assessment Tools
617–492–0800 ext. 202
kevinb@effectivephilanthropy.org

CEP is a nonprofit organization focused on the development of comparative data to enable higher-performing foundations. For more information on CEP's research and to download or order copies of this and other CEP reports, please visit www.effectivephilanthropy.org.

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CEP has created a Web site with more information on our Foundation Strategy Study, including audio and video segments that exemplify the four decision-making categories we describe.

Please visit strategy.effectivephilanthropy.org.

Executive Summary

Foundations are unique in our society. While other organizations face competitive dynamics or fundraising imperatives, endowed, private foundations feel no such pressures.

To many in the foundation world, this freedom is foundations' greatest strength, allowing them to tackle social issues other societal actors — such as business and government — will not. To critics, it is their greatest weakness because there are few checks on the decision making of foundation leaders and no forces compelling foundations to be effective and strategic.

Given foundations' unique situation, what drives their decision making? To what extent are foundation CEOs' and program officers' decisions guided by strategies?

The Center for Effective Philanthropy (CEP) has sought to learn how foundation CEOs and program officers view strategy: Do they believe it is important for foundations? Are they guided by strategies when making decisions about using their financial and nonfinancial resources to achieve goals? If not strategy, what does guide their decisions?

We invited CEOs of 50 randomly selected private foundations among the largest 450 in the United States to participate in our study. Twenty-one chose to participate and allowed us to interview them and a program officer at their foundations, yielding a sample of 42 respondents. Both CEOs and program officers were queried about goals, decision making, development of strategy, internal consistency, and assessment. We then systematically analyzed their responses.

- We learned that even though most of the CEOs and program officers interviewed believe that having and using a strategy increases a

foundation's ability to create impact, many do not use strategy in their own work. We asked respondents to describe the frameworks they use to guide their decisions. While some decision-making frameworks met our basic definition of strategy, a majority did not.

When determining whether respondents used strategy to guide programmatic decision making, CEP applied the following definition of a strategy:

> *A framework for decision making that is 1) focused on the external context in which the foundation works and 2) includes a hypothesized causal connection between use of foundation resources and goal achievement.*

Our analysis uncovered four categories of decision makers that range from nonstrategic to strategic:

Charitable Bankers do not use strategy. They mention their external context only when citing their goals, not when describing how they will achieve those goals. They describe decision making solely in terms of processes for reviewing, making, or denying individual grant requests.

Perpetual Adjusters use strategy very infrequently. Most decision-making frameworks they describe are not strategies. They frequently mention processes they use to review or revise goals and decision making. They typically note many options for focus, decision making, activities, and processes.

Partial Strategists use at least one strategy to guide their decisions, yet for many of their other decision-making frameworks, they do not articulate hypothesized causal connections between use of foundation resources and goal achievement.

Total Strategists are highly strategic. They use externally focused frameworks for decision making that have a hypothesized causal connection between foundation resource use and goal achievement.

CEOs and program officers from the same foundation frequently do not fall into the same category because they describe approaches to decision making that are different. About half, however, did land in the same decision-making category as their foundation counterpart. Overall, neither CEOs nor program officers tend to articulate a more strategic decision-making approach.

> *Our findings suggest a fundamental disconnect between what foundation CEOs and program officers believe about the importance of strategy and their use of it in their daily work.*

KEY FINDINGS

• All respondents talked about their goals primarily in terms of creating external social impact.

• Respondents believe that strategy provides significant benefits to private foundations, and they overwhelmingly describe the use of strategy in positive terms.

• Although respondents acknowledge — and often extol — the advantages of having a strategy, the majority of frameworks they describe do not meet our basic definition of a strategy.

• Four distinct categories of decision makers emerged from our analysis of individual respondents' descriptions of their decision-making frameworks.

• Respondents from the same foundation frequently fall into different decision-making categories.

Our findings suggest a fundamental disconnect between what foundation CEOs and program officers believe about the importance of strategy and their use of it in their daily work. To the extent that those we interviewed are correct that strategies are important for maximizing impact, this finding suggests that foundations are not reaching their full potential. This gap between what CEOs and program officers say they believe and what they actually do poses an important challenge for foundation leaders.

Although this study focuses on respondents from large, private foundations, we hope that the findings will provoke reflection and discussion among leaders of small, community, and corporate foundations as well. In future phases of our work, we hope to deepen and broaden the analyses we have conducted on private foundations and to expand our work to study community and corporate foundations explicitly.

Introduction

Corporate CEOs, electoral candidates, and sports coaches use strategy to create shareholder value, prevail in elections, and win championships. In fact, strategy is widely seen to be an integral part of any team achieving its goals — whether that achievement happens at the stock exchange, in the voting booth, or on the playing field. Should foundations — working to achieve important goals related to the improvement of our society — be any different?

Many leading corporate strategists argue that developing a strategy based on "unique positioning" within the external environment is crucial to success in a competitive environment.[1] But, though many have tried to import corporate concepts into the nonprofit sector, the story is somewhat different there — because the concepts of competition and "unique positioning" are often less relevant. The goal, instead of profit, is achievement of positive social impact, which may require collaboration as much as competition.

Still, the need to meet payroll and pay rent, for example, exposes nonprofit organizations to some aspects of competition. As a result, the concepts that dominate corporate strategy — responsiveness to the changing external environment, unique positioning, and the appropriate alignment of internal resources — can also help nonprofits succeed in generating contributed and earned revenue and in attracting volunteers.[2]

Endowed private foundations are a different breed entirely. They do not face resource-generation concerns or competition, and so there is no external imperative that compels the development or modification of a strategy. The freedom these foundations enjoy is arguably their greatest strength because it allows them to take on issues that other societal actors cannot, or will not, address. Foundations that meet minimum payout and other basic regulatory requirements can exist in perpetuity regardless of their sensitivity to any pressures. No other organizations in our society enjoy this freedom.

"'Doing strategy,' then, is difficult for most foundations," writes Duke University Professor Joel Fleishman. "As a result, some resist investing the hard work required in strategy. Others, while paying lip service to the value of strategy, lack the skills and philosophical orientation needed to carry it out effectively. In the end, does it really matter? Why is strategy so important for foundations in the first place?"[3]

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1 Michael Porter has written extensively about strategy and "unique positioning." The *Harvard Business Review* article, "What Is Strategy?" (November 1996), is one of many. Henry Mintzberg defines strategy as "a pattern in a stream of decisions." He has written extensively on the role that decision-making patterns have played in the formation of strategy in various types of organizations. One example is Mintzberg and James A. Waters's article, "Of Strategies, Deliberate and Emergent," *Strategic Management Journal*. Vol. 6 (1985): 257-272. Robert Kaplan and David Norton also write extensively about strategy. See Robert S. Kaplan and David P. Norton's article, "Measuring the Strategic Readiness of Intangible Assets," *Harvard Business Review*, February (2004): 55.

2 Mark Moore argues that, unlike corporations that focus solely on the best strategy to generate profit, nonprofit strategy must account for the interplay (and potential tension) between the creation of social value, the development and maintenance of legitimacy and support, and the resource generation necessary to sustain the operational capacity to deliver that value. Mark Moore, "Managing for Value: Organizational Strategy in For-Profit, Nonprofit, and Governmental Organizations." *Nonprofit and Voluntary Sector Quarterly*, Vol. 29, no. 1, Supplement (2000): 183.

3 Fleishman, Joel. *The Foundation: A Great American Secret — How Private Wealth is Changing the World*. Public Affairs Books (2007): 62.

Why indeed. Fleishman suggests that strategy is essential to the achievement of positive social impact — impact that foundations themselves almost always articulate in terms of external goals. Eliminating childhood obesity, improving the quality of life within a local community, and promoting global security and sustainability are a few such examples. Foundation grantees, trustees, and staff tend to agree with Fleishman that foundations, like other kinds of organizations, need clear strategies to achieve these goals.

