

Ten Years Later: Has Strategic Philanthropy Delivered on Its Value Proposition

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Foundations are marching toward strategy, getting more focused on what they want to achieve and how to achieve it. Look at most board books and you'll see the hallmarks—theories of change, evaluation reports, performance metrics, trustee-friendly dashboards. Yet talk to many foundation leaders and you might hear another story. They're still struggling to realize the promise of strategic philanthropy and be more effective in their work.

One reason why might be a continuing uncertainty about what exactly effectiveness is. Consider one striking piece of research. In the Urban Institute's 2004 study "Foundation Effectiveness: Definitions and Challenges" Francie Ostrower found:

Foundations typically defined what effectiveness means in their foundations in highly general terms. The wide-ranging answers given and comparatively low percentages citing any one component testify to the variability of definitions of effectiveness in the field. The generality of the responses is indicative of the fact that *so many foundations have not really thought through the specific meaning of effectiveness within the context of their own institution.* (emphasis added)

This study named what many already knew—that the field at large had far to go toward articulating and realizing a vision of what effectiveness might mean, and how to get there, for the individual foundation. In fact, the last decade has witnessed an important conversation on this issue in philanthropy. It was initially kicked into gear ten years ago with *Harvard Business Review's* publication of "Philanthropy's New Agenda: Creating Value," by Michael Porter and Mark Kramer. The debate continued with the Urban Institute study and a range of others. Increasing numbers of foundations endeavor to be clearer about goals, strategies and measures of success. But our work and research indicate that few are satisfied. And many report to be just as confused about the "meaning of effectiveness within the context of their own institution" as ever.

In a qualitative study conducted for the Evaluation Roundtable in 2008, we found that the struggle continues. As a precursor to a meeting of foundation leaders from around the country, we asked selected practitioners how they think about, learn about and develop a strategy. Perhaps one of the most interesting findings was that foundations are regularly tinkering with how they "do" strategy. Of the 14 national foundations covered—all dedicated to strategic and effective philanthropy—12 had gone through a major review or redesign of their strategy development processes *within the last 18 months.*

Many of those interviewed, including many considered leaders in program strategy work, expressed frustration with current approaches to foundation strategy, questioned whether they translate into greater impact, and lamented both the nature of the process and its duration. “We just got done with a two-year strategic planning cycle,” said one. “But now we don’t know where to start.”

We also heard some bemoan the quality of the strategies that emerge from these intense processes. Some strategies were criticized as overly conceptual academic papers. Others were thought to belong to the consultants producing them more than to the foundations themselves—well-packaged slide decks that hid difficulties and prevented boards from seeing the real messiness they were often getting into. Still other strategies were faulted as tactical execution plans that specify the future behaviors of outside players and assume the world will align itself accordingly. It’s not that practitioners dismissed the strategies outright. Most strategies were considered potentially useful. But all were said to suffer from a common malady: failure to adapt to issues on the ground.

What keeps strategies stuck in theory rather than reality in this way? The problem, in our view, is that foundations have not considered the implications of what it takes to move from being what Center for Effective Philanthropy calls a “charitable banker”¹ to a fully strategic foundation. What skills, organization, management and ongoing decision making are needed? We see many foundations acting as if they could take on a fundamentally new role without changing the operations, culture, competencies and structure of the organization itself. They fall into a natural trap, adopting the veneer of strategy without making the deeper institutional changes needed to support it. Nor do they take seriously enough the question of whether and how they add value, beyond dollars, to the strategies they support. In short, many foundations fall short of strategic effectiveness because they seek to change *what* they do without considering *how* they do it. Form doesn’t follow function.

To help foundations address these issues, we convened the Strategy Forum in May 2008, working on behalf of the Evaluation Roundtable.² Senior staff from 28 foundations³

¹ See *Beyond the Rhetoric*, a study conducted by the Center of Effective Philanthropy that put grantmakers into four categories: charitable bankers, perpetual adjusters, partial strategists and total strategists.

