



IN SEARCH OF IMPACT

Practices and Perceptions in Foundations' Provision
of Program and Operating Grants to Nonprofits



THE CENTER FOR
EFFECTIVE PHILANTHROPY



AUTHORS: JUDY HUANG, PHIL BUCHANAN, AND ELLIE BUTEAU, PH.D.

FOR MORE INFORMATION, CONTACT:

Judy Huang
Associate Director
T: 617-492-0800 x204
judyh@effectivephilanthropy.org

Ellie Buteau, Ph.D.
Senior Research Officer
T: 617-492-0800 x213
ellieb@effectivephilanthropy.org

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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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INTRODUCTION

Foundation and nonprofit executives have long discussed and debated how grantmakers can best support nonprofits. Some prominent leaders have argued in recent years that operating support – often called “unrestricted support,” “core support,” or “general purpose support” – is a key way to help nonprofits be more effective and achieve greater impact. These leaders suggest that nonprofits suffer from a lack of flexible funding, which ultimately undermines the effectiveness of these organizations as they pursue their impact objectives.

The National Committee for Responsive Philanthropy (NCRP) put it this way in its 2003 report, *The Core of the Matter*:

A big issue is the quality of foundation grantmaking. If an insufficient proportion of foundation support is going toward core operating costs, then what is occurring is a systematic undercapitalization of the nonprofit sector. Rather than foundation grant funds bolstering the fiber and muscle of the nonprofit sector, much of foundation grantmaking continues to keep nonprofit finances flimsy and frail.¹

Some foundations leaders have also taken up this cause. In an article in *Foundation News & Commentary*, Gary Yates, president of The California Wellness Foundation, wrote:

We sought lessons learned from our grantees.... Some grantees described the stress they regularly experience as they try to mold their institutions to secure initiative or project funding.... This experience made us recognize that our foundation... has inadvertently been part of this dynamic, which may actually weaken the very organization we hope to support.²

Even Senator Hillary Rodham Clinton has something to say on this subject. Then First Lady, Clinton remarked at the 1999 White House Conference on Philanthropy that:

One of the concerns many people have about foundations is how foundations often will not give to operating expenses or to the kind of day-to-day work of delivering services that have to be carried out. And I think that's another thing I would like the foundation community to rethink.³

This advocacy has flown in the face of the historical practices of many charitable foundations, which have tended to provide program restricted support to grantees.⁴ As we make clear in the report, the preference for program support derives from a belief, shared by many, that it is only through the provision of program support that foundations can responsibly track the use of their grant dollars – and connect their funding to the achievement of specific goals.

¹ National Committee for Responsive Philanthropy. *The Core of the Matter*, 2003. www.ncrp.org.

² Yates, Gary L. “Good to the Core.” *Foundation News & Commentary* July/August, 2001.

³ The White House Office of the Press Secretary, 1999 White House Conference on Philanthropy. http://clinton4.nara.gov/WH/EOP/First_Lady/html/generalspeeches/1999/19991022a.html.

⁴ Foundation Center tracks data on percentage of grant dollars by type of support, although it excludes grants less than \$10,000. Foundation Center data, reported in *Foundation Giving Trends* 2006 edition, suggests that the percentage of foundation dollars going toward operating support grew from 13.7 percent in 1998 to 21.8 percent in 2003 and then declined slightly to 21.0 percent in 2004.

RESEARCH QUESTIONS

Missing from this debate is data – data about current foundation practice and what informs that practice, and data about the grantee perspective on these critical issues. Our study set out to provide data to answer these key questions:

- What are current foundation practices in provision of support?
 - › What is the mix of support by type, and how does it vary among foundations?
 - › What guides foundation leaders' decision-making as they choose what type of support to provide grantees?
- How do program and operating support affect grantees?
 - › What role does type of support play in influencing grantee views of foundations?
 - › How prominent is operating support in grantee descriptions of ideal grants?

Missing from this debate is data – data about current foundation practice and what informs that practice, and data about the grantee perspective on these critical issues.

DATA COLLECTION

We have explored these questions through a variety of data collection and analysis activities:

- Analysis of a data set of about 20,000 completed grantee surveys rating 163 large foundations. Nearly 15,000 of these grantees (75 percent) received either program or operating support from one of the 163 foundations. (The remaining 25 percent of grants fall into other categories, such as capital support.)
 - › The grantee survey covered grantee perceptions of a single foundation, touching on a wide range of issues, including perceived impact on the grantee organization, helpfulness of selection and reporting processes, and quality of interactions. The response rate to the grantee survey was 63 percent.
- A survey of the CEOs of those 163 foundations.
 - › The CEO survey explored decision-making about type of support and impressions of the effectiveness of program and operating support. We received 79 responses, a response rate of 48 percent.
- In-depth interviews with leaders at 26 grant-receiving nonprofits.
 - › These structured interviews probed attributes of ideal grants and preferences and attitudes related to type of support.⁵

We hope that the data and analysis presented in this report inform the discussion about type of support – and contribute to more fully informed decision-making.

⁵ It is worth acknowledging that the terms “operating support” and “program support” are not always defined consistently by those who use them and that there is room for interpretation, in some cases. We did not strictly define the terms in our surveys or interviews, but rather, explored how respondents described the grant types and how they thought about the relative strengths of each.

SUMMARY OF KEY FINDINGS

- Most of the grants made by even the large foundations whose grantmaking is analyzed in our study are program restricted, small, and short term. The proportion of small grants made by these foundations is often overlooked because of how data on foundation grantmaking has historically been reported.
- CEOs see operating support as more likely to make a positive impact on grantee organizations, but most place other priorities higher in their decision-making. Just 16 percent of CEOs we surveyed indicate that they favor providing operating support, and a third have no preference. Nearly half prefer to provide program support to grantees – often because they feel it is easier to connect their grants to specific outcomes.
- To grantees, type of support is important – and operating support is preferred – but only when grants are larger and longer term than what is typically provided today, even by the country’s larger foundations. Those foundations seeking to maximize their impact on grantee organizations should make larger, longer term operating grants – and do so while exemplifying three additional characteristics that grantees most value in their foundation funders.

WHAT FOUNDATIONS DO TODAY:

Grantmaking Practices

The typical grant made by the large foundations in our study is program restricted, small, and short term.

- The majority of foundations provide less than 20 percent of their grantees with operating support. Few foundations provide exclusively program support, and even fewer provide exclusively operating support.
- The median program support grant is \$60,000, and the median operating support grant is \$50,000.⁶ (See Figure 1.)
- The typical program support grant from a foundation comprises 3 percent of a grantee's annual budget, and the typical operating support grant from a foundation comprises 4 percent of a grantee's annual budget. (See Figure 2.)
- Nearly half of grants, whether program or operating, are a year in duration. (See Figure 3.)

The median grant size may seem surprisingly small, particularly given that most of the foundations examined here are among the largest in the country. This is because many foundations report their *mean* grant sizes — which are often drawn up by a few large grants — on their Web sites and in their annual reports. In addition, publicly reported data on foundation grant size is misleading because the primary source for such data is Foundation Center, an organization that excludes grants of less than \$10,000 in its reporting. Data from our grantee surveys suggest that, for those foundations in our sample, fully 10 percent of grants fall into the less than \$10,000 range.

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ABOUT THE FOUNDATIONS IN THIS STUDY

The 163 foundations whose grantees CEP surveyed between 2003 and 2005 represent a range of foundation types, sizes, ages, and geographic locations.

The sample includes 143 private foundations, 18 community foundations, and two other grantmaking organizations. Assets range from less than \$20 million to greater than \$20 billion. The middle 50 percent of foundations have assets of \$167 million (and giving of \$8 million) to assets of \$593 million (and giving of \$32 million).

The median foundation was 44 years old at the time of the survey, but our sample includes some of the oldest foundations in the country, established in the first decades of the twentieth century, as well as some of the youngest, established in the first years of the twenty-first.

More than two-thirds have a regional focus — spanning all regions in the United States — and the remainder fund nationally and internationally. They are programmatically diverse, funding in almost every field imaginable. As a group, these foundations reflect the diversity of larger grantmaking foundations in the United States.

