

# INDICATORS OF EFFECTIVENESS:

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*Understanding and Improving Foundation Performance*

*Report on the Foundation Performance Metrics Pilot Study*

THE CENTER FOR  
EFFECTIVE PHILANTHROPY

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## THE CENTER FOR EFFECTIVE PHILANTHROPY

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## I. EXECUTIVE SUMMARY

### Background

Foundation leaders are increasingly concerned with understanding and assessing the overall performance of their foundations, convinced that better performance assessment will lead to greater effectiveness and, in turn, to more social impact on the people and issues they affect.

Because it is so difficult and costly for foundations to directly measure the social benefit of the myriad grants they make, foundations are beginning to experiment with indirect indicators. These may not provide definitive proof of social impact, but serve as useful guidance to management in seeking to improve performance. Foundations are also increasingly looking to each other in order to learn and compare different ways of operating that can further their missions.

The Center for Effective Philanthropy undertook to explore what data might reliably inform foundation CEOs and trustees in their search for useful measures of foundation effectiveness. Through dozens of interviews and conversations with the leaders of major foundations, we ascertained that the outline of a framework for performance assessment exists, although different foundations often describe it in different ways. The results of this stage of the research were published in *Toward a Common Language*.<sup>1</sup>

Since then, the Center has worked to further refine and develop this framework and to investigate types of objectively verifiable data that can inform foundation performance assessment. In particular, the

Center has sought data that are simple, timely, inexpensive to collect, and comparable over time and among foundations.

The Center's eight months of research drew upon multiple sources of data:<sup>2</sup>

- A collection of CEO perspectives through a survey of CEOs of the largest 225 foundations in the country, to which the Center received 77 responses, and a series of in-depth interviews with 18 CEOs (augmented by 56 discussions with other foundation officers and experts);
- A confidential survey of a random sample of more than 3,500 domestic grantees from 23 representative foundations from the largest 100 private, U.S. foundations, to which the Center received 926 responses;
- In-depth, structured telephone interviews with 13 foundation trustees; and
- Analysis of publicly available data from IRS 990-PF tax filings, foundation annual reports and Web sites, and The Foundation Center.

In order to ensure that our data and analysis would be accurate and helpful to foundation leaders, the Center's staff worked in close consultation throughout the Study with a distinguished Study Advisory Board, composed primarily of foundation chief executives.<sup>3</sup> The Advisory Board contributed much time, energy, and thoughtful reflection, and we are most grateful for their work and counsel.

<sup>1</sup> The Center for Effective Philanthropy. *Toward A Common Language: Listening to Foundation CEOs and Other Experts Talk About Performance Measurement in Philanthropy*, February, 2002.

<sup>2</sup> The Center's research methodology is described more fully in Appendix A.

<sup>3</sup> The members of the Study Advisory Board are Mike Bailin, Paul Brest, Dennis Collins, Alexa Culwell, Jonathan Fanton, Joel Fleishman, Stephen Heintz, Barbara Kibbe, Rebecca Rimel, Edward Skloot, Lou Smith, Mark Smith, Page Snow, and Vince Stehle. The analysis and conclusions of this Study, however, are those of the Center and may not reflect the views of individual members of the Study Advisory Board. We also consulted with a Committee of Experts, which includes a number of experts in foundation evaluation and other senior foundation officers, and an informal network of advisors. We are deeply appreciative of the interest and ideas offered by so many with whom we have spoken.

This Study was designed as a pilot project to explore the feasibility of defining and measuring foundation performance. This report is both a beginning and a work in process. We look forward to continuing this research and to ongoing discussions with foundation leaders and other researchers to move toward more comprehensive and refined measures of performance that come ever closer to assessing a foundation's ultimate social impact. Although much of the research

work. We describe new data relevant to performance assessment and apply them through a series of practical examples of what individual foundations can learn by comparing their individual performance in key areas on a relative basis. Finally, the report highlights gaps in currently available data, and outlines a strategy for further research.

Key findings of the research are as follows.

- I. Foundations are facing increasing pressure to measure and improve performance.
  - Foundation CEOs expect that regulatory scrutiny of their activities will grow as legislators and the public increasingly seek to assess the value of foundations' activities relative to the tax benefits they receive.
  - Foundations are confronting new pressures and tough decisions forced by a changed economic climate that have increased their sense of urgency to identify the most effective ways of achieving social impact at the lowest cost.
  - CEOs are looking to their boards for greater involvement in assessing overall foundation impact, but boards today, while interested, are not generally actively engaging the issue.
2. Performance assessment today typically relies on two types of measures:
  - Formal grant and program evaluations, which are costly, usually performed for only a small proportion of grants, and difficult to aggregate up to the level of *overall* foundation performance; and
  - Administrative measures, such as those related to operating costs and investment performance, which are at best weakly connected to social impact achieved.

While these measures are important to an overall performance assessment framework, foundation CEOs and trustees agree that they are not sufficient.

*This report is both a beginning and a work in process. We look forward to continuing this research and to ongoing discussions with foundation leaders and other researchers to move toward more comprehensive and refined measures of performance that come ever closer to assessing a foundation's ultimate social impact.*

is still preliminary, the results presented here offer the first comparative information about grantee perceptions of foundation performance, as well as new insights into practices within the field that will enable foundations to see more clearly the effects of the strategic choices they make. Much of the data has proved valuable in assessing foundation performance, suggesting that foundations can indeed find practical, measurable proxies for social impact in order to inform and improve their effectiveness.

There still remain significant gaps in available data. Moreover, the sample in our Study was limited to the largest foundations in the country and some findings may not apply to smaller foundations or community foundations. This Study is therefore only a first step in the difficult process of developing better foundation performance measures.

## Summary of Key Findings

This report begins with an overview of the current state of foundation performance measurement and offers a conceptual framework for assessing foundation effectiveness that expands on the Center's earlier

3. A shared conceptual framework illuminates the levels of overall foundation performance assessment, the range of measures at each level, and the types of data – or indicators – that are potentially relevant.

- There are a range of potential measures from the ultimate calculation of foundation impact— social benefit created in relation to resources invested—to measures that are more operational. These measures can be grouped into categories related to impact, choices about strategy and agenda, operations, and governance.
- Foundation leaders share a conception of potentially important measures but are often stymied in implementing them by a lack of data. The framework suggests data, or indicators of effectiveness, that can be collected about each.

4. Comparative data in several key areas of foundation performance can yield significant insights.

- Data derived from publicly available information on 23 foundations, selected to be representative of the country's 100 largest private foundations, allow for a new understanding of the range of choices and practices that exist among them.
- Data from a large-scale survey of grantees allow foundation executives to benchmark foundation-grantee processes and interactions and reveal important insights into the perceived success of foundation activities.
- Using these data, comparative measures can help foundations understand their performance relative to other foundations on specific dimensions of importance to CEOs. In addition, these data provide benchmarks that allow foundations to measure changes over time.
  - Case examples illustrate the potential of these data to assist foundation leaders in understanding and improving performance.

5. Gaps in data and measurement remain but can be addressed through a sustained effort involving many in the field.

- There is more work yet to be done both in refining proposed measures and in deepening and broadening key data sets, such as comparative grantee perceptions of foundations.
- Some of what foundation leaders wish to learn about the social impact of their foundations cannot be addressed by the data described in this report. Additional efforts are needed to develop better tools and data to inform a more complete assessment.

## Conclusions

The purpose of this Study was to advance discussion within the field regarding foundation effectiveness and performance assessment. The Center's research confirms the deeply felt need among foundation leaders for better measures of performance, reveals that comparing a foundation's performance to that of its peers is both possible and illuminating, and suggests that foundations' overall performance varies significantly along a number of dimensions

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*Foundation CEOs and boards can utilize the measures and data discussed in this report to place their foundation in context and to review strategies and activities.*

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of importance to foundation leaders. Foundation CEOs and boards can utilize the measures and data discussed in this report to place their foundation in context and to review strategies and activities.

It is our hope that this report and subsequent Center research will be helpful to foundation leaders in making better-informed decisions. It is this pragmatic emphasis on helping foundations learn how to increase their effectiveness that we hope will distinguish the Center's current and future research efforts.

## II. UNDERSTANDING FOUNDATION PERFORMANCE ASSESSMENT TODAY

**KEY FINDINGS:** CEOs are driven by internal and external forces to seek better measures of foundation performance that are practical and relevant to their decision-making. They are looking to their boards to play a more significant role in performance assessment, but boards today are generally not engaging the issue.

Foundation CEOs are reliant on grant and program evaluations and operational measures to assess performance, but find that these are insufficient from a management perspective.

### Emphasis on Performance Within Foundations

There is a significant and increasing emphasis on performance assessment among foundation leaders. Growing numbers within the foundation field argue that it is time for foundations to evaluate their activities more rigorously. “Foundations most often direct their evaluations at the activities of their grantees, only rarely subjecting themselves to the same level of scrutiny, accountability, and discomfort,” noted a 1999 Colorado Trust report.<sup>4</sup>

Many foundation CEOs are embracing performance assessment because of a genuine belief that it is necessary for improved performance, and, ultimately, increased social impact. In our in-depth interviews with foundation chief executives, summarized in the report, *Toward A Common Language*, it became clear that there is a strong desire for better performance measures.

### Growing External Pressures

Beyond this internal drive for better measures of foundation effectiveness, there are significant external forces pushing foundation leaders in this direction. Critics point to the lost tax revenue from contributions to foundations and ask whether society is receiving the commensurate benefits to offset those losses.<sup>5</sup> Some, such as former Senator Bill Bradley, suggest that foundations – among other endowed nonprofit organizations – are inappropriately protecting their endowments by spending at, or only slightly above, the five percent minimum payout. “Their current strategy is especially harmful today, when some 13 million U.S. children live in poverty, nearly 41 million people have no health insurance, and many urban schools are failing.”<sup>6</sup> These critiques have raised the specter of legislative or regulatory action affecting foundations.

- Sixty-three (63) percent of the foundation CEOs responding to our survey anticipate increasing regulatory scrutiny of foundations over the next ten years. The remaining 37 percent believe there will be no change. Not one CEO indicated an expectation of decreased scrutiny.
- Twenty-three (23) percent of CEOs believe that mandated payout will increase in the next decade. The remaining 77 percent believe there will be no change. No CEO predicted a decrease in mandated payout.

A changed economic environment—more specifically, the end of the bull market of the mid and late 1990s—has also contributed to the pressure to assess and

<sup>4</sup> Easterling, Doug and Nancy Baughman Csuti. *Using Evaluation to Improve Grantmaking: What's Good for the Goose is Good for the Grantor*. Denver, Colorado: The Colorado Trust, March 1999.

<sup>5</sup> Dowie, Mark. *American Foundations: An Investigative History*, Cambridge, Massachusetts: The MIT Press, 2001.

<sup>6</sup> Bradley, Bill and Paul J. Jansen. “Faster Charity.” *The New York Times*, May 15, 2002.

## SOME TERMS WE USE

**Foundation Performance Assessment:** The evaluation of the overall performance of the foundation. This encompasses all grantmaking and other activity – allowing foundation leaders to understand the performance of their foundation along multiple dimensions relative to others and over time.

**Foundation Performance Measures:** The particular areas in which the foundation is seeking to understand its performance, such as the degree to which it has strengthened its grantees or the results of its endowment investment performance. These fall into four broad categories related to Achieving Impact, Setting the Agenda/Strategy, Managing Operations, and Optimizing Governance. Different foundations may select different measures, but our research suggests that there is significant consistency across foundations.

**Indicators of Effectiveness:** The data sources that inform foundation performance measures, such as grantee perception data or program evaluation data. Each measure can have multiple potential indicators. A foundation must decide, for its chosen measures, which indicators of effectiveness are most valuable to collect and analyze.

improve foundation performance. Declining asset bases at many of the country's large, private foundations are forcing tough decisions about how best to re-allocate resources.

- Fifty percent (50) of foundation CEOs reported undertaking some cuts in expenditures (either in operating expenses, grants, or both) in 2002 in response to the changed economic climate.
- Thirty-three (33) percent of CEOs indicated that grant payout in absolute dollars will decline in 2002 relative to 2001, and another 37 percent indicated that it will stay the same (equivalent to a modest decline in inflation-adjusted dollars). Only 30 percent projected an increase.

While total overall foundation dollars available to nonprofits may not, in fact, decrease due to the creation of new foundations, the leveling or contraction in grantmaking among many of the country's largest, established foundations represents a substantial shift from recent years and is already creating pressures within foundations and among their grantees. When resources are limited, pressure inevitably intensifies

to ensure that dollars are channeled as effectively as possible. As Edward Skloot, Executive Director of the Surdna Foundation, wrote in *The Chronicle of Philanthropy*, "With resources tight, foundations will have real incentives to improve their skills at measuring success – and failure – in their grantmaking."<sup>7</sup> As CEOs face these challenges, they will increasingly turn to their boards for help.

### Limited Board Role in Performance Assessment

Today, boards are generally not engaging issues of performance assessment on any systematic basis.

- Just 20 percent of CEOs in our survey report that their boards are "substantially involved" in

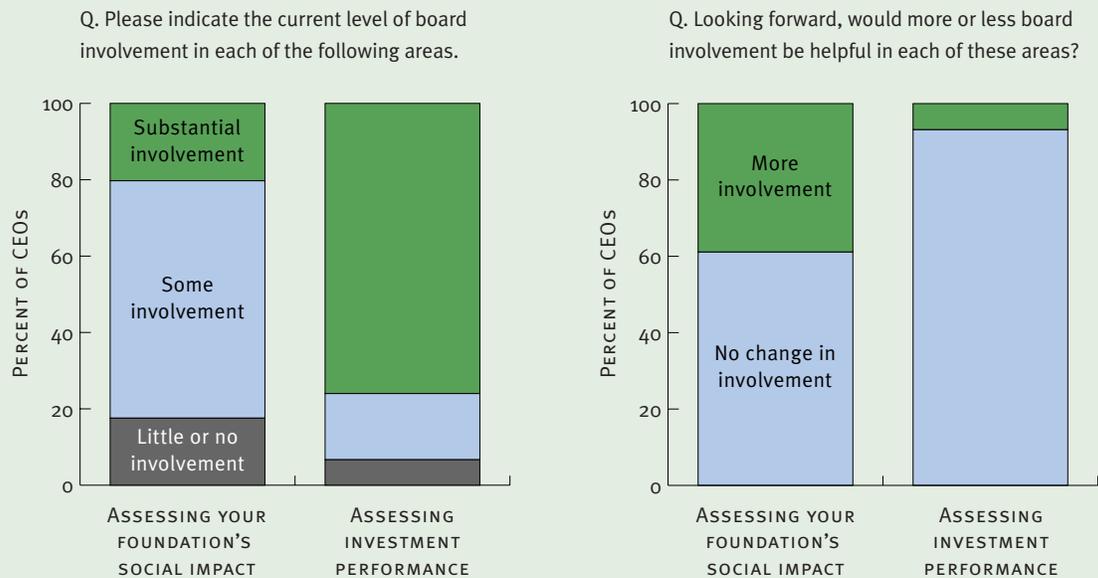
*Today, boards are generally not engaging issues of performance assessment on any systematic basis.*

assessing the foundation's social impact. This compares to 76 percent of CEOs reporting that their boards are "substantially involved" in

7 Skloot, Edward. "Foundations Must Meet the Era's Challenges." *The Chronicle of Philanthropy*, November 15, 2001.

FIG. 1 CEO PERCEPTIONS OF BOARD INVOLVEMENT

Only 20% of CEOs indicate that their board is substantially involved in assessing their foundation's social impact, whereas 76% of CEOs say their board is substantially involved in assessing investment performance. Forty (40) percent say they would like more board involvement in assessing the foundation's social impact.



assessing the endowment investment performance of the foundation (Figure 1). CEOs and trustees noted the relative ease of assessing endowment returns, where data and tools are readily available, as the reason for this discrepancy, but expressed discomfort nonetheless. As one trustee told us, "If [board members] spent half of the time on the social impact side that they do on the investment side, we'd be much better off."

