



FOUNDATION EFFECTIVENESS



*A Report on a Meeting of Foundation
CEOs, Senior Executives, and Trustees*

October 9–10, 2003
New York



THE CENTER FOR
EFFECTIVE PHILANTHROPY



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Dear Colleagues,

More than 100 foundation trustees, CEOs, and senior executives from across the country gathered in New York on October 9 and 10 to explore the challenges of achieving greater effectiveness. Participants heard from noted foundation leaders and talked with each other about key elements of foundation effectiveness, including strategy choices, performance assessment, funder-grantee relationships, and governance.

The gathering was hosted by the Center for Effective Philanthropy, a nonprofit research organization founded by Mark Kramer and Michael Porter in 2000. The Center's work primarily relates to the development of comparative data, insight, and management tools to enable higher-performing foundations. Much of our learning, however, comes from understanding and highlighting practices in the field – and, in the process, helping foundation leaders learn from each other.

Those in attendance were motivated by a desire for their foundations to achieve the maximum positive social impact. But the discussions occurred in a larger context of increasing skepticism of foundations from the public, media, and lawmakers. As Ricardo Millett, President of the Woods Fund of Chicago and a member of the Center for Effective Philanthropy's Board, stated in welcoming remarks to seminar participants, "Issues of effectiveness have taken on an intensified resonance as the spotlight on foundations has grown much brighter."

In his keynote speech, Michael Bailin of the Edna McConnell Clark Foundation set the stage for many of the seminar's themes as he described the choice of his foundation's board to narrowly focus its resources for greater impact and the step-by-step process used to implement this new strategy. The Foundation looked hard at not only whom they supported, but how best to support them – a theme pursued in greater depth in a panel discussion of funders and grantees by Vanessa Kirsch of New Profit Inc., Rob Waldron of Jumpstart, Gene Cochrane of The Duke Endowment, and Jim Fisher of the Medical University of South Carolina.

The Center's Kevin Bolduc and I next addressed the foundation-grantee relationship in our presentation of findings from a recently completed survey of 3,200 grantees of 30 foundations on their perceptions of foundation effectiveness. We identified the field-wide implications of our data, highlighting the key attributes of foundations that grantees view most positively. But the specifics of grantee perceptions differ for each foundation. In a panel discussion of the value of obtaining the Center's comparative Grantee Perception Reports, Doug Kridler of The Columbus Foundation and Diana Gurieva of the Dyson Foundation described changes they were considering as a result of a better understanding of their grantees' views.

Performance assessment was further discussed by foundation trustees and CEOs in two panels. Foundation trustees John Mutz of the Lumina Foundation for Education and Kay Hanson

"Issues of effectiveness have taken on an intensified resonance as the spotlight on foundations has grown much brighter."

of the Nellie Mae Education Foundation provided insights into the process by which their boards assess foundation performance. Speaking from the CEO perspective, Alexa Culwell of the Charles and Helen Schwab Foundation and Sharon King of the F.B. Heron Foundation described their foundations' approach to the difficult issue of overall performance assessment.

In a stirring counterpoint to all the talk of measurement and effectiveness, Ed Skloot of the Surdna Foundation called upon foundation executives to remember that human relationships are at the core of their work. Funders and grantees, he reminded us, are two sides of the same hand and he urged foundations to recognize the crucial importance of building trust across the divide that often separates foundations and nonprofits. Finally, Mark Kramer, the Center's board chair and co-founder, wove together the themes of the seminar in closing remarks, inviting participants to share lessons learned.

I would like to thank the Center's Board of Directors, Advisory Board, and staff for their hard work on behalf of the Center. Thanks also to our funders (listed on the final page of this publication) – including one anonymous donor who supported the seminar, seven foundations that support the Center's ongoing research and operations, and more than 20 foundations that have supported our grantee survey work by commissioning a Grantee Perception Report.

We hope this report on the Center's Foundation Effectiveness seminar proves useful to you in your work. We look forward to a continuing discussion of these issues.

Yours sincerely,



Phil Buchanan
Executive Director
The Center for Effective Philanthropy
philb@effectivephilanthropy.org
www.effectivephilanthropy.org



“Much of our learning comes from understanding and highlighting practices in the field.”