² The Evaluation Roundtable is a community of practice that has been meeting consistently since 1988. It is comprised historically of evaluation directors, although the Roundtable occasionally holds joint sessions with program staff. Patricia Patrizi, principal of Patrizi Associates, directs the Roundtable. This work is supported by the Bruner Foundation, the California Endowment, the Edna McConnell Clark Foundation, the Bill and Melinda Gates Foundation, the Heinz Endowments the Robert Wood Johnson Foundation, the Kauffman Foundation, the W.K. Kellogg Foundation, the Lumina Foundation, the David and Lucile Packard Foundation, the Wallace Foundation and the William Penn Foundation.

³ Participating foundations were: Annie E. Casey Foundation, Atlantic Philanthropies, Barr Foundation, Bill and Melinda Gates Foundation, Bruner Foundation, California Endowment, California HealthCare Foundation, Carnegie Corporation of New York, Cleveland Foundation, David and Lucile Packard Foundation, Duke Endowment, Edna McConnell Clark Foundation, Ewing Marion Kauffman Foundation, Fondation Lucie et Andre Chagnon, Hartford Foundation, Heinz Endowments, J.W. McConnell Family Foundation, John S. and James L. Knight Foundation, Lumina Foundation for Education, The New York State Health Foundation, Ontario Trillium Foundation, The Pew Charitable Trusts, The Pittsburgh

gathered at the Robert Wood Johnson Foundation in Princeton, New Jersey, for a three-day effort to tackle these tough issues and think together about how foundation strategy can be improved.

Based on what we learned at the Strategy Forum, as well as our own experience conducting program strategy evaluations and creating assessment systems for various foundations, we believe that foundations leaders have to address four key challenges that hinder their efforts to be more strategic and more effective.

Challenge 1: Strategy Planning Is Separated from Doing

We've found that many foundations make the mistake of approaching strategy development as an upfront analytic exercise that ends when implementation begins. After an initial burst of strategic planning, grants are made, then staff move on to making new grants or developing other strategies. "Strategy" as such is for the most part viewed as a document prepared early on, not an ongoing process that needs to be refined based on experience. As one foundation staff person put it, underscoring how inert the treatment of strategy can be: "For us, strategy is a piece of paper."

Yet many in philanthropy know well the complexity involved in their work. They know there are few certainties regarding many foundation-supported interventions. They know that what's first conceived in a document will quickly need to evolve when it hits the wall of reality. They increasingly understand how context-bound success really is. They also know that any intervention supported by a foundation inevitably occurs in the context of many other such interventions, and that effects imagined during planning are likely to be very different in practice. In reality, implementation never goes as planned. For example, phases devoted to start-up are often far longer than what their architects imagined. If anything could and should be anticipated in planning, it is that most of what has been planned will necessarily change.

Despite recognizing these realities, many foundations still approach planning as though the work they do is predictable, conflict does not exist, leveraged resources will just happen and interventions can be "taken to scale" without adaptation to groups or circumstances. In other words, foundations plan as though plans actually materialize as they were written.

The emphasis on upfront planning is understandable for two reasons. First, some of the "determinism" in foundation planning may be a reaction to a past in which some foundations made grants with little regard to the likely effectiveness of either their strategies or the work of their grantees. In this light, going into hyper-rational planning behavior can be viewed as a reasonable reaction to past practices that could be called highly irrational. The relative ease with which foundations can squander resources is a serious problem, and many foundations have emphasized planning and metrics to prevent

it. Second, many foundations rely on the planning discipline to stay on top of what constitutes effective practice. Yet, in these pursuits, foundations often learn less about the issues that matter—what happens once grants get made.

What is missed in the prevailing practice of planning is the critical role a foundation could and should play in developing strategy *as it is executed*. For example, performance metrics have an important place—when you know enough to identify what to measure and how to measure it. Performance metrics require a solid understanding of exactly how implementation should occur and what measures will indicate success. In business, most performance metrics emerge from statistical analysis of process variance. But this is almost never the case for foundation strategies, especially not at their outset. The result can be metrics imposed based upon nothing more than mere speculation, with no grounding in real experience.

