



America's Foundations: The Troubling Gap Between Their Promise and Performance

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To be among those selected to speak on any occasion or platform associated with the name of Wally Nielsen is a privilege. Wally is a man of towering curiosity, possessed of an unquenchable thirst for knowledge and an insatiable desire to learn.

I am proud to have met him in 1974 and soon after to have worked at his side contributing to a breakthrough report for the Filer Commission, named after its Chairman John Filer, then Chairman of Aetna Life Insurance Company. The product of the Commission's effort is a document entitled Giving in America: Toward a Stronger Voluntary Sector. And, it's fair to state that, published in 1975, this Report of the Commission on Private Philanthropy and Public Wealth was the first to reckon with institutions and nonprofits as a third and distinctive sector of American life. To collaborate with Wally on a piece of writing is to understand the meaning of high standards, of clarity in written communication and, most importantly, of how much he detested cant. We have remained in touch ever since. I count myself among his most admiring students on many subjects, not least foundation philanthropy, the field that draws us together this afternoon.

I know of no one who has written as intelligently, as provocatively, or as engagingly, about the precious pools of private capital we call foundation assets. Perhaps Wally's passion for the subject is rooted in his profound respect for their capacity to do good.

"These strange and wonderful social inventions have a unique freedom from the dependency of other institutions on markets or constituencies that cripple their capacity to take the long view and to bring a competent and disinterested approach to the search for solutions to complex problems... that the United States is so well endowed with a such an array of institutions to analyze its difficulties, devise and test new solutions and help adapt social, political and economic apparatus to the requirements of changing circumstances should be deeply reassuring."

It is a special strength of Wally's contribution to the analysis of foundation philanthropy that as admiring as he is of its performance potential, he carries a lifelong awareness that the gap between its potential and its performance is gnawingly large.

What in other realms of our society would be taken as light and constructive criticism from Mr. Nielsen, is in the cloistered world of foundation officials who are quite unaccustomed to rigorous outside scrutiny often judged to be excoriating commentary. And, rather than pause to examine the merits of well-reasoned, empathic critiques, they simply blame and ban the messenger. So, writing from his Elba in Spain or Aspen or Madison Avenue and 91st Street, Wally traversed where others have feared to tread. He journeyed across the self-satisfaction, the self-imposed isolation and the intellectual pretension that passes for much of foundation philanthropy, particularly among some of the largest of the lot.

In deference to Wally's enormous contribution to our understanding of how large foundations work, I've chosen to organize my remarks today around the four conclusions he draws in judging which of their operations can state a claim to excellence. He concludes his book length epilogue for The Big Foundations, published in 1972, by citing the overall lessons he's learned as a student of large foundation performance in a terrific book published thirteen years later, in 1985, The Golden Donors: A New Anatomy of the Great Foundations.

I'll quote from Wally's dicta, then comment on how large foundations seem to fare in the face of them.

First, they should concentrate their efforts on matters of a scope and significance proportionate to their resources and their special capabilities as foundations.

Here, there is a distinctly mixed record.

Some large foundations still stand justly accused of giving too many modest grants to too many institutions for too brief a period of time to

address a large-scale problem hardly susceptible to a cheap or quick fix. The result? Dissipating resources that if focused for years, if not decades, might really make a difference. Indeed, the modern critique has it that large foundations proceed in exactly the opposite way of successful venture capitalists. They invest too skimpily in nonprofit programs rather than institutions. They do not monitor results closely enough or even insist on setting forth clear, measurable objectives for achievement. They fail to support their grantees in sustainable, long-term ways so that too frequently innovative programs don't live up to their initial promise.

By focusing unduly on program innovations at the expense of organization building, by failing to have the grantee set forth performance measures, by remaining at arm's length from nonprofits who are supported and by under-capitalizing those they support, large foundations achieve limited impact. They are funders, not partners of their grantees. They provide restricted grants rather than general operating support. Like fair weather friends, they leave the scene too early, attracted to another fad or fancy, rather than staying the course.

So says my colleague Allen Grossman at the Harvard Business School and his associate Christine W. Letts at the John F. Kennedy School of Government at Harvard.

Now, we can all cite examples of opposite tendencies. Cases where nonprofits receive too much money from a foundation, more than they can properly absorb or spend, or so much that others decide to stay on the sidelines rather than become junior partner investors. Or cases where support is directed to the same institutions year-in, year-out, decade-in, decade-out, seemingly irrespective of merit, erecting high barriers to entry for new institutions into the charmed circle of the extravagantly favored.

Having examined with care the last four decades of corporate foundation data, here's how I come out on the question.

Foundations that adhere to a grantee policy of "once on, never off" are relatively rare. Conversely, except for those in a dramatically altered situational setting, very few foundations toss history overboard and proceed with a tabula rasa. Such polar opposite tendencies are extreme and extremely rare. Fortunately, the nation's foundations are diverse enough in their purposes, varied enough in their practices, and rooted enough in their interests, missions and locales to resist fads and to adapt to change.