A list of the foundations appears in the Appendix.

⁶ The median grant in our sample — for all types of grants — is \$50,000.

FIGURE 1: SIZE OF FOUNDATION GRANTS

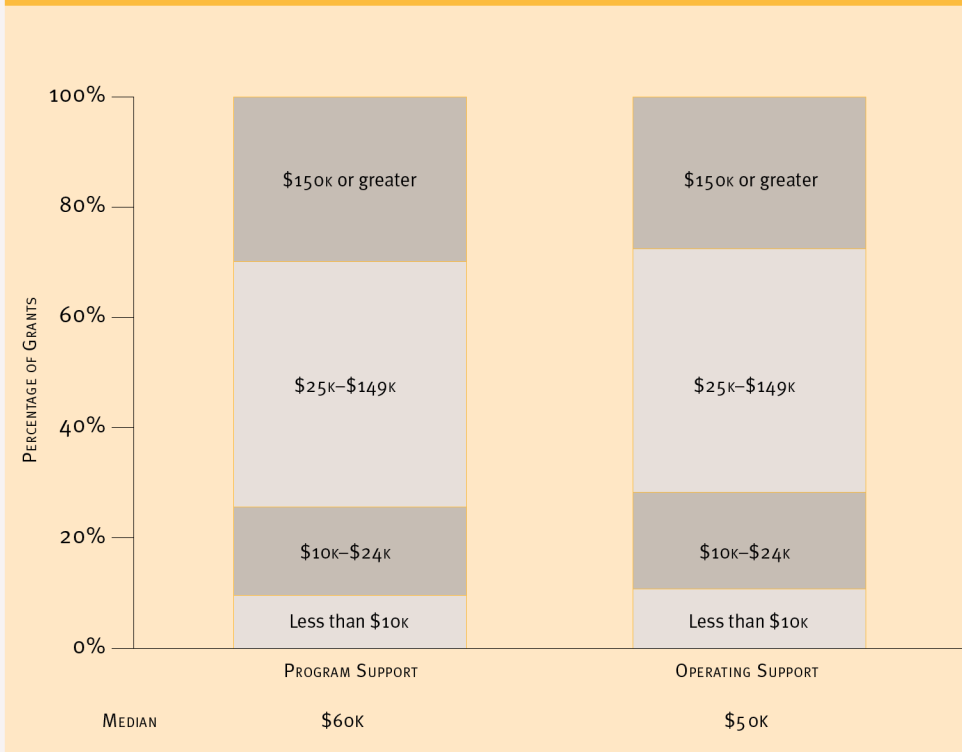
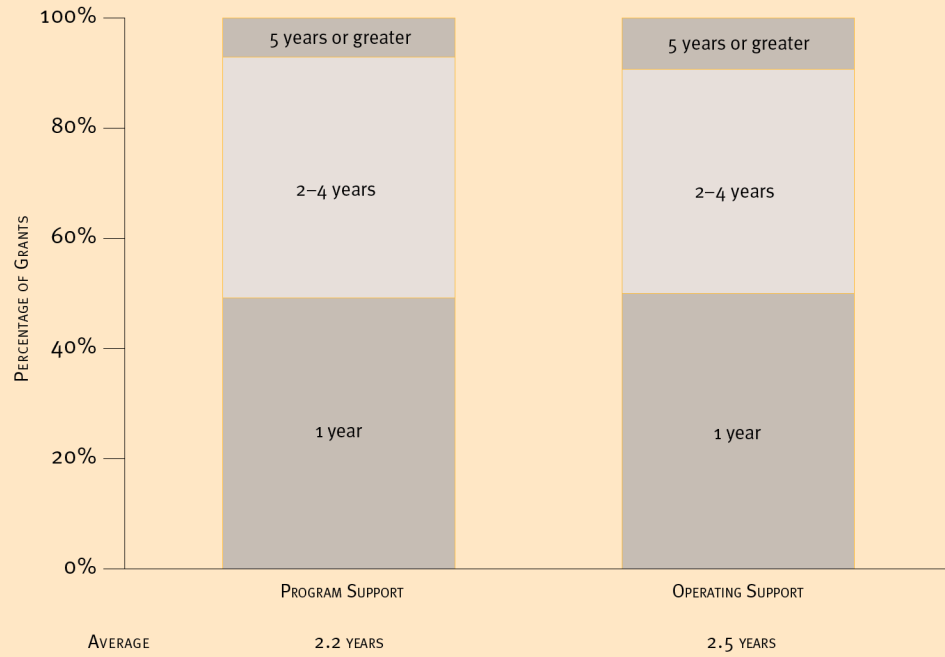


FIGURE 2: PERCENTAGE OF GRANTEE'S BUDGETS FUNDED BY A SINGLE FOUNDATION GRANT (ANNUALIZED)



FIGURE 3: DURATION OF FOUNDATION GRANTS



THE FOUNDATION CEO PERSPECTIVE:

A Preference for Program Support

To understand the perspectives of the leaders of the foundations whose grantees we had surveyed, we conducted a survey of the foundations' CEOs. We found that, despite recent advocacy in favor of the provision of operating support and the endorsement of that view by national organizations such as Independent Sector and the National Committee for Responsive Philanthropy, half of respondents said they prefer to provide program support and one-third indicate no preference.⁷ (See Figure 4)

CEO SURVEY

CEP invited CEOs of the 163 foundations whose grantees we had surveyed to respond to a survey about type of support. The 79 CEOs who responded to our survey are representative of this group: 84 percent lead private foundations, and the rest lead community foundations. CEOs also represented a range of foundations that resemble the full sample in terms of asset size and geographic location.

Ease of assessing outcomes was a frequently mentioned rationale among the group of CEOs who expressed a preference for program support. "Program support is preferred as it typically provides more clarity on expectations in terms of performance and impact," wrote one CEO respondent.

These CEOs see the challenge of assessment to be more difficult in the case of operating support. "Unrestricted support is more comfortable to the grantee," another CEO wrote, "but less demanding, and often the unit of measure must rise to the organization level and generalized mission impact. It is unusual to find a grantee that naturally collects this data in a meaningful way."

Other reasons cited by those who prefer to provide program support include board pressure, fit with foundation mission, lack of familiarity with grantees, and concerns about grantee dependence.

FOUNDATION GOALS, GRANTEE NEEDS

Another group of CEOs sees the question of type of support as highly dependent on the particulars – and on the programmatic goals of the foundation. "It all depends on the deliverables to be achieved," said one CEO. (See Figure 4.)