Implementation is too complex to assume that strategy can be developed at just one point in time and remain fixed. The world does not stay constant. At the Strategy Forum, Michael Quinn Patton explained the fallacy of this assumption by citing a dictum of military strategy: “No battle plan survives contact with the enemy.” Research into the failure of implementation is legion.⁴ Whether in military, corporate or foundation settings, strategy development requires ways to learn from action on the ground. As Henry Mintzberg, one of the foremost corporate strategists, advised Strategy Forum participants: “You don’t *plan* a strategy; you *learn* a strategy.”

Indeed, learning a strategy requires significant discipline, as Jim Collins advised foundation leaders at the April 2009 Center for Effective Philanthropy conference in Los Angeles. Strategists must stay alert to the strategy as it encounters the outside world. Yet real learning about strategy implementation is often missing. A recent survey we conducted identified post-grant information collection and use as the single weakest area of foundation learning. Too often learning is treated either as a one-off event. Or it relies on performance metrics, dashboards or other tools that are woefully inadequate to learning about strategy implementation. Or it’s seen as an intellectual exercise rather than the central work of strategy. Learning is important *not* because it allows foundation staff to accumulate knowledge. It’s important because strategy success depends on it.

Challenge 2: Whose Strategy Is it, Anyway?

Not only are plans often separated from implementation, they’re often developed in isolation from those doing the work—the grantees supported to execute the strategy. It is difficult to think of a setting where it would be good practice for an organization to develop a plan that others would carry out. Yet this is precisely what we do to our grantees.

Even when grantees are included in planning, they’re rarely seen as full partners in the process, with considerable sweat equity on the table. Consider the five stages for building

⁴ The most notable study in this is [Implementation, by Aaron Wildavsky and Jeffrey Pressman](#)

shared vision described by Bryan Smith of Innovation Associates: telling, selling, testing, consulting, and co-creating.⁵ At best, the engagement between funders and grantees around strategy tends to be one of consulting. At worst, it is closer to mere telling. Foundations typically bring grantees to the table either so early in the process that the discussion is necessarily general, or so late in the process that the strategy is fully formed and only grantee agreement is sought. The most fertile opportunities for interaction between grantees and foundations—often around the thorny and pivotal issues related to the realities of implementation—are lost.

Further complicating foundation learning is the power imbalance between foundations and their grantees, which inevitably distorts information flows and impedes feedback, particularly around what is *not* working. Overcoming this dynamic requires the time and trust to build a mutual understanding of and commitment to each other's agenda. There is a wealth of contract research showing that the less trust we have in our partners, the more likely we are to micro-monitor them and require more data and reporting. Such monitoring activities often don't succeed in building knowledge (just consider how many grantee reports go unread!). Worse yet, they can lead to more mistrust.

One frequent result is poorer strategy. Another is inadequate grantee understanding of foundation work. In our interviews, foundation leaders readily acknowledged that “grantees don't understand our strategy.” Although many downplay this issue as merely a “communication problem,” we think it goes to the more central issue of whether foundations know how to create real working partnerships with grantees around strategy.

Grantees need to be treated as serious partners in the strategy process. They are not only the main executors of strategy but have the on-the-ground knowledge and experience essential to sort wheat from chaff in strategic thinking. We doubt many would question whether core grantee partners are needed for successful strategy execution. Yet the lack of real partnership hampers the work of many, if not most, foundations. One reason for the strategic estrangement between funder and funded is that some foundations believe fuller engagement will obligate them to work in this way with all their grantees, or will lead to so many cooks that the result is a worse kind of strategic muddle.

While we don't advise or expect foundations to include every grantee in every aspect of their strategy work, we do believe foundations need a core set of partners in strategy development, negotiation and debate—partners who have the experience and knowledge necessary for successful implementation. This will take time that some foundations believe they don't have. But we know from our interviews and work that the lack of genuine engagement between key grantees and funders on strategic issues in the end hurts funders nearly as much as grantees and makes strategic success less likely. Foundations can't afford *not* to find real strategy partners.

Challenge 3: Does Your Organization Support Your Strategy?

⁵ See *The Fifth Discipline Fieldbook*, page 314

This fundamental shift in foundation strategy—from banker to strategist—rarely has triggered an examination of whether a foundation needs to change its organizational structure and processes to support its strategy work.