Data from the Center for Effective Philanthropy's (CEP's) grantee surveys indicate that grantees perceive foundations that communicate their goals and strategies clearly and consistently to have a greater impact.[4] Such clarity enables grantees to understand how their activities mesh with the foundation's goals. As one grantee writes, "The foundation's clarity of focus is consistent with our values and mission and has been a significant support as our organization has worked to stay true to its mission." When a foundation's objectives are unclear, it poses problems for grantees. According to another grantee, "It is difficult to understand whether the foundation has clear priorities, or what the foundation looks at and thinks about when evaluating a proposal. Maybe this is a conscious choice by the foundation, but it does raise some questions for us."

Foundation board members also value strategy. A CEP survey of trustees of 53 large private and community foundations reveals that trustees perceive their board to be more effective if the foundation has both a strategic plan that they influence in a meaningful way and clear, quantitative indicators against which progress is tracked.[5] Trustees are hungry for better data to assess foundation strategy: The area of greatest dissatisfaction among foundation board members is the lack of information to assess strategy. "The board

The area of greatest dissatisfaction among foundation board members is the lack of information to assess strategy.

would probably benefit from a clearer picture of the foundation's strategies in some areas. Also helpful might be a bit more pointed focus on success measurements," writes one trustee. "We need to develop the key benchmarks that will help us to measure our progress and refine strategy," writes another.

Results from CEP's survey of foundation staff indicate that foundation staff members have more positive perceptions of their work environment (including job satisfaction) and foundation dynamics when they believe that they are working toward the same goals as their CEO and board — so a clear strategy is important to them as well. "We have a very specific strategy and thus our grantmaking is targeted and efficient, allowing the grants to make very specific gains in our area of interest," writes one foundation staff member who responded to a CEP survey. "The strength of a program or foundation's strategy is the main characteristic that distinguishes charity from philanthropy and is what makes our philanthropy so effective."

Initial Research: Why Focus on Strategy?

Strategy, then, is widely seen to be necessary for foundations to maximize their impact. We at CEP also have argued consistently that good strategies are essential to foundation effectiveness.

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4 *Listening to Grantees: What Nonprofits Value in Their Foundation Funders*. The Center for Effective Philanthropy (2004).

5 *Beyond Compliance: The Trustee Viewpoint on Effective Foundation Governance*. The Center for Effective Philanthropy (2005).

Our 2002 report, *Indicators of Effectiveness*, proposed a framework for assessing overall foundation performance.[6] This framework suggests that measuring progress in three key areas — managing operations, optimizing governance, and setting the agenda through strategy — is essential to understanding whether a foundation is creating the maximum social impact relative to the resources it invests.

Since completing that early study, CEP has focused on developing indicators to inform the questions laid out in this performance assessment framework. Some of the toughest-to-answer questions in that framework relate to strategy — such as whether clear goals and a set of activities to achieve those goals are in place.

This research is a logical next step in our effort to answer those questions. We have not set out here to prove that using strategy creates more impact than not using strategy, but rather to understand better how foundation CEOs and program officers view strategy. Do they see strategy as important? Do they believe that having a strategy will enhance their ability to achieve impact? If so, do they develop and use strategy?

The respondents in this study are drawn from large private foundations because, among foundation types, they face the least external competitive pressure that might necessitate the use of strategy. We hope CEOs and program officers at other types of foundations also find this study useful. Further research is warranted to understand fully whether existence within a competitive context — in the case of community foundations, for example — influences our findings.

Defining Strategy

Given that the CEOs and program officers we interviewed see their foundations' goals in terms of creating external impact, what kind of decision-making processes do they use to achieve those goals?

We applied the following definition of a strategy when analyzing whether or not interviewees used strategy to guide programmatic decision making:

> *A framework for decision making that is 1) focused on the external context in which the foundation works and 2) includes a hypothesized causal connection between use of foundation resources and goal achievement.*

It is important to note that our focus in this research is foundations' programmatic goals and strategies, as opposed to organizational strategies designed to achieve other goals, such as maximizing foundation endowment returns.

What Strategy Looks Like

What constituted a strategy under our definition? Here is an example that would meet our definition from a foundation that aims to improve children's education. Its decision making is guided by a framework that is external to the foundation: "Provide grants to nonprofits that work with teachers to improve the quality of lessons." In addition, the foundation staff could articulate a hypothesized causal connection between foundation resources and goal achievement: "Our grantmaking supporting improved teacher training stems from our analysis that under-qualified teachers are the biggest reason why children's educational achievement isn't improving fast enough."

This stands in contrast to a decision-making framework for the same goal that would not meet our definition because it looks only inward at an internal process for providing grants: "Our grantmaking process starts with a letter of intent that is reviewed by a staff member and then a full application that is reviewed by two different staff committees." A framework with no hypothesized causal connection between foundation resources and goal achievement would also fail our test: "We award grants to facilitate collaboration." This statement describes what the foundation does externally, but lacks a rationale for why collaboration will lead to the achievement of the foundation's goals.

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6 *Indicators of Effectiveness: Understanding and Improving Foundation Performance*. The Center for Effective Philanthropy (2002).

OVERVIEW OF RESEARCH DESIGN

Little rigorous, empirical research has been conducted to describe how individual foundation staff members make decisions about how to achieve their foundation's programmatic goals. We sought to understand the current state of decision making and its relationship to program strategy at large, private, U.S. foundations. This research is based on interviews with a sample of large, private foundation CEOs and program officers.

Our research approach is distinct from many previous CEP studies in employing a qualitative methodology — rather than large-scale, quantitative data analysis. The methodology we chose allows us to identify similarities, differences, and nuances in decision making of individual foundation staff members. Rather than asking those we interviewed to tell us whether they were strategic, we asked questions designed to understand how they made decisions. Then, we rigorously analyzed whether their responses met our basic definition of strategy.

We chose this approach, instead of a broad survey, because we believed close-ended survey questions would not elicit comparable or useful responses in light of the fact that foundation CEOs and program officers define and use words such as "goals" and "strategies" inconsistently.

Through our analysis, we sought to answer the following questions:

- How do CEOs and program officers describe what guides their decision making?

- To what extent do strategies exist at the country's largest foundations?

- What data informs decision making?

- How do foundations assess progress against their strategies?

- What are the impediments to strategy development and implementation?

We sent invitations to CEOs at 50 randomly selected private foundations among the largest 450 in the

> *Rather than asking those we interviewed to tell us whether they were strategic, we asked questions designed to understand how they made decisions. Then, we rigorously analyzed whether their responses met our basic definition of strategy.*

United States. Twenty-one of those invited chose to participate and allowed us to interview a program officer at their foundation as well, yielding a sample of 42 respondents — within the typical size range for studies of this nature.[7] Interviews were approximately one hour in length and resulted in 1,700 transcribed pages.

We asked a broad range of questions, and, on almost every question, we prompted respondents to provide specific examples to support their answers. We asked each respondent the following core questions:

- Please describe what your foundation/program is trying to achieve.

- How do you determine how to use your foundation's/program's monetary and nonmonetary resources to accomplish these goals?

- Is that any different from what you would consider your foundation's/program's "strategy"?

We systematically analyzed the resulting information, reading each interview in whole and question-by-question multiple times, identifying themes and topics that either linked individual responses or revealed contrasts among them.[8]

A comparison of respondents' descriptions of their decision making to our definition of strategy uncovers four types of decision makers. This typology is distinguished by the manner in which respondents make decisions, but it also reveals differences on a number of other dimensions.

Respondents were drawn from private foundations among the largest in the country, ranging in assets from $100 million to more than $1 billion. The median foundation included had about $260 million in assets and gave away about $11 million in grants per year.

Please refer to the Appendix for a complete methodology.

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7 Participants included two foundations at which two program officers were interviewed and one foundation for which no program officer participated. CEOs generally allowed CEP to select a program officer randomly from among their staff members, but in three cases the CEO asked that CEP interview a specific program officer.