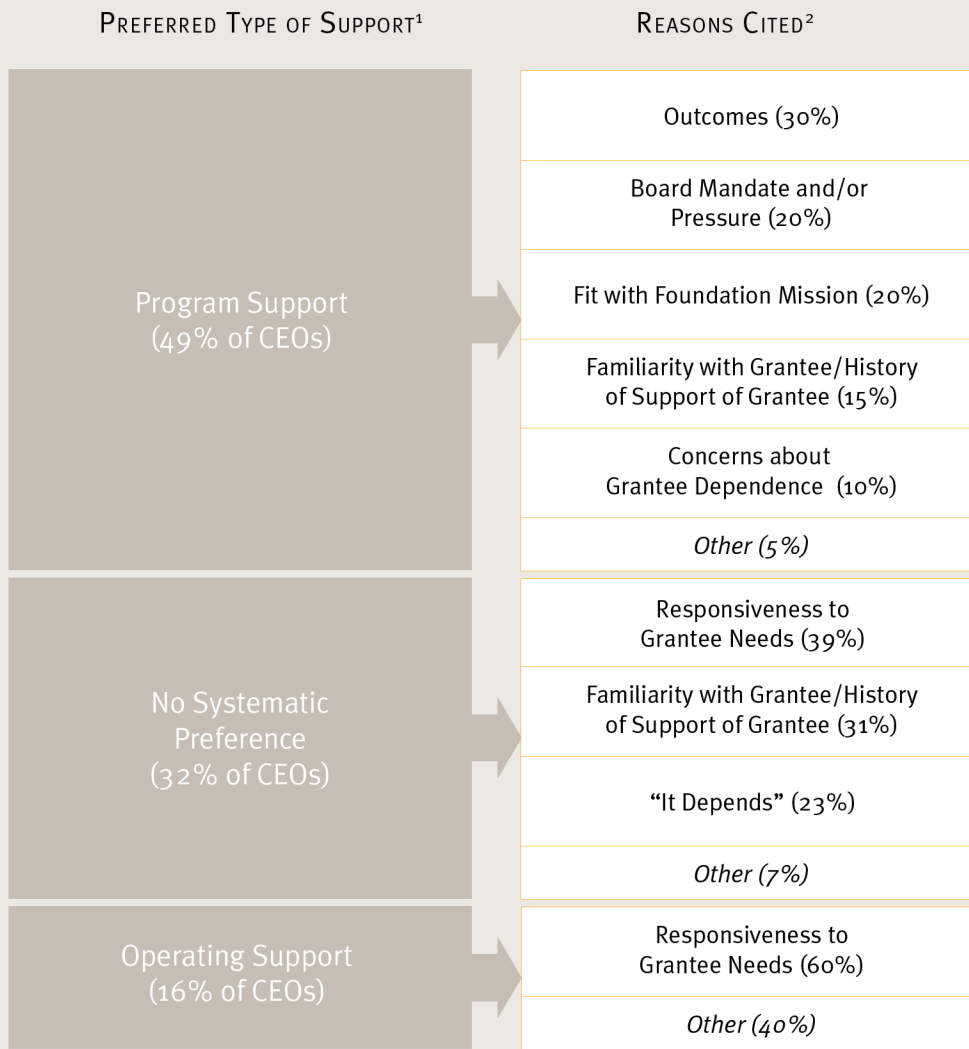
This argument is similar to the one that Paul Brest, president of the William and Flora Hewlett Foundation, has made in a variety of public statements on the issue. "The primary determinant of the kind of support that a funder gives to an organization is the alignment of the organization's activities with the funder's goals," Brest said.⁸ But he went on to suggest that "all things being equal, a funder should have a presumption in favor of general operating support."

A survey respondent who indicated no systematic preference put it this way. "The decision about program or operating support is given on a case by case basis, depending on the grantee and the purpose for which the support is given. We give operating support to organizations when their core mission is important to us in achieving our goal."

⁷ Of 79 respondents, two were excluded due to a preference for making capital grants. 39 (49 percent) had a preference for program support, 25 (32 percent) had no clear preference, and 13 (16 percent) had a preference for operating support.

⁸ Brest, Paul. May 5, 2005 Memorandum to William and Flora Hewlett Foundation Program Directors, Program Officers, and Fellows. "The Rationales for Modes of Foundation Support for Nonprofit Organizations." Available online from GrantCraft: www.grantcraft.org/pdfs/generalsupport.pdf. In the interest of full disclosure, CEP receives significant grant support from the Hewlett Foundation.

FIGURE 4: REASONS CITED BY CEOs FOR THEIR PREFERENCE FOR TYPES OF SUPPORT



1: Two CEOs indicated a preference for making capital grants and are not shown here.

2: Responses not shared by more than one respondent are counted as “other.”

Note: These responses were coded by CEP from comments supplied by CEOs in response to open-ended survey questions. Not all CEOs supplied a reason for their preference on type of support; these responses are excluded from the right-hand boxes.

Among the smaller set of those who said they had a preference for operating support, most cited responsiveness to grantee needs as the reason. One CEO said, “We prefer to offer operating support and have found over time that this form of support is liberating for both the grantee and foundation.” This argument mirrors the thinking of those who have made public cases for the provision of operating support. Sharon King, president of the F.B. Heron Foundation, has suggested that, “In the long run, you can’t have strong programs in weak organizations.”⁹ And Clara Miller, president and CEO of the Nonprofit Finance Fund, wrote that “anything but unrestricted grants generally creates cost within the grantee’s operation.”¹⁰

Those who prefer to provide operating support do not necessarily agree that assessment of results is more difficult. One CEO said that, “There is no difficulty.” He argued, simply, that “foundations can ‘claim credit’ for an organization’s total program with general support.”

Another took a more nuanced view, writing that:

We have found that our grantees’ ability to assess the impact of their work is enhanced by unrestricted grants. They are able to invest in impact-assessment systems and plan to assess indicators that matter to them (not only to their funders). Each of our unrestricted grants includes measurable benchmarks of progress and impact indicators negotiated with grantees.

AGREEMENT THAT OPERATING SUPPORT HELPS GRANTEES

There is agreement among CEOs on at least one thing: Operating support is viewed as being most effective – and more effective than program support – in creating impact on and encouraging sustainability of grantee organizations. (See Figure 5.) But many CEOs act on other goals, such as establishing a clear connection between their funding and specific results, promoting “accountability,” or engaging their trustees. CEOs tend to see program support as more effective in achieving these goals.

There is a tension, in other words, between these leaders’ views of what is best for their foundations – and even what they believe creates the most positive social impact – and what might best serve the organizational interests of their grant recipients. CEOs feel this tension. They see pressure to provide operating support as coming primarily from grantees, as well as from advocacy groups. Pressure to provide program support is less intense, but what pressure is felt comes from trustees. “Program support is preferred,” wrote one CEO, “because [it is what] the Trustees desire... [They] do not want grantees becoming dependent on general operating funds.”¹¹

Those who prefer to provide operating support do not necessarily agree that assessment of results is more difficult.

⁹ Quote taken from The F.B. Heron Foundation’s 2005 essay, “Core Support,” available online at www.fbheron.org/viewbook_coresupport.pdf. In the interest of full disclosure, Patricia Kozu, the Foundation’s vice president, finance and administration, serves on CEP’s Board of Directors.

¹⁰ Miller, Clara. “The Looking-Glass World of Nonprofit Money: Managing in For-Profits’ Shadow Universe.” *The Nonprofit Quarterly*, Volume 12, Issue 1, Spring 2005. www.nonprofitquarterly.org.

¹¹ CEOs were asked to rate the pressure they felt from five groups to provide either program or operating support. The five groups were trustees, grantees, advocacy groups, foundation staff, and other foundations. Foundation staff and other foundations are not rated to be a source of great pressure to provide a specific type of support, whereas trustees, grantees, and advocacy groups are rated as being greater sources of pressure, as described above.

FIGURE 5: CEOs' VIEWS ON EFFECTIVENESS OF DIFFERENT TYPES OF GRANTS

Question: Which Type of Support is More Effective in Encouraging Each of the Following Concepts? ¹	Program Support is More Effective	Both Types of Support Equally Effective	Operating Support is More Effective
Assessment of Grantee Results	●		
Assessment of Foundation Results	●		
Grantee Accountability	●		
Sustainability of Grantee Programs	●		
Engagement of Foundation Trustees	●		
Innovation	●		
Foundation Accountability ²	●	○	
Impact on Grantees' Fields		○	
Achievement of Foundation Mission		○	
Influence on Public Policy		○	
Honesty in Grantees' Reporting of Their Budgets		○	
Achievement of Social Impact		○	
Administrative Efficiency on the Part of Foundations		○	
Impact on Grantees' Local Communities		○	
Diversification of Grantee Revenue Sources		○	
Achievement of Grantee Mission		○	
Sustainability of Grantee Organizations			●
Impact on Grantee Organizations			●
Administrative Efficiency on the Part of Grantees			●
Prevention of Grantees' "Mission Creep"			●

1: Bubbles in this chart represent the type of support seen to be more effective by the majority of CEOs. On a number of dimensions, both types of support are seen as being equally effective by the majority of CEOs.

2: On the concept of "foundation accountability," an equal proportion of CEOs responded that program support was more effective or that neither type of support was more effective.

THE OVERHEAD GAME

Many proponents of operating support argue that nonprofits often do not receive sufficient funding to cover their overhead costs within the program grants they receive. Operating support is therefore seen as a crucial source of funding for costs not covered through program grants or other revenue.