PHIL BUCHANAN, EXECUTIVE DIRECTOR,
THE CENTER FOR EFFECTIVE PHILANTHROPY

FOCUSING FOR IMPACT: ONE FOUNDATION'S TRANSFORMATION



“Recognizing the things one won’t do... has even more influence on a foundation’s ability to achieve focus than the choice of what one will do.”

MICHAEL BAILIN, PRESIDENT, THE EDNA MCCONNELL CLARK FOUNDATION

When a foundation chooses to become more effective and more accountable, the transformation process will likely touch upon virtually every aspect of the organization’s culture and way of doing business. In his keynote address, Michael Bailin, President of the Edna McConnell Clark Foundation, drew on his foundation’s experiences as he described the challenges foundations face on the path to greater effectiveness and accountability. “Developing a focused strategy entails making very hard choices,” said Bailin. These choices happen on many levels, including the four themes of the seminar: strategy selection, funder-grantee relationships, performance assessment, and foundation governance.

Complicating matters, said Bailin, is the fact that only a handful of foundations have embarked upon systematic improvements in accountability and effectiveness. Hence the well of shared experience and lessons learned is very shallow, and signs of success remain tentative. Moreover, “individual institutions concerned about effectiveness and accountability have been feeling their way forward more or less in isolation from one another,” and outcomes, from a sector-wide perspective, seem fragmented and unorganized. “Understandably,” Bailin added,

“each separate institution has focused on areas that suit its particular analysis of the social policy environment, its experiences and history, its organizational culture, and the personal interest of its leaders.”

Despite these cautions, Bailin provided seminar participants with a wealth of practical guidance about focusing a foundation’s strategy and actions for greater effectiveness and accountability. He described how the Edna McConnell Clark Foundation reshaped its strategy, redesigned its grantmaking operations, and implemented an evaluation process over the past several years. Bailin noted that when he was hired by the foundation in 1996, his job was to bring its grantmaking approach into “a better fit with the realities of social and fiscal policy” – a challenge familiar to many foundation executives. Under the then existing model, “foundations designed and tested programs that, if successful, would be picked up by the public sector for wider implementation.” As federal spending on social welfare has subsided, Bailin argued, this approach has grown less and less realistic.

The Edna McConnell Clark Foundation traditionally supported large-scale public systems reforms in

four areas: child welfare, middle-school education, criminal justice, and neighborhood development. The foundation's trustees were increasingly doubtful

“A focused strategy raises the odds of higher-quality implementation of whatever you are doing.”

that the foundation's resources could effect meaningful and lasting change at the systems level in any of these areas. They also feared that their funding dollars were being too thinly spread over too many areas. To address these concerns, Bailin guided the foundation's new grantmaking strategy toward three objectives:

- 1) concentrating and focusing funding resources;
- 2) ensuring the foundation's new approach would be evaluated rigorously and adjusted when needed; and
- 3) building the strength and sustainability of high-performing nonprofit organizations.

Narrowing the focus of its funding presented the biggest challenge to the foundation. Doing so meant shifting from the foundation's long-standing work in several separate program areas to just one: youth development. But, says Bailin, “starting a new program meant ending the old ones” – programs that, for the most part, were “worthwhile, even inspiring.” To maintain its credibility and retain the trust of the grantee community – especially new ones the foundation hoped to work with – it had to complete its commitments to existing grantees, and where possible and results merited it, continue the best of the old programs in some other venue. “For a time,” said Bailin, “we were operating what amounted to two foundations, managing down or finding new funding sources for our old programs,

SIX CHOICES: ONE FOUNDATION'S PATH TO GREATER STRATEGIC FOCUS

For the Edna McConnell Clark Foundation, greater strategic focus results from making a series of interlocking choices. While the choices the Edna McConnell Clark Foundation made were unique to its specific goals, resources, and mission, the underlying process has relevance for any foundation seeking to revamp its focus and improve effectiveness.