- Indeed, nearly 40 percent of CEOs in our sample want more board involvement in the assessment of social impact – by far the single largest area in which CEOs desire increased board engagement (Figure 1).

Many trustees with whom we spoke are well aware of their lack of involvement in overall foundation

performance assessment. One trustee put it this way: "It is up to the board to insist on some clarity and framework against which 'grand programs' are measured, although we have never reached this state." Our interviews with trustees – while limited in number – suggest that boards lack clarity about how best to assess performance and have not developed an understanding of which measures are most useful. (See sidebar: The Role of the Board.)

### Current Assessment Practices

Current overall foundation performance assessment relies primarily on two areas: grant and program evaluations, and operational measures. Grant and program evaluations attempt to assess social impact as directly as possible, but have important limitations, at

## THE ROLE OF THE BOARD

The board of directors has a critical role to play in ensuring that a framework for assessing foundation effectiveness exists and is used to understand how to improve performance. However, during a set of 13 in-depth interviews with trustees from five foundations, we consistently heard the same themes articulated:

*I'd like to be more involved in understanding our foundation's impact on society, but our board doesn't have the know-how or tools to approach this issue.*

*Right now I make judgments based on the results of individual grants, and that's an important way to know our grantees and our program officers, but it's not the best way to direct the foundation.*

Some of this consternation results from a difficulty in clarifying mission and goals. Even though the stated missions of the foundations whose board members we spoke with are often reasonably specific, most of the trustees articulated their foundations' missions in vague terms, for example: "[The foundation's mission] is to serve the public good in an informed, respectful, and engaged way."

The generality of the foundations' missions as understood and articulated by trustees increases the difficulty in advocating for the creation of specific goals and measures. As one trustee said, "I bet none of the board members could tell you what the goals [are]." Without these goals, measuring progress in ways other than "anecdotal and personal," as one trustee summed up the board's oversight, becomes a nearly impossible task.

Although assessing the performance of a complex organization can be a daunting challenge, there are examples of foundation boards that have encouraged the development of agreed upon, measurable indicators of overall performance, and reviewed them regularly with senior foundation management. Further research highlighting these examples would be of significant benefit to the field.

least as implemented today. Operational measures are more easily implemented but less directly connected to social impact.

Grant and program evaluations are overwhelmingly cited by CEOs as the primary means for assessing overall effectiveness and impact (Figure 2). Yet our interviews with CEOs suggested three significant shortcomings of evaluations as a tool for assessing overall foundation performance:

- Evaluations can take years to complete,
- They are difficult to aggregate to a level suggestive of overall foundation performance, and

- They are often unable to demonstrate a connection between the specific activities of the foundation and the outcome achieved.<sup>8</sup>

In addition, our CEO survey results indicate that only a small proportion of grants are formally evaluated. Even among the 225 largest foundations in the country, which have the greatest resources to evaluate grants, more than 40 percent of CEOs estimate that fewer than one-quarter of their foundations' grants are evaluated. Still, a significant proportion of CEOs cite evaluations as extremely useful in managing the foundation (Figure 3).

Our CEO survey confirmed that grant and program evaluation data are critically important to CEOs and senior managers – 94 percent of CEOs report that they use evaluation data. The responses also suggest

<sup>8</sup> The Center for Effective Philanthropy. *Toward A Common Language: Listening to Foundation CEOs and Other Experts Talk About Performance Measurement in Philanthropy*, February 2002.

that the most important use of evaluation data is at the program officer level. Here the focus is on the performance of individual grantees rather than over-

*As a tool for program staff, grant and program evaluations are essential. As a tool for the board of directors or CEO, charged with managing the overall performance of the foundation, evaluations are important but insufficient.*

all foundation performance. For example, the most frequently cited uses of evaluation data within foundations are to “decide whether to renew grantees’

funding” and to “share with grantees to strengthen their performance,” two functions that program officers are the most likely to perform.

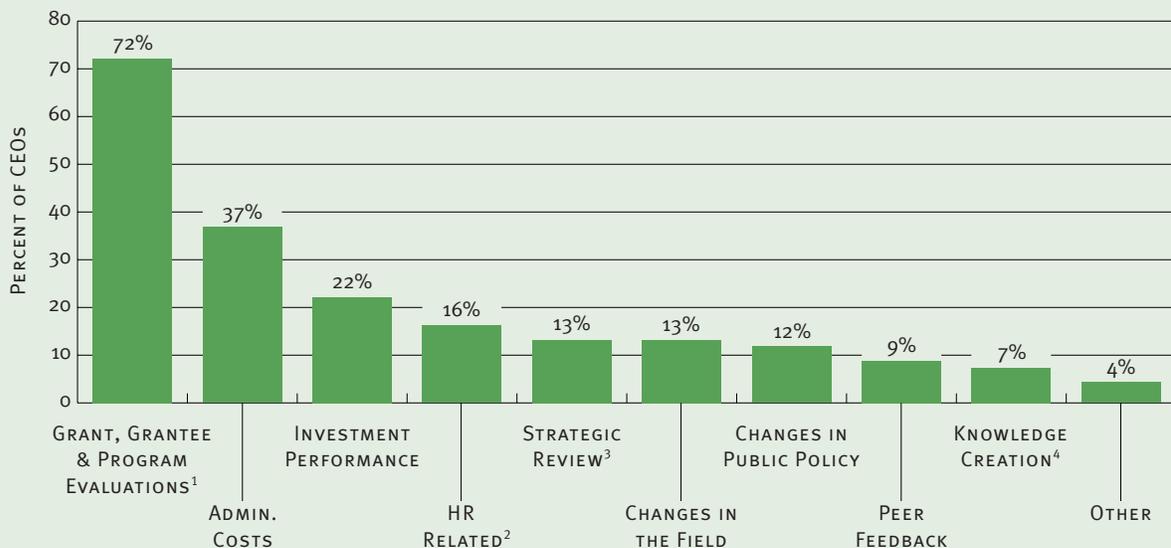
In other words, as a tool for program staff, grant and program evaluations are essential. As a tool for the board of directors or CEO, charged with managing the overall performance of the foundation, evaluations are important but insufficient.

The other most frequently mentioned measures of overall performance are administrative or operational benchmarks such as administrative cost ratios, investment performance, and human resources-related measures such as program officer caseload,

**FIG. 2 CURRENT PERFORMANCE MEASURES**

*Evaluations are the most commonly mentioned tool for assessing overall foundation performance.*

Q. What information do you currently use to assess the performance of your foundation in achieving its social impact and operational goals?



1 Includes grant and grantee statistics, independent evaluations, program evaluations, overall giving statistics versus goals, site visits, etc.

2 Includes staff size, case load per program officer, compensation, etc.

3 Includes periodic review of foundation's progress towards and adherence to long-term goals, strategy and mission.

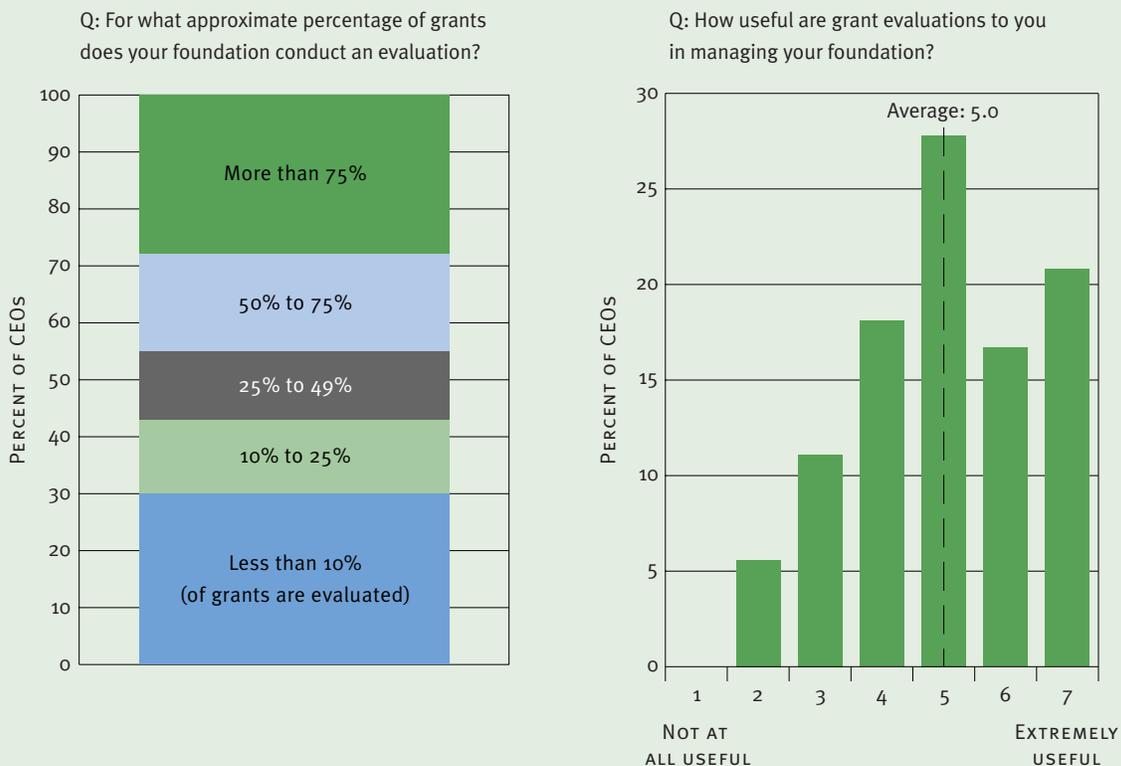
4 Includes commissioned research, staff-authored papers, amount of research data generated, etc.

employee retention, and compensation levels (Figure 2). These are also important kinds of management information, but are widely viewed among foundation leaders as only indirectly connected to achieving social impact. CEOs expressed concerns that operational measures can, at times, even be misleading in ways that run counter to the goals of creating social benefit. Several noted, for example, that administrative expense ratios were sometimes evaluated by board members in the absence of a clear recognition of the choices the foundation had made – its particular focus, goals, and approach – and the implications of those choices on the foundation’s expense levels.

Our interviews suggest that CEOs are seeking additional measures that are as directly connected as possible to the social impact achieved by the foundation but are also timely, summary, and, when appropriate, comparative. With these sometimes competing objectives in mind, it is useful to consider a conceptual framework for measuring foundation performance that includes indirect measures of impact along with indicators of effectiveness that can inform each measure. Each foundation must ultimately interpret measures based on its own particular strategy, and definitions of a “good” result will vary. However, our research has found significant commonality among conceptions of useful measures.

**FIG. 3 CURRENT GRANT EVALUATION PRACTICE AND UTILITY**

*CEOs report that a small proportion of grants are evaluated, and they have a range of impressions regarding the usefulness of evaluations in managing a foundation.*



### III. CONCEPTUALIZING PERFORMANCE MEASURES

**KEY FINDINGS:** Foundations share a common purpose – using resources to achieve social objectives. Direct assessment of a foundation’s performance, therefore, depends on measuring total social benefit achieved in relation to the resources expended. Direct measurement of this sort is a critically important objective, but it remains difficult – if not impossible – to implement on a foundation-wide basis and can often take place only over long time periods.

Absent direct measurement of social benefit, foundation leaders are exploring performance measures on multiple levels. Such measures can be arranged into a conceptual framework. Foundation leaders, employing indicators at each level, can gain important insight into absolute and relative performance, subject to an important caveat: foundations must select and apply those measures that make sense in light of their particular strategies.

For all their differences, foundations share a common purpose. They are engaged in using resources to produce social benefits. The effectiveness of a foundation, therefore, depends on the relationship of the benefits

*Relative measures of a foundation’s performance, collected over time, provide an objective grounding in which to understand results and communicate successes.*

produced to the resources consumed. The more benefit, or social impact, produced from a given pool of resources, the more effective the foundation.

As foundation leaders seek to understand the benefit they have achieved, they confront a tension between

theory and practice. In theory, the ideal way to assess performance is to calculate the total social benefit achieved in relation to the resources expended, but putting this model into practice is difficult at best. Often, the complexity of social phenomena renders it virtually impossible to prove a causal connection between the foundation’s grant and the social outcome. Furthermore, although the social benefit of some grants and programs are easily quantifiable in dollars, many objectives – such as preserving biodiversity or promoting civic engagement – are not.

Even when quantification is possible for a particular grant or program area, the next step – creating a foundation-wide measure – poses additional challenges. While there has been progress in evaluating individual grants and even programs against specific objectives, most foundations have not yet been successful in aggregating these results to describe the performance of the foundation as a whole. Even if they could, the cost of evaluating all grants would be extremely high. These constraints complicate efforts to use direct measurement of social benefit as a tool to assess overall foundation performance in ways useful for current decision-making.

A few foundation leaders believe they are successfully measuring overall foundation performance through evaluation, and these cases need to be more fully examined and researched. However, the majority of those with whom we spoke believe that there is a need for new thinking about measures combined with additional data that can be summarized to the overall foundation level. In other words, while all acknowledge the need for direct social benefit measurement, and many seek to achieve it through grant and program evaluation, there is a sense that additional measures are needed. This will require indirect indicators that can be helpful in demonstrating progress even though they do not provide absolute proof of social benefit created. Such measures should be viewed, when possible, on a relative basis. Relative

## THE CASE FOR COMPARATIVE ASSESSMENT

To some in the foundation field, the notion of assessing performance relative to other foundations seems inappropriate.

**“We’re collaborators, not competitors.”** Many in the foundation field are uncomfortable with the notion of comparative assessment because it seems to imply an environment of competition, when collaboration seems far more appropriate. Even in an arena in which no competitive imperative exists, however, much can be learned by looking at performance relative to others. It is not a desire to compete, but rather a desire to learn, that motivates comparison. For example, if a foundation chooses provision of management assistance to grantees as an important priority, but is seen by its grantees as doing significantly less than other foundations in this regard, it is only by comparative assessment that the foundation can understand that this is the case. It can then learn from those foundations that are perceived to be doing it better and make changes to improve its own effectiveness based on that understanding.