There is little consistency in how foundations approach the overhead question. Just defining “overhead” is challenging, as Elizabeth Keating of Harvard University has pointed out:

Many executive directors, fundraisers and program staff want to know their agencies’ overhead rate to help them determine the attractiveness of various funding opportunities and for internal management purposes. When questioned for this rate, the finance staff inevitably answers, “That depends who’s asking.” It would seem that the finance staff should know exactly what the overhead rate is. However, there is no consistent definition of the overhead cost rate because there are differences in how funders and others expect it to be computed.¹

However it is defined, there appears to be a wide range in the proportion of overhead that will be covered by foundation grants. The majority of CEOs who responded to our survey said they do fund overhead costs – but the range is wide – from 10 to 30 percent of the total grant amount.

Some refuse to fund any overhead whatsoever. “We deal with a few organizations whose idea of overhead is quite inflated,” said one CEO. “There is no reason we should agree to their ‘formula.’”

Another CEO whose foundation does not fund overhead wrote, “Maybe grantees should be more honest in helping funders know their financial realities and constraints.”

Others see the issue quite differently. One CEO argued that “refusing to fund overhead is idiotic. How can a foundation care about a grantee and its work and not be willing to fund the costs of operating the grantee’s organization? That is not to say overhead costs should not be questioned or challenged.”

This lack of agreement on how foundations might support overhead costs suggests that foundations have widely diverging views on their roles and responsibilities. Some see grantees as mere means to an end, while others feel an obligation to be responsive to grantee needs. Still others reject this dichotomy, arguing that foundations cannot achieve their impact goals without strong, financially viable nonprofit organizations.

One CEO suggested:

If a foundation thinks an organization’s mission and its contribution toward the foundation’s mission is important, then the organization needs to exist and function at a high level. This requires support of operating costs. If foundation staff and trustees don’t understand what it takes to develop an effective organization, then significant education of foundation staff and trustees is needed.

¹ Keating, Elizabeth. “Is There Enough Overhead in This Grant?” *The Nonprofit Quarterly*, Volume 10, Issue 1, Spring 2003, 41-44.

THE GRANTEE PERSPECTIVE:

No Silver Bullet

The grantee voice is often missing from the public debate about type of support, despite the fact that much of the advocacy for operating support is couched in arguments about what best serves grantee interests. We have sought, through our data collection and analyses, to better understand the grantee perspective.

Over the past several years, CEP has surveyed more than 31,000 grantees of 163 foundations, receiving nearly 20,000 responses. Of these responses, nearly 15,000 grantees indicated they received either program or operating support. Our surveys probe grantees' perspectives on a foundation's operations, processes, and impact, as well as the quality of relationships. This rich data set allows us to analyze whether there are differences in grantee perceptions of foundations – and in reported grantee experiences – based on the type of support grantees received.

Many statistical differences in grantee ratings emerge, due in part to the size of the sample. But there are no statistical differences of substantial magnitude.¹²

The statistically significant differences – all slight – we identified include:

- Recipients of *operating* support report receiving slightly less nonmonetary assistance from foundations (44 percent versus 48 percent, respectively).
- Recipients of *operating* support spend less time fulfilling foundation administrative requirements (40 hours on average versus 63 hours, respectively).¹³

GRANTEE SURVEY RESPONDENTS

The 14,892 responses to our grantee survey that are discussed in this report represent 163 foundations and come from a wide range of nonprofit organizations that operate both domestically and abroad.

The middle 50 percent of the group of grantees in the sample had annual operating budgets from \$363 thousand to \$4.5 million, with a median operating budget of \$1.2 million. At the time they were surveyed, the nonprofits had been established for a median of 22 years, and the middle 50 percent range spans organizations from 10 years old to 40 years old. We did not see meaningful differences in patterns of receipt of support by grantee budget or age.

We mailed surveys to the best contact we could find: Most of these contacts were designated by these foundations. Almost half of the respondents were executive directors or CEOs of their organizations, and the rest were divided mainly among other senior managers, project directors, development directors, and other development staff.

- Recipients of *program* support tend to have a shorter history of support with foundations and report slightly more pressure from funders to modify their goals (4.2 versus 5.0 on a 1 to 7 scale where 1 is “no history (first grant)” and 7 is “long-term relationship (support over many years)”); and 2.1 versus 1.8 on a 1 to 7 scale where 1 is “no pressure” and 7 is “significant pressure”).
- On a critical overall measure – grantees' ratings of foundations' impact on their organizations – recipients of operating support rate foundations only slightly more positively (6.2 versus 5.9 on a 1 to 7 scale where 1 is “no impact” and 7 is “significant positive impact”).¹⁴

¹² No differences in these analyses reached a medium effect size. Please refer to the “Survey of Grantees” section of Methodology for details.

¹³ These averages exclude outliers.

¹⁴ We also tested differences in grantee ratings of three other key dimensions: overall satisfaction, impact on fields, and impact on communities. Again, we saw no significant differences of substantial magnitude between recipients of program and operating support.

WHAT NONPROFITS VALUE

These findings raise the question, why don't we see larger differences between grantees that receive program support and those that receive operating support?

The first reason is simply that other dimensions of the grantee–foundation experience matter more. As we describe in our 2004 report, *Listening to Grantees: What Nonprofits Value in Their Foundation Funders*, there are three key predictors of grantees' ratings of impact on their organizations. They are:

1. Quality of Interactions with Foundation Staff: fairness, responsiveness, approachability
2. Clarity of Communications of a Foundation's Goals and Strategy: clear and consistent articulation of objectives
3. Expertise and External Orientation of the Foundation: understanding of fields and communities of funding and ability to advance knowledge and affect public policy

These dimensions explain a much greater proportion of variation in grantee ratings than do grant attributes such as type, size, or duration of support. (See "What Nonprofits Value in Their Foundation Funders.")

Even when we ask grantees to suggest improvements to their funders, only three percent of all grantee suggestions are about type of support. (See Figure 6.) In fact, grantees are as likely to suggest larger grants or multi-year grants – or bundle these attributes – as they are to suggest more operating support grants.¹⁵

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WHAT NONPROFITS VALUE IN THEIR FOUNDATION FUNDERS

The relationship between foundations and grantees is much discussed, debated, and dissected. Competing theories abound regarding the key attributes of successful and satisfying foundation grantee relations: Most are informed by speculation about what nonprofits really value. What is often missing from these discussions, however, are rigorously collected and large-scale data about the opinions of grantees.¹

In *Listening to Grantees: What Nonprofits Value in Their Foundation Funders* (2004), we sought to go beyond looking at comparisons of individual foundation grantee perception data and address findings more globally through analysis of our spring 2003 survey round, which included 3,184 grantees of 30 foundations. We identified three factors – which we refer to as the three dimensions of foundation performance that grantees value in their foundation funders – that best predict variation in overall grantee satisfaction. They are:

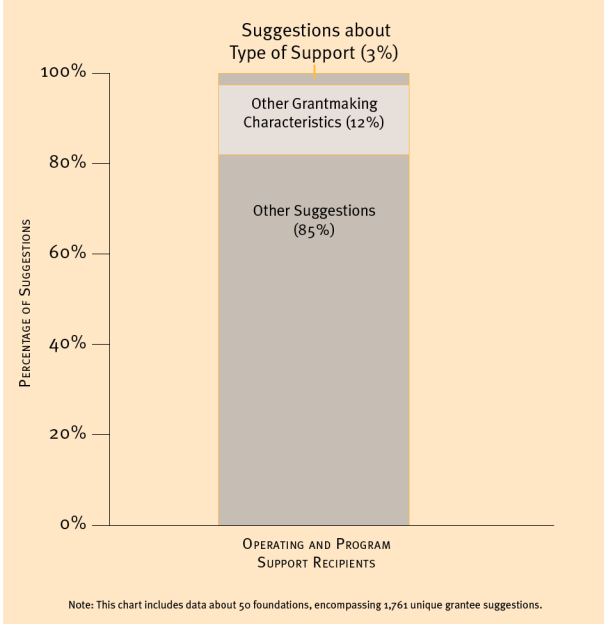
1. Quality of Interactions with Foundation Staff
2. Clarity of Communications of a Foundation's Goals and Strategy
3. Expertise and External Orientation of the Foundation

These dimensions, and their implications for foundation leaders, are explored in detail in *Listening to Grantees*. Specific implications include: making necessary investments to perform well on the three dimensions; supporting the development of specific and relevant expertise by program officers and foundation staff; aligning operations to optimize grantmaking patterns or policies that increase program officer ability to concentrate on the three dimensions; seeking to maintain consistent focus and direction ensuring consistency of policy and communication; communicating frequently; providing timely feedback to grantees; and seeking confidential, comparative feedback from grantees.