8 Because this is qualitative research, we have focused our findings on patterns repeated throughout the data and very large absolute differences.

Key Findings

• **All respondents talked primarily about their goals in terms of creating external social impact.**

We asked respondents what their foundations were trying to achieve. Every one of them responded with externally focused goals related to the creation of positive social impact, such as "ensuring that children in this area can attend high-performing schools" or "enhancing the capacity of organizations working with people living in poverty."[9] However, some had difficulty articulating their goals over the course of the interview.

• **Respondents believe that strategy provides significant benefits to private foundations, and they overwhelmingly describe the use of strategy in positive terms.**

In fact, they are three times more likely to mention benefits than either drawbacks or neutral aspects of private foundations having strategies. The ability to focus, maintain focus, and create and assess impact better are frequently mentioned benefits of having a strategy. One respondent comments:
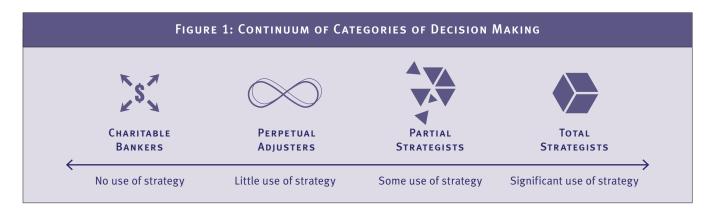
"Strategy that is sharp and focused lets you maximize the results from the money you spend; maximize the results of the time people put into the projects they do for you. It lets you run an effective organization, hire effectively, know what you should do, what you shouldn't do... it even lets you develop your technology effectively. What do you need? What do you not need? It just lets you work more efficiently, use your energy better. You don't spend time constantly sorting and making a new decision every time; you have a framework."

• **Although respondents acknowledge — and often extol — the advantages of having a strategy, the majority of frameworks they describe do not meet our basic definition of a strategy.**

When asked how they use their resources to achieve goals, most respondents mention using multiple frameworks to guide their decision making. Across respondents, the majority of decision-making frameworks do not meet our basic definition of a strategy — even though many referred to their frameworks as strategies.

• **Based on our definition of a strategy, four distinct categories of decision makers emerged from our analysis of individual respondents' descriptions of their decision-making frameworks.**

These range from not at all strategic to very strategic as illustrated in Figure 1 below.

FIGURE 1: CONTINUUM OF CATEGORIES OF DECISION MAKING

CHARITABLE BANKERS	PERPETUAL ADJUSTERS	PARTIAL STRATEGISTS	TOTAL STRATEGISTS
No use of strategy	Little use of strategy	Some use of strategy	Significant use of strategy

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9 These goals are disguised to protect confidentiality of respondents.

Although the categories are differentiated solely based on individual respondents' use of strategy, we also found that these categories correspond with consistent and substantive differences in many aspects of their work, including assessment, internal alignment, type of grantmaking, and relationships with the board. These categories fall along a continuum: Respondents do not necessarily exhibit every trait associated with a particular category, and some exhibit an occasional characteristic associated with other categories. Yet, the more we looked, the more distinct we found the decision making, motivations, activities, and relationships of individuals within each category. Although we did not seek an even distribution, the resulting distribution of responses is roughly equal across the four categories.[10]

• **Respondents from the same foundation frequently fall into different decision-making categories.**

CEOs and program officers from the same foundation may describe using different decision-making approaches and therefore fall into different decision-making categories. About half, however, did fall into the same decision-making category as their colleague. When the CEO and program officer from the same foundation were categorized differently, they usually fell into adjacent categories. For example, a program officer who is a Charitable Banker might work under a CEO who is a Perpetual Adjuster. Overall, neither CEOs nor program officers were more likely to be strategic. Figure 2, below, describes the distribution of respondents in each category.

FIGURE 2: DISTRIBUTION OF RESPONDENTS					
Number of Respondents					
	Charitable Bankers	Perpetual Adjusters	Partial Strategists	Total Strategists	All Categories
CEOs	4	6	6	5	21
Program officers	6	5	4	6	21
Total in category	10	11	10	11	42
Correspondence of Respondents					
CEOs without program officers	1	4	4	2	11
Program officers without CEOs	3	3	2	3	11
Both CEO & program officer of a foundation in category	5 (1 pair, 1 trio)	4 (2 pairs)	4 (2 pairs)	6 (3 pairs)	19 (8 pairs, 1 trio)

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10 Reminder: Participants included one foundation at which two program officers were interviewed and one for which no program officer participated.

THE FOUR CATEGORIES OF DECISION MAKING

All respondents in this study described their foundations' goals in terms of creating social impact. The four categories emerged from differences in how they described the decision-making processes they use to achieve those goals. In addition to the characteristics that defined them in terms of decision making, other characteristics, unique to each group, also emerged.

CHARITABLE BANKERS

"We don't use strategy to define how we approach our work. It is really not a term or perspective that engages the trustees' interest."

Defining Characteristics

Charitable Bankers do not use strategy. They only mention their external context when citing their goals, not when describing how they will achieve those goals. They describe decision making solely in terms of processes for reviewing, making, or denying individual grant requests.

Charitable Bankers are decidedly nonstrategic, according to our definition. Like bankers reviewing loan applications, these respondents describe decision making in terms of processes for reviewing, making, or denying individual grant requests: They rarely mention their foundations' external context. Most Charitable Bankers develop goals and decision-making frameworks based on historical practice and priorities. Only one-third of Charitable Banker respondents report having a written strategic plan.

When asked to describe what their foundation is trying to achieve, the majority of Charitable Bankers cite broad, foundationwide goals, such as "aiding the less fortunate," rather than program area-specific goals.[11] Charitable Bankers tend to fund across more than one field, and many say their goals are designed to accommodate almost any type of grantee or proposal. "This [foundation] does not want to be fenced in. After long and thoughtful discussion, both at the grants-committee meeting as well as the full board level, the feeling was we want to fund good programs," says one respondent.

Few respondents in this category can describe an example of when their decision-making frameworks caused them to decline a grantee or proposal that they found personally appealing. Charitable Bankers often allude to their lack of strategic focus as a weakness, but many also believe that the resulting flexibility is necessary. "Part of the driving force behind why we play it by ear is to have the ability to roll with the times and react to whatever comes along," says another respondent. "We review proposals, decide which ones are most worthy, and fund them." Nearly all Charitable Bankers say that they award grants based on what comes over the transom rather than actively seeking out grantees — "reactive" grantmaking.

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11 This goal is disguised to protect confidentiality of respondents.

Assessment is not a high priority for Charitable Bankers. In fact, they do not mention it unless asked, and then they frame their answers in terms of grant-focused assessments. The data they use is collected from grantees — generally through reports or site visits. They do not discuss how, if at all, they use the collected data. Says a respondent, "We call them [grantees] up, ask how things are going. At the one-year mark, they do a formal evaluation." These respondents rarely mention board involvement with assessment and use external evaluators infrequently.

Although they don't involve their boards in assessment, board-staff dynamics are a primary force in the working lives of Charitable Bankers. Their boards are either directly or indirectly involved in their everyday affairs. Respondents indicate that they consider what the board will approve when making decisions, yet they often characterize the board as unsure of what it wants.

As a result, staff members say they often base their decisions on fuzzy, undocumented patterns or guides that the board may not follow consistently. One such respondent indicates that long experience with her board is the only thing that enables her to make decisions. "I think it would be immensely more frustrating for someone who hadn't been around as long as I have. Because... having an intuition or an antenna that's been trained by being around the trustees for a couple of decades is really the only tool that helps me sense whether we might do this or we might not do that."