All foundations and corporations must do their philanthropic math and explore the implications of the issue at hand by asking: Are we giving our funds excessively to the same old crowd of grantees? Are we adequately sympathetic to fresh appeals from strangers? Do we stay the philanthropic course long enough to make an impact on a field of concern, but not so long as to encounter diminishing returns? Are the challenges that initially gave rise to a given program priority still at work? If so, stick to the knitting. If not, doesn't change beckon?¹

Here are some answers. Ted Turner, the United Nations population and environmental programs. Walter Annenberg and Ted Forstmann, elementary and secondary education reform. Gordon Moore, land and natural resource conservation. George Soros and open, democratic societies, worldwide. Bill Gates and the elimination of cholera, tuberculosis and AIDS in the Third World. Alberto Villar and nurturing the art of opera.

The question? Are there new philanthropists willing to use their considerable resources and capabilities to grapple with challenges of scope and significance? Surely, the citation of such names and their emergence in the last decade and a half answers that query with a resounding yes.

Another illustration of high aspiration, high impact philanthropy has been the concerted effort of a set of conservative foundations to

finance authors, think tanks and social action movements that could change the course of American public policy. Tax-reduction. Welfare reform. Term limitation. Private school vouchers. Devolution. Privatization. Outsourcing. Abolition of affirmative action. These movements and renewed or new organizations like the Heritage Foundation, the Hudson Institute, the American Enterprise Institute, the Hoover Institute and the Manhattan Institute testify to the successful influence of such foundation donors as the Scaife Foundation, the Joyce Foundation, the William E. Simon Foundation, the Bradley Foundation and the Richard King Mellon Foundation.

Clearly, they have concentrated their efforts on matters of scope and significance. In so doing, and with surprisingly small sums of money relative to the impact, they have transformed the landscape of American policies and political culture.

Moving to Wally's next criteria for foundation excellence, it reads:

Second, large foundations should maintain staffs of a competence comparable to the best institutions in other fields and should possess the intellectual vigor to take initiatives in their grant making rather than being surely reactive.

Oliver Wendall Holmes once observed that, "In the life of the law, an ounce of experience is worth a pound of logic."

Let me try your experience on for size.

When you think of the professionals that matter, the movers and shakers, the driving forces in a given field like health, higher education, K-12 education, national security policy, trade, social services, race relations... do foundation Presidents or senior executives come to mind?

When I ask that question of the people I respect in these fields, the answer is almost always no.

Now, maybe, foundation figures of prominence wield their influence and exercise their intellectual muscles behind closed doors.

But one searches often in vain to find out what foundation executives think about a matter central to the field in which they work. The exceptions, like George Soros or Bill Bowen or Vartan Gregorian, prove the rule.

Before his death, Gerald Freund wrote a fascinating book called Narcissism and Philanthropy. In it, he argued that foundation executives run the risk of becoming managers and bureaucrats, part of an infrastructure consisting of the Council on Foundations, the Independent Sector, Regional Associations of Grantmakers, the Corporate Contributions Council, affiliation groups and the like. In these fora, foundation professionals talk not to the grantees or to practitioners in need of support, but to each other and not about ideas but about technique.

It is no wonder, he lamented, that the foundation executive as public intellectual, as talent scout, as gadfly, as alternative source of ideas had given way to a certain anonymity, a risk-averse sameness that Freund found worrisome.

Count me in his corner of the concerned.

As to Wally's suggestion that large foundations need to be proactive and to take initiatives in their grant making, his notion has proven to be a mixed blessing.

While there are cases where foundation executives have gotten together to create new institutions and to initiate new projects that have been successful, the non-profit landscape is also littered with organizations begun by well-intentioned foundation professionals that have proven very ineffective. It is extremely difficult from the distance of a

foundation office to connect closely to the kinds of problems and challenges that professionals in highly specialized fields deal with everyday. Moreover, many foundation executives have had little experience in managing or leading operating organizations. They are unaware of such important matters as the need for diversified income sources, the best way in which to select a CEO and some of the basic norms of sound institutional governance. What one learns about are the success stories. The Ford Foundation's creation of the National Arts Stabilization Fund and the Local Initiatives Support Corporation are two examples of creative undertakings that Ford can properly claim credit for having catalyzed and supported. As a result, hundreds of arts organizations around the country are better managed and in a better financial position and millions of square feet of residential and commercial space for welfare recipients and those of low income have been created through the instrument of Community Development Corporations. Examples like these, alas, are far outnumbered by foundation executives who are more infatuated with their own views of what's right and what is to be done, than they are engaged in listening carefully, intently and creatively to the best and brightest in the fields of concern to them, professionals far more familiar with pertinent problems and challenges.

