12-2017

Inside the Black Box: Investigating Philanthropic Foundation Strategies in a Dynamic Environment

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Introduction

Broadly understood, the term "strategy" refers to an intentional plan of action intended to achieve a defined objective. In a foundation context, strategies are reflected in how foundations apply their resources as well as the ends to which these resources are directed. Philanthropic foundation operations have been referred to as a "black box," implying that what happens inside a foundation to transform resources into a charitable purpose is hidden from view. If a foundation has a public formalized strategy, however, its operations are ostensibly more transparent, and applicant nonprofits can anticipate the foundation's priorities and even successfully appeal to the foundation for its resources.

Whereas not all foundations operate from an intentional and formalized plan, all foundations fall along a strategic spectrum. For example, charitable check-writing encompasses a loose approach of responding to requests made to the foundation, whereas "strategic philanthropy" is known by its formalized and coordinated giving areas and metric-driven evaluations (Katz, 2005; Kramer, 2001; Sandfort, 2008). Practitioners and researchers alike have been curious to make sense of this spectrum and, in doing so, explain the factors and processes that influence how foundations use their resources.[1] This line of inquiry answers Ostrower's call to "categorize foundations" according to their approaches and "underlying philosophies that inform their philanthropy" (2006, p. 510).

Key Points

- Foundations have been described as black boxes — implying that we know very little about what happens between inputs and outputs. We do know that they operate in dynamic environments and must adopt strategies to be effective in the face of change. This article, which examines the strategies of 29 foundations operating in one southeastern state, provides fresh insights into how foundations fulfill their missions.

- The article is based on a research study that used semistructured interviews to explore how foundations approached grantmaking. Interviewees discussed the multiple and simultaneous roles played by grantmakers in addition to their traditional check-writing function.

- While much of how a foundation applies its resources to its mission is still hidden from public view, strategic approaches make this application more transparent and predictable. Further, understanding the motivations and adaptations of these strategies helps explain the collective work of the sector.

This article was inspired by an observation from the director of a statewide grantmakers' association. Scanning her membership's landscape, she remarked that foundations appeared to be "turbocharging" as they sought to maximize their impact and receive a greater return on their investments, given the shock of 2008 financial crisis. Her comments reflected that in as much

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[1] For examples of these factors and processes, see Bolduc, Buteau, Laughlin, Ragin, & Ross, 2007; Graddy & Morgan, 2006; Ostrower, 2006; and Sandfort, 2008.

as foundations affect their environment in terms of funding and community leadership, they are also affected by their environment and operate within porous organizational boundaries. Her comments also implied that foundations may adapt, "modify[ing] and refin[ing] the mechanisms by which they achieve their purposes" (Miles, Snow, Meyer, & Coleman, 1978, p. 547).

In response to these remarks, this research study investigated how foundations navigate their mission amid external pressures. Results of the 29 semistructured interviews with foundations operating in a southeastern U.S. state are presented and discussed in the context of foundation behaviors. Although limited by the small sample and exploratory approach, they update the findings of prior research and provide evidence that foundations are engaging a broad portfolio of strategic tools to achieve charitable impact. Strategic philanthropy, once documented as sporadic or intermittent, was found to have a wider foothold, spurred on by isomorphic pressures as well as a foundation-level desire to maximize impact. Helping explain the approaches and motivations of foundations, these findings allow a peek inside the "black box" and have implications for how we understand the work of individual foundations as well as adaptations shaping the sector.

The Study of Foundation Behaviors

How foundations work, commonly referred to as their behaviors, has been examined at two levels. One perspective examines grantmaking as the repeated cyclical process evidenced according to the decisions foundations make — i.e., their grant awards. Another perspective applies a strategic lens to make a "causal connection" of resources applied toward a predetermined end (Bolduc et al., 2007, p. 2). Both perspectives posit foundation behavior as reflecting complex considerations shaped by internal and external factors, but as Ashley (2007) argued, we have yet to generate a conclusive theory of foundation behavior (Bernholz, 1999; Diaz, 1996).