> *Assessment is not a high priority for Charitable Bankers. In fact, they do not mention it unless asked, and then they frame their answers in terms of grant-focused assessments.*

PERPETUAL ADJUSTERS

"Recently, a couple of our board members wanted to review our work. We already had a pretty broad mission, but there were still some people who were slipping through the cracks because they fell outside our focus areas. That motivated the board to ask, 'Is there a way we can broaden our mission so that we can help even more grantees?' And, in the end, the board reframed our mission by adding a new focus. But we aren't doing anything different, really, and neither are our grantees... we're just changing how we talk about our activities."

Defining Characteristics

Perpetual Adjusters use strategy very infrequently. Most decision-making frameworks they describe are not strategies. These respondents do not use any particular decision-making frameworks on a consistent basis, but they frequently mention using a variety of different processes to review or revise goals and decision making. They typically note many options for focus, decision making, activities, and processes.

Perpetual Adjusters describe themselves as in the midst of change — revising grantmaking programs or deciding whether or not to change grantmaking budgets of program areas. These respondents try to appease a broad range of stakeholders — communities, boards, grantees, foundation staff, and others. Notes one respondent, "I think our job as allocators of resources is to be there not only to listen to the communities, but also to be open to new communities that are here, new issues, new and different things that are coming up."

Perpetual Adjusters frequently add more programs, communities, grantee types, and decision-making frameworks to their work, yet rarely remove anything. Fewer than half can provide an example of when their decision-making framework caused them to say "no" to a grantee or proposal that they found appealing. Nearly half of Perpetual Adjusters do at

least some proactive grantmaking — actively soliciting applications from potential grantees. The majority, however, mention responsive grantmaking — creating guidelines, focus areas, and selection criteria to respond to what stakeholders view as important.

Perpetual Adjusters all describe using regular planning processes to adjust their frameworks for resource use and to create or adjust foundation goals. While some Perpetual Adjusters state that these processes are based on rigorous analysis, the majority say they use internal information at hand, rather than develop external data.

Perpetual Adjusters portray their boards as mercurial. When asked about her foundation's focus, one respondent commented, "The trustees change their minds on this, too. Sometimes they would really like to see some more focus, and sometimes they'll say, 'Let everything in the door.'" Many Perpetual Adjusters describe holding the board at arm's length by ignoring or only superficially appeasing its suggestions or requests.

Perpetual Adjusters frequently take their cues from stakeholders. Many of them worry about being perceived as arrogant, especially in any attempts to be strategic. They constantly seek feedback when shaping their goals and decision making. "We have annual board retreats to learn more about what the trustees would like to fund. We hold regular meetings with grantees to learn what issues are front and center in their and the community's minds. After all, they know best what needs to be accomplished — we don't want to be telling them what to do," comments a respondent.

In addition to forming goals based on stakeholder input, Perpetual Adjusters mention mission and values as key guides. They also report ongoing, internal disagreements about decision making.

One-third of Perpetual Adjusters cannot cite any examples of assessment. Examples provided by those who say they do assess their work are as likely to be anecdotes of a single event as descriptions of more systematic assessment. When asked what might cause them to stop following their decision-making frameworks, they mention potential failure more often than successful goal achievement.

These respondents and their foundations are demographically varied, except that almost none have relatives of the original donor on the board. Most program officers are generalists.

Partial Strategists

Defining Characteristics

Partial Strategists use at least one strategy to guide their decisions, yet for many of their other decision-making frameworks, they do not articulate hypothesized causal connections between use of foundation resources and goal achievement.

Unlike Charitable Bankers and Perpetual Adjusters, Partial Strategists often link their goals to external factors, and generally use external data in developing

a strategy. At the same time, they typically report using a variety of decision-making frameworks — some internally focused and some strategic. Partial Strategists can cite at least one example of a strategy, yet for many of their decision-making frameworks they do not suggest hypothesized causal connections between use of foundation resources and goal achievement. They also frequently mention their internal processes — either for planning or grantmaking — as key guides.

Partial Strategists report the largest average number of goals and decision-making frameworks per respondent of any category. According to one, "I think every challenge, every problem, is different. And the methodology — the strategy — if you will, comes out of what the problem is. What works in one place may not work in another. What works in one community may not work in another."

Partial Strategists also frequently mention their mission, values, or broad beliefs when describing goals and resource use. Partial Strategists often report both specific and broad goals, as well as program area-level and foundationwide goals.

Development of decision-making frameworks is also varied for this category. Partial Strategists report using new analysis and relying on historical processes. They use both internal and external data. When citing reasons for changes that took place at their foundations, nearly half of the Partial Strategists mention board involvement. But, they frequently also discussed some other, more pressing impetus for change, such as a shift in the external funding environment or the CEO's desire to assess the foundation's impact.

Most of these respondents assess the success of their decision-making frameworks through review of individual grants. Although most report that they use data to measure how well these frameworks are helping them achieve their goals, only a few offer a specific example of data used for that assessment. Measurement is an ongoing challenge. "We have a sense of what's going on, but we do not yet have an overall evaluation strategy for the foundation. That's a work in progress here. It's very hard," says a respondent. In fact, Partial Strategists are more likely than respondents in other categories to say that the difficulty of assessment keeps them from doing it more.

Partial Strategists highlight their boards' integral involvement in all workings of their foundations, including decisions to make strategic changes and the establishment of focus areas. Partial Strategists describe cordial and collaborative relationships with their boards. According to one, "I can only think of one time that the board has ever really turned down a [recommended] proposal. They said, 'Wait a minute, you said you wanted to follow your strategy, you said this is what you're doing. But this is not part of it.' And we said, 'You know what? You're right. We got excited about that grant, and we let it get out of hand.'"

Partial Strategists' foundations are typically older than others. Respondents from very large foundations fall disproportionately into this category. Half of Partial Strategists' foundations have the donor's relatives on the board, but most do not describe their foundations as family foundations. Partial Strategists tend to be more tenured than respondents from other categories.

Total Strategists

"And if you are really about achieving lasting social change around a specific issue, or population, or both, and you don't have strategies, you run the risk... of being drawn into many different projects that may be very worthwhile but don't do diddly squat to advance your mission. So if you really have a desire to change a social structure or social system... not having a strategy is a significant drawback, while having one is a significant benefit."

Defining Characteristics

Total Strategists use externally focused frameworks for decision making that have a hypothesized causal connection between foundation resource use and goal achievement.

Total Strategists include checks and balances in their operations to ensure continued fidelity to both their goals and strategies. Their goals are well defined, and almost all of these respondents describe goals at the level of program areas. Nearly all mention having at least some proactive aspect to their grantmaking.

Given their outward focus, strategy development for Total Strategists is primarily analytical and relies heavily on data about the external context in which the foundation operates. While their boards may initiate use of strategy or changes in an existing strategy, foundation staffs most frequently lead its development.

Almost all of these respondents have a written strategic plan that they consult regularly. When internal disagreements about strategy occur, they usually concern implementation — such as how well specific grantmaking choices do or do not fit the strategy.

Nearly all respondents in this category can provide at least one example of a personally appealing grant request that they denied because it did not fit with their strategy. "We can't fund everything," notes one respondent. "A strategy provides a defensive mechanism to be able to say to someone, 'We can't support what you are doing with funding because it doesn't fit in our strategy…' it helps the grantee or possible grantee to understand why they are being told 'no.'"

Total Strategists assess more frequently than any other category, and their boards are often involved. They cite specific examples of data that they use. In addition to assessing at the grants level, some Total Strategists assess at the foundation level — unlike respondents in other categories. Grant-level assessments often include an articulated connection between foundation and grantee goals.

Total Strategists interact with stakeholders and communities they work with, creating feedback loops to refine their strategy. Total Strategists rely on this feedback to inform their actions, but, unlike Perpetual Adjusters, the feedback does not directly dictate the development of their goals or strategies.

Most Total Strategists point out transitions in their decision-making frameworks that mark shifts toward being more strategic: Had we interviewed them for this study at an earlier point in time, they likely would have fallen into another category. These changes can occur quickly, usually through the arrival of a new CEO, program officer, or board member who is passionate about being strategic and who can lead the organization toward strategy.