¹ Excerpted from the executive summary of *Listening to Grantees: What Nonprofits Value in Their Foundation Funders* by Phil Buchanan, Kevin Bolduc, and Judy Huang, The Center for Effective Philanthropy, 2004. This and other CEP reports are available at www.effectivephilanthropy.org.

¹⁵ Grantee suggestions overwhelmingly concern aspects of their relationships with foundations that go beyond type of support. Topics of suggestions include the quality of interactions that grantees encounter with their program officers, specific aspects of the selection and evaluation processes, and the impact foundations are making on their fields of funding. The suggestions offered by recipients of operating support and recipients of program support are similar in pattern and type.

FIGURE 6: GRANTEE SUGGESTIONS FOR FOUNDATIONS



SMALL, SHORT-TERM GRANTS

This finding relates to another likely reason we did not see larger differences in grantee ratings of foundations based on type of support: Most grants are simply too small and short term for it to matter much to grantees whether they are for program or operating support. When we combined the variables of type, size, and duration, we saw a pattern emerge in which ratings of impact on the grantee organization begin to differ. Operating support grants tend to be rated more positively than program support when they are larger and longer term than are the vast majority of grants today. (See Figure 7.)

In other words, it is not operating support alone that generates higher ratings of impact on the grantee organization, but rather operating support of sufficient size and duration.

THE GRANTEE VOICE

To complement our analysis of grantee survey data, we interviewed leaders at 26 grantee organizations, half of which had received program support from one of the 163 foundations in our sample and half of which had received operating support from one of these foundations.¹⁶ All had experience with both types of foundation grants.

Our interview data was supportive of our quantitative analysis. While operating support was frequently mentioned by grantees when describing key characteristics of an "impactful" or "ideal" grant, it was not often the first attribute discussed. Other attributes mentioned by respondents included the duration of grants, size of grants, time-intensity of grants, and additional nonmonetary support that comes with a grant.

One grantee told us:

I think the characteristics [of an ideal grant] would be... a \$50,000 to \$100,000 [operating] grant... [which] means I can spend more time focusing on other areas.... It would really help with our infrastructure needs.

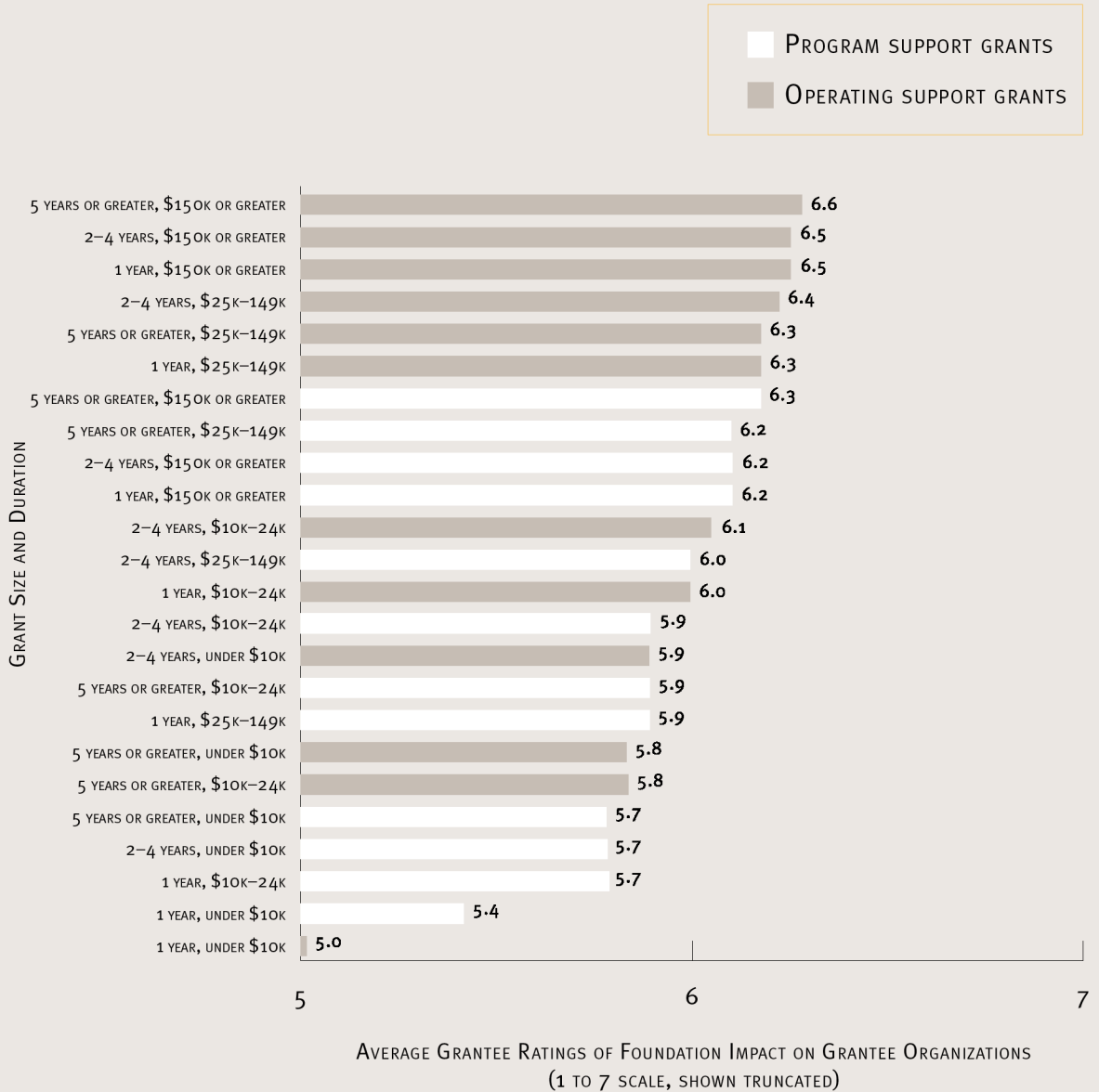
Another grantee said:

The characteristics [of an ideal grant] would be that applying for it would not be hugely time-consuming, that the foundation would decide relatively quickly and let us know whether we were getting it, and then that the reporting requirements would not be overly burdensome.... There are some foundations that want you to jump through as many hoops to get \$1,000 as foundations for which you might be getting \$10,000 or \$20,000. Sometimes, it's just not worth it.

Most grants are simply too small and short term for it to matter much to grantees whether they are for program or operating support.

¹⁶ The majority (20 of 26) of interviewees were executive directors of their organizations. The rest were directors of development or foundation relations (3 of 26) and senior managers such as "managing director" or "director of external affairs" (3 of 26).

FIGURE 7: GRANT TYPE/SIZE/DURATION VS. GRANTEE RATINGS OF IMPACT ON GRANTEE ORGANIZATIONS



This graph shows grantee ratings of foundation impact on grantee organizations.

Recipients of operating support tend to rate foundations' impact on their organizations more highly than recipients of program support when the grants are large and long-term.

CEOS' CONSIDERATION OF DIFFERENT ATTRIBUTES OF GRANTS

Many foundations seem not to be acting with an appreciation of the relationship between grant type, size, and duration. Our analysis suggests that operating support grants have the most impact on grantees when they are larger and longer term. Yet when we asked CEOs whether they consider grant duration and size in their decisions about type of support, few who said that they did also indicated that operating grants were larger or longer term (just 5 percent and 6 percent, respectively). (See Figures 8 and 9.)

FIGURE 8: CEOs' CONSIDERATION OF GRANT DURATION ALONG WITH GRANT TYPE

Question: Does the foundation consider the length of grants when deciding to award different types of support?