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This latter approach is interested in intentional foundation behaviors, and although foundation strategies may not always be formalized strategic plans, they have been widely touted by foundation leaders and others as both an indicator and means of foundation effectiveness (Bolduc et al., 2007, Buchanan & Carothers, 2004; Sandfort, 2008). Foundation strategies reflect a theory of change, but are also diverse, "eclectic, and not easily summarized" (Grønbjerg, Martell, & Paarlberg, 2000, p. 28), and even "elusive" (Kramer, 2001, p. 40). Across the nonprofit sector, a strategic orientation helps navigate missions amid a nonprofit's resource environment, and although unevenly applied among philanthropic foundations, evidence of strategic approaches is common (Stone, Bigelow, & Crittenden, 1999). Foundation strategies are devised by internal forces — namely, staff and board members whose knowledge and position exert influence over the foundation's direction, and informed externally by foundation and other nonprofit peers (Bernholz, 1999; Brown & Garg, 1997; Sandfort, 2008).

Research into foundation strategies has examined singular tactics, such as public partnerships (for an example, see Abramson, Soskis, & Toepler, 2012), or looked holistically at a foundation's portfolio of tools to identify patterns and even typologies of approaches.[2] Prager (1999)

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[2] For examples, see Bolduc et al., 2007; Graddy & Morgan, 2006; and Scherer, 2017.

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identified elements of foundation strategies that were assessed to be effective, and the conclusions affirm that effective foundations are both active in serving their mission and defined by diverse roles beyond traditional check writing. Ostrower (2006) expanded these findings to include an advocacy role for foundations as well as to emphasize the role of staff in a foundation's effectiveness. Scherer (2017) applied a lens of organizational identity and posited that research into foundation strategies must also consider the larger operational backdrop of the foundation. Collectively, this research highlights considerations and drivers of organizational strategy, but does not appreciate strategy as reflecting a process of adaptation and innovation.

Foundation Behaviors as Adaptive and Innovative

Foundations face a perfect storm of increased demand for their resources amid finite resources, and must evolve their approaches to play new roles and fill new needs emerging in the contexts they support (Bernholz, 1999). Organizational adaptations have been described as a factor of organizational choices and/or environmental factors, implying that foundations adapt on their own accord and/or due to an external push and pull (Dutton & Dukerich, 1991; Hrebiniak & Joyce, 1985). Internal influence may come through staff or board leadership changes that bring in different perspectives and priorities, or even information collected from patterns of grantmaking and grantee reports. External factors may include evolving community contexts, such as increased need or changing priorities;

strains on resources due to economic factors, such as a recession (Lenkowsky, 2012); or, as Benjamin (2010) described them, isomorphic pressures from philanthropic peers or infrastructure organizations that educate and inform about emerging approaches or trends among foundations. Damanpour (1991) wrote that organizations adapt and innovate when they have excess resources available to equip experimentation; in the case of philanthropic foundations, the luxury of resources enables such experimentation.

Evidence of foundation adaptations and innovations have been noted by practitioners and researchers alike. As more foundations require grantee reporting and gain other means of collecting information about how their resources are used, foundations have taken an evaluative or outcome orientation (Buteau & Buchanan, 2011; Easterling, 2008; Patrizi & McMullan, 1998). In turn, foundations have applied resources to nonprofit capacity building, operating under the logic that improved capacity will contribute to greater outcomes on behalf of their resources (Backer, Bleeg, & Groves, 2006). Foundations have also involved themselves directly in charitable work and public-policy initiatives, perhaps due in part to a desire to be proactive or that staff expenses can be counted as part of their payout calculation (Abramson et al., 2012; McGinnis, n.d.; Lenkowsky, 2012). As foundations move from supporting the work to doing the work, they are ostensibly shifting from a traditional donor-oriented, check-writing role to those that focus more on issues and outcomes (Mendel & Brudney, 2014; Ostrander & Schervish, 1990); Benjamin (2010) expanded the functions of the foundation to include partner, investor, and collaborator. But as Brown and Garg (1997) pointed out, these diverse roles are demanding, requiring "foundation staff who are seasoned in and able to move between the worlds of foundations and communities and who are able to understand the nuances of the organizational dynamics, politics, and cultures of both worlds" (p. 12).