This transition toward strategy is always described as a process of cutting away some of the foundation's work. "We have gone from a large program portfolio of a typical foundation numbering in the hundreds down to just a few grants, as part of our effort to… try to focus our grantmaking to be more effective," notes a respondent. In fact, Total Strategists' foundations frequently have a single area of programmatic focus.

All foundations with respondents in this category have program officers who are specialists in their particular area of grantmaking focus. A larger proportion of these foundations are young. Program officer respondents in this category have the least tenure when compared to their counterparts in other categories. (See Case Study, "The Gill Foundation: Taking a Strategic Approach to Philanthropy," on page 22.)
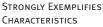
Some Total Strategists assess at the foundation level — unlike respondents in other categories. Grant-level assessments include an articulated connection between foundation and grantee goals.

Key Trends Among Categories

The four categories of decision making are based on the extent to which respondents use strategy. In addition to differences in their decision-making frameworks, differences in other characteristics emerged that tended to be associated with respondents in a specific category. Figure 3 illustrates the prevalence of certain key characteristics among respondents in each category.

The most striking examples of traits shared by respondents within a category were in their approaches to grantmaking, assessment, and their boards.

FIGURE 3: KEY TRENDS				
	Charitable Bankers	Perpetual Adjusters	Partial Strategists	Total Strategists
Defining Characteristics				
Most decision-making frameworks are focused on foundation's external context				
Use at least one strategy to primarily guide decision making				
Associated Characteristics				
Stated goals made more specific by focus-related details (e.g., geography)				
Boards are regularly involved in ongoing decision making				
Primary decision-making frameworks developed based on analysis of the context in which the foundation works				
Primary decision-making frameworks developed based on historical practices and priorities				
Mention some proactive grantmaking, without prompting				
Mention some reactive grantmaking, without prompting				
Can give an example of saying "no" to an appealing action because of decision-making framework				
Mention assessment unprompted				
Have a written strategic plan, referred to regularly				

LEGEND:

WEAKLY EXEMPLIFIES CHARACTERISTICS ⟵ ⟶ STRONGLY EXEMPLIFIES CHARACTERISTICS

Grantmaking Stance: Proactive, Reactive, and Responsive

Respondents' choice of grantmaking stance — proactive, reactive, or responsive — strongly coincides with the category of decision maker into which they fall.

Total Strategists tend to be more proactive in their approach. Few Total Strategists mentioned reactive grantmaking, but nearly all Charitable Bankers did.

However, even strategists sometimes use a reactive approach for some of their work: Being reactive and being strategic are not always in tension. Conversely, nonstrategists sometimes use a proactive approach.

When strategists are proactive, they do not simply impose their goals and strategies on a field without concern for grantees' or other practitioners' expertise. On the contrary, all Total Strategists mention the importance of stakeholder feedback in helping to inform the development and refinement of their strategies.

The less strategic decision makers rely on reactive or responsive grantmaking approaches. Charitable Bankers speak of creating broad guidelines that give them maximum flexibility to choose among a wide range of applications. They are completely reactive.

Perpetual Adjusters are different: They also review unsolicited incoming applications, but they develop guidelines, focus areas, and selection criteria to be responsive to what stakeholders view as important. "Sometimes I wish we were more focused," comments one Perpetual Adjuster, "But, there is a danger in that because if we become rigid, we won't have the flexibility to be responsive to grantees. One thing I really enjoy is that we can adjust midcourse."

Soliciting External Feedback: Doris Duke Charitable Foundation's Wise Person's Review

Although most CEOs and program officers we interviewed believe that strategy is important in achieving impact, some also expressed reservations. They worry that strategy might make a foundation less receptive to outside perspectives that could call its approach into question — even suggesting that foundation strategy leads to arrogance and isolation from feedback.

Our findings, however, indicate just the opposite. More so than other categories of decision makers, strategic respondents, like those from the Doris Duke Charitable Foundation (DDCF), frequently seek advice from stakeholders — grantees, experts, and others.

Through its "Wise Person's Review" process, DDCF regularly solicits the opinions of leading experts in each of its program fields and invites comments and criticisms on each of the Foundation's program strategies — as well as new ideas. Staff members prepare packets to help orient the group's discussions, which are held over two days. The experts discuss DDCF's current and proposed grant strategies, using five questions to target their deliberations:

1. Is DDCF addressing critical opportunities and needs in the field?

2. Has DDCF devised appropriate strategies for meeting these opportunities/needs?

3. Has DDCF effectively implemented its strategies?

4. What should DDCF consider doing differently in the future?

5. What has been the role/contribution of DDCF as a funder in the field? How is the Foundation (or its grants) perceived?

The resulting feedback helps staff sharpen their program strategies. For DDCF's Environment Program, the Wise Person's Review helped hone the program's strategy to accelerate the conservation of essential wildlife habitats in the United States, according to Andrew Bowman, who was interviewed when he was program officer of the Environment Program and who was recently named director of the Foundation's Climate Change Initiative. Rather than continue providing grants for land acquisition, the experts recommended that the program take a more targeted approach. The recommendations "led to developing a focus on state wildlife results — plans that all 50 states have completed to identify where they need to focus their habitat-conservation efforts. [We] then built a strategy around those state wildlife action plans and other activities that would complement them," Bowman recalled.

The Wise Person's Review process is an effort to "create the functional equivalent of the marketplace," says CEO Joan Spero. "You don't have competition in the foundation world, so how do you get honest criticism? We've tried to design that in."

Working with the Board

Respondents' relationships with their boards also differ by category. Charitable Bankers report little overt disagreement with their boards about how decisions are made, although some chafe at the lack of any real autonomy in decision making. This may be a result of the fact that boards are more frequently involved in the foundation's daily operations — and exercise clear control of almost every aspect of the foundation's work. The broad definition of goals that typifies Charitable Bankers — and allows them to support a wide range of organizations — may also reduce conflict.

While for Charitable Bankers the board is firmly in control, it is not as clear for Perpetual Adjusters who actually exercises authority. Many Perpetual Adjusters attempt to minimize substantive board involvement.

Partial Strategists, like Charitable Bankers, have a close relationship with their boards and are unable to make changes without their boards' involvement. But, unlike Charitable Bankers and Perpetual Adjusters, Partial Strategists do not view that relationship as a constraint. Instead, they take a positive view of this dynamic. "Our board is very challenging, which I think is very important and very good. They are feisty,

Respondents in all categories mention the difficulty of assessment as a key reason they do not do more of it.

and hardly a rubber stamp! So there's debate and a lot of discussion," says one Partial Strategist.

Total Strategists' boards are engaged, but not to the degree of Charitable Bankers and Partial Strategists. The nature of the engagement is also different: Total Strategists' boards are much more likely than others to be involved in assessment. "Over time the board has pushed us in very positive ways, as we've moved along the developmental cycle, to get clearer and clearer about how we observe those outcomes. And get clearer about what our theory of change is. And get clearer about how we and they observe impact at the community level."

Assessment

Assessing foundation performance is notoriously difficult, so it may not be surprising that a minority of respondents mentioned assessment without being asked about it directly.[12] Total Strategists were by far the most likely to discuss assessment, to cite specific data informing their assessment, to attempt assessment at the foundation level, and to involve their boards in assessment. Even after being asked, Perpetual Adjusters are the least likely to describe any assessment processes.

Among respondents in all categories, assessment most frequently occurs at the individual grant level.

Respondents in all categories mention the difficulty of assessment as a key reason they do not do more of it. "Three different grant divisions, three different lengths of programs, three very different programs," explains one respondent. "How to roll all that up to our trustees to say, 'This is the effect of what we've done on strategy,' is very difficult."