We've often observed foundations aiming to be agile, flexible, and capable of quickly responding to strategic challenges...then doing none of the above once the strategy rolls out. Why does this happen? Clues emerged at the Strategy Forum, where the conversation made clear that foundations' ambitious goals are often at odds with the ways they structure and manage themselves.

We found that the structure-strategy conflict often arises because foundations find themselves divided between two organizational types: the bureaucracy on the one hand and what Henry Mintzberg calls the “adhocracy” on the other. These are two fundamentally different models, each with a distinct—and often diametrically opposed—set of values, decision-making rules and management styles. According to Mintzberg, adhocracies are highly organic organizational forms with little formalization of behavior, roles and expectations, whereas bureaucracies embrace traditional hierarchical modes of authority with highly formalized behavior, roles and expectations.

The tension between the two models is perhaps clearest when we consider how foundations approach their two main functions: grants administration (suited to bureaucracy) and program strategy (suited to adhocracy). In this bimodal system, grants management staff require a great deal of regimentation, whereas program staff require the freedom to innovate and pursue entrepreneurial instincts. Grants management requires strong, reliable systems that operate in fixed ways at regular intervals in a highly static context. Program strategy is the opposite, requiring innovation, adaptation and learning in a constantly evolving context.

How then does foundation management typically respond to an organization containing conflicting pressures to exert bureaucratic control *and* provide enormous freedom? They respond as managers have responded for centuries—by focusing management resources and systems on creating high levels of control over that which is, or appears to be, controllable.⁶ In short, bureaucracy dominates. We've seen this happen in many foundations. The grants process and accounting procedures often monopolize management attention and institutional schedule. In turn, boards often grow to expect the same certainty from program staff that financial and grants management staff can offer.

And foundation information systems tend to be far better structured for processing grant applications, payment, and reporting than for informing foundations about strategy. In fact, few foundations have developed even the most rudimentary methods for tracking grants in terms of strategy. In our evaluation work, many foundations are often unable to provide even basic data connecting individual grants to a strategy. One executive we interviewed discovered this problem when he asked program officers how much was invested in each strategy. They didn't know. In response, the foundation began coding grants by strategy and found that 55% of grants fell outside of their articulated strategies.

⁶ Perrow, Charles, *Complex Organizations: A Critical Essay*, Charles McGraw-Hill, Inc. 1986

The consequences for information management are the tip of the iceberg if we consider how the demands of foundation bureaucracy can undermine learning. Without a commitment to learning, the structure to support it, and the discipline to act in response to what is learned, staff energy and time is pulled in by a bureaucracy's gravitational force.

Although foundations have given increased attention to performance metrics and dashboards, these tools do not necessarily result in learning about strategy. While these tools can be useful, they do not supplant relationships with grantees and others executing the work for building knowledge to guide decision making.

Yet many foundations have not sufficiently shaped the role of program staff to maximize learning. For foundations to be full strategists, learning needs to be more central to the work of program staff than it appears to be in most foundations. In our interviews, foundation leaders readily acknowledged that program staff often “do not have the time to learn.” Because foundations organize themselves around making grants, program staff can face enormous pressure to attend to the next grant in the queue, rather review current efforts that are in the implementation phase, just when learning is most essential to adapt strategies to changing circumstances. It's an imbalance at the heart of what limits successful learning in foundations.

Challenge 4: Most Strategies Are Silent on Foundation Role

Interviewing foundation staff, we often heard about the ways that foundations add value beyond dollars, including their ability to convene, see the ‘big picture,’ share learning and spread knowledge among grantees.

Yet most program strategies are actually silent on the role the foundation will play in the strategy as it progresses. Beyond funding grantees, most strategies focus on what others will do. Little is specified about the specific role or value the *foundation* will bring to a specific program once the strategy is in play.

Many foundations talk about strategy in terms of what they will fund, often connected to a theory of change or a rationale for that focus. Much less is said about how they will execute the strategy and what roles it will play as compared to their grantees and other partners.

For foundations to go beyond the rhetoric of being more than a “banker,” they need to be clearer about what specifically they do that adds value to their strategies and how they can improve and build that capacity.

Ten Years Later, Do Foundations Add More Value?