Taken together, this research on foundation behaviors and adaptations is instructive in describing the strategies and tools foundations employ. But with one exception, by Graddy and

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TABLE 1 Select Characteristics of the Sample

Type of Foundation	Affiliations
14 (48%) family or independent foundations	29 (100%) state foundation association
7 (24%) community foundations	9 (31%) state nonprofit association
3 (10%) affiliated with hospital/health system	5 (17%) Council on Foundations
3 (10%) affiliated with another nonprofit or trade organization	8 (28%) other national foundation associations
1 (3%) corporate foundation	9 (28%) Southeastern Council of Foundations
1 (3%) special-purpose foundation	12 (41%) affinity groups
Foundation Assets	**Interviewees**
Average: $139.9 million	14 (48%) executive directors
Median: $53.4 million	4 (14%) C-suite executives
Range: $727,000 to $957 million	7 (24%) program officers
	4 (14%) other staff
	Average time at foundation: 8.4 years
Board of Directors	**Staffing**
Average size: 11 members	Average paid staff: 6
8 (28%) with grants-review committee	Staff with grant-reviewing role, per foundation: 3
16 (55%) accept unsolicited grant proposals	Foundations with no paid staff: 3 (10%)

Morgan (2006) set among a sample of community foundations, little evidence has been accumulated for how foundations arrive at these approaches in terms of their motivations and rationales. Bernholz (1999) argued, "We need considerably more work on 'communities of foundations,' how they work, what they've done, and what they might mean for the future of foundation decision making" (p. 368). This study viewed strategy as evolving rather than static, and sorted among those internal and external factors that may have led to adaptations. Further, the timing and sampling approach was set against the backdrop of the most recent financial crisis, and examines individual and patterns of foundation adaptations.

Method

This research study investigated strategies of foundations operating or making grants in one southeastern U.S. state. The foundations were identified from the membership listing of a state association of grantmakers (n = 105) and randomly ordered to prioritize requests for phone interviews. Sixty of these foundations were contacted via phone and email; ultimately, 29

participated in a phone interview. The interview was semistructured, took between 30 minutes and one hour to complete, and followed an interview protocol that asked about the structure, process, and strategies of the foundation's work. The interviews took place between August and November 2016. As the interviewee spoke, the interviewer typed notes, which were loaded into Nvivo to enable analysis.

The foundations in the sample represent a diversity of philanthropic institutions according to type, asset size, board leadership, staffing, and affiliations. (See Table 1.) The predominant types are family and independent foundations. Assets were $139.9 million on average; the median was $53.4 million. On average, foundations were led by 11 board members, and nearly a third operated with a board subcommittee dedicated to reviewing grant applications. Foundations employed an average of six staff members, but three foundations had no paid staff. Beyond their membership in the state grantmakers' association, foundations reported a diversity of state and national memberships as well as those related to subject matter (i.e., health or education). The

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most common interviewee was the executive director, followed by a staff member in the executive suite, such as a chief operating officer. On average, the staff interviewed had been on board 8.4 years, with tenures ranging from two months to 24 years.

Findings

The interview findings, organized here into four themes, provide evidence that strategic philanthropy is more widespread than previously reported and can often be traced to a catalyst. Further, the findings describe the roles foundations are increasingly playing beyond that of funder and that, rather than deterring a foundation's mission, external economic factors are mission-centering events.

Strategic Philanthropy Has Gained Traction

To understand if the foundations in the sample operated with an overarching strategy in mind, they were asked first what they were trying to achieve and how they applied their resources — financial and nonfinancial — toward these ends. They were next asked if, taken together, these means and ends constituted a foundation strategy. With only a few exceptions, interviewees explicitly or implicitly described their approach as strategic, implying that it was intentionally targeted. One of these exceptions candidly replied, "If you give me a truth serum, it's not as scientific as I really [would] like." Yet the interviewees' remarks more commonly reflected an intentional, focused approach to their mission: "We have a screen we put ideas through — ideas of why we would or wouldn't do something, [since] we get asked to do a lot of things," one

interviewee said. Others who engaged a more strategic approach described drawing upon the foundation's assets — financial resources, staffing capacity, insights drawn from data and research, or even its leadership position. As one interviewee commented, "We have a little bit of money we can give away, but we are in this fabulous position of leadership." Said another: "We are trying to leverage 100 percent of the foundation's resources — the corpus, grantmaking, staff-member time, relationships of staff and family; leverage all of those assets to amplify our positive impact worldwide." As expected, professionalized, staffed foundations were more likely than unstaffed or family foundations to employ strategic philanthropic approaches.