**“When you’ve seen one foundation, you’ve seen one foundation.”** The concern regarding the diversity among foundations, expressed in this familiar refrain, is legitimate. For the purposes of this Pilot Study, we chose to focus on a subset of the largest 100 private foundations because we recognized the substantial variation within the country’s more than 50,000 foundations. We realize that comparing grantee perceptions of a small, family foundation to those of a foundation with billions of dollars in assets and hundreds of staff may be inappropriate. And size is only one dimension of differentiation: foundations vary in program focus, geography, operating styles, and a host of other attributes.

However, many CEOs told us that, despite these differences, comparative assessment would be useful. Those executives who have seen their foundations’ grantee perception data relative to the others in our Study confirm its value. Previously, many foundations looking at their own grantee survey data saw that on an absolute scale their grantees felt positively about them, but they wondered what conclusion to draw. When viewed on a relative basis, the messages in grantee survey results become much clearer.

Ideally, foundations should be able to select the appropriate cohort of similar foundations against which they compare themselves. In this pilot effort, we deliberately chose foundations that differed along many dimensions (see appendices A and B). When analyzing the results of grantee perceptions either on dimensions of grantee interactions or perceived impact, these foundation attributes did not generally have a statistically significant correlation. Although the Study sample is too small to draw any definitive conclusions on these issues for the field as a whole, our preliminary results suggest that the differences between foundations in structural characteristics such as size and operating style may be a less significant factor in measuring performance (at least as it is perceived by grantees) than generally believed. Nevertheless, foundation leaders can and should interpret data about themselves based on an understanding of which foundations are in the comparative set and why their foundation might differ.

measures of a foundation’s performance, collected over time, provide an objective grounding in which to understand results and communicate successes.

Indirect measures can be closely related to social benefit achieved. As other researchers have discussed, the ability of nonprofits to create social benefit is very much connected to “internal characteristics” related to the operations of the organization. The same connection is likely to exist for foundations. Many operational measures have long been in use and were cited by CEOs we interviewed. These measures have a role in our framework. Similarly, CEOs highlighted

measures about the clarity of goals in a foundation’s agenda. Research on nonprofits suggests that success in achieving impact is “more likely when organizations identify a clear long-term goal and stick to it over time,” and this also applies to foundations.<sup>9</sup>

### A Framework for Performance Assessment

These different ways of measuring foundation performance can be organized into a conceptual framework. Building on the list of performance

<sup>9</sup> Edwards, Michael. *NGO Performance—What Breeds Success? New Evidence from South Asia*. Washington, D.C.: The World Bank, 1999.

measures from our interviews described in *Toward A Common Language* and adding to it the lessons from our further interviews and quantitative research, we offer a broad framework for measuring overall foundation performance (Figure 4).

In most cases, the difficulties of causality, aggregation, and long time horizons mean that the total social benefit created may not be directly measurable, or at least that a reliable and cost-effective way of measuring it has not yet been developed. Therefore, our framework includes more practical ways to measure performance.

The top category of measures focuses on the outcomes achieved for the intended beneficiaries of the foundation's efforts. These measures assess the end results of foundation activities on targeted issues and populations, such as clients served by a food bank, endangered species protected, or the consequences of legislative reform.

Other measures focus on intermediate effects or on the workings of the foundation itself. Intermediate measures assess changes in thinking within a field or the knowledge and vitality of those organizations that serve the ultimate beneficiaries, such as the effectiveness or financial health of a grantee or leverage

nonprofit itself is the targeted beneficiary.

The final category of measures focuses on the foundation itself, on the theory that a well-run organization with sound strategies, effective operations, and good governance is more likely to achieve the impact it seeks.

Within these broad divisions, the measures themselves can be sorted into four broad categories: Achieving Impact, Setting the Agenda/Strategy, Managing Operations, and Optimizing Governance. Each of these categories is discussed in more detail in Appendix C, along with suggestions of possible sources of data that might provide foundation leaders with indicators of the foundation's effectiveness.

## Testing the Framework

We chose to focus in this Pilot Study on developing data that informed as many measures identified in our CEO interviews as possible and, for that reason, we conducted a multi-foundation grantee survey effort. Comparative grantee perceptions can be a cost-effective and practical way to inform significantly – although not completely – the impact measures of Strengthening Grantees, Field Effects, and Leverage as well as the operational measures related to the Grantee Selection Process, Responsiveness to Grantees, and Consistency with Objectives. In addition, foundation characteristics gleaned from publicly available data can also be useful within the category of Choosing an Approach.

However, it is critical to acknowledge that for many of these measures – as well as for other important measures – significant additional data sources are required. The collection of grantee perception data and analysis of public data are just initial steps in the complicated and difficult process of developing better data to inform foundation performance assessment. Although not providing clear “answers” to questions of performance, they can yield significant new understandings and be a valuable input into assessment of foundation performance, as described in the following section.

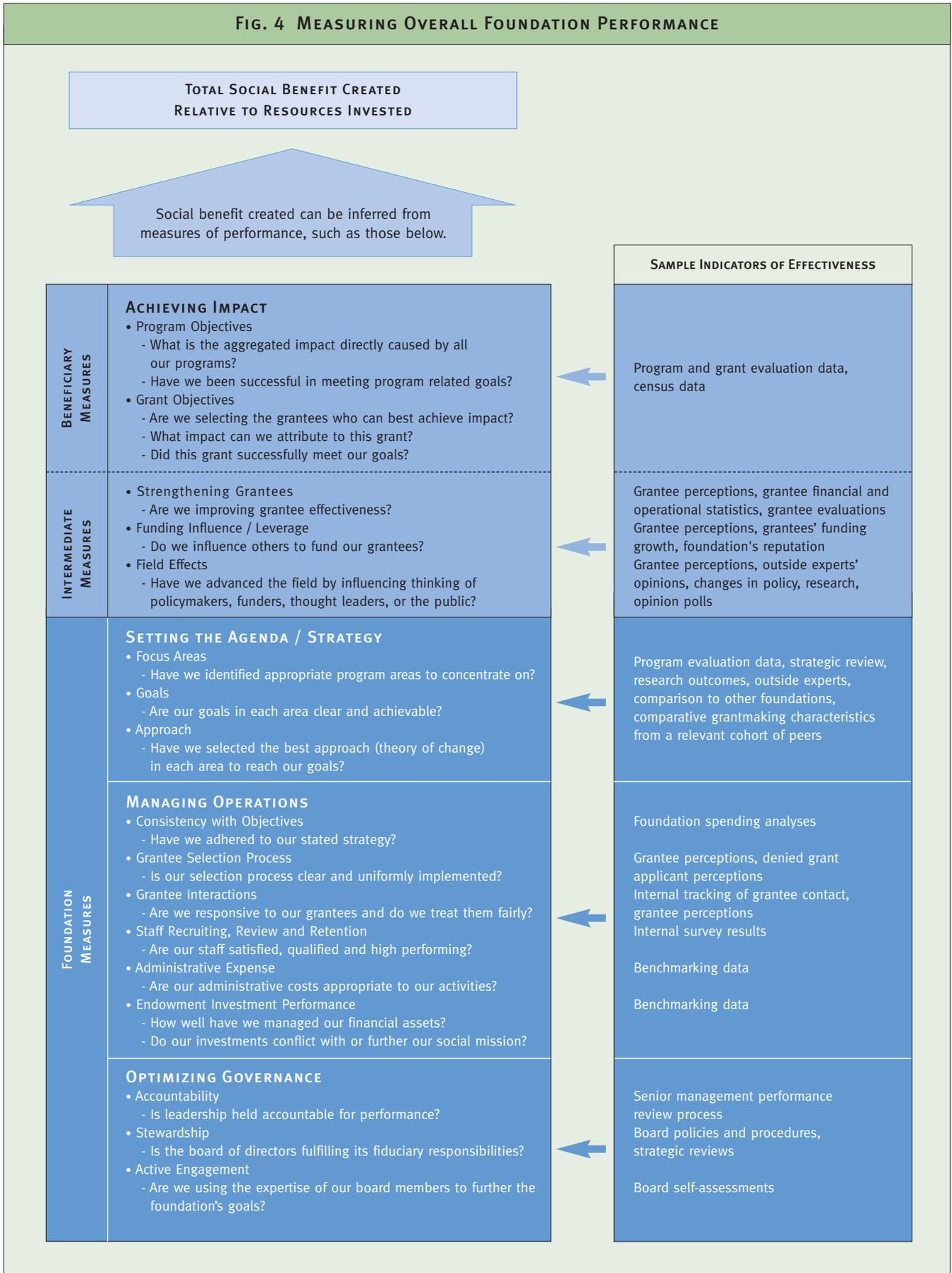
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*In most cases, the difficulties of causality, aggregation, and long time horizons mean that the total social benefit created may not be directly measurable, or at least that a reliable and cost-effective way of measuring it has not yet been developed.*

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achieved. Increasingly, foundations are beginning to see these intermediate effects as a form of direct impact, embracing goals beyond direct service programs such as capacity building, organizational effectiveness, and knowledge building. For these foundations, measuring intermediate effects is actually a measurement of outcomes because the

FIG. 4 MEASURING OVERALL FOUNDATION PERFORMANCE



## IV. TESTING PERFORMANCE ASSESSMENT: ANALYZING DATA ON 23 LARGE, PRIVATE U.S. FOUNDATIONS

**KEY FINDINGS:** Survey responses from more than 900 grantees, representing \$500 million dollars of grants across 23 foundations, yielded new data that provide an important context for foundations to understand better their own strategic choices, operations, and agenda-setting.

Grantee perceptions can also serve as indicators of effectiveness and inform a foundation's overall performance assessment along six of the framework measures.

There were a number of significant findings from this data.

- Grantees generally view the foundations that gave them grants positively, yet there are substantial differences in perceived impact and responsiveness.
- These differences do not seem to be explained by structural attributes such as the foundation's asset size, the size of the grant, or the program area of grantees.
- Grantees differentiate between their perceptions of foundation responsiveness and their perceptions of foundation impact. While a positive perception of interactions with the foundation appears to be a prerequisite for high grantee satisfaction, it does not necessarily lead grantees to rate the foundation as having substantial impact on the field.
- Foundations can enhance their understanding of their own performance by looking at themselves in the context of other foundations, exposing areas of *relative strength* and *relative weakness* in key dimensions of impact and operations.

### Profile of the 23 Foundations

Analysis of IRS statistics and responses from the 926 grantees across the 23 foundations in our sample illuminate the diversity of foundation approaches to creating social impact. Even among the large foundations included in this study, there is a wide range of individual characteristics.

According to publicly available information from the year 2000, the attributes of asset size, average grant size, administrative expense, number of grantees, and staff size all varied by more than a factor of ten from minimum to maximum (Appendix B). While these characteristics in themselves are not indicative of impact or effectiveness, this type of information can help foundations gain a better understanding of themselves and of grantees.

Because the 23 surveyed foundations were selected to be representative of the largest 100 domestic foundations,<sup>10</sup> the data can be seen to illustrate a broad range of basic grantmaking decisions among large, private foundations in the U.S.

- The number of foundation staff ranges from 6 to 222. Not surprisingly this correlates with asset size, although the ratio of grantees to foundation staff varies widely, from a high of 91 grantees per foundation staff person to a low of less than one grantee per staff person. The average is 12 grantees per staff person.
- The number of grantees ranges from 45 for a relatively new foundation that makes large, long-term grants to 945 for one of the larger foundations in the sample. The median is approximately 230 grantees.
- A foundation's number of grantees is related to its endowment size. However some foundations have clearly made very different strategic choices about the degree of focus in grantmaking. (See sidebar: Finding the Right Level of Focus.)

<sup>10</sup> See Appendix A: Methodology of Foundation Performance Metrics Pilot Study for an explanation of the representativeness of the 23 foundations. Unless otherwise indicated, all statistical testing for this report was performed at a 95% confidence level.

- The median grant size for foundations in the Study ranges from \$30,000 to \$1,000,000, with a median grant size<sup>11</sup> across all 23 foundations of \$129,000. The average grant size is not related to the foundation's asset size, suggesting that as foundations grow larger, they choose to allocate their resources to more grantees, rather than directing more resources at the same grantees.<sup>12</sup> Approximately half of the foundations' average grants fall between \$100,000 and \$250,000.
- Many of the grants awarded by the 23 foundations in our sample are relatively small: 40 percent of grants are under \$50,000 and ten percent are under \$10,000.
- Approximately 25 percent of grants are to first-time grantees, ranging within the sample from just over six percent of grants to just over 55 percent of grants for a newer foundation.<sup>13</sup>
- The proportion of first-time grantees is only minimally explained by the age of the foundation,<sup>14</sup> suggesting that foundations have made very different strategic choices about providing ongoing support for their grantees.
- Forty (40) percent of the grantees of the 23 foundations employ fewer than ten people, and more than a quarter of the grantees employ fewer than five. Even among the largest U.S. foundations, a substantial share of support goes to very small nonprofit organizations.

## New Data on Foundation-Grantee Interactions

Grantee survey data reveal new information about the practices of large foundations, based on grantees'

perceptions of their interactions both before a grant is made and after the grant is received.

- The average length of time between the submission of a grant request and the receipt of a clear commitment of funding is just under four months. The range of individual averages for the 23 foundations was from 2.2 to 8.5 months.
- The additional time grantees wait to receive funds after a clear commitment is made is, on average, four weeks.
- The length of time grantees report that it takes for foundations to process a grant is not related to the size of the final grant.<sup>15</sup>

After a grant is received, there is further variation in the intensity of interaction between the foundation and grantees.

- Over the 2.1-year duration of the average grant, a grantee spends roughly 100 hours preparing the proposal and engaging in evaluations and other formal monitoring. The average time required of grantees by the 23 foundations ranged from a high of 227 to a low of 26 hours per grant. The range of administrative hours required also varies widely between grantees of the same foundation.
- There appears to be no substantial correlation between the size of an individual grant and the number of administrative hours required for that grant.<sup>16</sup>
- Dividing the average size of a foundation's grants by the average hours of administrative

11 This median value represents the average of the median values from each of the 23 foundations.

12 Foundation asset size does not influence foundation median grant size, according to results of regression analysis. Regression: Significance = .62. This same finding is true when assets per field of focus is utilized: assets and assets per field of focus track each other extremely closely and thus reduce the utility of normalizing by a foundation's number of fields of focus.

13 The maximum percentage of first-time grants figure, 55 percent, excludes Doris Duke Charitable Foundation, which was only in its third year of active operations and gave 71 percent first-time grants.

14 Foundation age only minimally influences the probability of a grant being a first-time grant, according to regression. Coefficient for Foundation Age: -.094, Significance=.00 that coefficient differs from zero. Regression:  $R^2 = .01$ , Significance = .00 that variance is explained.

15 Length of time to a clear commitment does not influence the final size of a grant, according to regression analysis. Regression: Significance = .72.

16 Grant size only minimally influences the number of administrative hours required for that grant, according to regression analysis. Coefficient for grant size: .167, Significance=.00 that coefficient differs from zero. Regression:  $R^2 = .03$ , Significance = .00 that variance is explained.