1. First was the decision to focus on just one program area – youth development. The foundation chose youth development because it is such an underfunded field, yet one that offers opportunity among the handful of promising organizations identified by the foundation.
2. Next, the foundation decided to support individual not-for-profit institutions, rather than trying to develop the field of youth development as a whole, on the theory that the successful growth of individually effective institutions – “stepping stones” – may ultimately help lead to a stronger field infrastructure.
3. The foundation further refined its focus to include only organizations that serve youth directly, rather than fund intermediaries. Because the field is young, it lacks the sort of knowledge and expertise that intermediaries can disseminate, and the most

measurable results are likely to come from organizations working directly with youth in need.

4. The foundation decided to invest in building the organizational capacities of grantees rather than aiming narrowly at supporting their programs. That, in turn, led to the decision to invest in organizations already performing above the norm. The foundation believes those would be the ones with the best chance of designing, implementing, and running effective youth services and still building toward significant growth. And they would be the most likely to use the foundation's large investments effectively to that end.
5. To determine its success in helping successful youth development organizations build capacity and take their programs to scale, the foundation is using measures that show improvement in grantees' organizational strength, capacity, and sustainability, and an increase in the numbers of young people served.
6. Along with its decision to help build the capacity of high-performing youth organizations, the foundation chose four youth outcome areas to support: (1) improved academic skills, achievement, and attainment; (2) successful transition to sustainable employment (for older age youth); (3) avoiding certain behaviors that put young people's life trajectories at high risk; and (4) civic engagement.

while at the same time building the new one.” The cost, in time and dollars, was considerable. The lesson, according to Bailin, was that “developing and implementing a good strategy for new work requires a good strategy for exiting from the previous work.”

In describing the key choices the Edna McConnell Clark Foundation made to implement its new strategy (see sidebar on page 4), Bailin underscored the significance of what the foundation chose not to do. “Recognizing the things one won’t do,” said Bailin, “and sticking to this commitment in spite of their tremendous appeal, has even more influence on a foundation’s ability to achieve focus than does the choice of what one will do.” For example, because the foundation is focused on building capacity in youth-serving programs that are already performing well, it must resist the temptation to fund start-ups, however appealing, creative, or innovative their approaches to youth development.

The Edna McConnell Clark Foundation also found that as it shifted from reforming systems to building organizations, its approach to funder-grantee relationships underwent major changes. These changes helped address some of the power imbalance that traditionally exists between funders and grantees. For example, as a former executive of a nonprofit organization, Bailin knows well how grant seekers often feel compelled to tilt their proposals toward the perceived wishes of the funder. Similarly, because funders are reluctant to pay for the true cost of overhead, funding often falls short of the real cost of the work covered in the grant. That reluctance results in grantees understating what they really need to do to build, strengthen, and expand their organizations so they can reach more people. “This is tragic,” says Bailin, “since it means that the nonprofit sector — the very sector we rely on to mitigate our most intractable problems — is being weakened and having its potential for effectiveness undercut systematically by those who mean to strengthen and support it.”

Even though the relationship between funders and grantees can never be truly equal or level, since foundations have money and grantees need it, Bailin maintains that many things can be done to lessen the harmful side-effects of that imbalance (see sidebar on page 13). That includes a recognition among funders that their success depends greatly on the success of their grantees. That is one reason why the Edna

“Rather than funding grantees to do our work, we decided to fund their ability to do their work.”

McConnell Clark Foundation believes it is more important to help grantees excel at their work than to seek out organizations that will implement ideas developed inside the foundation. It is also essential, said Bailin, that funders and grantees agree on milestones and that the organization’s progress be measured against them.

In Bailin’s view, a focused strategy, more tangible results, and better measures of performance are all tied together. “A focused strategy,” he said, “raises the odds of higher-quality implementation of whatever you are doing, increases the chances of gaining a better result or worthwhile social yield, and improves the chances of measuring and evaluating what you’ve accomplished.”

Michael Bailin is President of the Edna McConnell Clark Foundation.

The full text of Bailin’s remarks at the seminar is available online at www.effectivephilanthropy.org.