A defining feature of foundation strategies was a relationship orientation. Foundations reported an interest in fostering what one respondent termed "collaborative, partnering-type relationships" that often run counter to the top-down grantor-grantee relationship. One even asserted that relationships, while requiring careful judgment in order to protect a foundation's reputation, are "more important than the money." Foundations sought input from stakeholders in defining their strategies, an approach referred to by one interviewee as a "validation process" that affirmed to the board that the foundation was on the right track. Another interviewee reported that a relationship-centered strategy helped draw in the "right people in the room — not just the wealth in the room, but the talent" critical to informing the foundation's focus.

Relationships have also been an imperative, motivated by the limits of a foundation's resources in the face of its mission's great need. One staffer reported tallying the costs for programming the foundation wanted to invest in, revealing that foundation resources fell far short of need and pointing to the wisdom of a collective-impact approach. Another foundation simply recognized the convergence among application requests, which prompted it to encourage collaborative approaches among grantees.

Evidence of these strategic orientations was also apparent in grantmaking. While several

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foundations are still taking a traditional grant-application approach, others are more proactive in identifying nonprofits that fit their strategic priorities while maintaining flexibility to respond to nonprofit and community needs. As one interviewee said, "The largest number of our dollars are through competitive grants process, but that has been starting to shift to community conversations, to things that keep bubbling up in our community." Interviewees also remarked on a shift toward fully funding fewer applications and away from partial funding of a larger number of grantees: "We are trying to do less small things and a few more ambitious big things," one interviewee said. But another remarked that pulling resources from some causes in order to focus on others can be difficult: "You know how much your resources are needed, but in order to have an impact you have to focus a bit more."

For some family foundations, strategic focusing meant limiting the discretionary resources available to board members for supporting their "passions." "We have to have lots of conversations about our risk tolerance — picking projects that are innovative and have a systemic change," an interviewee said. "It frankly makes it harder work, as it's easier to find what we call 'nice programs'; but we are looking for projects that change outcomes for thousands and thousands." Thus, even in this traditional role of grantmaking, significant application of other resources, namely staff time and expertise, is required for foundations to fulfill their strategic objectives.

Strategic Approaches Have a Catalyst

While strategies were described as evolving, they often could be traced back to a specific catalyst. For some, the approach was readily traceable to a donor's intent — a rudder even in the face of new interpretations by staff and board members. Others explicitly point to the influence of board or staff leadership — for example, when a shift to a new generation of board leadership brings a new interpretation of the donor's intent. Boards hold the 'power of suggestion' that can focus a strategic orientation and are also motivated to focus a foundation's strategy so that the foundation's impact can be more easily assessed. As one interviewee candidly remarked, "Boards can't

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tell if they are making a difference. … We have to define something or we are going to lose our mind." Other interviewees reported that board members made suggestions based on a news report or conference presentation that "inspired and compelled" a board chair.

Interviewees pointed to staff who brought their own frames of reference from prior work both within and outside the foundation sector, and said such fresh approaches helped spur new ways of doing things. Staff supporting family-led boards appeared to be particularly instrumental in helping guide family attention and cultivating opportunities to educate family members about community issues and needs. Consultants were also cited as helpful in listening to board and staff intentions and eliciting ideas that ultimately helped formulate strategies.

Other catalysts were external, and included peer foundations, stakeholders, and data derived from research. One interviewee remarked,

> The external environment spurred on our strategic plan — any nonprofit, if you are trying to remain relevant, has to ask big questions, so that was the driver. There are internal matters that [also] spur

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us on to revisit our grantmaking: what is our current approach, what is the added value, how does that fit with how we know the state is changing.

Interviewees described looking to the examples of other foundations, particularly those whose approach "has been developed and formed over time" and even those that "have tried and failed and tried new things." Stakeholders proved influential when they were intentionally engaged as part of a listening effort by foundations; one foundation learned that stakeholders wanted it "to step up more" — to go beyond writing checks and into a leadership role. Data — from both primary sources collected by the foundation and from secondary sources, such as a community health assessment — proved informative to the foundation's approach. One foundation has identified a research partner at a local university; another has leveraged internal staff capacity to manipulate data for decision making. Yet, as one interviewee cautioned, data should be used judicially so as to avoid "paralysis by analysis." Finally, while some foundations could point to a single catalyst that led to the embrace of a strategic approach, at least one described a convergence of intentions: a reluctance to duplicate existing initiatives, a desire to leverage the impact orientation of the entrepreneurial family, and an opportunity to engage local leadership in informing the foundation's approach.