## FINDING THE RIGHT LEVEL OF FOCUS

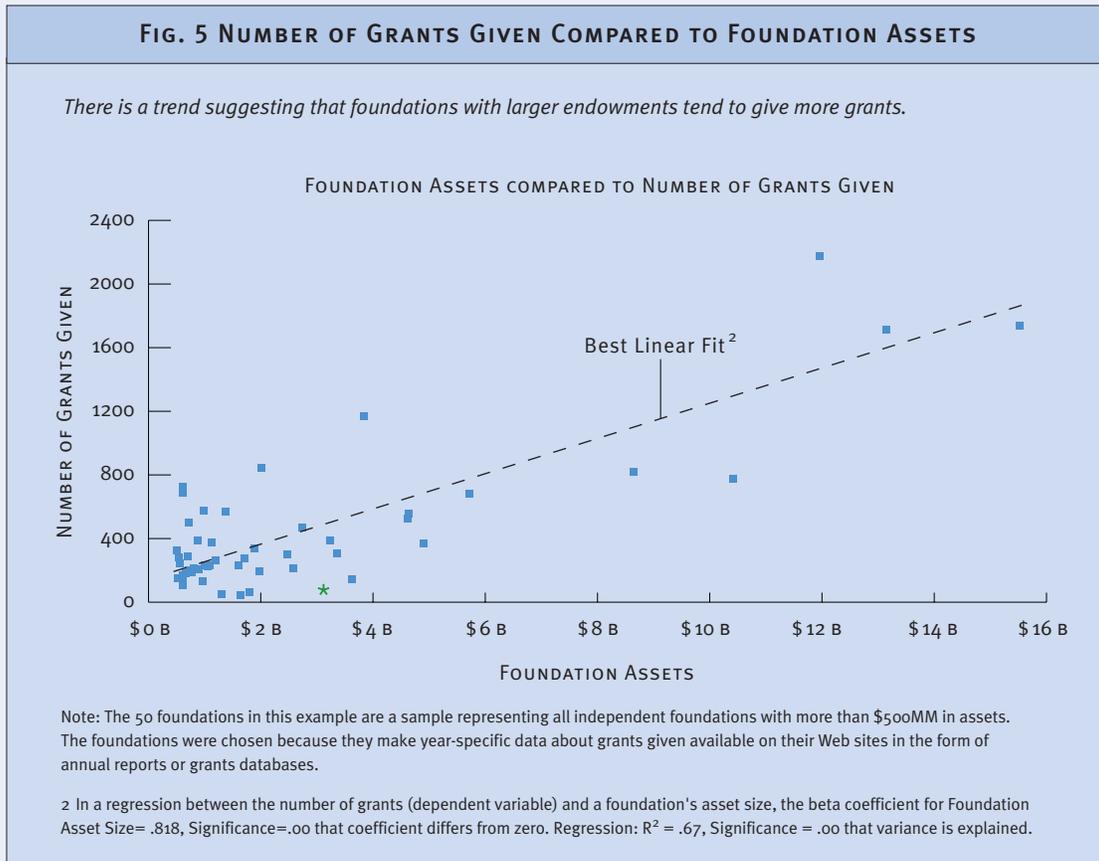
Each foundation faces a series of tough choices closely related to focus. *What is the appropriate number of focus areas? How does a foundation know when the time has arrived to expand into a new program area or exit an existing one? How can a foundation determine the amount of money necessary to allocate to a focus area in order to fulfill its program goals?*

One of our CEO advisors expressed these concerns, saying that often foundations are “pulled in too many directions by too many priorities with not enough money allocated to succeed in any of them.” Finding the right level of focus is something that each foundation must decide on its own. Knowing its position relative to others in the field can be helpful in facing this difficult question.

An examination of the 23 foundations in our study suggests an underlying belief that, after some spending level is reached in each field, expanding focus by entering a new field can create more social impact than further expanding grantmaking in current fields. Data suggest that foundations with larger asset bases tend to have more fields of focus.<sup>1</sup> For example among the 23 foundations surveyed, the average assets of the seven foundations that focus in five fields is roughly \$2.1 billion while the average for the three foundations focused in nine fields is roughly \$8.0 billion.

Larger asset size is also related to the number of grants (Figure 5 shows data on 50 large, private foundations). With data of this type, a foundation can understand better where its own grantmaking strategy places it relative to other foundations of similar asset sizes. The foundation’s place relative to others should, ideally, be determined as part of a particular strategy. For instance, one foundation (green asterisk in Figure 5) has a strategy of making one-time capital grants that tend to be of larger size than many other foundations’ grants. This explains its relative position beneath the field “norm.”

**FIG. 5 NUMBER OF GRANTS GIVEN COMPARED TO FOUNDATION ASSETS**



<sup>1</sup> In a regression between the number of fields (dependent variable) and a foundation’s asset size, the beta coefficient for Foundation Asset Size= .438, Significance=.04 that coefficient differs from zero. Regression:  $R^2 = .15$ , Significance = .04 that variance is explained.

time required of a grantee (as reported by the grantee) yields the average grant dollars per administrative hour required. This varies from a low of \$2,900 dollars to a high of \$64,000 per hour for a foundation that makes large capital grants. The median of our sample is approximately \$7,000 per hour.

- Summing the average grantee administrative costs and average foundation administrative costs results in an estimated total administrative cost of approximately 13 percent of each grant dollar.<sup>17</sup>

Even among this sample of grantmaking characteristics, there is substantial diversity that, for the most part, is not explained by structural attributes of the foundations, such as asset size or age. A foundation's grantmaking characteristics may be rooted in historical precedent, but they are not immutable. They represent the end result of long-term strategic decisions made by the foundation's board and staff. Therefore, it is important in any foundation's assessment of its own performance to understand where it falls within the diversity of grantmaking styles and for what reason it has chosen its particular position.

These choices alone do not determine overall effectiveness, but they are important aspects of setting the foundation's agenda. They can even suggest areas of opportunity for foundations to operate in ways that deliberately address unfilled needs or types of grantmaking. To be useful, however, they must be understood in context, monitored, and adjusted to fit each foundation's circumstances.

## Grantee Perceptions of Foundations

Grantee survey data reveal patterns of perceived foundation performance regarding (1) satisfaction with interactions between the foundation and its grantees, and (2) grantees' perceptions of the impact a foundation has had on its field.

## Grantee Perceptions of Satisfaction

In general, grantees are highly satisfied with the foundations that made them grants. On a scale of one to seven, the average rating for overall satisfaction was 6.25. This is not surprising given that receiving a grant is a positive experience: those foundations that survey their own grantees are bound to get an encouraging result. This is a significant reason why, to be most useful, grantee perceptions must be judged on a relative basis.

An important question, as we undertook the survey, was whether grantees would perceive foundations differently because of structural attributes of the grant, grantee, or foundation. For example, would the size of the grant received, or the size of the grantee, influence perception of a foundation's

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*A foundation's grantmaking characteristics may be rooted in historical precedent, but they are not immutable. They represent the end result of long-term strategic decisions made by the foundation's board and staff. Therefore, it is important in any foundation's assessment of its own performance to understand where it falls within the diversity of grantmaking styles and for what reason it has chosen its particular position.*

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responsiveness or impact? Our analysis, however, suggests that these structural characteristics have minimal impact on grantees' perceptions of foundations across a broad range of performance dimensions, from impact on the field to interactions between foundations and grantees.

Using grantee satisfaction as a barometer of the overall quality of the interactions between the foundation and the grantee, no structural characteristics, such as the program area of the grantee, the length of the grant,

<sup>17</sup> Foundation administrative costs per grant dollar were calculated by dividing foundation administrative dollars by total foundation grant dollars. Grantee administrative hours were monetized by using an hourly wage rate assuming the approximate nonprofit sector wage (\$24,160) for the average exempt organization in 1998, as reported by Independent Sector. This wage was then inflated at 5 percent yearly for 2000 figures.

and the type of funding provided, rise to significance in multi-variable regression analysis.<sup>18</sup> Other factors, such as grantees' perceptions of the amount of funding leverage they received and the foundation's success at advancing knowledge in the field are significant but explain only small amounts of the variance in perceptions of satisfaction.<sup>19</sup>

Instead, the conditions that appear necessary, although not sufficient, for a relatively high grantee satisfaction rating are a perception that the foundation has a culture of responsiveness, approachability, and fair-

*The conditions that appear necessary, although not sufficient, for a relatively high grantee satisfaction rating are a perception that the foundation has a culture of responsiveness, approachability, and fairness, and that the grantee feels that the foundation has made a positive impact on the grantee organization.*

ness, and that the grantee feels that the foundation has made a positive impact on the grantee organization. Any one of these characteristics alone can explain a substantial amount of the variation in satisfaction.

### Grantee Perceptions of Foundation Impact

Grantees have the ability to separate their satisfaction with their own interactions with a foundation and their perceptions of the foundation's impact. Grantees do not appear, for example, to confuse positive foundation interactions with a foundation's effectiveness in making an overall impact on the field. When investigating the important drivers of positive perceptions of the foundation's impact on the grantee's field, satisfaction with interactions between

the foundation staff and the grantee is one important factor, but much less important than the grantees' perceptions of the foundation's ability to advance knowledge or public policy.<sup>20</sup>

As with satisfaction, other structural factors of the grant or grantee also have no effect on grantees' ratings of foundation field impact. In addition, there is no relationship between asset size of a foundation and grantees' perceptions of the impact of a foundation on the field.<sup>21</sup> Neither does the particular program area contribute significantly to ratings of impact on the field (Figure 6). In other words, there is no evidence that foundations as a group are perceived as having more impact in one field, such as education, than another, such as the environment.

Although the average grantee perception of impact created by foundations across different fields is comparable, any one foundation's impact on the field in one of its program areas is frequently judged to be different than its impact in other program areas. In fact, it is often the case that a given foundation is viewed as having impact on specific fields both above and below the averages (as indicated by the blue line in Figure 6).

More research and an expanded data set are needed to understand more fully the dynamics of the grantees' perceptions of foundations. However, this preliminary analysis suggests that grantees' perceptions are not driven by factors such as the length of a grant or type of funding, and further, that grantees are able to distinguish between satisfaction and impact in judging foundations. That said, a number of our CEO advisors have stressed that it is important to recognize that grantee perceptions should not be the sole barometer of foundation impact, on the field or overall, but rather are only one input into a much more complex equation. Some grantees, for example,

18 Factors were considered significant when  $P < .05$ . The factors of whether the grant is above \$750,000 in value and whether the grantee has fewer than 20 employees approach significance (Significance=.08). They both increase the likelihood that a grantee will rate its satisfaction with a foundation more highly. However, these factors explain only one percent of the variation in grantees' ratings of satisfaction. Attributes such as the program area of the grantee, the length of the grant, the type of funding, and other foundation characteristics, are not significantly correlated to overall satisfaction.

19 Regression analysis of the categories – grantee perceptions of a foundations' ability to advance knowledge in the field, perceptions of funding leverage received, a grant size above \$750K, and grantee size fewer than 20 employees – is significant at .00.  $R^2 = .113$ .

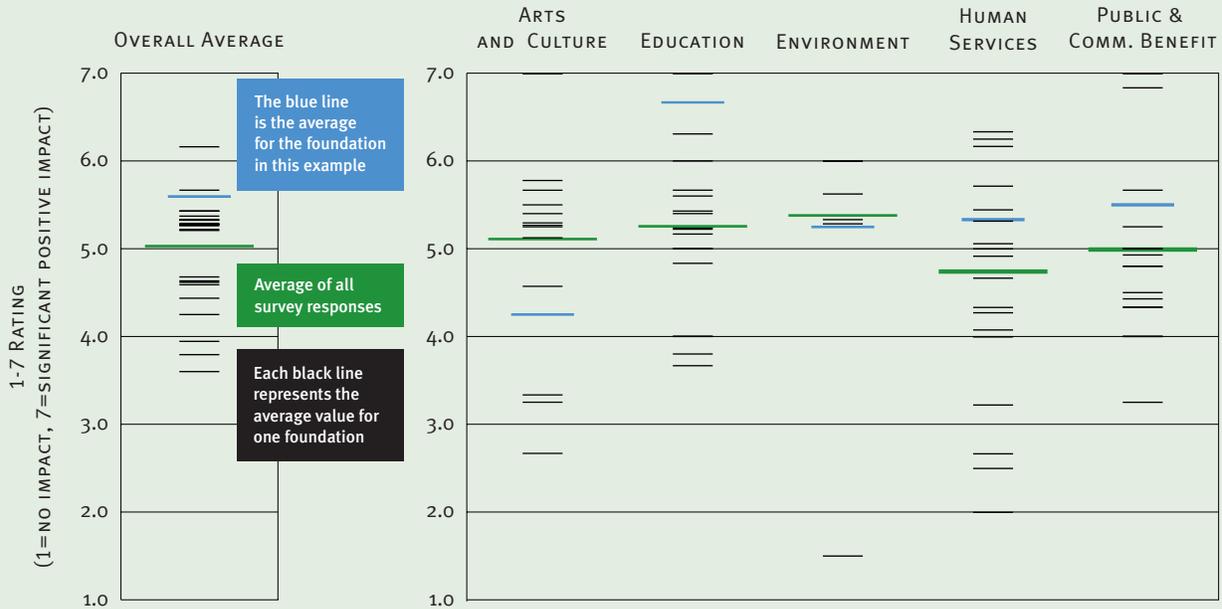
20 The beta coefficients for a foundation's average scores on advancing knowledge in the field and advancing public policy are approximately equal to each other, while the coefficient for the foundation's average score on the satisfaction rating (our proxy for the quality of overall interactions) is only half as large.  $R^2$  for the regression between impact on the field and these three factors is 0.634.

21 The relationship tested was between asset size and a composite measure of field effects, created by factor analysis based on three survey questions about field effects.

**FIG 6: VARIATIONS IN GRANTEE PERCEPTIONS OF IMPACT ON THE FIELD**

Grantee perceptions of a specific foundation's impact on the field varies by field, but overall average perceptions of all foundations' impact do not vary substantially by program area. Higher numbers of data points for each foundation would be necessary to move this level of analysis from the suggestive to the actionable.

Q. How would you rate the foundation's impact on your field?



Note: Only foundations whose grantees self-identify in a particular field are represented, and only those foundations with more than 1 response per field are shown. Public and Community Benefit, as defined by the NTEE system, includes civil rights and social action, community improvement and development, philanthropy and voluntarism, and public affairs.

may have a particular local or political perspective, or be unaware of other projects and policy or research initiatives funded by the foundation.

**Individual Foundation Performance Assessment: Case Studies**

A significant benefit of grantee perception data across foundations is the ability to evaluate one foundation relative to others along key measures of effectiveness. Comparative grantee perceptions are only one input into an overall performance assessment framework, but our research suggests that they can be a critically important one.