SARAH CLARK, DIRECTOR OF THE POPULATION PROGRAM,
THE DAVID AND LUCILE PACKARD FOUNDATION

THE BOARD'S ROLE IN PERFORMANCE ASSESSMENT

Panel Discussion

Increasingly, foundation boards are looking beyond their traditional role of safeguarding foundation investments to become more informed stewards of strategy and performance. Panelists Kay Hanson, a trustee of the Nellie Mae Education Foundation, and John Mutz, Chair of the Board of the Lumina Foundation for Education, shared wide-ranging insights with seminar participants about the broad outlines and nuts and bolts of developing board-level performance assessment approaches.

The Nellie Mae Education Foundation and the Lumina Foundation for Education are relatively new conversion foundations, created when Sallie Mae, a nationwide student loan corporation, bought out regional student loan providers. Their foundations' assets, derived from the sale of their predecessor organizations, are dedicated to the improvement of educational opportunity. As new entities, both foundations were able to incorporate board-level performance assessment from the start — at the same time that strategy, goals, and the working

culture of each organization were also taking shape. But despite similar origins, the two foundations are assembling rather different assessment approaches.

At the Nellie Mae Education Foundation, said Hanson, "the expectation for serious, regular engagement by trustees has been there from the start." The foundation's core documents include explicit expectations about board involvement in periodic assessments of matters such as the significance of the foundation's work and the effectiveness of its operations.

Hanson described the assessment structure as a series of concentric circles. The entire process rests on the assessment of individual program grants, which is overseen by a senior program officer for evaluation. In the Nellie Mae approach, the evaluation process is very much a two-way street, informing the grantee about progress against mutually agreed-upon goals and demonstrable outcomes and providing the foundation with ground-level data about whether its strategy for change is working. Said Hanson, "The advice and professional skills of folks who are evaluation and assessment experts are important, and these experts need to be dedicated to shaping the organization's efforts to assess impact and effectiveness at every level."

At the next level, the Nellie Mae Education Foundation keeps a continual watch on issues such as the geographical distribution of its funding across New England and the range of organizations funded. This information is important for providing the board with a context about how the foundation allocates its limited resources.

The inner circles of Nellie Mae's performance assessment approach are the annual performance reviews for the president and senior officers and for the committees of the board. Board committee reviews are linked to annual goals and quarter-by-quarter work plans.

These assessment levels are unified around an emphasis on learning. For example, the foundation made changes



KAY HANSON, TRUSTEE, NELLIE MAE EDUCATION FOUNDATION
JOHN MUTZ, CHAIR OF THE BOARD, THE LUMINA FOUNDATION FOR EDUCATION

"We needed to help grantees see the connection between the data we ask for and our program goals."

in the performance data it seeks from grantees after learning that “we were asking for, and getting, too much data,” said Hanson. “We also learned we needed to help grantees see the connection between the data we ask for and our program goals of increasing educational access, serving the underserved, and improving educational outcomes.” At a more strategic level, the assessment process led the board to redesign one of the foundation’s four program areas. As a result, a number of grantee programs have been taken out of the portfolio.

The mission of the Lumina Foundation, said Mutz, “is to increase access and success in post-high school education, with a particular focus on the underserved in minority populations and among adults.” The foundation’s board members, who came from the USA Group and Sallie Mae, felt that accountability about the foundation’s impact was essential to justifying its nonprofit status. Moreover, the board chose to include incentive compensation in the pay structure of the foundation’s senior executives, a move that necessitated clear measures of performance.

The Lumina Foundation’s goals are ambitious: to help a higher percentage of the population win access to higher education; to expand training of adults; and to help drive changes in public policy that will increase access to educational opportunities. “How can we say we did accomplish those big goals?” said Mutz. Rather than trying to design measurements that would provide irrefutable proof of progress, the board decided to work with seven “proxies” for the foundation’s performance (see sidebar). These proxies have proved effective in helping the board understand key issues and make decisions.

For example, to assess its relationship with grantees, the foundation commissioned a Grantee Perception Report (GPR) from the Center for Effective Philanthropy. One finding: Grantees viewed the foundation as “bureaucratic” and a “heavy duty” relationship to maintain. Mutz described the board discussion of these findings as “a turning point.”

Not surprisingly, investment returns on the portfolio are another key measure. By benchmarking information about returns and the cost of investment advice, the board concluded that it was paying more for investment advice than it should be. Benchmarking also played a role early on when the board reviewed executive compensation levels at 23 foundations and

decided to set its compensation levels for senior officers at the 50th percentile.