Foundations appeared to gain confidence from prior strategic successes, which sometimes prompted them to accelerate their efforts. Interviewees described boards as strategically oriented, making decisions based on impact, even "emboldened" by past investments to take

on future ones. As one interviewee recalled of an initial impact-oriented strategic approach: "We dipped our toe into it. … It's just evolved from there." Interviewees also spoke of the value of the strategic-planning process as "the process itself," which prompted a spirit of "openness." A few foundations that reported only working toward a strategic plan related benefits from the tension of "questioning and understanding before we can get to narrowing" strategic objectives. Interviewees also said the format of their strategic plan mattered — from something as simple as four objectives with four related activities listed on a single sheet of paper to a detailed report complete with logic models. A strategic plan equipped the staff and board to be more "deliberate and intentional" in using it as an everyday point of reference.

Staff Capacity and Open Boundaries Spur on Strategic Roles

Interviewees were asked about the roles their foundation plays in the community it serves. Foundation representatives described a broad range of roles beyond grantmaking: "advocate," "broker," "catalyst," "colleague," "convener," "idea generator," "intermediary," "navigator," "resource," "thought leader," "trusted partner." A characteristic of foundations engaged in these diverse roles was the presence of paid staff. One interviewee said she chooses her role and how to allocate her time based on how she can be the "best representative" for her foundation. Interviewees also described how professional staff can act as gatekeepers, providing preliminary screening of grant applications and recommending a slate of finalists to the board, and can help focus and frame strategic conversations. Staff taking on these diverse roles were empowered by organizational leadership to allocate their time and share their expertise with broad audiences and in a range of venues. Often these roles were derived from the way in which the foundation related to its stakeholders and community partners — crossing sector boundaries and including nonprofit, public, and for-profit entities.

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leveraged new opportunities. As one foundation executive remarked,

> When a foundation calls, people tend to behave better. ... You have to use that power carefully ... [because] when you focus on an issue, when you try to be a leader on that issue, people tend to pay attention. ...[W]hile the staff have expertise in the area we are working in, we don't have all the answers; we don't want to be the type of organization that comes down from high.

Another executive said, "If a foundation or a funder calls a meeting, people will come. They think there may be some money in it for them. We have this ability to create a captive audience because we have money."

Strategic roles were often undertaken as a means of delivering impact for the foundation, since relationships had opened it up to new opportunities. Community foundations, under the leadership of paid staff, appeared to be stepping up to a convener role as well as seeking unrestricted funds to strategically and flexibly meet needs beyond what their donor-directed and restricted funds allow. One interviewee blended the roles of convener and disseminator in sharing what the foundation and its partners learn from their work, as a way to multiply the foundation's investment and influence. Foundations also sought relationships among their peers at the local and national levels in order to learn and work collaboratively. Another interviewee marveled that a partnership with the public school system had afforded the foundation a new "access point"; another said complex, cross-sector issues required the foundation to act as a convener, creating "coherence in a fragmented space." Other foundations took on advocacy roles to give voice to underrepresented issues and causes.

Strategies Are Amended, not Deterred by Economic Factors

One premise of this research study is that foundation strategies may be affected by economic downturns — the financial crisis that began in 2008 being a case in point. When asked about the influence of the Great Recession on their work, foundation interviewees reported

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that they maintained or even expanded their grantmaking. Interviewees described undertaking new efforts to meet urgent and emerging community needs as investment continued in long-standing priorities. Several described relief at not having multiyear grant commitments so they could be more readily responsive to emerging needs; at least one foundation that did have such commitments issued funding in advance to free up future resources. Several foundations described special funding initiatives intended to help stabilize nonprofits, allowing them to meet growing community needs. Payout requirements guided foundation spending policies; since payout is calculated on prior earnings, grantmaking resources were not affected until the year following the initial downturn. Conscious of public image, interviewees from a few foundations reported trimming of staff and other internal costs — even refraining from hosting a public event — which helped free up resources for other purposes.