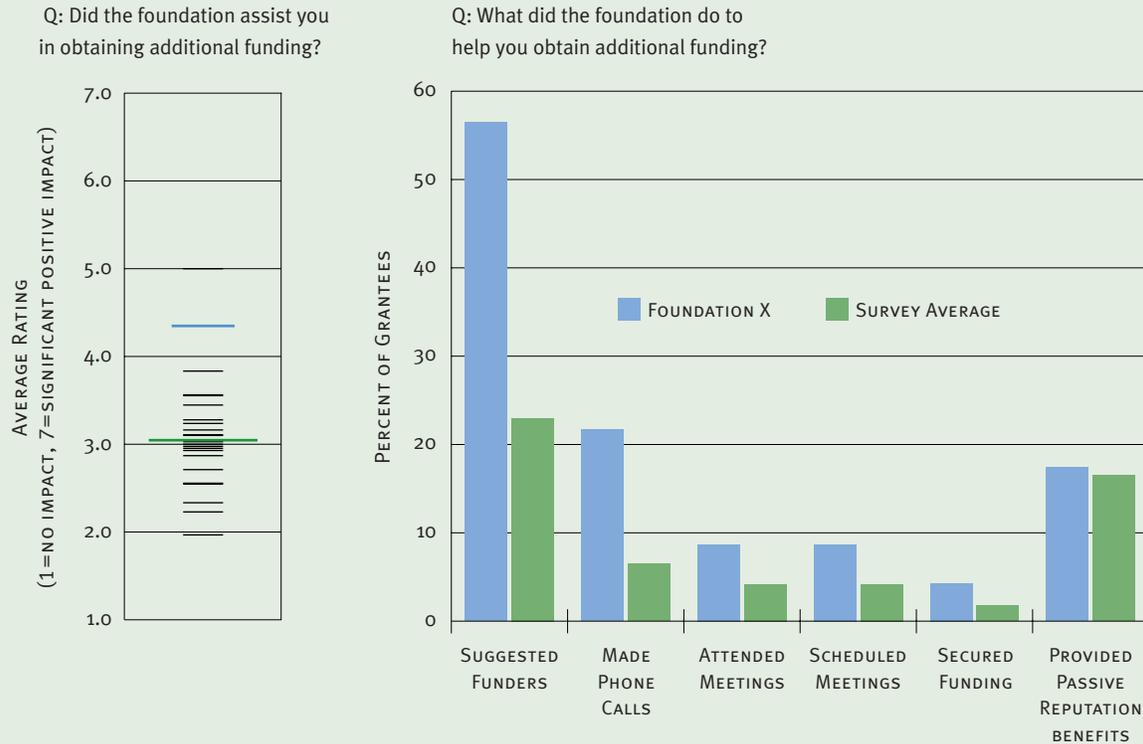
We met with executives of seven of the 23 foundations whose grantees we surveyed to provide them a report on their relative performance on selected dimensions. Below are a few examples of what was learned.

**FUNDING INFLUENCE / LEVERAGE**

*Case 1.* Foundation X makes smaller grants than many of its peers, but seeks to leverage its funding by working closely with most grantees to help them secure additional funding. This priority is clearly communicated to program officers, who, according to the CEO, typically spend 25 percent to 50 percent of their time providing management and other forms of assistance to current foundation grantees. Senior executives had a

**FIG. 7 FOUNDATION X PROVIDES ASSISTANCE IN SECURING OTHER FUNDING**

*Foundation X is rated significantly higher than other foundations in helping grantees secure additional funding, and performs specific funding related activities over twice as often as the other foundations surveyed.*



simple question: “Are we successfully executing against this aspect of our strategy?”

Looking at comparative grantee perception data, it was evident that the answer was yes. Foundation X was rated significantly higher in assistance securing additional funding than many other foundations. Additionally, the foundation learned that it was performing specific activities related to securing other funding with nearly twice the frequency of other foundations (Figure 7). For the first time, Foundation X had concrete evidence that an important component of its strategy was, in fact, perceived to be working.

#### GRANTEE SELECTION PROCESS

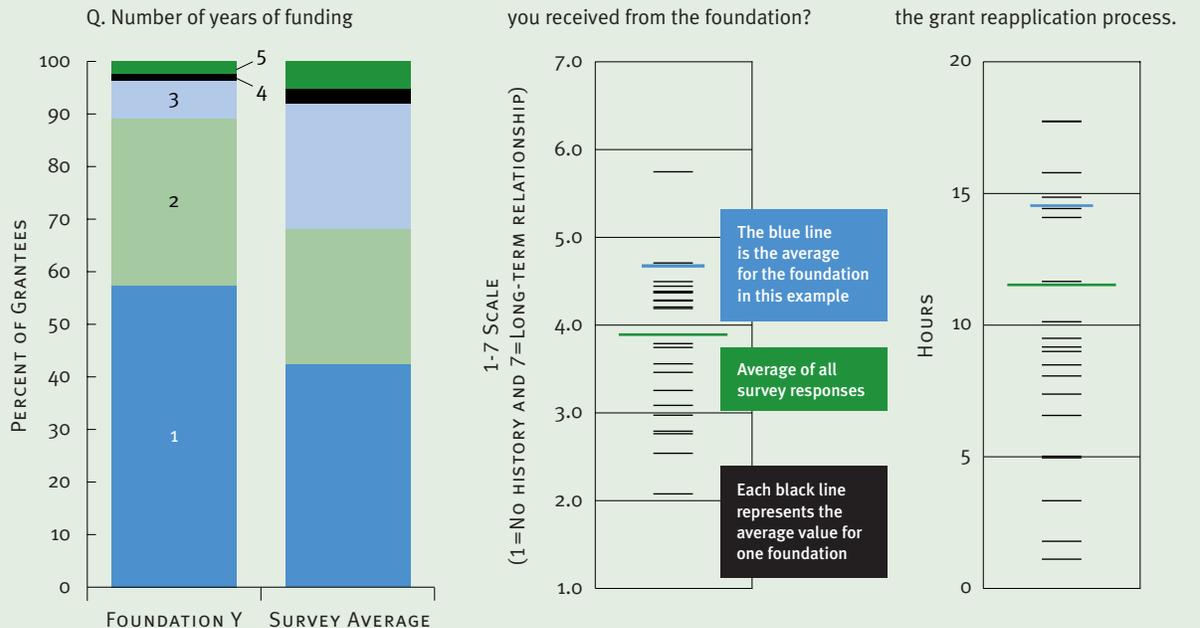
*Case 2.* Grantee data led to an understanding that Foundation Y gave a very high number of one- or two-

year grants and yet, relative to other foundations, had a very long history of supporting grantees over many years. In other words, this foundation was making short grants again and again to the same organizations. In addition, the foundation's grant reapplication process was somewhat more time-intensive than the average (Figure 8). On overall interaction and impact measures, the foundation was viewed as average or slightly above average.

The data allowed the CEO and senior executive team to understand that the foundation was asking its grantees to do significantly more work than other foundations. The comparative data illustrated that grantees perceived the “transaction costs” as significantly higher on a relative basis for this foundation than for others because they were going through the reapplication process more often, and because that process was more

FIG. 8 CHARACTERISTICS OF THE GRANTS FROM FOUNDATION Y

Although Foundation Y gives a larger proportion of 1- and 2- year grants compared to the field, it also has one of the longest histories of support and a somewhat more intensive grant reapplication process than other foundations in our sample.



time-consuming. While Foundation Y may decide its own reasons for having this type of process outweigh the costs to grantees, it can now at least make that decision with the benefit of full information.

*Case 3.* Data about the grantee selection process at another foundation revealed that, relative to others, this foundation had one of the most labor-intensive proposal processes. Grantees reported that the proposal creation for this foundation's grant application process took an average of 73 hours, rather than the 46 hour average for all foundations in our sample. The foundation also had a rapid response time once it received a grant application. Although this foundation received some of the highest ratings of overall satisfaction and responsiveness, the foundation's practice of requesting highly detailed grant proposals within short time frames created concern among grantees regarding their ability to respond adequately

within the time allowed. Compared to other foundations, grantees mentioned much more frequently that the foundation's selection process was actually *too short*. This validated the CEO's impression, based on other evaluation data, that grantees felt rushed to complete grant proposals. Viewed in combination with the new data describing how relatively time-consuming the proposal creation process was for grantees, this confirmed the need to modify the foundation's grant selection processes.

#### FOUNDATION INTERACTIONS WITH GRANTEES

*Case 4.* At Foundation Z, comparative data informed a CEO's understanding of the interactions between grantees and the foundation staff. The CEO was surprised to learn that, despite absolute ratings in the "good" range across indicators of interactions with grantees, the relative ratings of this foundation were

### NON-MONETARY ASSISTANCE TO GRANTEES – A MISSED OPPORTUNITY?

A foundation’s non-monetary assistance to the grantee organization also contributes to satisfaction and impact. This type of assistance, ranging from strategic planning to advising the grantee about its field, is a potentially powerful tool for helping grantee organizations become more effective in fulfilling their missions. This “extra” assistance from foundations is especially valuable given these organizations’ limited resources: 40 percent of grantees employ fewer than 10 people. CEOs also believe that a high level of engagement by the foundation is preferable to grantees. However, such assistance is rarely provided (Figure 9) and CEOs estimate that less than one-fourth of a typical program officer’s time is spent assisting grantees.

The same disparity exists for the provision of funding “leverage” to grantees. While our interviews with foundation CEOs indicated a strong interest in this activity, more than 60 percent of CEOs responding to our survey report that their staff seeks to assist grantees in obtaining additional funding only rarely – or never.

These are surprising findings given the strong emphasis among foundation leaders on “strengthening grantees” and providing “funding leverage.” Our grantee survey data suggest a gap between elements of the stated strategies of many foundations and these foundations’ actions.

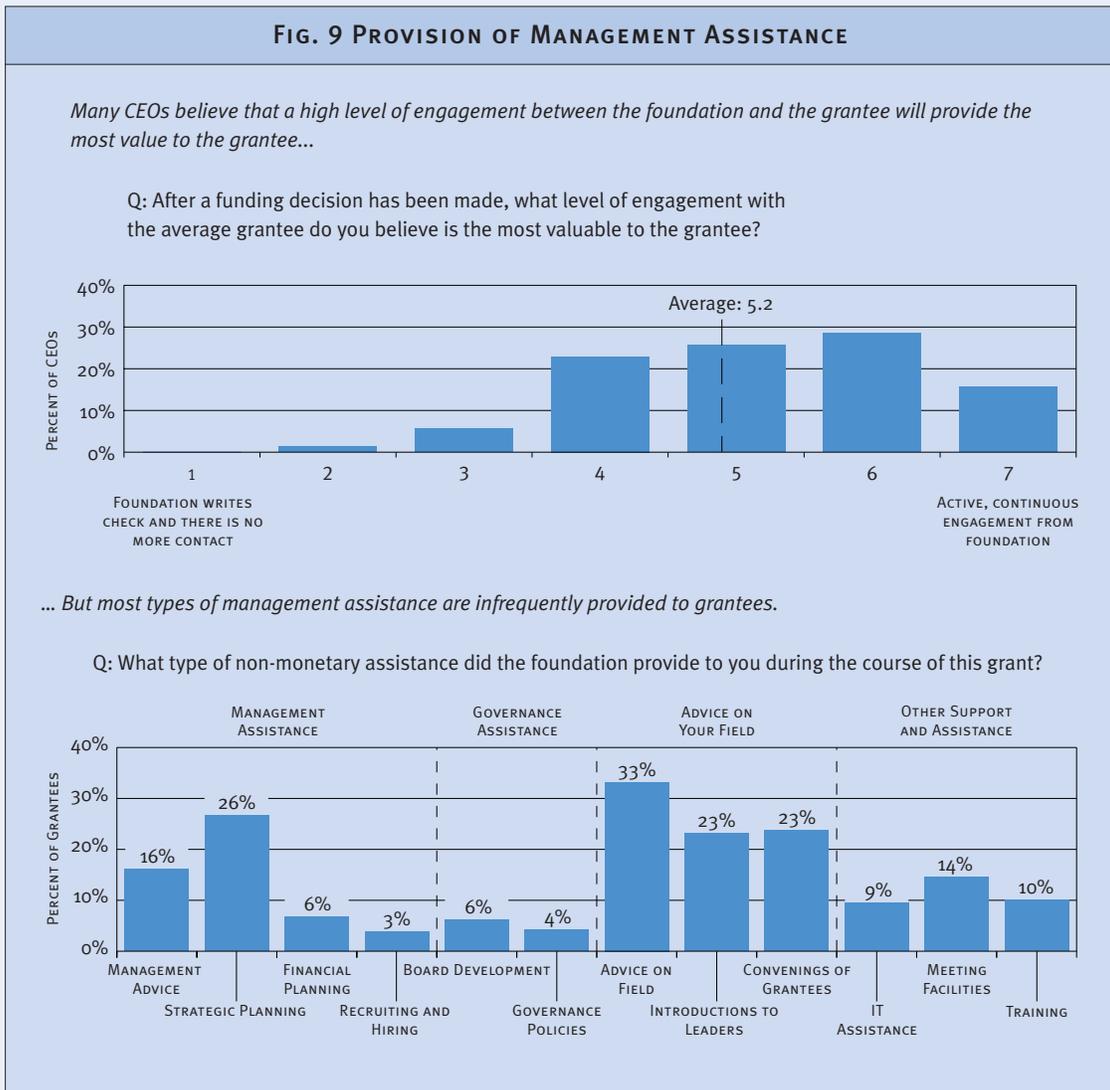
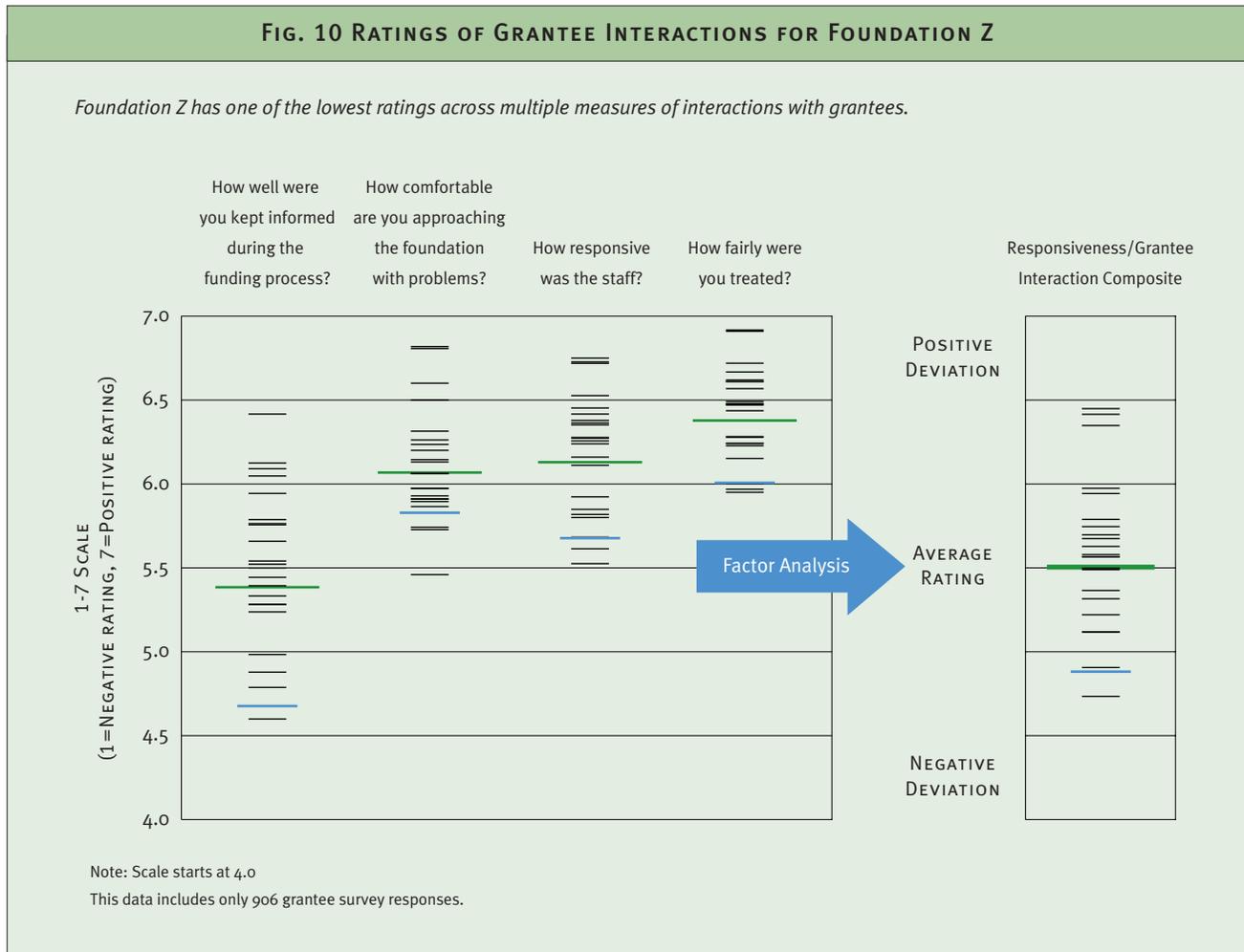


FIG. 10 RATINGS OF GRANTEE INTERACTIONS FOR FOUNDATION Z



consistently below the average of the 23 foundations. The same result held true when a single measure of grantee/foundation interactions was created using factor analysis (Figure 10).

