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Patricia Patrizi
Patrizi Associates

Elizabeth Heid Thompson
Independent Consultant

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Beyond the Veneer of Strategic Philanthropy

Patricia Patrizi, M.S.S., Patrizi Associates; and Elizabeth Heid Thompson, B.A., Independent Consultant

Key Points

· "Strategic philanthropy" has become a dominant theme among foundations in the past few decades.

· While many foundations have developed strategic plans, few have made the internal changes necessary to actually behave strategically.

· Four challenges to strategic philanthropy are identified, including strategies developed in isolation from grantees that execute them and misaligned foundation structures, processes, and cultures that do not support strategic endeavors.

· In order to get beyond the veneer of strategic philanthropy, foundation leaders need to be clearer about their own role in creating change, develop the strategic capacities to do so, and then apply those capacities, learn from them, and improve them over time.

Introduction

Over the past few decades, foundations have taken up "strategic philanthropy" with a vengeance. By doing so, they seek not only to provide grant support to nonprofits, but to assess social problems, develop strategies to solve them, and track the results of their efforts.

Recently, debates within the field have raised substantial questions regarding the value of strategic philanthropy.[1] Some have raised the

[1] For example, Paul Brest and William Schambra debate at a 2008 Philanthropy Roundtable meeting and Brest and Sean Stannard-Stockton's session on "Strategic Philanthropy and Effective Grantmaker-Grantee Relationships" at the Grantmakers for Effective Organizations' 2010 conference.

concern that in extreme strategic philanthropy can be overly controlling and "reduce nonprofits to contractors" (Dorfman, 2008). They also assert that foundations tend to remain too distant to be sufficiently knowledgeable about what happens "on the ground." Proponents believe that strategic philanthropy lends more focus and alignment to endeavors and therefore offers a greater likelihood of impact.

These observers have argued persuasively about both the potential strengths and weaknesses of strategic philanthropy. We posit an alternative discourse – that strategic philanthropy has been only partially conceived, let alone implemented, in most foundations. At this time, a definitive assessment on the merits of strategic philanthropy would be based on what we believe is only partial, and for that matter, fairly weak, implementation.

The Veneer of Strategic Philanthropy

Most foundations have adopted only the veneer of strategic philanthropy. A look at foundation board books will reveal its trademarks – theories of change or logic models, strategy papers, performance metrics, trustee-friendly dashboards. Yet, these elements alone do not make foundations strategic, nor are they enough for strategic philanthropy.

In a qualitative study we conducted for the Evaluation Roundtable (Patrizi & Thompson, 2008), we asked senior foundation staff how they think about, learn about, and develop a strategy. Many of those interviewed acknowledged that their

foundations were struggling to realize the promise of strategic philanthropy, and they expressed frustration with current approaches. As one said, it has become "more of an academic exercise than anything else." Another noted: "We just got done with a two-year strategic planning cycle, but now we don't know where to start." Others thought that strategy belonged more to the consultants producing them than to the foundations themselves. 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 outright their attempts to be more strategic. Most strategies were considered potentially useful. But all were said to suffer from a common malady: failure to adapt to issues on the ground.

Without question, foundations produce "strategies." But the efforts do not extend to changes within the foundations themselves, thereby leaving few as capable strategic organizations. If we consider the baseline position from where most foundations started – what the Center for Effective Philanthropy calls a "charitable banker" (Center for Effective Philanthropy, 2007) – few have considered the implications of what it takes to evolve into a fully strategic foundation.

We see many foundations acting as if they can adopt this fundamentally new role without changing the operations, culture, competencies, and structure of the foundation itself. They fall into a natural trap, adopting the veneer of strategic philanthropy without making the deeper institutional changes needed to support it.

In brief, many foundations fall short of being effective because they seek to change what they do without considering *how* they do it. Form doesn't follow function, and we believe it has consequences for how effective a foundation can become in its strategic endeavors.

Four Challenges Foundations Face in Adopting Strategic Philanthropy

To help foundations improve their approaches to strategy, we convened the Strategy Forum in May 2008, working on behalf of the Evaluation Roundtable.[2] Senior staff from 28 foundations gathered at the Robert Wood Johnson Foundation in Princeton, N.J., for a three-day effort to tackle these tough issues (Appendix).

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

> *Many foundations fall short of being effective because they seek to change what they do without considering how they do it.*

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; staff then 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 a process that needs to be refined based on experience. "For us, strategy is a piece of paper," is how one foundation staff person put it – underscoring how inert the treatment of strategy can be.