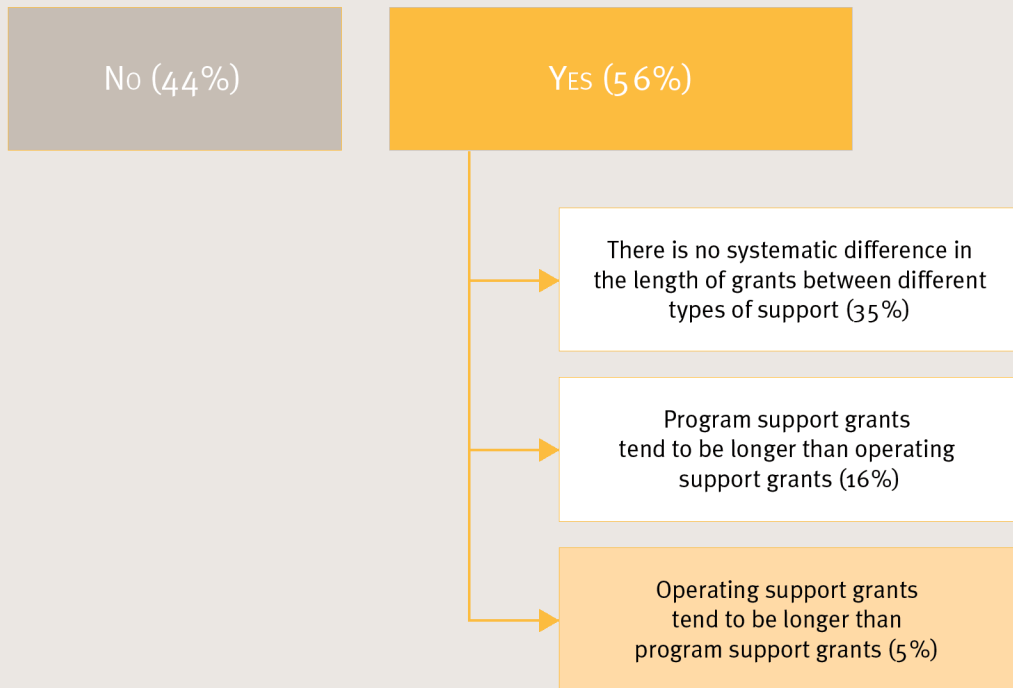
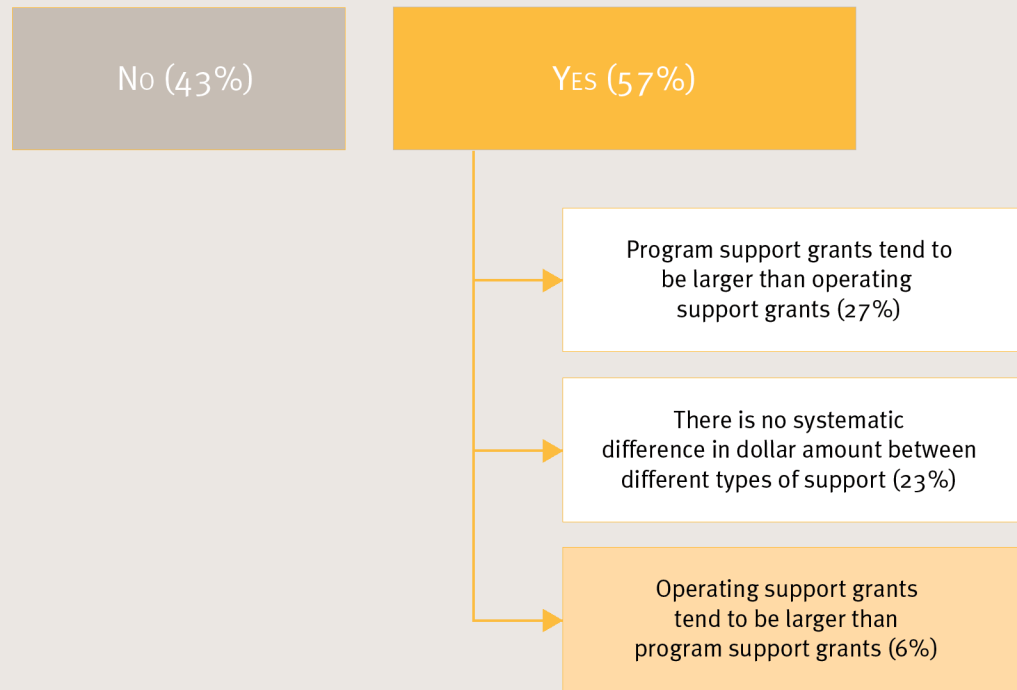


FIGURE 9: CEOs' CONSIDERATION OF GRANT SIZE ALONG WITH GRANT TYPE

Question: Does the foundation consider the dollar amount of grants when deciding to award different types of support?



Note: Percentages in "yes" group do not add up to 57 percent because of rounding.

Grantees also frequently suggested that different types of support are valuable for different purposes.

One grantee suggested:

I think it really depends a lot on circumstances. General operating multiyear grants are great... they can help an organization be able to focus more of its energy on the work it's trying to do, as opposed to just trying to keep the doors open.... Project-specific grants can be very helpful in terms of trying to get a new initiative started or off the ground. [But] project grants aren't necessarily available on an ongoing basis and it can be difficult to increase your general operating support in order to support the.... project that now has weathered time and is doing well.... So [there's] kind of a trade-off [here].

Finally, a grantee who did not state a preference for a specific type of support summed up her views this way:

I am very respectful of the fact that people are giving money, and they need to have clear accountability. But I think often, they are [requesting] the same information all the time when it comes to either financials or answering the same question ten times.... So clarity, I guess, is what I'm really after, and concise instructions and demands. I think that would help everybody.¹⁷

Type of support is important to grantees, but it is not the silver bullet — and must be considered in the context of other crucial attributes.

Type of support is important to grantees, but it is not the silver bullet — and must be considered in the context of other crucial attributes. These attributes include characteristics of the foundation and foundation program officer — the three dimensions of interactions, clarity of communications, and external orientation — as well as grant characteristics such as grant size and duration.

¹⁷ Several grantees made similar comments and often suggested that foundations could be more “creative” in their thinking about what types of grants best support their missions.

CONCLUSION

Our findings reveal a tension between what foundation leaders believe is best for them – and their desire to demonstrate accountability and impact – and what they see as creating the most positive impact on grantee organizations. Despite the recent advocacy for operating support, many foundation leaders continue to prefer to provide program support.

The question of what type of support to provide appears to be connected to other, central questions about how foundations define their roles. Is the foundation primarily focused on pursuing impact goals that it defines? If so, how does the foundation believe the choice of type of support relates to those goals? Does the foundation see strengthening grantee organizations in its chosen fields or communities as a central goal in itself?

For those foundation leaders who either have a preference for providing operating support or are open to the concept because of their belief that it has a positive impact on grantee organizations, it is crucial to understand the conditions under which that support will make the most positive difference. To be sure, small, short-term grants can make a big impact, and many foundation leaders and program officers are quick to point to such examples. But our analysis suggests that to make the most impact on grantee organizations, foundations ought to provide operating support grants that are larger and longer term than the vast majority of foundation grants today. Moreover, these grants must be provided by foundations – and individual program officers – that exemplify the dimensions most valued by grantees: high-quality interactions; clear communications of goals and strategy; and demonstrated expertise and external orientation.

Nonprofits consider the attributes of grant size and duration to be as crucial as the type of support they receive. Grantees' views of foundations are also more profoundly affected by issues such as interactions, communications, and expertise than simply by type of grant. Yet these are facts that much of the advocacy in favor of operating support seems to have overlooked.¹⁸

We are hopeful that the data presented in this report will spark more informed discussion about how best to balance foundation objectives and grantee needs – and about what foundation and grant characteristics should be considered in that equation. The result of this more expansive discussion should be more effective foundation-grantee interactions that lead, ultimately, to what both parties desire: more positive impact on the pressing issues facing the fields and communities in which foundations and nonprofits work.

We are hopeful that the data presented in this report will spark more informed discussion about how best to balance foundation objectives and grantee needs – and about what foundation and grant characteristics should be considered in that equation.

¹⁸ There are some notable exceptions. For example, Grantmakers for Effective Organizations has written that in addition to making operating support grants, funders ought to “commit to long-term support,” and The California Wellness Foundation has suggested that multi-year grants are crucial to grantees.