This CEO speculated that a specific group of grantees accounted for these low average ratings. The CEO's hypothesis was that grantees in the foundation's local support program were rating the foundation significantly lower than its national grantees. A second round of analysis separated out these grantees and compared the average ratings of these two different groups. Although the CEO was correct that the grantees from the local support program did rate the foundation lower on some measures, the difference was a small one. In fact, the difference between these two groups' ratings was small enough that it hardly affected the foundation's position relative to other foundations and did not change the foundation's average ratings in a statistically significant way.

Further analysis reinforced the reality: the foundation's ratings on measures of interactions with grantees was a consequence of the foundation's actions and not an anomaly associated with a particular group of grantees, any specific grantee size, or specific program area. Although the data presented was preliminary, this information can help the CEO better manage the foundation and improve on a generally agreed upon important measure of foundation performance.

### Next Steps in Implementing Performance Assessment

The challenge is to build on this newly developed data to further expand on the indicators available to foundation leaders as they assess performance. Remaining gaps, discussed in the next section, can be addressed through a sustained effort involving many in the field.

## V. CLOSING THE GAPS IN EXISTING DATA

**KEY FINDINGS:** While the data collected in this Study offer substantial benefits, major gaps remain in the data needed to best allow foundation leaders to assess and compare their foundations' overall performance. Even on some of the simplest of operational measures, such as administrative expense ratios, it is difficult to find reliable, comparable information.

- More accurate research is hampered by limitations in publicly available data. These limitations are receiving increasing attention and should be remedied.
- Grantee perception data must be expanded in breadth and depth to provide more statistical rigor and allow foundation leaders to understand their performance relative to an appropriate cohort.
- Additional research is needed into the issue of foundation governance to understand the key characteristics of high-functioning foundation boards and barriers to the boards' role in assessing foundations' overall social impact.
- Evaluating ultimate social benefit remains important and there is a significant need for additional research. Illustrations of exemplary evaluation processes that serve as a component of overall foundation assessment would be particularly useful.

### Public Data

IRS 990-PFs provided important information, allowing us to identify grantees, profile the 23 foundations we studied, and test the relationship between

foundation characteristics and grantee perceptions. However, publicly available data, including the IRS filings of foundations, suffer from three significant shortcomings:

- They are not easily accessible,
- They are plagued by inconsistency in reporting due to a lack of common definitions, and
- They are only available after a significant time lag.

The utility of the data is hindered by the lack of digital availability of forms – particularly prior to 1998. Reporting requirements for specific inputs in the IRS 990-PF filings are also sufficiently ambiguous as to allow for significant differences in reporting even along seemingly simple measures such as administrative cost ratios. Yet because these forms are the sole required filings for foundations, they are a crucial data source that could allow foundation executives to understand and compare themselves in a relative context.

Similarly, the IRS 990s of grantees could be a valuable tool for analysis by foundations of grantees. Required filings might provide comparative indicators of grantee effectiveness. However, currently, the same limitations that reduce the utility of 990-PF filings also impede the utility of IRS 990s.

A number of organizations, including Guidestar and the Urban Institute, are working to make electronic IRS 990-PF and IRS-990 data more widely available, which would greatly enhance their utility. Others, including a number of academicians, believe that the data requested of foundations and nonprofits should be expanded or altered. While our Study was not designed to yield recommendations regarding IRS forms or filing requirements, our research suggests that there is room for significant improvement and

that, if implemented, such improvement could enhance the quantity and quality of data available to foundation managers as they seek to understand foundation performance.

As we were completing our Pilot Study, the General Accounting Office released a major report that addresses many of the problems with IRS 990 data and recommends steps for improvement to be undertaken by the IRS.<sup>22</sup> We strongly support the attention being given to this issue by the GAO and others. Publicly reported data on foundations or grantees will never answer questions of overall performance, but such data, if appropriately collected and analyzed, can be a resource to foundation leaders as they seek to understand themselves and their context more fully.

### Grantee Perception Data

Comparative grantee perception data must be broadened and deepened to allow foundations to see themselves in relation to a broader population and compared to the most relevant cohort. For the purposes of our Pilot Study, the Center selected a sample of foundations among the largest 100. In the future, we will expand the data set to include all of the 100 largest, private foundations in order to allow for greater customization. In addition, we will develop data for other segments of the foundation field, such as community foundations and smaller foundations.

By conducting independent and consistently administered grantee perception surveys, we hope to improve the quality of performance data available to foundation leaders. The next round of grantee surveying will begin in the fall of 2002.

### Foundation Governance

Foundation boards are currently not engaged substantially in the assessment of overall foundation impact. Yet CEOs and trustees both see this as a problem and are looking for a more productive and

engaged role for the board. Although there are large bodies of research on corporate governance and nonprofit governance broadly, relatively little research has been conducted on the particular challenges of foundation governance. Key questions include the following.

- How can boards best begin to assess the performance of their own foundations?
- What qualities characterize high-performing foundation boards?
- What is distinctive about foundation governance, and how are those unique challenges confronted by different foundation boards?
- Which choices with respect to governance structure and operations seem to be most effective?
- How can tools to evaluate governance be created?

Case studies on exemplary foundation boards and survey research to better understand foundation trustees' perspectives would be particularly useful in illuminating answers to these questions.

### Evaluating Direct Social Impact

Although many foundation leaders reported devoting more resources to evaluation, few felt comfortable that evaluation efforts were yielding results that were

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*By conducting independent and consistently administered grantee perception surveys, we hope to improve the quality of performance data available to foundation leaders.*

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both usable to inform overall foundation performance assessment and closely connected to direct social impact achievement. There is a pressing need to research and highlight those foundations that come

<sup>22</sup> Brostek, Michael, Director of Tax Issues of the General Accounting Office. "Tax Exempt Organizations: Improvements Possible in Public, IRS, and State Oversight of Charities." GAO-02-526, April 2002.

closest to using evaluation data to accomplish these objectives so that others may learn from their examples. Development of comprehensive case studies that serve this purpose is an important priority for the Center's research in the months ahead.

## Other Foundation Performance Data Sources

Most of the proposed indicators of effectiveness must be informed, at least in part, by other data not discussed in this report. Some foundations will decide, for example, that to understand whether they are strengthening their grantees requires a specific set of data inputs from grantees. Or, understanding "field effects" – the degree to which a foundation has advanced knowledge and thinking in a given field – may require outside visiting teams of experts to advise on the degree to which the foundation has been successful.

The Center's aim is to continue to understand where common needs for data to inform assessment can be met, where economies of scale can be harnessed to lower the cost of data collection, and where a neutral third party can add value to the process. Continued research will focus on developing measures and data that are practical, usable, and as directly related to social impact as possible. Each foundation will approach the choice of particular indicators of effectiveness to fit its circumstances. For those areas of performance that are not measurable quantitatively, the Center's research will seek to identify potential models and best practices through case studies and issue papers.

A variety of organizations, such as The Foundation Center, the Urban Institute, the Aspen Institute, Grantmakers for Effective Organizations, and the Council on Foundations are important contributors to the ongoing discussions regarding foundation effectiveness and to the development of performance assessment. Many of those with whom we met during the course of this research noted that momentum seems to be building from multiple directions around the issue of assessing foundation performance. Our hope is that this continues to be the case.

## VI. CONCLUSION

### The Promise of Overall Performance Assessment

Performance assessment is a means to an end. It is only when foundation leaders utilize what they have learned to improve their foundation's effectiveness that social benefit is created. As the case studies discussed earlier indicate, much can be learned through comparative performance assessment. Already, those with whom we shared grantee perception data have told us that it helps them understand their foundation's performance in ways that may lead to greater effectiveness in the future.

The data presented here is only a beginning. But it demonstrates the possibility of creating greater social benefit by rigorously understanding and accentuating the best of what foundations do. It offers hope that one day foundation leaders and trustees will have ready access to comprehensive objective performance data to guide their key decisions. This would require a mix of quantitative and qualitative measures, intimately derived from the foundation's strategy, highlighting changes in performance over time and in comparison to other foundations.

Such a rich informational environment would not only help individual foundations achieve greater impact, but would inevitably lead to more collaboration among foundations, greater efficiency, and more rapid organizational learning that could benefit the entire nonprofit sector. Grantees, in particular, would gain from the more constructive and efficient interactions that will inevitably follow from understanding relative performance.

In addition, foundation leaders would be better prepared to answer the basic questions that often perplex them today: Is our choice of focus appropriate? Have we identified an effective strategy or theory of change to reach our goals? Are our grants of the right size and duration? Is our organizational structure and staffing optimum?

Fulfilling this vision requires an investment of foundation resources. Yet many people question the wisdom of diverting funds that might otherwise be spent on social issues directly. This concern is legitimate: resources should be devoted to performance assessment only if a commitment exists to act on what is learned in the process.

The framework presented here, however, can be implemented relatively easily and inexpensively. Any foundation can begin to monitor and improve its performance by collecting data on a few simple measures, choosing those that are most important to its strategy and within its budget. Already, we have been surprised by the level of interest in measuring performance

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*The recent focus on effectiveness and performance by a number of organizations is a positive development in a sector that has, for years, possessed too little research and hard data about itself. To be most beneficial, the emphasis should be on development of research that is of pragmatic use to foundation leaders.*

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among leaders of foundations with only a handful of staff and significantly smaller asset bases than those in our study sample. They recognize that these measures are relevant and, with appropriate variations, can be implemented at foundations of any size.

The ultimate selection of relevant measures and the interpretation of indicators must be made by an individual foundation based on its strategy. Interpretation of what is a "good" result on a particular indicator is in the hands of a foundation's board and CEO. However, whether a foundation seeks to affect issues by supporting local grass-roots organizations or by impacting public policy at the national level, it can – and should – measure its effectiveness by comparing

itself to other foundations, while still maintaining, and even reaffirming, its unique attributes.

### The Need for Further Research and Expanded Data

There is much yet to be done to achieve this vision. More research is needed, as discussed in the previous section, to test the measures that have been proposed, create new measures, and build comprehensive data to inform those measures. The recent focus on effectiveness and performance by a number of organizations is a positive development in a sector that has, for years, possessed too little research and hard data about itself. To be most beneficial, the emphasis should be on development of research that is of pragmatic use to foundation leaders.

### The Role of Foundation Leaders

For these efforts to be fruitful, researchers and foundation leaders must work together. Those charged with leading the country's foundations have an opportunity to set an example of openness, candor, and unwavering determination in the pursuit of useful performance measures in a sector in which measurement is far from straightforward. By welcoming and embracing the challenge, foundation leaders will maximize their own learning and that of their colleagues. The result will be better performing foundations, more credibility for the field, and, ultimately, greater social impact derived from our society's scarce philanthropic resources.

It is important not to lose sight of what that increased social impact means – more individuals served by nonprofit organizations, more opportunities created, and reductions in pressing social ills. Although this work is about measuring results, providing useful data, and improving performance, the ultimate goal is improving lives.

#### BE A PART OF THE CENTER FOR EFFECTIVE PHILANTHROPY'S RESEARCH

How does your foundation assess its performance? The Center for Effective Philanthropy is continually seeking to understand potential models for foundation performance assessment. If your foundation has a system for assessing its overall performance that helps foundation leaders to improve and make better decisions, please contact the Center.