Discussion and Conclusions

The findings from these interviews confirm and extend what we know about philanthropic foundation strategies. Interviewees confirmed the selective nature of strategic grantmaking (Katz, 2004) and the influence of boards in defining foundation strategies (Buchanan & Carothers, 2004). As Ostrander and Schervish (1990) observed, foundations appear cognizant of the power dynamic they represent as donors among resource-constrained, nonprofit stakeholders. Foundation interviewees echoed Benjamin (2010) on the influence of their affiliations on their operations and strategic directions, and reaffirmed Moody's (2008) assessment that new forms of philanthropy require champions. The interviews offered insights into how the capacity and expertise of paid staff influence the strategic approaches and roles taken by foundations; and, given that staff expenses can be counted as part of a foundation's payout requirement, these resource allocations do appear to be mission-serving (Stewart & Faulk, 2014). Interviewees reported pro-cyclical responses to economic downturns such as the recent recession, guided by their payout requirements and the needs of their communities — which supports other findings (Dietz, McKeever, Steele, & Steurele, 2015; Lawrence, 2009; Lenkowsky, 2012; Urriolagoitia & Vernis, 2012).

Whereas Grønbjerg et al. (2000) found funding objectives "vaguely articulated" and that foundations had a "reluctance to evaluate grant performances" (p. 36), the foundations in this sample commonly reported employing defined strategies with metrics. Although the sample size does not allow for strong conclusions about strategic patterns according to a foundation's profiles, it is interesting to note that formalized strategies were employed by both large and small foundations, implying that such an orientation is not limited by staffing or asset size.

While Easterling (2008) described foundations as reliant upon their nonprofit partners for metrics and performance information, the strategic orientation of the foundations in this study was often accompanied by a capacity to generate their own metrics and sources of information.

Thus the traditional principal-agent relationship described by Benjamin (2010) and Fairfield and Wing (2008) may be rewritten to some degree, as information asymmetries are minimized in light of foundation capacity. And in an update of what Grønbjerg et al. (2000) found in the mid-1990s among a sample of Chicago-based foundations, interviewees in this study were quite cognizant of their peers' operations, even using them as reference points for their own work. This finding implies that isomorphic pressures exist among foundation cohorts, perhaps as a consequence of membership in or affiliation with state, regional, and/or national associations. The interviewees' descriptions of their diverse roles indicate that how we conceive of the foundation's mission may need to be broadened to incorporate community contributions and investments beyond the basic role of funder (e.g., see Kramer, 2001).

Some of what this means for practice are implicit in the findings of this research, but there are some explicit implications as well. Strategic philanthropy, guided by objectives and outcomes, is becoming the modus operandi for the foundation sector. And the sector has resources aplenty — affiliate organizations, consultants, the example of peers — to inform foundations seeking a more strategic approach to their work, as well as catalysts — affiliations, professional staff, even the fresh perspective of new or younger board members.

Foundations also should be mindful about how to balance new and strategic roles, such as leadership and convening, with the traditional role of grantmaking given the resource needs of nonprofits. Strategic philanthropy has equipped foundations with the capacity to be both informed and selective, and nonprofits must be more proactive in fostering relationships with their foundation partners and aligning themselves with their partners' strategic directions. At the same time, foundations reported wanting to be capable partners with the nonprofits in their communities; accordingly, nonprofits should not neglect foundations when collaborating with local stakeholders.

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The study is limited by its sampling approach: Foundations were selected based on their membership in a single state association and not from the broader population of philanthropic foundations. In addition, the foundations participating in these interviews were smaller than the average association member, and corporate foundations were underrepresented in the interview sample.[3] Future research should elaborate on the findings of this study by engaging a larger sample to identify patterns of strategy emerging from across the sector.

This study investigated the strategic approaches of philanthropic foundations — it peeked into the black box of their operations. While much of how a foundation applies its resources to its mission is still hidden from public view, strategic approaches make this application more transparent and predictable. Further, understanding the motivations and adaptations of these strategies helps explain the collective work of the foundation sector as well as inform nonprofits about how they might most effectively appeal for foundation resources.

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[3] The interview sample had $139.9 million in assets on average, compared with $689.7 million on average for the association membership. If an outlier in the state association was excluded, the difference is $139.9 million for the interviewees compared with $179.3 million for the state association. The median assets of the interviewed foundations were $53.4 million, compared with $32.5 million for the state association membership.

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