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12 For more information, see the Center for Effective Philanthropy's *Indicators of Effectiveness: Understanding and Improving Foundation Performance* (2002), and *CEP at 5* (2006).

Implications

Our findings reveal a fundamental disconnect between what many foundation staff believe will help create the most impact and what they actually do on a daily basis.

Participants in this study believe that foundations that use strategy to guide their decisions are better positioned to create impact than those that do not. Nonetheless, those same participants frequently do not use strategy to guide their own decision making. To the extent that participants are correct in their belief that strategy helps create impact, this gap between rhetoric and reality merits immediate internal reflection on the part of foundation staff and trustees.

A number of questions emerge from these findings that can serve as a starting point for gauging where you and your colleagues stand on the strategy spectrum.

• **How consistently and specifically can you state the goals of your foundation or program? How clearly and consistently can your colleagues do the same?**

Without agreed-upon and clearly articulated goals, there can be no meaningful strategy. Many respondents struggled mightily to describe their goals — let alone their foundations' strategies to achieve those goals. Charitable Bankers and Perpetual Adjusters find questions about their strategies and goals particularly difficult to answer. The goals they describe are often vague and broad.

• **Do you have a strategy — an externally focused framework for decision making that includes a hypothesized causal connection between use of foundation resources and goal achievement?**

Strategic decision making is an identifiable state: Our research suggests that it corresponds with certain behaviors that are both externally observable and independently verifiable.

How frequently are your decisions guided by that strategy? Would your colleagues give the same answers about your work?

Strategic decision making is an identifiable state: Our research suggests that it corresponds with certain behaviors that are both externally observable and independently verifiable. For instance, do you create assessments for your work that span multiple grants, or even an entire program or initiative? Understanding whether, how, and why you differ from the Total Strategists in this study may provide a launching point for becoming more strategic in your current work.

• **How frequently are your colleagues' decisions guided by a strategy? Would they give the same answer about themselves? How can you increase alignment in the foundation's decision-making processes?**

Different individuals within the same foundation frequently employ different types of decision-making

frameworks. Just having a CEO who believes in strategy and who translates that belief into her own thinking and decision making is not enough, it seems, to ensure that others in the organization use strategy. Yet, there appear to be benefits in aligning the types of decision making across an organization — and drawbacks when decision making is not aligned. Those foundations in which the two study participants fall into different decision-making categories are more likely to describe open disagreement among staff members and between staff and board.

• **If you don't think that you are strategic now, do you want to become strategic? What are the first steps in that process, given your current work?**

The Total and Partial Strategists in this study were not born strategists. They speak of making a conscious decision to become more strategic, of developing their game plan based on rigorous analysis, and of

becoming more strategic over time. But the first steps might not be easy. Strategists describe their evolution as sometimes painful and always requiring tough decisions about which important work to cut away.

The Total and Partial Strategists in this study were not born strategists. They speak of making a conscious decision to become more strategic, of developing their game plan based on rigorous analysis, and of becoming more strategic over time.

Am I A Total Strategist?

Total Strategists would answer most or all of these questions with a simple "yes."

- Can I describe the goal(s) for my work in a way that's understandable without others needing to ask for much clarification?

- Do my colleagues describe my work in the same way that I do?

- Do we use the word "strategy" frequently at the foundation when describing our work?

- Do I have a written strategic plan that I refer to regularly to guide my decision making?

- Can I point to data-based analysis of the external environment that contributed to the development of my strategy?

- Do I regularly conduct assessments of the impact of the work I do?

- Do those assessments address work achieved across many grants?

- Do I have a process in place to gather input from stakeholders outside the foundation that helps me refine my strategy?

- Have I recently turned down a grant request that I really wanted to fund because the request did not fit my strategy — even though it did address my goals?

- Does my foundation have program officers who are specialists in their area of focus?

Future Research

The research described here represents the results of the first phase of CEP's ongoing study of foundation decision making and strategy. Key questions remain unanswered: How do foundation leaders move from one category to another? Can the link between strategy and increased impact be proven? There's much left to be done, and the information presented in these pages must be deepened and expanded — as well as extended to a broader set of foundations.

In future phases of work, we will:

- Provide tools that easily allow individuals to understand better which decision-making category most closely matches their behavior

- Create a road map for foundations and individual staff members who want to become more strategic

- Develop the materials to help anyone interested in strategy to facilitate a foundationwide conver-sation about current decision-making styles and aspirations for the future

- Understand better the degree to which differ-ences in decision making also translate into differences in the impact created by foundations

- Advance the understanding of whether different types of strategies are more or less effective than others in their ability to create social impact

These are ambitious goals, but reaching them is critically important to the improved performance of this country's foundations. CEP, relying as always on the generous guidance provided by our network of advisors, is committed to taking them on. By providing this initial portrait of the way that large, private foundations make decisions, we hope to spark a renewed conversation about foundation decision making and the use and value of strategy.

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CEP has created a Web site with more information on our Foundation Strategy Study, including audio and video segments that exemplify the four decision-making categories we describe.

Please visit strategy.effectivephilanthropy.org.

Case Study

The Gill Foundation:
Taking a Strategic Approach to Philanthropy

Founded in 1994 by Tim Gill, the creator of Quark software, the Gill Foundation has a mission "to secure equal opportunity for all people regardless of sexual orientation or gender expression." The Gill Foundation (including the Gill Operating Foundation), with more than $250 million in assets, has since become the nation's largest private foundation focused exclusively on lesbian, gay, bisexual, and transgender (LGBT) civil rights.

Gill Foundation takes a strategic approach to its philanthropy — but the Foundation did not always do its work in such an intentional manner. As former Executive Director Rodger McFarlane observes, "Tim started out being immensely generous in the predictable ways. He gave to wonderful groups that were working on the things we cared about. And then, twenty-six states in four years passed legislation prohibiting gay marriage, completely eliminating an array of rights for our people. And he realized that a bountiful approach was not effective."

McFarlane was hired in 2004, at the Foundation's ten-year anniversary. His first order of business was to lead the Gill Foundation through a strategic planning process that aimed to create a comprehensive framework and management tools that would help the Foundation optimize its investments in promoting equality for the LGBT community.

The Foundation began the process by articulating its vision. McFarlane recalls:

"What we did initially was define what an end state looked like in incredibly concrete terms — not something exotic. What does equality mean? What does that look like in terms of physical

safety? We need freedom from violence. In terms of economic equality? We need employment nondiscrimination. Are fewer of us getting fired from our jobs? Do we make the same amount of money? We need freedom for free expression. We need freedom for our organizations to grow and flourish… access to all government services and entitlements for our families. Basically, don't kill me. Don't fire me. Let me worship in an accepting environment. Let me have equal pay."

Staff then gathered extensive data about the current state of the LGBT movement to understand better its needs and to determine the Gill Foundation's most useful role in supporting the movement.

The Foundation, in collaboration with consultants, interviewed more than 50 key figures in the LGBT civil rights movement, analogous movements, philanthropy, and politics; reviewed the relevant literature; analyzed the Gill Foundation's resources (past and present); and surveyed other foundations funding LGBT issues and organizations. The research findings suggested a number of challenges for the LGBT movement:

1. It lacked a common vision and coherent plan across organizations and funders.

2. It had very little grassroots participation.

3. It had little or no capacity for electoral and legislative work at the state level.

4. It didn't yet know how to connect with mainstream Americans' values, emotions, and religious beliefs.

5. Time mattered. The movement and the Gill Foundation had to act immediately.

Based on these findings and an analysis of its own strengths and weaknesses, the Foundation identified six ways it could contribute to the LGBT civil rights movement:

1. Draw funders and leaders to the movement

2. Scale up the movement's financing

3. Crack the grassroots participation problem

4. Crack the state-based advocacy problem

5. Influence and leverage multi-issue mainstream progressive political thinking

6. Figure out how to connect with mainstream voters' values and emotions

The Foundation then restructured its operation into five centers. Each center has its own goal and set of strategies.