RAISING QUESTIONS

The data and analyses described here raise as many questions as they answer. Some of those questions include:

- Why do foundations continue to provide a high number of relatively small, short-term grants?
 - > What are the transaction costs – for foundations and grantees – associated with this practice?
 - > What forces influence choices about size and duration of grants?
 - > How might foundations best face the choice between either providing larger grants or supporting a larger number of organizations?
- How should foundations approach decisions about type of support?
 - > How should foundations balance the achievement of their programmatic goals against the goal of positively effecting the organizational health of their grantees?
- What are best practices in assessment of operating support grants?
- How can foundation trustees be brought more fully into the conversation about type of support?
- How can foundations and grantees best ensure optimal alignment of goals – regardless of the type of support provided?

We are posting the thoughts of foundation and nonprofit leaders on these questions in a special area on our Web site, www.effectivephilanthropy.org/research/support.html.

METHODOLOGY

Three sources of data from two different samples, grantees and foundation CEOs, were used for analyses in this research about type of support. In chronological order of development and administration, they were:

1. Survey data collected from grantees
2. Survey data collected from foundation CEOs
3. Interviews of leadership at grant-receiving nonprofits

Survey data collected from grantees and survey data collected from CEOs were analyzed before the interview questions for grantees were developed; questions asked during interviews with grantees were designed to elucidate findings that had emerged from the grantee and CEO surveys. All research and analyses were developed and executed by CEP staff.

SURVEY OF GRANTEES

The data discussed in this report was gathered from confidential surveys of grantees conducted in six rounds of surveys from 2003 to 2005. CEP's grantee survey was initially developed as part of its Foundation Performance Metrics Pilot Study, conducted in 2002, and evolved with input from foundation leaders, grantees, and survey and research experts.¹⁹ The first formal round of surveying took place in 2003. Between 2003 and 2005, 31,586 grantees were invited to participate in CEP's grantee survey. CEP received responses from 19,839 grantees of 163 foundations, a 63 percent response rate.

Sample

Of the 163 foundations represented in the sample, 97 foundations opted in to the survey process and received Grantee Perception Reports (an assessment tool providing comparative data on grantee perceptions), and 67 foundations were selected randomly to create a representative sample of large foundations in the United States.²⁰

Grantee contact data – for one fiscal year's worth of grantmaking – was provided by foundations that opted into the process. For those foundations whose grantees were surveyed independently, grantee contact data was collected by CEP from foundation 990 tax filings, foundation Web sites, and foundation annual reports.

Grantee contact lists supplied by foundations were used to mail the surveys for foundations that opted in; information gathered from publicly available sources were used to mail the surveys for foundations whose grantees were surveyed independently. Contact lists most often listed executive directors, project directors, and development directors as the main grant contacts; therefore, these populations comprise the majority of respondents in the survey.

¹⁹ Grantee input was gathered through focus groups, telephone interviews, and in-person interviews conducted in 2002 and 2003. Focus groups and telephone interviews are described in greater depth in the methodology section of CEP's 2004 report, *Listening to Grantees: What Grantees Value in Their Foundation Funders*.

²⁰ There are no differences of substantial magnitude in ratings of foundations that opted into the process and foundations that were randomly selected by CEP.

Grantees were asked in the survey to discuss one grant and to specify the type of support they received from the foundation. Only those grantees responding to the survey about the receipt of a program or operating support grant were included in analyses for this research, bringing the total sample size to 14,892 grantees: 70.1 percent of this sample were recipients of program support (n = 10,433), and 29.9 percent were recipients of operating support (n = 4,459).

Method

The survey consisted of 50 questions, mainly with seven-point Likert rating scales. It also contained several structured-response/multiple choice questions and four open-ended questions. The survey questions explored dimensions of foundation performance ranging from responsiveness of staff to nonmonetary assistance provided, as well as perceptions of foundation impact on the grantee organization, geographic community, and field. In addition, the survey sought data from grantees about the amount of administrative time required for proposal creation and reporting and evaluation, turnaround time of grant requests, and a range of other issues. Grantees were given the option to respond to the survey by mail or online, and were given the option to respond anonymously.²¹

Quantitative Analyses

Before combining the six rounds of data, analysis of variance testing (ANOVA) was conducted to ensure that average responses did not differ across rounds. An alpha level of 0.05 was used to determine statistical significance for all statistical testing conducted for this research. Due to the large sample size in this dataset, mean differences of even very small magnitude would be statistically significant. Therefore, Cohen's d was examined for all t-test findings. Cohen's d is a measure of effect size, which is a standardized measure of the magnitude of relationship between variables.²² Beyond knowing whether or not a relationship is statistically significant, a measure of effect size provides information about the practical significance of the relationship. No t-test findings for the grantee survey data reached a medium effect size.

²¹ As we reported in *Listening to Grantees: What Nonprofits Value in Their Foundation Funders*, there were no statistical differences of substantial magnitude in ratings between grantees that responded by mail versus online or between grantees that identified themselves or responded anonymously.

²² Cohen, Jacob. "A Power Primer." *Psychological Bulletin*, Volume 1, Issue 112, 1992, 155-159.

T-tests were conducted to examine mean differences between the perceptions of grantees who were responding about a program support grant and those responding about an operating support grant. Chi-square analyses were used to analyze the relationship between type of support (program or operating) and other categorical variables, such as whether or not specific events occurred during the selection process, foundation characteristics, and whether or not certain types of nonmonetary assistance were received by grantees. Multiple regression analyses were run to understand the strength of type of support as a predictor of grantee satisfaction and grantee perceptions of foundation impact on the grantee organization. Predictors of these outcomes had been explored in great detail in *Listening to Grantees*. The purpose of running the regressions for this research was to understand the predictive power of type of support for grantee perceptions in the absence of previously identified statistical predictors.

Even in the absence of variables previously identified as the strongest predictors of satisfaction and impact, type of support alone did not predict a large amount of variation in these perceptions. Along with type of support, though, two other variables that foundations are able to control did appear as statistical predictors of impact on grantee organization: size of grant and duration of grant.

To understand the relationship among type of support, size of grant, and duration of grant, a three-factor analysis of variance was run (ANOVA). This analysis examined whether or not a simultaneous statistical relationship existed between type of support, size of grant, and duration of grant – also known as a three-way interaction – in predicting grantee ratings of foundation impact on the grantee organization.

The presence of a statistical interaction would indicate that certain *combinations* of values of these variables predict differences in ratings of impact on the grantee organization. The three-way interaction of grant type, size, and duration was, in fact, statistically significant. As a result, Tukey's HSD tests with a harmonic *n* were calculated to determine which combinations of type of support, size of grant, and duration of grant corresponded to statistically different mean ratings of impact on the grantee organization.²³

Qualitative Analyses

An open-ended question in the grantee survey asked, "What improvements would you suggest in the Foundation's services or processes that would make it a better funder?"

Suggestions were categorized using a coding scheme designed to capture the wide range of themes in responses. Four CEP staff coded suggestions with an 80 percent level of inter-rater reliability. For the purposes of this study, grantee responses for only the two most recent rounds of surveys (fall 2005 and spring 2006) were analyzed because of a question wording change, making previous responses to this question not comparable to more recent responses.

SURVEY OF FOUNDATION CEOs

CEP developed a survey to understand foundation CEOs' views on the issue of type of support. The survey consisted of 16 questions, including both Likert scale items and open-ended questions. All questions were developed to probe themes arising from our literature search and research findings, as well as to compliment issues about which grantees had been asked in the grantee survey.

²³ Harmonic *n* is used when the sizes of cells comprising the analysis of variance test are unequal.

Sample

CEOs of the 163 foundations included in the grantee data set were invited to participate in this survey. CEP received 79 responses, a 48 percent response rate.²⁴

Method

The survey was piloted with a small group of experts in the field and revisions were made to question order and wording before administering to our final sample. For our final sample, CEOs were sent a paper copy of the survey with a cover page including a link to an online version of the survey. The cover letter included information on the purpose of the survey and a statement of confidentiality. One reminder email was sent to all CEOs for whom email addresses were available; a postcard reminder was sent to the remaining CEOs.