Yet many in philanthropy know well the complexity involved in their work. They know there

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[2] The Evaluation Roundtable is a community of practice that has been meeting consistently since 1988. Originally developed as a way for evaluation directors to learn from each other, membership has expanded to include senior management and program and communication staff. Patricia Patrizi directs the Roundtable.

are few certainties regarding many foundation-supported interventions. They know that what is first conceived in a document will need to evolve quickly 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. If anything can and should be anticipated in planning, it is that most of what has been planned will necessarily change.

> *What is missed in the prevailing practice of planning is the critical role a foundation can and should play in developing strategy as it is executed.*

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, hyperrational 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 are made.

What is missed in the prevailing practice of planning is the critical role a foundation can 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 Prussian Field Marshal Helmuth Karl Bernhard Graf von Moltke's perspective on military strategy: "No battle plan ever survives contact with the enemy." Research into the failure of implementation is legion (e.g., Pressman & Wildavsky, 1980). 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." This is not a license for foundations to make funding decisions without a sufficient examination of what has been tried in the past and learning from those experiences. Rather, that alone is insufficient.

What is often missing is real learning about strategy execution. A recent survey we conducted for the Evaluation Roundtable identified post-grant collection and use of award information as the single weakest area of foundation learning.

Strategists must stay alert to execution as strategy encounters the outside world. Too often foundations rely on performance metrics, dashboards, or other tools that are woefully inadequate for learning about strategy and what happens as a strategy moves beyond concept and into implementation. Although these tools can be useful in tracking progress toward achieving a goal, they offer little insight or guidance on why things go wrong, as they inevitably do. These methods provide little, if any, information about what is working or not. Foundations need to become better at learning how their strategies are being executed. They need the information that can inform them about how to adapt their strategies to better meet the changing reality on the ground. They then need the ways, time, and incentives to put this information to good use.

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, reputation, careers, and institutional capital on the table. Consider the five stages for building shared vision described by Bryan Smith of Innovation Associates: telling, selling, testing, consulting, and co-creating (Senge, Kleiner, Roberts, Ross, & Smith, 1994, p. 314).

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 realties of implementation – are lost.

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Further complicating foundation learning is the power imbalance between foundations and their grantees, which inevitably distorts information flow 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 irrelevant monitoring activities rarely succeed in building knowledge (just consider how many grantee reports go unread!). Worse yet, they can lead to more mistrust and stalemated decisions about how to take important corrective action when needed.

A frequent result is weak 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 in the strategic enterprise.

Grantees need to be treated as the central partners that they ultimately are 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 the wheat from chaff in strategic thinking. We doubt if many foundations would dismiss key grantee partners as essential 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 strategic muddle worse than what they already encounter. So too, behind much of this is the desire to avoid conflict. Our experience tells us, however, that the conflict is not avoided; it is simply postponed to the time when serious implementation issues arise.

> *Grantees need to be treated as the central partners that they ultimately are in the strategy process.*

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 and who can productively challenge foundation assumptions. This will take time that some, and likely many, foundations believe they don't have. But we know, from our interviews and work with foundations evaluating strategies, 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 cannot afford to treat these real and inevitably crucial strategic partners as passive entities in the strategy-development process.

Challenge 3: Does Your Organization Support Your Strategy?
This fundamental shift for a foundation – from banker to strategist – rarely has triggered an examination of how it needs to change its orga-

nization – the people, structure, resources, 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 Mintzberg (2007) 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: It requires 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 (Perrow, 1986). In short, bureaucracy dominates. Repeatedly, we have seen the grants process and accounting procedures 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 percent of grants fell outside of their articulated strategies.

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.

Many foundations have not sufficiently shaped the role of program staff to maximize learning about strategy execution. For foundations to be full strategists, this type of learning needs to be more central to the work of program staff than it appears to be at most foundations. In our interviews, foundation leaders readily acknowledged that program staff members 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 than 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.

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Challenge 4: Most Strategies Are Silent on the Foundation's Role

Foundation staff can speak easily about the ways that they add value beyond dollars, including their ability to convene, see the "big picture," share learning, and spread knowledge among grantees. Yet most foundations are relatively silent on the role to play in strategy as it is implemented.

Beyond funding grantees, most strategies focus on what others will do. Little is specified about the role or value the foundation will bring once the strategy is in play. In fact, the strategy role is often discussed as what the foundation will fund. We wonder, then, if this is distinguished from the practices of charitable bankers only by linkages made to a theory of change as a rationale for the grantmaking. This is, of course, important – but a far cry from the more robust role that the "greats" adopt in both the for-profit and nonprofit sectors.