Mutz emphasized that the seven proxies are a part of a “matrix of evaluation” and that the board is interested in further developing its approach to the evaluation and assessment function. And he emphasized that the board still had work to do in assessing its own effectiveness.

Kay Hanson is a trustee of the Nellie Mae Education Foundation and the President Emerita of the Consortium on Financing Higher Education.

John M. Mutz is Chair of the Board of the Lumina Foundation for Education. From 1989 to 1993, he was president of Lilly Endowment, Inc., one of the largest foundations in the country.

LUMINA FOUNDATION FOR EDUCATION: SEVEN PROXIES FOR MEASURING PERFORMANCE AND EFFECTIVENESS AT THE BOARD LEVEL

- 1. The Center for Effective Philanthropy’s Grantee Perception Report** (see page 17) — Provides confidential, comparative data on grantee perceptions of a participating foundation across myriad dimensions – from interactions to clarity of communications to quantity and quality of non-monetary assistance.
- 2. Stakeholder survey** — Surveys a wide range of stakeholders in Lumina Foundation’s program fields, from university presidents to community leaders, to assess awareness of the foundation and impressions of its impact.
- 3. Evaluation of grants in grant clusters** — While these evaluations, clustered by program area, do not indicate the foundation’s overall effectiveness, they give the staff a better picture of the spectrum of the foundation’s efforts.
- 4. Communication portfolio review** — Following the lead of the Robert Wood Johnson Foundation, the review assesses media relations activities and outcomes on a nationwide basis, as well as the readership and readability of the foundation’s numerous publications.
- 5. Control of expenditures** — Examines the foundation’s administrative expenditures, comparing them to other foundations. Lumina was able to justify its higher-than-average costs because of the favorable reception it received in the grantee survey for treatment and service to grantees.
- 6. Investment returns on portfolio** — Benchmarks Lumina’s returns and expenditures on financial advice against other foundations.
- 7. Employee survey** — Conducted annually by an outside agency, the 360-degree survey includes everyone in the foundation and assesses topics such as morale, fairness, and core values.

INSTITUTING OVERALL PERFORMANCE ASSESSMENT *Panel Discussion*

“Why is performance assessment hard for foundations to do?” asked moderator Joel J. Orosz, Distinguished Professor of Philanthropic Studies at the Dorothy A. Johnson Center for Philanthropy and Nonprofit Leadership, as he introduced two panelists whose foundations have developed organization-wide performance assessment approaches. “Foundations are removed from direct action, at the grantee level, which makes measurement of impact elusive,” said Orosz. “And they don’t face the discipline of the market or of the electorate, which provide accountability in other sectors.”

For Alexa Culwell, Chief Executive Officer, Charles and Helen Schwab Foundation, accountability is about integrity, and assessment is an essential part of demonstrating a foundation’s integrity. “Really having integrity,” she said, “means doing what we say we are doing.” Over the past two years, the Schwab Foundation has been developing a comprehensive approach to assessment. The effort follows from reconceptualization of the foundation’s mission and structure undertaken by donors Charles and Helen Schwab beginning in 1999. Culwell commented that the foundation’s work on assessment has benefited enormously from the commitment of living donors.

In structure, the Schwab Foundation’s system for measuring outcomes and impact is simple, with three levels of reporting. At ground level, a variety of planning and measurement systems operate all over the organization, including reported results from program evaluations, reporting on individual grants and broader initiatives, financial reporting, and studies of public perceptions. This information is rolled up into accessible, usable measures at a middle level. Internally, these measures are known as “dashboards” or scorecards. The dashboards are designed to help the Schwabs and the trustees understand things such as “how many people the foundation is helping, how much it is costing, what we did, and how we did it,” said Culwell.

The top level of the assessment, the strategic review, aggregates the information gathered so that the board can determine trends and patterns and make long-term decisions that will help the foundation meet its objectives.

Culwell suggested that one key to effective assessment is to work closely with the chief financial officer. “It is short-sighted to relegate the CFO to managing investments and monitoring costs,” said Culwell. “Ours plays a critical role in understanding the impact of our grant-making.” She urged seminar participants to use their financial staff as broadly as possible and integrate them throughout the organizational structure.