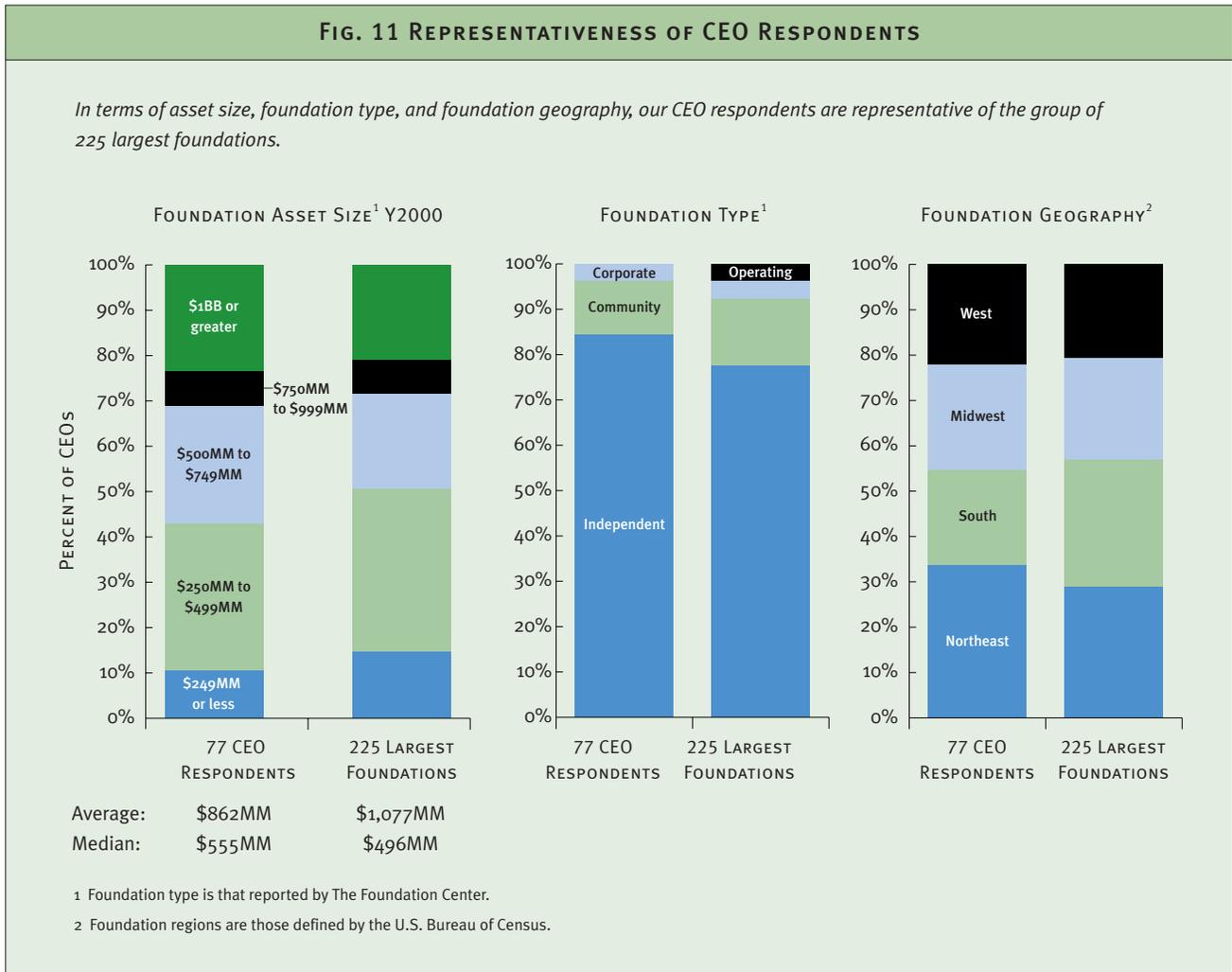
## VII. APPENDICES

### Appendix A: Methodology of Foundation Performance Metrics Pilot Study

A paucity of readily available, reliable data about foundation performance has been a prime obstacle to improved overall foundation performance assessment, according to foundation CEOs and other experts. One goal of the Center’s eight-month Pilot Study was to ascertain whether new data could be created and provided to foundation executives to illuminate overarching performance assessment issues. The Center for Effective Philanthropy collect-

ed and analyzed<sup>23</sup> four major sets of data during the course of this Pilot Study:

1. Foundation CEO perceptions,
2. Grantee perceptions of foundations from which they had received grants,
3. Foundation trustee viewpoints, and
4. Foundation and grantmaking characteristics collected from publicly available sources.



23 All statistical analysis, unless otherwise noted, was performed using a 95% confidence level.

## CEO PERCEPTIONS

Two methods were used to collect CEO perceptions about the current state of foundation performance measurement. The first effort included in-person interviews with foundation CEOs. These discussions focused on CEOs' current foundation performance assessment practices and their thoughts on how assessment might be productively implemented or improved in unassessed areas of performance. These 18 interviews, as well as 56 similar discussions with other foundation experts, were discussed in the Center's first publication, *Toward a Common Language*.

The second, more formal, CEO perception data collection effort utilized a mail-in survey of all CEOs of the 225 largest, domestic foundations based on asset size. This paper-based, 26-question survey covered topics ranging from current foundation practices in the areas of overall assessment, grant evaluation, grantee assistance, and board relations to CEO perceptions on future foundation regulation and responses to current economic conditions.

Demographics of CEO Survey Respondents: 77 CEOs responded, or 34 percent. Respondents represented foundations across the spectrum of the largest 225 foundations in terms of asset size, type, and geography (Figure 11). These results yield a robust population for analysis.<sup>24</sup>

## GRANTEE PERCEPTIONS

The Center surveyed grantees from a sample of 23 foundations regarding their perceptions of foundation performance. The foundations were selected to be representative of the largest 100 private, domestic foundations according to asset size, location, age, geographic coverage, program areas, degree of focus, and family involvement. Using publicly available data from foundation Web sites and IRS Form 990-PF tax filings to identify all year 2000 grant recipients of each foundation, the Center randomly selected 3,550 domestic grantee organizations, from a total

population of 6,878 grantees, to target with surveys. Individuals and non-domestic grant recipients were excluded.

The Center sent each of these grantee organizations one mailing. The contents included a cover letter describing the purpose and timeframe of the Pilot Study, an indication of the specific foundation the grantee should consider for responses, and a paper copy of the 50-question survey document. Grantees were informed that they also had the option to respond via the Web. In addition, grantees were given the option to fill out the survey anonymously. Two months after this initial mailing, a follow-up post-card was sent to all 3,550 targets, encouraging response and thanking those grantees that had completed the survey.

While the Center informed management from the 23 foundations that the survey was occurring, we neither requested permission nor solicited endorsements from the foundations. We clearly communicated in the survey cover letter to grantees that our efforts were independent of the foundation in question and that individual responses would remain confidential. We took these precautions to minimize potential bias associated with grantees' fear of jeopardizing future funding.

Demographics of Grantee Survey Respondents: The Center received 926 completed responses, a 26 percent response rate. Fifty-four (54 ) percent of respondents chose to respond over the Web. Twenty-one (21) percent responded anonymously.<sup>25</sup> The response rate of grantees for individual foundations varied from 15 percent to 55 percent.

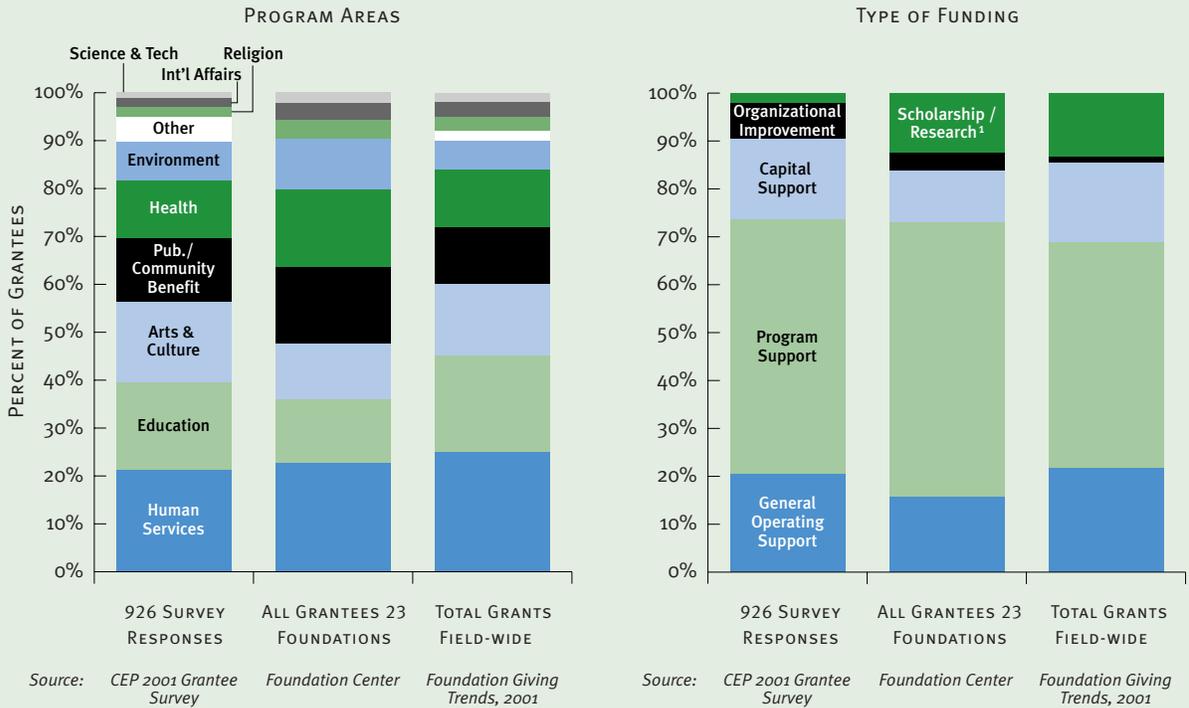
The respondent population was representative along a number of key characteristics of the entire population of all grantees from the surveyed foundations and, by extension, all grantees from the largest 100 foundations. For example, along the demographics of "type of funding given" and "program area of the grant," our results are representative of both the population of

<sup>24</sup> For rating questions (1-7 scale perception questions), the field average results are accurate on average to +/- 5.5 percent.

<sup>25</sup> There was no significant variation in perceptions or other responses based on method of response (paper vs. Web) or anonymity.

**FIG. 12 PROGRAM AREAS & TYPES OF FUNDING OF GRANTEE RESPONDENTS VS. THE FIELD**

*Our grantee respondents were representative of the larger population of grantees in terms of program area and type of funding awarded.*



<sup>1</sup> Grants to individuals were excluded from the survey, accounting for some of this difference.  
 Note: Foundation Giving Trends 2001 and its data is published by the Foundation Center and based on a sample of 1,016 larger foundations. All Foundation Center data excludes grants of less than \$10K in value.

grantees from the 23 foundations and of the field (Figure 12). We did detect a response bias based on the "size of grant given": those grantees that received grants of less than \$50,000 were less likely to respond (Figure 13). Therefore, we believe the results presented here can be considered representative of all grantees of the 100 largest private, domestic foundations for grants above \$50,000.

This set of data allows for implications to be drawn about the field of large, private foundations and an individual foundation's relation to the field average.<sup>26</sup> The statistical accuracy of results at the level of an individual foundation varies widely, depending on the number of responses received for that foundation.

**FOUNDATION TRUSTEE VIEWPOINTS**

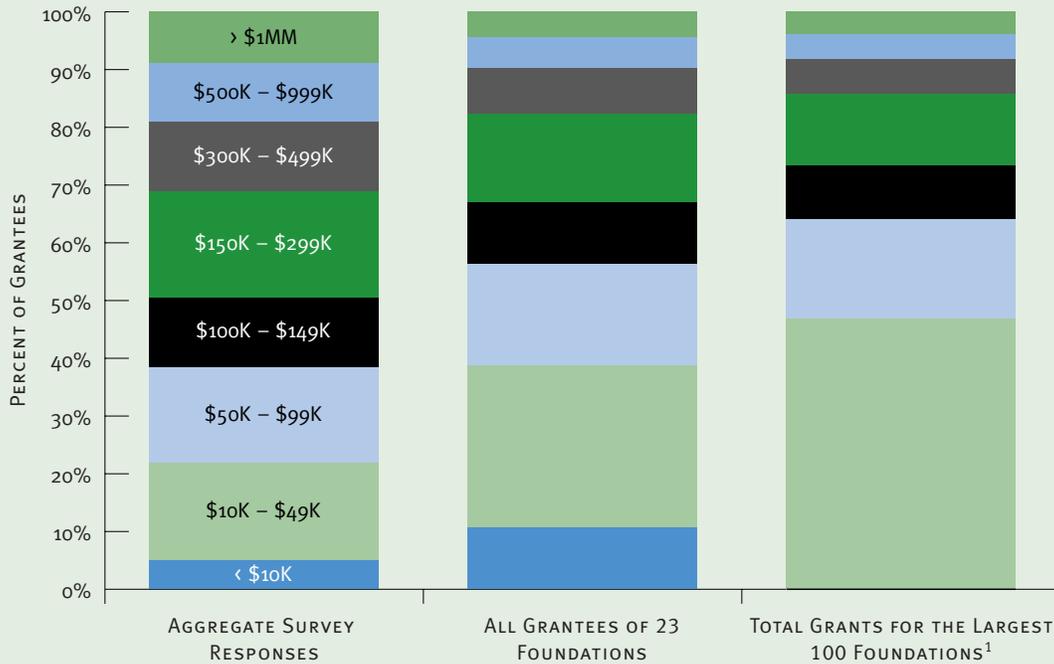
To supplement the perspectives of CEOs and foundation staff, the Center also collected trustee viewpoints on the issues of foundation assessment. Contacts were provided by CEOs, which could contribute to a bias in our sample. These 60- to 90-minute interviews were conducted by phone, using a set interview guide. Interviews covered topics including the assessment of foundation and board performance, the role of the board, the strategy of the foundation, and trustee education.

The Center completed 13 of these interviews with trustees of five foundations. These trustee viewpoints

<sup>26</sup> For rating questions (1-7 scale perception questions), our field data has statistical accuracy, on average, to +/- 2.6 percent, at a 99 percent confidence level.

FIG. 13 GRANT SIZE OF GRANTEE RESPONDENTS VS. THE FIELD

*Our survey respondents are skewed toward grantees who have received larger grants; grantees receiving less than \$50K overall are less likely to respond.*



Source: CEP 2001 Grantee Survey

990-PFs

Foundation Center

<sup>1</sup> Excludes grants of less than \$10K.

were used to augment the hypotheses or analyses from other data sets, but, because the data set was small and non-random, no quantitative analysis was performed on this sample of data.

#### PUBLICLY AVAILABLE FOUNDATION AND GRANTMAKING CHARACTERISTICS

Throughout the Study, the Center used publicly reported financial data from foundations to inform our analysis, to determine representativeness of samples and respondents, to profile the 23 foundations we studied, and to provide demographic characteristics of the foundation field. The Center collected this data from foundation Web sites, annual reports, and Form 990-PF filings.

Two methodological issues presented themselves during these analyses. First, Form 990-PFs are not readily available in electronic format, except where present on Guidestar. For the 23 foundations in our sample, more than one-third of 990-PF forms from 1998-2000 had to be requested directly in paper format from the foundations. Second, we became concerned about the comparability of certain statistics presented within these documents, due to inconsistencies in definitions of certain items, such as administrative expenses. All publicly available data was used as presented by the foundations and not modified by the Center.