COO Katherine Peck oversees the Gill Foundation's Movement Building Center, which works to build

FIGURE 4: GILL FOUNDATION STRUCTURE

GILL FOUNDATION — *Secure equal opportunity for all people, regardless of sexual orientation or gender expression*

	LEVERAGE CENTER	MOVEMENT BUILDING CENTER	MESSAGING CENTER	RESEARCH & TOOLS CENTER	COLORADO CENTER
GOALS	Attract and deploy money	Build LGBT leaders and organizations	Connect with and motivate LGBT and mainstream citizens	Develop supporting data and tools to maximize movement's effectiveness	Take back Colorado for thoughtful citizens
STRATEGIES	• Articulate a strategic vision of the LGBT movement and what its funds can accomplish • Guide donors toward organizations and efforts that best match their interests and sensibilities with the movement's greatest needs	• Provide multiyear commitments of general operating funds to LGBT/allied organizations • Provide technical assistance to LGBT/ allied organizations • Develop current and emerging leadership within the LGBT movement • Initiate convenings aimed at bringing movement leaders and organizations together to develop a common vision for movement building, planning, and resource development	• Fund research and strategically disseminate new information with the objective of reaching key audiences • Define what it means to stand with LGBT people for equality and how this connects to mainstream values • Create and fund media campaigns if warranted by research and supported by partner donors	• Fund continuing strategic research and analysis of the LGBT civil rights movement, its opposition, and potential solutions to political and public policy issues • Make grants to policy/idea centers for research and generation/ distribution of practical information, ideas, and rationale • Design and implement tools to support collaboration among Gill contractors and partners • Generate content for strategic convenings of movement leaders and donors	• Add value to efforts to establish a more moderate political environment in Colorado • Strengthen gay advocacy networks in Colorado • Develop operational and educational support for reasonable candidates and issues • Reach targeted mainstream audiences via Gay and Lesbian Fund for Colorado grants and capacity building

substantially stronger relationships among, and understanding of, LGBT movement organizations and leaders. This Center targets both national and state-based advocacy organizations using a number of strategies. The Center:

- Provides general operating funds to LGBT/allied organizations

- Provides general operating support and capacity-building grants to state-based organizations, which are usually smaller and need more support

- Initiates convenings aimed at bringing movement leaders and organizations together to develop a common vision for movement building, planning, and resource development

The Movement Building Center also works to develop current and emerging leadership within the LGBT movement. Implementation of this goal has not yet occurred because the Foundation is working with other funders to develop a comprehensive long-term strategy. As Peck notes, the process of developing these goals and strategies was almost exclusively external in its orientation. "A lot of foundations are doing these things. But in our case, [the strategies] tie directly to findings from our analysis of the movement and a set of goals and objectives that were created from those findings, and then action steps that flow from those."

Once the goals and strategies were determined, the next step was to establish a set of interim targets that would help gauge progress toward those goals and the effectiveness of the strategies used to reach them. One key to assessment is having clear goals, asserts McFarlane. "Do you have employment nondiscrimination in the following states? Are you advancing employment nondiscrimination at the federal level? Are we reducing the incidence of violence against lesbian and gay people? Are we making advances in the recognition of our relationships? These are very, very specific things that either happen, or they don't," he explains.

Another component of successful assessment for the Gill Foundation is its Board of Directors' insistence on measurement as a component of the Foundation's operation. "My boss is a mathematician. The treasurer is a former partner at Goldman Sachs, [so] we have quantifiable metrics," McFarlane notes. "I mean, excruciating, relentless metrics attached to every goal.

> *"There is an unlimited amount of injustice and suffering out there that I cannot mitigate…. We are rationing resources."*

These are yes or no questions that anyone can understand. Simply put, did we or did we not achieve second parent adoption in Colorado? Did we or did we not protect marriage in Massachusetts? Did we or did we not raise $80 million for the movement?"

McFarlane admits that the Gill Foundation's transition into its new strategic way of operating involved some difficult changes for staff, but he also acknowledges the importance of staff commitment to strategy. "People are very clear about what we're doing and are very clear about what their role is, and that was not true when I got here," he says.

Gill Foundation uses a written strategic plan to communicate its efforts and to hold its staff accountable. "When you've constantly got to go back and say, 'OK. What are you doing to achieve your written plan?' You are constantly mindful that it's out there. When my staff members are presenting something to me or pitching a proposal to me, I say, 'OK. How does this fit into your overall strategy?'" says Peck.

Saying "no" to potential grantees is difficult for all foundations, but according to McFarlane, part of the challenge of having a strategy is sticking to the plan and not making exceptions. He elaborates, "I can think of a hundred examples of where we turned something down that was very close to my heart. And I think every foundation officer will be familiar with that feeling…. There is an unlimited amount of injustice and suffering out there that I cannot mitigate…. We are rationing resources. So part of the demand of this job is keeping this relentless focus on exactly what we said we're trying to do, and staying there, because there are so many appealing, urgent, necessary things that we could fund. And, like I said before, time is critical. We need to act now."

Additional information and a video that complement this case study are available at www.strategy.effectivephilanthropy.org.

Appendix: Methodology

The goal of this study was to gain a deeper understanding of the current state of foundation decision making and its relationship, if any, to strategy. To date, there has been a lack of rigorous, empirical research describing how individual foundation staff members make decisions about how to achieve their foundation's programmatic goals. Moreover, our experience suggests that staff, both across and within foundations, have very different definitions of — and uses for — the words "goals" and "strategy." When considering the best methodology to answer the research questions of this study, we determined that closed-ended or quantitative questions would not elicit comparable and useful responses. Instead, a qualitative methodology was employed to allow the surfacing of similarities, differences, and nuances in decision making across individual foundation staff members.

Sample

To select invitees to participate in CEP's Foundation Strategy Project, a randomized list of the largest (as defined by asset size) 450 private, noncorporate, nonoperating foundations in the country was created. Foundations without at least $100 million in assets were removed. Because the study required interviewing both a CEO and a program officer at each foundation, those that did not have a readily identifiable chief executive were eliminated. Any foundations that appeared to be without program staff were also removed from the list.

Invitation letters explaining the purpose and method for this study were mailed to the CEOs of the first 30 foundations on the randomized list. Three weeks later, another round of invitations was sent to the next 20 foundations on the list. Finally, a follow-up email request for participation was sent.

Twenty-one foundations accepted the invitation to participate, nine declined, and 20 foundations did not respond, yielding a sample of 42 interview participants. When CEOs did agree to participate, they were asked if CEP could randomly select the potential program officer participant from the foundation. This was designed to avoid bias introduced by CEOs selecting the program officer. Of the foundations that participated, one foundation requested that two program officers be interviewed; one foundation currently had no program staff; three CEOs asked that CEP interview a specific program officer; four foundations had only one program staff member; and the remaining foundations allowed CEP to select at random the program officer to be interviewed.[13] With a median age of 41 years, the participating foundations ranged from less than a decade to more than 75 years old.

Interviews

The interview guide questions were developed after reviewing empirical and theoretical research about strategy in both the corporate and nonprofit sectors. As there was little published empirical or theoretical research about the concept of strategy within foundations, the research team created, with the guidance of CEP's Strategy Study Advisory Committee, the interview questions that would provide the most relevant data. Questions were carefully worded to minimize leading language. Prompts were used when necessary. Although slightly different interview scripts were designed for CEOs and program officers, due to their differing levels of perspective at a foundation, the same questions were asked of both CEOs and program officers.

Four pilot interviews, two with CEOs and two with program officers, were conducted to ensure that the

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13 In two cases, CEP interviewed program staff that did not hold the title program officer; this included one vice president and one chief operating officer.

questions were clear, to understand how participants would interpret the questions, and to determine whether or not the questions were successful in eliciting information that would address the overall research goals. The research team listened to the pilot interviews and revised questions before beginning formal data collection. (The pilot interviews were not included in the actual data analysis for the project.)