Ten years ago, Porter and Kramer challenged foundations to wrestle with the question of how they create sufficient value to justify their tax exemption. Someday, perhaps soon, someone will ask again the question they raised—in essence, has philanthropy created the

value to justify its initial tax deduction and the ongoing tax relief it accrues over time? In other words, are we achieving the social benefit that is philanthropy's promise?

History might judge philanthropy's effort to become more strategic in the decade since as incomplete at best. To be sure, many more foundations have become more focused, embraced new roles, applied more logic and clarity to their work and generally, thought more about what it means to be strategic. But how much value has this added?

Porter and Kramer highlighted "value creating" practices like selecting the best grantees, signaling other funders about grantee effectiveness, improving grantee performance, and advancing the state of knowledge and practice. These sound practices should apply to *all* foundations, from "charitable bankers" to "total strategists." But to maximize their effectiveness, foundations must go beyond these core practices. They must, as *Good to Great* author Jim Collins urged participants at the Center for Effective Philanthropy's March 2009 conference, "attain piercing clarity about how to produce the best long term results" and identify what "you can be best in the world at."

They must, in other words, develop and make explicit their role, skills, and expertise—their strategic competence—in supporting social change.

Here's where the greatest challenge to strategic philanthropy lies. Most foundations have not fully considered the role they think their foundation can best play to advance social change.

Most foundation executives have views about their roles. In our interviews with foundation leaders, we heard several. Consider the foundation that seeks to be an "honest broker" that works to bring vested parties together to solve problems. Or another foundation that sees its role as improving non-profit organizational effectiveness.

Foundations effective in strategic philanthropy are those who not only articulate these roles about how they add value, but also work to develop the core competencies to successfully do so. Consider how different the skills sets are in the above two foundation examples. A foundation that seeks to fill an honest broker role needs staff that are good at negotiating, have political skills, and whose reputations hold clout with the vested parties. Promoting organizational effectiveness, on the other hand, requires deep understanding of leadership and governance, finances, and human resources among others. With experience and focused examination and learning, these skill sets can be improved.

Unfortunately, most foundations have not taken the time to reflect on their role and work at improving what they do. With each new president there is a new strategy and often a new way of working. It is difficult to develop strategic competence when the core business of the institution fundamentally shifts usually at the rate of every ten years. ("Simply dysfunctional," was how management theorist Henry Mintzberg responded when told of the prevailing strategy-overhaul-every-decade cycle in the foundation

world, "How can they ever become good at what they do?") So too, with these shifts come new staff, processes and ways of measuring success.

Under these conditions, it is of little wonder then that most foundations haven't articulated their roles and the competencies needed to be effective, and are therefore unable to convincingly articulate their value. Nor have they invested enough in examining their own work and honing their capacities and skills.

It takes time to become a great organization be it a university, a museum, an orchestra, or a Fortune 500 company. Is there any reason to believe that foundations are any different?

Foundations need to wrestle with what their real value is and develop the adaptive capacities to hone their competence at delivering that value. They need to make changes to their organizational structure to enable them to work on the front lines of strategy. They need to engage with grantees as full partners in developing and implementing strategy. They need to get closer to implementation and work through the implications of what they learn to improve strategies as they evolve. Most of all, they need to get better at learning and applying that learning to strategy. The best organizations, according to Henry Mintzberg, don't begin with planning. They begin with action—what he calls “venturing”—then learn as they go. This is what he means by *learning* a strategy rather than *planning* one.

Foundation leaders deserve credit for having guided their organizations toward more strategic philanthropy. We hope these same leaders will confront the challenges raised in this paper, including the dysfunctional expectations, structures, and ways of working that hamper their ability to build deep competence in what they do and ultimately limit their success at creating value. This takes discipline and time. It's not an accident that Jim Collins uses the word “discipline” dozens of times in the course of his short essay, “Good to Great for the Social Sector.” It is the key to building great teams, ideas and, ultimately, organizations.

This work cannot be done without the deep commitment of the foundation leader. We have found that those foundations that make the necessary *institutional* leaps are led by people willing to make their own *personal* leaps. They come to terms with what they know about social change and what they don't. They soberly explore how their own leadership style contributes to their foundation's struggles. They recognize that, for their foundation to begin to fulfill strategic philanthropy's promise, they'll need to take the first step.