A commitment to organizational learning and knowledge sharing is also part of the glue that holds the Schwab assessment structure together. Culwell created

“Really having integrity means doing what we say we are doing.”

ALEXA CULWELL, CHIEF EXECUTIVE OFFICER,
CHARLES AND HELEN SCHWAB FOUNDATION





“What you decide to measure sends a message... You have to be clear about the purpose and limits of your measurement activities.”

SHARON KING, PRESIDENT, F.B. HERON FOUNDATION

the position of director of evaluation and organizational learning; the director works side-by-side with program officers in a way that is “less about ‘strict report cards’ and more about determining what’s going on and building a culture of learning,” said Culwell.

At the F.B. Heron Foundation, says its President, Sharon King, “we have worked hard to create the habits of assessment throughout the organization – and in our grantee relationships. It is a core founding value of the foundation and it is non-negotiable.” Because the Heron Foundation does not have the resources to do substantial capacity-building investment, it invests in programs with a track record and strong management and financial systems in place. “We’ve learned over time to invest in those who assess not because the foundation pushes them to, but because they care about their own accountability to the community,” said King.

The habit of assessment has particular importance for the Heron Foundation because in addition to grantmaking, the foundation, through its mission-related portfolio, increases access to capital for community development through program-related investments, insured deposits with community development credit unions and banks, and “double-

bottom line” investments (with both a market rate of return and social returns). These investments, which involve 20 percent of the Heron Foundation’s assets, are part of its mission to support organizations with demonstrated success in building wealth within low-income communities.

For its board, the Heron Foundation provides annual strategic assessments and cumulative assessments that show how specific organizations have progressed during the period of foundation support every three to four years. “Aggregating data is not easy,” said King. “We are beginning to work through a way to have a common language about a spectrum of impact” among grantees. One set of measurable outcomes revolves around the growth of home ownership in target communities, which is looked at in terms of mortgages secured, homes rehabbed, and homes developed. “What you decide to measure sends a message to the field,” cautioned King. “You have to be clear about the purpose and limits of your measurement activities.”

Alexa Culwell is CEO of the Charles and Helen Schwab Foundation. She also serves as a member of the Board of Directors at the Center for Effective Philanthropy.

Sharon King is the President of the F.B. Heron Foundation.

USING THE WEB TO INCREASE PROGRAM IMPACT

The Schwab Foundation’s assessment of impact focuses on how many people are served by funded programs, how “deep” the contact or effect of the service is, and how much it costs to provide the service. These criteria played a key role in the decision to close a visiting center for parents of children with disabilities that served about 1,000 families per month and reconfigure the service through a web site. Although it was clear that those who used the

center benefited greatly, the cost per family was high. Not without controversy, the foundation shifted the service to a website. Now, 67,000 unique visitors/families visit the website each month. A survey of users confirmed that the new approach is having a significant impact on the lives of these families. With an upcoming awareness campaign, the “how many served” measure will increase to hundreds of thousands per month while the depth of the impact remains high and the cost – the “how much” facet – will decline to a few dollars per family served.

BEYOND EFFECTIVENESS:

DEEPENING THE BONDS BETWEEN FUNDERS AND GRANTEES

*Even after all this time
The sun never says to the earth
“You owe Me.”*

*Look what happens with a love like that —
It lights up the whole sky!
— Hafiz (trans. Daniel Ladinsky)*

With these words by a 14th-century Sufi poet, Edward Skloot, Executive Director of the Surdna Foundation, introduced an impassioned plea for funder-grantee relationships based on trust and a sense of shared mission. His words provided a thought-provoking counterpoint to other seminar presentations on the value of focusing strategy and developing systems to achieve measurable results. While Skloot affirmed the value of striving for effectiveness and accountability, he challenged seminar participants to look beyond management tactics and breathe new life into funder-grantee relationships with, in his words, “a more supportive, consistent, and trusting embrace of nonprofits.”