For foundations to go beyond the rhetoric of being more than "bankers," they need to be far clearer about what they do and the capacities they need that can add value to advance strategy. They must, in other words, develop and make explicit their role, skills, and expertise – their strategic competence – in supporting social change, and apply it, learn from it, and improve it. Most

foundations have given little specific attention to building their organizations such that they can effectively advance their aims.

Nonetheless, most foundation executives have views about the roles they should assume; the problem we see is that few have built and aligned their organizations to match their visions. For example, a foundation that seeks to be an "honest broker" in contentious debates and works to bring vested parties together to solve problems needs different capacities than those required by a foundation that aims to improve nonprofit organizational effectiveness.

> *While foundations may give considerable thought to the kinds of substantive knowledge they want to acquire or build in specific fields, such as health care or education, they have been fairly agnostic in considering the skills needed to be active participants in the types of strategy they put forward.*

A foundation that seeks to fill an honest broker role needs staff talented at negotiation and possessing political skills, and with a reputation that holds clout with the vested parties. It needs the capacities or resources that help to establish itself as relatively neutral or at least prompted more by evidence than ideology. Such a strategy might include capacity to produce research, report cards, and efforts to make systems more transparent, etc. Two foundations that we know well are so committed to this role that they have brought some of these functions in-house, thereby allowing them to control the quality and tone of product reports.

A foundation that supports organizational effectiveness, on the other hand, requires deep understanding of the nonprofit sector and the organizations within it, including how to assess and promote leadership, governance, finance, and human resources, among other things that shape nonprofit performance. It also requires a deep understanding of the sector's relationship with government. It knows how to purchase the consultants and technical assistance that they apply, and may adopt a capital financing strategy or invest in the means to deliver performance information within the sector. Most importantly, it has the capacity to select nonprofits that are excellent or have the potential to become excellent at delivering their core services.

In light of these very different strategies and functions, these two foundations should be very different organizations – not just in their capacities, but in terms of their time horizons, the nature of their relationships, and the types and amounts of resources they use. We imagine that these foundations differ, too, in how they structure grants and whether and if they use loans to foster their goals.

But what we have found is that while foundations may give considerable thought to the kinds of substantive knowledge they want to acquire or build in specific fields, such as health care or education, they have been fairly agnostic in considering the skills needed to be active participants in the types of strategy they put forward.

Foundations effective in strategic philanthropy are those that not only articulate these roles about how they add value, but also develop the core competencies to successfully do so. With more clarity about strategic role, a foundation has the possibility, with experience, focused examination, and learning, to be able to hone its strategic skill sets toward excellence, resulting in tangible "value."

Ten Years Later, Do Foundations Add More Value?

Eleven years ago, Porter and Kramer (1999) 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 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."

Foundations have a ways to go in achieving this clarity, if you 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). (Ostrower, 2004, p 3.)

This study named what many already knew – that the field had far to go toward articulating and re-

alizing a vision of what effectiveness might mean, and how to get there, for the individual foundation. Defining effectiveness within a foundation will necessarily depend on the type of foundation and its role in the strategic enterprise. Yet it is possible and necessary, and the job of foundation leaders. Foundations require this clarity from the groups they fund; they should hold themselves to no lower standard.

> *Ultimately, this responsibility comes down to foundation leaders.*

Ultimately, this responsibility comes down to foundation leaders. They cannot merely adopt theories of change, metrics, etc., and expect that effectiveness will follow. They 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.

Foundation leaders deserve credit for seeking more restraint and focus, be it through strategic philanthropy or other means. We hope these same leaders will confront the challenges raised in this paper, including the lofty and unlikely expectations that are set, as well as the communications, structures, and other ways of working that hamper their ability to be effective. This takes discipline and time. It's not an accident that Jim Collins uses the word "discipline" repeatedly in the course of his essay, *Good to Great and the Social Sectors* (2005). It is the key to building great teams, ideas and, ultimately, great foundations.

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Patricia Patrizi, M.S.S., is principal at Patrizi Associates and director of the Evaluation Roundtable at Public/Private Ventures. Correspondence concerning this article should be addressed to Patricia Patrizi, 2000 Market Street, Suite 550, Philadelphia, PA 19103 (email: patti@patriziassociates.com).

Elizabeth Heid Thompson, B.A., works with Patrizi Associates and is associate director of the Evaluation Roundtable. Prior to joining Patrizi, she was executive vice president of Sutton Group, a strategic planning and social marketing consulting firm in Washington, D.C.

APPENDIX

The following foundations participated in the May 2008 Strategy Forum: 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, Foundation 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 Foundation, Robert Wood Johnson Foundation, Rockefeller Foundation, W.K. Kellogg Foundation, Wallace Foundation, and the William Penn Foundation.