Quantitative Analyses

Means and standard deviations were examined for all quantitative items. Paired t-tests were run to examine mean differences in responses provided by the same individuals to different items in the survey. Cohen's d (as described earlier in the grantee survey section of this methodology) was used to assess the magnitude of difference found. All mean differences for the CEO data reported in the body of this paper were statistically significant at a medium effect size or larger.

Qualitative Analyses

Thematic analysis was conducted separately on two open-ended questions from the survey. For each question, a coding scheme was developed by reading through all responses to recognize reoccurring ideas, creating categories and then coding each respondent's ideas according to the categories. Two CEP staff coded all responses to each question; inter-rater reliability of 93 percent was achieved.

Selected quotes were included in this report; these quotes were selected to be representative of the themes seen in the data.

INTERVIEWS WITH LEADERSHIP AT GRANTEE ORGANIZATIONS

To explore the grantee perspective in greater depth, a series of grantee interviews were conducted. Questions in the interview were designed to further explore key themes in the grantee survey and compliment questions asked in the survey of CEOs.

Sample

Grantee organizations were randomly selected from the larger dataset of grantees that had previously participated in the grantee survey; the selection was stratified to include an even number of grantees who had responded to the survey in reference to a project support grant and in reference to receipt of an operating support grant. CEP conducted 26 interviews.²⁵

The executive director at each of these 26 grantee organizations was contacted via phone, e-mail, or both. Six executive directors chose to designate development directors or other senior management to speak on the organization's behalf. Before the interview, all interviewees received information about the length of the interview and confidentiality of information to be shared during the interview. CEP did not share interview questions with grantees before interviews.

²⁴ At the end of the survey, respondents were asked, "Can CEP contact you for a brief discussion of your survey responses?" 77 percent of respondents answered yes to this question and supplied their name and position. Of those respondents, 43 percent indicated that they held positions other than CEO of the organization.

²⁵ A total of 41 grantee organizations were contacted; 26 interviews, the target number, were completed; 6 grantees declined to be interviewed (15 percent of those contacted), 5 did not return communications, and an additional 4 interviews that were conducted were not useable due to recording difficulties (2), a language barrier (1), and respondent's inability to speak about both types of support under study (1).

Method

An interview script was designed to include an introduction, eight questions and closing remarks. The interview script was piloted with four grantee organizations that had not previously participated in a grantee survey with CEP.

Three CEP staff conducted the interviews, following an interview script to ensure consistency in the interviewing process. Interviews lasted between 20 and 30 minutes and were recorded and transcribed.

The interviews began with asking grantees a broad open-ended question: "From your perspective, what type of grant has the greatest impact on your organization?" Grantees were then asked to respond to the remainder of the interview questions in terms of only two types of support – program support and operating support; interviewers read broad descriptions of each type of support to each grantee. Remaining questions asked grantees about the characteristics of their ideal grant, their preference for program support, operating support, or both types of support, and their opinions about whether one type of support or both types of support were more encouraging of a series of concepts. Concepts explored included the sustainability of their organization's programs, impact on their organization, and achievement of their organization's mission.

Analysis

Content analysis and thematic analysis were conducted by a team of three CEP staff. Each member of the team individually coded responses; the team then met to discuss coding categories and reach consensus on themes and individually coded items. Consensus was reached among all three coders on the categorization of all grantee responses to each question.

For some questions, the presence of specific type(s) of support mentioned was the primary data coded. For other questions, responses were classified into groups based on similarity in main ideas. These groups of ideas were then coded by underlying theme.

APPENDIX

List of Foundations Included in this Study

The Abell Foundation
The Ahmanson Foundation
Alfred P. Sloan Foundation
Alphawood Foundation
Altman Foundation
The Ambrose Monell Foundation
Amelia Peabody Foundation
Amon G. Carter Foundation
Andersen Foundation
Ann Arbor Area Community Foundation *
The Annenberg Foundation
The Anschutz Foundation
The Assisi Foundation of Memphis *
The AVI CHAI Foundation *
Baptist Community Ministries
Barr Foundation *
Bill & Melinda Gates Foundation *
Blandin Foundation *
Blue Cross Blue Shield of Massachusetts Foundation *
The Boston Foundation *
Bradley Foundation
Bradley-Turner Foundation
The Broad Foundation *
The Brown Foundation *
Bush Foundation *
The California Wellness Foundation
Carnegie Corporation of New York *
Carrie Estelle Doheny Foundation
The Case Foundation *
The Champlin Foundations
Charles and Helen Schwab Foundation *
Charles and Lynn Schusterman Family Foundation *
Charles Stewart Mott Foundation *
The Clark Foundation
Claude Worthington Benedum Foundation *
The Cleveland Foundation *
The Clowes Fund *
The Collins Foundation
The Columbus Foundation *
Community Foundation Silicon Valley *
Connecticut Health Foundation *
Daniels Fund
The David and Lucile Packard Foundation *
Dekko Foundation
Doris Duke Charitable Foundation *
The Duke Endowment *
The Dyson Foundation *
E. Rhodes & Leona B. Carpenter Foundation
Eden Hall Foundation
The Educational Foundation of America
El Pomar Foundation
Endowment for Health *
Evelyn and Walter Haas, Jr. Fund *
The F. B. Heron Foundation *
F. M. Kirby Foundation
The Fan Fox and Leslie R. Samuels Foundation
Fannie Mae Foundation *
The Ford Family Foundation *
The Frist Foundation
GAR Foundation *
Gates Family Foundation
The George Gund Foundation *
The George S. and Dolores Doré Eccles Foundation
Geraldine R. Dodge Foundation
The Gill Foundation
The Goizueta Foundation *
Gordon and Betty Moore Foundation *
The Grable Foundation *
Grand Rapids Community Foundation *
The Greater Cincinnati Foundation *
Gulf Coast Community Foundation of Venice *
Hall Family Foundation
The Harry and Jeanette Weinberg Foundation
The Health Foundation of Greater Cincinnati *
The Heinz Endowments *
Horace W. Goldsmith Foundation
Houston Endowment *
HRJ Consulting, representing an anonymous foundation *
The Hyams Foundation *
J. A. & Kathryn Albertson Foundation
J. Bulow Campbell Foundation
The J. Willard and Alice S. Marriott Foundation
James Graham Brown Foundation
The Jay and Rose Phillips Family Foundation
Jessie Ball duPont Fund *
The Jessie Smith Noyes Foundation *
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The John R. Oishei Foundation *
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 Peninsula Community Foundation *
 The Pew Charitable Trusts
 The Philadelphia Foundation *
 Polk Bros. Foundation *
 Pritzker Foundation
 Public Welfare Foundation
 Quantum Foundation
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 The Rhode Island Foundation *
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 The Saint Paul Foundation *
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 W.K. Kellogg Foundation *
 The Waitt Family Foundation
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 Wilburforce Foundation *
 The William and Flora Hewlett Foundation *
 The William K. Warren Foundation
 William Penn Foundation *
 The William Randolph Hearst Foundations
 The William Stamps Farish Fund
 Winter Park Health Foundation *
 Woods Fund of Chicago *
 Z. Smith Reynolds Foundation

* Indicates foundations that have subscribed to the Grantee Perception Report (GPR). The GPR is a management tool that provides foundation CEOs, boards, and staff with comparative data on grantee perceptions of foundation performance on a variety of dimensions.

ABOUT THE CENTER FOR EFFECTIVE PHILANTHROPY

The mission of the Center for Effective Philanthropy (CEP) is to provide management and governance tools to define, assess, and improve overall foundation performance.

This mission is based on a vision of a world in which pressing social needs are more effectively addressed. It stems from a belief that improved performance of foundations can have a profoundly positive impact on nonprofit organizations and those they serve.

FUNDERS

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Phil Buchanan, *Executive Director*
Ellie Buteau, Ph.D., *Senior Research Officer*
Kelly Chang, *Research Analyst*
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EFFECTIVE PHILANTHROPY

675 Massachusetts Avenue, 7th Floor • Cambridge, MA 02139
t: 617-492-0800 • www.effectivephilanthropy.org

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