Skloot observed that the emerging movement among foundations toward greater accountability, more detailed expectations for grantees, and more frequent and focused evaluations of their progress is happening just as philanthropic and public funding for social initiatives is shrinking. The financial squeeze, which helps drive the push for accountability, has also caused some funders to increasingly disburse short-term grants and impose tight restrictions on their support of grantees’ operating costs. As a result, grantees exist in “a state of perpetual financial uncertainty,” said Skloot. The focus on strictly defined outcomes, tangible measures of progress, and very controlled funding can have “a debilitating effect on those institutions we claim as our partners,” he told seminar participants.

What is needed, in Skloot’s view, is an approach to funder-grantee relations that explicitly seeks to meet the



EDWARD SKLOOT, EXECUTIVE DIRECTOR, SURDNA FOUNDATION

“We need a mental model that sees foundations and nonprofits as two sides of the same hand.”

needs of both funders and grantees. Funders are feeling pressure to prove the value of their activities through greater accountability both for their funding choices and outcomes, as well as internal management. Grantees need greater funding stability and appreciation for the true dimensions of their operating costs so that they can make long-range plans rather than survive from year to

year. Skloot described a way forward in the approaches of organizations such as the Edna McConnell Clark Foundation, New Profit Inc., Venture Philanthropy Partners, and Social Venture Partners. Said Skloot, “their experiences suggest that deeper, longer, closer, more humane ties between funder and grantee can make a big difference in effectiveness.”

But the efforts of a few organizations will not change how the majority of foundations work with grantees. For that shift to occur, foundations will need “to move away from linear, transaction-based relationships to more engaged, knowledgeable, empathetic ones,” Skloot said. To better understand what executives of foundations and nonprofits most value in the funder-grantee relationship, Skloot conducted an informal poll of 30 of these leaders. Honesty was the choice of a decisive majority, many of whom wrote of how it builds attributes such as respect, empathy, and trust. “Effectiveness came after building these attributes,” Skloot observed. Many respondents wrote of the need for greater mutual understanding and solidarity and felt they could be achieved through “better communication, transparency, commitment to each other, and similar qualities,” said Skloot. These more open, trusting relationships could include specific changes such as more sharing of expertise, contacts, and information between foundations and nonprofits; more candid use of information gathered in due diligence; and earlier, more frequent, and more collaborative program evaluations.

Turning from how foundations and nonprofits can work with each other to how both groups interact with other forces for change in society, Skloot urged foundations to change how they view their role in advocating for the work that is done by the nonprofits they fund. Too often, said Skloot, “when it comes to defending public education, community building, public service, human services, the nonprofit sector, and even, when relevant, state and local governments, funders have become eerily quiet”—leaving advocacy to “seriously underfunded” nonprofits such as the Center on Budget and Policy Priorities and OMB Watch. Noting that foundations on the right of the political spectrum nurture generous long-term funding relationships with nonprofits that advocate similar values, he invited foundations to do more to express and demonstrate support and commitment to the social mission of the nonprofits they fund.



JOHN MULLANEY, EXECUTIVE DIRECTOR, NORD FAMILY FOUNDATION

By focusing solely on strategy and accountability, “we are in danger of becoming a more ‘effective’ philanthropy, yet less relevant to solving our great common problems of poverty, equity, and justice.” Skloot warned. “Philanthropy’s mission demands that it find its public and private voices simultaneously,” he said. In his view, when foundations recognize the interdependence and common mission of foundations and nonprofits, they will greatly strengthen both the effectiveness of the funder-grantee relationship and the power of foundations and nonprofits to make a difference in the policy debates of our time.

Edward Skloot is the Executive Director of the Surdna Foundation.

The full text of Skloot’s remarks at the seminar is available online at www.effectivephilanthropy.org.

“We are in danger of becoming a more ‘effective’ philanthropy, yet less relevant to solving our great common problems of poverty, equity, and justice.”

DEGREES OF SEPARATION: FINDING THE BALANCE IN FUNDER-GRANTEE RELATIONSHIPS *Panel Discussion*

“I think there is an inherent danger in getting too close. Funders are often accused of being too directive. It’s a tightrope.”