## Appendix B: Publicly Reported Characteristics of the 23 Foundations

FOUNDATION	ASSET SIZE <sup>1</sup>	EST. AVERAGE GRANT SIZE <sup>2</sup>	ADMIN EXPENSES AS % OF ASSETS <sup>1</sup>	EST. # OF GRANTEES <sup>3</sup>	STAFF SIZE <sup>4</sup>	OPERATING COMPONENTS <sup>5</sup>	# OF PROGRAM AREAS AS IDENTIFIED BY GRANTEES <sup>6</sup>
The Annie E. Casey Foundation	\$ 3,001,942,131	\$ 190K	0.9%	115	47	Yes	5
The California Endowment	\$ 3,490,256,407	\$ 243K	0.5%	320	49	No	5
Charles Stewart Mott Foundation	\$ 2,881,802,805	\$ 308K	0.5%	310	95	No	8
Conrad N. Hilton Foundation	\$ 652,314,629	\$ 364K	0.5%	190	14	No	4
The David and Lucile Packard Foundation	\$ 9,793,212,529	\$ 294K	0.4%	945	149	No	8
Doris Duke Charitable Foundation	\$ 1,642,067,645	\$ 1,583K	0.7%	45	42	Yes	5
The Duke Endowment	\$ 2,874,017,045	\$ 187K	0.2%	370	33	No	5
The Edna McConnell Clark Foundation*	\$ 712,816,913	\$ 242K	0.6%	125	22	No	6
Ewing Marion Kauffman Foundation	\$ 2,473,651,998	\$ 117K	1.1%	435	158	Yes	5
The James Irvine Foundation	\$ 1,509,641,006	\$ 266K	0.5%	205	40	No	6
John D. and Catherine T. MacArthur Foundation	\$ 4,479,153,951	\$ 243K	0.6%	460	213	No	9
John S. and James L. Knight Foundation	\$ 2,198,985,122	\$ 279K	0.3%	320	31	No	7
The Joyce Foundation	\$ 999,530,958	\$ 274K	0.4%	200	20	No	7
Lilly Endowment	\$ 15,591,737,808	\$ 813K	0.1%	575	47	No	9
The Lynde and Harry Bradley Foundation	\$ 626,124,000	\$ 88K	0.7%	355	16	No	7
M. J. Murdock Charitable Trust	\$ 657,113,213	\$ 186K	0.3%	160	13	No	7
The Meadows Foundation	\$ 879,029,308	\$ 134K	0.9%	200	44	Yes	7
Robert W. Woodruff Foundation	\$ 3,139,654,481	\$ 1,898K	0.0%	70	12	No	4
Rockefeller Brothers Fund	\$ 753,327,772	\$ 143K	1.2%	145	40	Yes	6
The Samuel Roberts Noble Foundation	\$ 971,672,378	\$ 129K	2.6%	160	222	Yes	5
Surdna Foundation	\$ 679,394,880	\$ 133K	0.5%	235	16	No	6
Walton Family Foundation, Inc.	\$ 987,909,731	\$ 100K	0.1%	550	6	No	7
The William and Flora Hewlett Foundation	\$ 3,930,366,990	\$ 263K	0.2%	395	31	No	9

1 Figures are from year 2000 990-PFs.

2 Figures are from year 2000 990-PFs or self-cited Web site lists of grants made in 2000. Grantees who were individuals or not based domestically were excluded.

3 Figures are from year 2000 990-PFs or self-cited Web site lists of grants made in 2000. Grantees who were individuals or not based domestically were excluded. Also all grants made to the same organization were only counted once.

4 Figures are from The Foundation Center's 2001 CD-ROM.

5 Figures are based on information on foundation Web sites.

6 In order to align ourselves with field standards we used the 10 NTEE categories developed by the National Center for Charitable Statistics: Arts & Culture; Education; Environment & Animals; Health; Human Services; International Affairs, Economic Development & Peace; Public/Society Benefit; Science and Technology; Religion; Other.

\* Most EMCF grantees surveyed received funding for programs the Foundation has been ending over the past three years as part of a shift to a new grant making strategy to strengthen youth-serving nonprofits.

## Appendix C: Performance Assessment Framework – Detailed Discussion

While no single indicator, and no single measure, alone answers the question of foundation impact, taken together, they are highly suggestive of overall foundation performance. This is particularly the case when viewed comparatively and longitudinally. The utility of each measure will vary somewhat by foundation, because of varying strategies and priorities. Specific indicators utilized to inform the measures will also vary, depending on judgments about the most promising data sources as well as staff and resource constraints. Finally, efforts should continue to find additional measures and indicators that are as directly connected to impact achieved as possible and to increase the accuracy and utility of grant and program evaluations for overall foundation performance assessment.

### ACHIEVING IMPACT

These external measures relate to the achievement of impact – what CEOs agree is the ultimate objective of foundations.

**1. PROGRAM OBJECTIVES.** This measure is the closest to direct measurement of social impact because it seeks to assess achievement of overall program objectives. If the program areas within a foundation are few, the goals are clear, and timely measurement of results is possible, the potential may exist to use program evaluation to inform overall foundation performance assessment. Primary data sources, or indicators of effectiveness, are program evaluations – which in turn draw on data such as specific grant evaluations, trend data, and survey data.

**2. GRANT OBJECTIVES.** Assessment of specific grants and grantees can determine the impact that can be attributed to a specific grant and whether the goals of the grant were met. Here, again, evaluations are the primary data sources.

**3. STRENGTHENING GRANTEES.** If a foundation can help its grantees improve their performance, it is likely that the foundation has achieved some degree of impact: when grantees operate more effectively, the issues they address will be impacted more significantly. Indicators of effectiveness within this category could include a variety of financial and operational statistics on grantees as well as grantee perceptions of the degree to which the foundation has been helpful.

**4. FUNDING INFLUENCE/LEVERAGE.** Many foundations share this objective: to influence others to fund its grantees or projects and thereby increase the ability of grantees to create social impact. Much like “strengthening grantees,” if the foundation helps its grantees obtain additional funding, it is likely that those grantees will be able to achieve their social objectives more rapidly and effectively. Foundations can track, through their grantees, the funding increase that results from their support. Grantee perceptions of the usefulness of foundations’ leverage efforts can also be used to judge this category of impact.

**5. FIELD EFFECTS.** A key measure according to many CEOs is the foundation’s ability to advance thinking in its fields, helping those working in the field to understand the best ways to achieve impact. This is extremely difficult to measure, but potential indicators of effectiveness include outside expert opinions, publications (by the foundation and/or its grantees), changes in policy, and, again, comparative grantee perception data. In this area, it is particularly important that foundations evaluate multiple data sources to understand differing perspectives on their success in achieving field effects.

### SETTING THE AGENDA/STRATEGY

These measures relate to defining the foundation’s strategy: its fields of interests, specific goals, and overall approach to its work.

**1. FOCUS AREAS.** Our interviews suggested that CEOs believe that careful selection of fields, and limiting

their number in order to concentrate expertise and attention, allows for maximum impact. Selection of fields requires an assessment of the capabilities of the foundation and the possibilities for impact and is seen as a critically important step for foundation leadership. Measurement of effectiveness in this area is difficult, but can be informed by data on fields under consideration, understanding of other funders' roles and priorities, and outside expert opinions.

**2. ESTABLISHING SPECIFIC AND ACHIEVABLE GOALS.** The establishment of specific and achievable goals is seen as key to effectiveness because it enables clear communication and more easily tracked progress. Measurement of effectiveness in this area is often a qualitative assessment of whether a goal has been well-defined and whether it is achievable. This is informed by board and senior management reviews and can also include the opinions of outside experts in the fields of focus.

**3. CHOOSING AN APPROACH.** In light of the selected focus areas and goals, CEOs we interviewed say it is critical to choose the approach that is most likely to succeed in creating social impact – what is often called a “theory of change.” Hard data that illustrate a foundation's choices relative to others in terms of grantmaking characteristics such as number of grantees or programs relative to asset size, proportion of first-time grantees, and proportion of one-year versus multi-year grants, can also be valuable in understanding the foundation's current approach. Assessing the quality of an approach is largely qualitative, but further research may show whether some approaches are consistently more successful than others within certain fields or kinds of foundations.

## MANAGING OPERATIONS

This area relates to monitoring internal processes and managing the foundation's human and financial resources. The inclusion of this category in the measurement framework is based on the generally shared hypothesis that, given a sound strategy, there is a

strong connection between operational effectiveness and ultimate impact.

**1. CONSISTENCY WITH STATED OBJECTIVES.** Many non-CEO experts in philanthropy emphasized in our interviews that a foundation's impact is dependent on its ability to remain consistent with set strategies and goals. Foundation resource allocation studies, comparing actual spending against objectives, are one measure for this category. Grantee or outside-observer perceptions can serve a second indicator.

**2. GRANTEE SELECTION PROCESS.** CEOs of foundations that attempt to achieve social impact through grantees believe that consistently using an effective grantee selection process is critical for achieving their goals. Key questions within this measure include consistency of the due diligence process and uniformity of its implementation. Indicators of effectiveness for this measure could include comparative data on perceptions of the process from denied applicants as well as grantees and internal foundation data related to the quality and consistency of the process. Program evaluations and other indications of the grantees' success in meeting the foundation's goals for the grant are also important indicators of effectiveness in the selection process.

**3. GRANTEE INTERACTIONS (RESPONSIVENESS).** Foundations' interactions with grantees are related, if indirectly, to impact achieved, according to many CEOs. It is important to monitor the value of foundation contact versus the potential burden on grantees: comparative grantee perceptions are a particularly reliable indicator to inform this measure. Internal tracking of foundation/grantee contact also has been mentioned as useful.

**4. STAFF RECRUITMENT, RETENTION, AND REVIEW.** The quality and consistency of foundation staff influences the foundation's ability to achieve impact through its programs, according to the CEOs we interviewed. Internal reviews and benchmarking data

are the most often mentioned indicators of effectiveness in this category.

5. ADMINISTRATIVE EXPENSES. While different strategies lead to different administrative expenditure levels, all the CEOs we interviewed want to understand how their foundation compares to others, based on the hypothesis that fiscal efficiency in foundation operations leaves more resources for programs. Benchmarking against other foundations is the most common measure for this category, although these expenses are often reported inconsistently, which reduces the reliability of comparative assessment.

6. ENDOWMENT INVESTMENT PERFORMANCE. The investment performance of the foundation directly influences the level of resources available to accomplish social impact goals. This category is easily

management is explicitly and formally accountable. More research is needed to understand the particular qualities, and indicators, of effective foundation governance. However, at least three basic measures of the effectiveness of foundation governance are clear.

1. ACCOUNTABILITY. It is the board's responsibility to hold management accountable for foundation performance. (See sidebar: The Role of the Board.) Our research has suggested that the nature of this process varies widely by foundation. For example, some foundations have a periodic, formal, written process for evaluating CEO performance, while others rely on a general sense that "things are going okay." Assessing the degree to which the board has clear processes for assessing the performance of the foundation and of the CEO is an important measure of the board's effectiveness in this capacity.

2. STEWARDSHIP. The most basic fiduciary responsibility of the board is to steward the foundation's financial resources. This is the area in which, according to the results of our CEO surveys, boards are generally most significantly engaged. Data are widely available that allow foundation boards to monitor investment returns, approve budgets, and evaluate resource allocations. A second dimension of stewardship is the board's responsibility for taking a long view of the foundation's role and asking whether its mission is appropriate. Measures of effectiveness within this category include the degree to which the board engages these issues and whether the board conducts regular self-assessments and benchmarking relative to other boards.

3. ACTIVE ENGAGEMENT. This category relates to the degree of engagement of the board, assessing whether directors are executing their responsibilities and actively serving as ambassadors of the foundation in the furtherance of its mission.

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*Good governance is an underpinning of effectiveness. The board is the ultimate audience for performance measures and the one body to which foundation management is explicitly and formally accountable.*

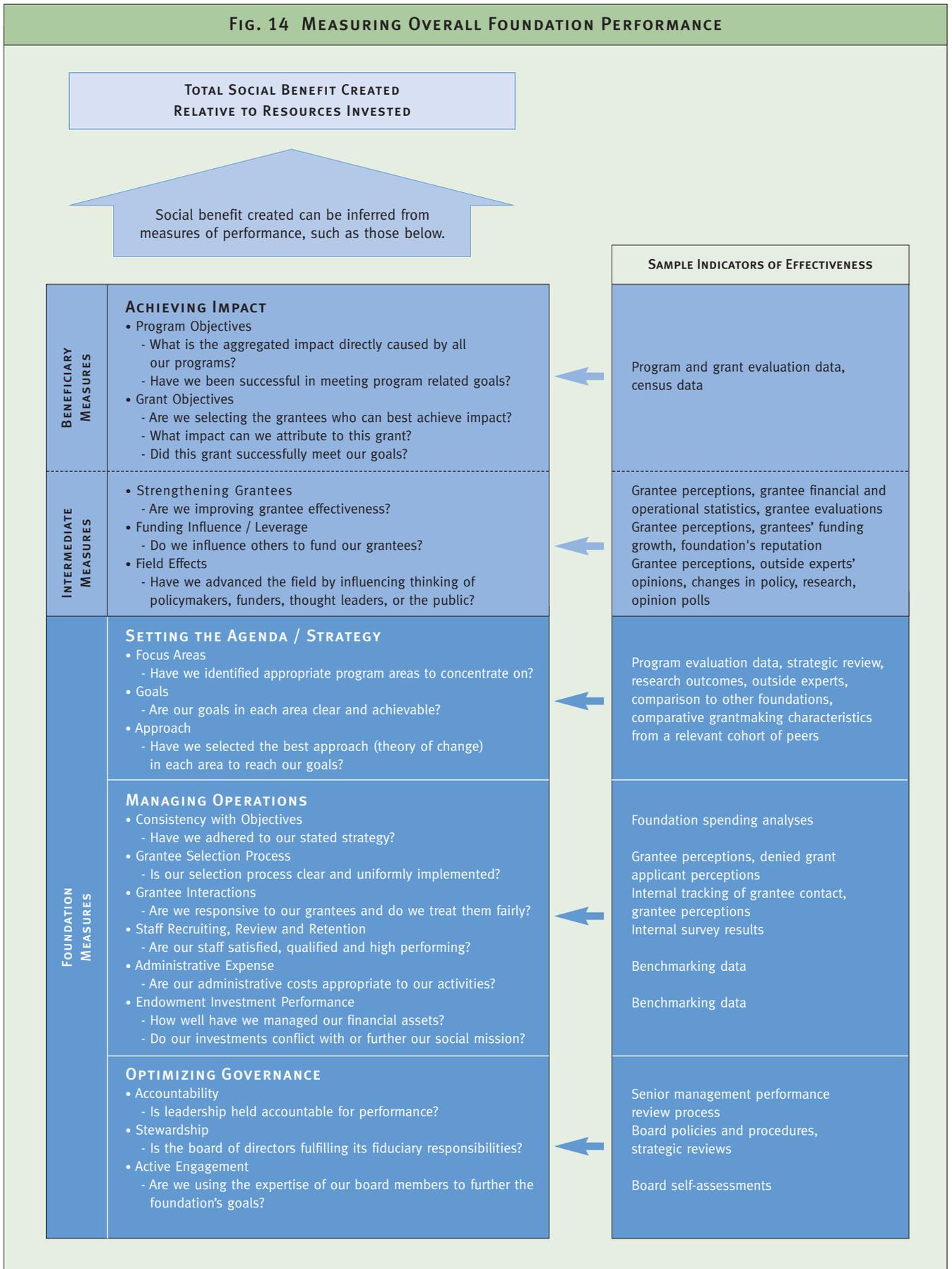
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tracked internally and benchmarked against a variety of external comparables. A related but less often explored question is whether the foundation's investment policies conflict with its social goals, or whether the foundation has found ways to use its assets to further its mission, such as through program-related investment or socially responsible investing.

#### OPTIMIZING GOVERNANCE

Good governance is an underpinning of effectiveness. The board is the ultimate audience for performance measures and the one body to which foundation

**FIG. 14 MEASURING OVERALL FOUNDATION PERFORMANCE**



## ABOUT THE CENTER FOR EFFECTIVE PHILANTHROPY

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The Center for Effective Philanthropy is an independent, non-partisan, nonprofit organization. The mission of the Center is to provide executives and trustees the management and governance tools needed to define, assess, and improve overall foundation performance.

For more information, access to our publications, and information about our educational programming, please visit our Web site at [www.effectivephilanthropy.org](http://www.effectivephilanthropy.org) or contact a member of the Center's staff at (617) 956-0800 or [info@effectivephilanthropy.org](mailto:info@effectivephilanthropy.org).

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