Forty-two telephone interviews were conducted; all interviews were scheduled for one hour and were recorded and transcribed. Interviewers explained to participants the protection of confidentiality and the recording and transcription process. The first few questions asked participants for background information: their role at the foundation, their tenure, their work prior to starting in their current role, and a few demographic questions about their foundations.

The next questions asked participants to explain what it is that their foundation/program was trying to achieve. Interviewers prompted participants to supply more specific details. After participants explained the goals, the interviewer asked, "How do you determine how to use your foundation's monetary and non-monetary resources to accomplish these goals?" Participants were then asked if their response to this question was any different from what they would consider to be their strategy.

Once the respondent confirmed that it was appropriate to use the word strategy to describe how s/he uses foundation resources to achieve his/her foundation's/program's goals, the word strategy was used throughout the rest of the interview. Participants were asked about whether or not the "strategy" differed across programs within the foundation and whether or not there was an overall foundation strategy. The interviewer then asked about how the "strategy" was developed, discussed, understood, and assessed, and whether it had a time frame. Participants were asked to discuss what they thought the strengths and weaknesses of the "strategy" were and their thoughts on the benefits and drawbacks of the concept of strategy for private foundations in general.

All interviews were conducted by one of two members of the research team. The CEO and program officer at each foundation were interviewed by the same CEP researcher. The research team periodically reviewed recorded interviews to ensure that the two interviewers were consistent in the way they conducted the interviews.

Analysis

The transcripts were analyzed using a combination of content analysis and thematic analysis. To develop appropriate coding schemes, the full research team read the transcripts to understand the various ways in which respondents had answered the interview questions. The team alternated between reviewing the content of interview responses and reviewing the original research questions. Subsequently, two coding schemes were developed: a question-by-question method and a method for coding interviews in their entirety.

Codebooks were created to ensure, to the degree possible, that all team members would be coding for the same concepts rather than their individual interpretations of the concepts. Every response to a given question was coded by one member of the team. To minimize personal interpretation and maximize reliability, between 10 and 100 percent of the responses to each question were coded by an additional member of the research team. The percentage of responses coded by a second member of the team corresponded to the amount of room for interpretation in responses to the question under analysis; 100 percent of responses to questions that elicited more differing interpretations by individual team members and for which responses were somewhat complex were coded by an additional team member. All responses to the question of what the foundation/program was trying to achieve and how resources were used to achieve those goals were coded by two members of the research team. After two team members coded data, they discussed codes for each participant's responses before deciding on final codes to be entered into the data-analysis record.

A variety of content and themes emerged from participants' responses to the questions that elicited their goals and strategies: "Can you describe what your foundation/program is trying to achieve?" and "How do you determine how to use your foundation's/program's monetary and nonmonetary resources to accomplish these goals?" The full research team read through responses to these questions, noting

similarities and differences in content and themes that arose across the interviews. Goals were coded for level of specificity, mention of values, mention of mission, and the number of unique goals mentioned by each participant was recorded.

Participants' responses to the ways in which resources were used to accomplish goals were analyzed for themes, and five types of decision-making frameworks emerged. They were subsequently labeled as: 1) externally focused frameworks with a hypothesized causal connection (i.e., strategies), 2) externally focused frameworks without a hypothesized causal connection, 3) planning processes, 4) grantmaking processes, and 5) grantee screens. Decision-making frameworks differed in the extent to which they were focused internally on processes within the foundation (planning processes, grantmaking processes, and grantee screens) versus externally in the context in which the foundation was trying to create social change. Most participants described using more than one decision-making framework.

Externally focused frameworks differed in the extent to which a direct link was made between how resources were used and the ultimate goals that were to be achieved. In some cases, when discussing the decision-making framework, participants explained links between the use of their resources and the achievement of their goals. In other cases, the links between use of resources and achievement of goals were not included in the framework described but could be surmised.

Based on knowledge gained from existing theoretical and empirical research and participants' responses, a definition of strategy was created: A framework for decision making that is 1) focused on the external context in which the foundation works and 2) includes a hypothesized causal connection between foundation resource use and goal achievement.

As previously mentioned, many respondents listed more than one goal, more than one framework used to achieve the goal(s), or both. Some of these frameworks were emphasized as being central to the achievement of a goal, either by being mentioned first, receiving more attention in the participant's response, being acknowledged as such in the actual description of the framework, or any combination

of these; these frameworks were coded as being of high emphasis. High-emphasis frameworks were distinguished from medium- and low-emphasis frameworks in a participant's response.

CREATING THE TYPOLOGY OF DECISION MAKING

Given the range of decision-making frameworks provided by participants, one goal of the analysis was to determine whether or not categories of participants might be formed. The internal versus external orientation of decision-making frameworks, the existence or lack of existence of a hypothesized causal connection in decision-making frameworks, and the level of emphasis of these frameworks, when combined, resulted in a typology of decision making consisting of four categories. From least to most strategic the categories are Charitable Bankers, Perpetual Adjusters, Partial Strategists, and Total Strategists.

Respondents typed as Total Strategists exhibited all of the following characteristics in their descriptions of their decision-making frameworks:

- More than half of their high-, medium-, and low-emphasis frameworks, combined, contained a hypothesized causal connection

- Reported at least one high-emphasis decision-making framework that contained a hypothesized causal connection to their goals

- Only described decision-making frameworks that were oriented externally to the foundation

Respondents typed as Partial Strategists exhibited all of the following characteristics in their descriptions of their decision-making frameworks:

- Half or fewer than half of their high-, medium-, and low-emphasis frameworks, combined, contained a hypothesized causal connection

- Reported at least one high- or medium-emphasis externally oriented decision-making framework with a hypothesized causal connection

- Decision-making frameworks were oriented more externally than internally to the foundation

Respondents typed as Perpetual Adjusters exhibited all of the following characteristics in their descriptions of their decision-making frameworks:

- Did not report a single externally oriented decision-making framework with an articulated hypothesized causal connection and, therefore, emphasis was not a relevant factor here

- Decision-making frameworks were a mix of externally and internally oriented to the foundation

Respondents typed as Charitable Bankers exhibited all of the following characteristics in their descriptions of their decision-making frameworks:

- Did not report any high-, medium-, or low-emphasis decision-making frameworks containing a hypothesized causal connection to their goals

- The decision-making frameworks described by Charitable Bankers were oriented to the internal workings of the foundation

Results of content and thematic analyses about topics other than the use of resources to achieve foundation/program goals (e.g., assessment, board-staff relationship) were analyzed to determine whether or not they differed across the different categories of decision making. Codes resulting from the content and thematic analyses were totaled into percentages for the presence or absence of content or themes. These percentages were then examined in relation to the four categories in the typology to understand whether or not trends in content or themes corresponded to categories of decision making. Given the qualitative methodology employed for this study, statistical testing was not conducted on these percentages. However, patterns in percentages for coded variables were reported, as well as results that indicated a specific category was different from all of the others.

Additional Analyses

After results of the analyses indicated that the CEO and program officer from a given foundation did not always fall into the same category of the typology, the results of CEO and program officer interviews were compared to understand whether or not either of these two groups of participants was more or less strategic according to the typology created here.

After the typology was created and participants categorized as one of the four types, the research team split up the interviews by categories and returned to re-read the full transcripts, looking specifically for evidence of movement along the typology continuum (i.e., Did participants discuss becoming more or less strategic over time?). The team developed a coding method to capture the various types of information about change over time mentioned by participants. This analysis revealed additional trends corresponding to the categories of decision making, such as the varying relationships between boards and staff, which contributed to the findings of this study.

THE CENTER FOR
EFFECTIVE PHILANTHROPY

675 Massachusetts Avenue, 7th Floor • Cambridge, MA 02139
Phone: 617-492-0800 • Fax: 617-492-0888
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