So, while Wally's expectation that large foundations should take on projects of their own is not unreasonable, the functional equivalent of the physician's Hippocratic oath to "first, do no harm" should be an admonition fixed to the door of every foundation President.

Humility, deference to the CEOs and experts of existing nonprofits and careful, thoughtful inquiries into what those on the firing line are thinking, should be qualities found in abundance at the country's leading foundations. Too many of my colleagues, in too many fields, complain bitterly that such a receptivity does not characterize the leaders of many large foundations.

The third imperative of Wally's prescription for large foundations is that they **"should be open, interactive and collaborative with all kinds of other private institutions relevant to their purposes."**

Here the track record is extraordinarily poor, in my judgement.

John Gardner, dearly departed, one of this nation's most important human assets, reminds us in his books and speeches that large-scale societal problems cannot be dealt with by any one sector acting alone. But the distance between the nation's large foundations and such key institutional forces as labor unions, corporations, small businesses and special interest groups of all kinds is simply enormous.

In my dozen years of experience at AT&T, I can count on the fingers of one hand the number of occasions on which a large foundation expressed any interest whatsoever in the views of AT&T, or its executives, even on matters central to our mission and to our strategic competencies like the nation's communication policy, or research and development in new high technology applications, or improvements in worker productivity, or the relationship between telecommuting and balancing work and family life. On the few occasions where private foundations expressed interest in AT&T, the motivation was obvious and self-defeating, to wit, "We've got a terrific idea. With our idea and your money we can work wonders together."

There are few challenges in American life that are cluttered with more platitudes, more odes to the importance of cooperation across sectors and less acted upon than sustained cooperative activity between some of the nation's leading corporations and its private foundations.

Whether the causes are attributable to how few leading foundation executives have had any experience in the for-profit sector, or how wary nonprofit institutional leaders are of their foundation colleagues, or of the preoccupation with cultivating one's own garden and burnishing one's own brand name, the net result is the same. Deep-seated, complex and extremely difficult to manage challenges like breakthrough improvements in K-12 education, or significant advances in inter-group cooperation, or order of magnitude expansion in America's relationship to the rest of the world (as evidenced by increases in foreign assistance and openness to trade initiatives) simply don't happen.

To be sure, there have been exceptions. But for the most part, cooperation across the foundation/corporate divide has been very rare and success stories few and far between.

The last of Wally's guiding principles read:

Fourth, and of crucial importance, a major foundation must keep itself well informed about governmental polices and programs in its fields of interest, must make its grant in full awareness of their relationship to the activities of government and must have a conscious and carefully formulated posture toward the role and policies of government in the areas of its work.

Here, too, Wally's advice has been honored in the breach. Relatively few senior foundation executives come to their posts with significant government experience at the federal, state or local level. In many cities, the relationship between foundations and government is distant and could hardly be characterized as one meaningful partnership and continuing collaboration. If such is the case at the municipal level, the situation is generally too true to be good at the state and federal levels.

Wally's desire to see greater integration of the efforts of foundations with corporations and with governments remain largely an untapped opportunity for all three sectors.

What's required to bridge these gaps between foundation promise and performance is energetic leadership that overcomes the self erected boundaries afflicting complex societies and the challenges they generate.

Might the answers to these questions help reveal the causes of the gaps and uncover the means to bridge them?

Would nonprofit leadership feel freer and less constricted if foundation Presidents and the heads of hospitals and universities refrained from serving on the Boards of for-profit corporations?

Could foundation Presidents play a larger societal role if they did not preside over out-sized assets and gargantuan annual grant budgets with their attendant huge staff and accompanying bureaucracy? Have America's largest foundations simply grown too large to be effective?

Should the Boards of Directors of large foundations encourage their CEOs to step out of their institutional costume and step far more often into the real world of clashing ideas, conflicting personalities, active citizen groups and committed, strong interest groups?

For the most part, foundations still operate behind closed doors, in dark corridors where the precept of Justice Brandeis that sunlight is the best disinfectant is hardly known. The powerful impact of journalistic inquiry and public debate, critical features of American democracy, are largely missing in this field. And, on the rare occasions when someone has the temerity to utter a reservation about a foundation's policies or practices, such even constructive criticism seems to easily penetrate the genetically endowed thin skin of those who earn a living by giving away money.

Perhaps I've identified a few of the reasons why the large foundation, almost uniquely suited to be a catalyst for change, to be a constructive, healing social force, to be a boundary crosser, so often remains disappointing in its performance.

While I may differ with Wally in some detail, the thrust of his criticism and the center of gravity of his hypothesis remains as vital as ever.

All who care about the American foundation as a force for good are indebted to Wally Nielsen for his trenchant analysis and his shrewd recommendations. They have withstood the test of time.

Thank you very much.

¹ Quote from Reynold Levy's Give and Take: A Candid Account of Corporate Philanthropy. New York: Harvard Business School Press, 1999.