GENE COCHRANE, VICE PRESIDENT AND DIRECTOR OF THE HEALTH CARE DIVISION, THE DUKE ENDOWMENT



How do funders and grantees achieve their individual goals – and how do they arrive at common goals – in a productive and positive way? Two very different funders, The Duke Endowment and New Profit Inc., and two very different nonprofit organizations, the Medical University of South Carolina and Jumpstart, shared their perspectives and experiences in a panel discussion for seminar participants.

The Duke Endowment and New Profit Inc. share the objective of figuring out “where grantees are headed and how the funder can help them get there,” in the words of Gene Cochrane, Vice President and Director of the Health Care Division of The Duke Endowment. But there are striking differences in how these funders work with grantees. Cochrane described The Duke

Endowment, established in 1924, as a traditional funder. The Duke Endowment’s grants benefit four program areas: education, health care, child care, and rural United Methodist ministries. Funding “takes the form of individual grants for individual purposes,” said Cochrane. “Our approach is to focus on the broad social objectives of organizations and stay with them for at least 10 years.”

Vanessa Kirsch, President of New Profit Inc., founded her organization in 1999 after more than a decade in the nonprofit world. Her experience had convinced her that existing funding approaches were preventing successful nonprofits from reaching their full potential. New Profit grants, which are intended to fuel the extended growth of successful nonprofits, take the



How do grantees maintain their autonomy when dealing with multiple funders, each with their own expectations?

VANESSA KIRSCH, PRESIDENT, NEW PROFIT INC.

CHANGING THE FUNDER-GRANTEE RELATIONSHIP: ONE FOUNDATION'S GUIDELINES

As the Edna McConnell Clark Foundation sharpened its strategic focus, it also found that it was changing the way it manages relationships with grantees. The new approach embodies the following principles:

- Paying grantees to further their own work, not to implement work devised at the foundation;
- Hiring program staff who are able to provide strategic counsel and organizational guidance to grantee executive directors and their senior leadership team, rather than adding staff with content expertise in grantee areas;
- Working with grantees on developing multi-year business plans and making grants against those plans, rather than investing in specific programs;
- Asking for reports based on milestones in those plans rather than “lengthy narratives”;
- Working with grantees to develop their internal evaluation capacities, not just evaluating them from the outside;
- Arranging for an external evaluator to meet with individual grantees after each phase of work to determine whether the foundation has or has not been useful to the grantees, how it might do better by them, and what else it might do that could help them.

form of “long-term investments with a very few organizations,” and “investments in leaders,” said Kirsch. She believes in a “partnership” approach in which nonprofits are surrounded with the right mix of partners and internal staff can count not only on the board, but also on external stakeholders, for guidance. Said Kirsch, “I’m excited about surrounding a grantee with a group that collaborates to help the grantee move forward rapidly.”

The Duke Endowment’s relationship with the Medical University of South Carolina takes a rather different form. Jim Fisher, Vice President of Development at the Medical University, described his organization’s relationship with The Duke Endowment as “a long series of short-term engagements, over many years, and over which we repeatedly demonstrate short-term returns on investments.” In this approach, each engagement provides a fresh opportunity to share perspectives and make changes.

Rob Waldron, President and CEO of Jumpstart, portrayed a more interdependent relationship with New Profit. Jumpstart is an early childhood development program that recruits and trains college students to work with Head Start and other early childhood programs to provide one-to-one attention to young children. Jumpstart has goals for rapid growth that match New Profit’s philosophy. New Profit recruited Waldron to take charge of Jumpstart, and Vanessa Kirsch serves on Jumpstart’s board. “Vanessa and I very much are on the same team,” Waldron said. “I like the framework —

Vanessa also has responsibility for our success.” How deep should a productive relationship go? How do grantees maintain their autonomy (and sanity) when dealing with multiple funders, each with their own expectations? The Duke Endowment and the Medical University of South Carolina view their partnership as, in Cochrane’s words, “helping the grantees hire expertise, not of the foundation being the expert” — a more hands-off approach than New Profit and Jumpstart’s. “I think there is an inherent danger in getting too close,” said Cochrane. “Funders are often accused of being too directive. It’s a tightrope.”

In Kirsch’s view, taking a seat on Jumpstart’s board does not mean that “due diligence stops.” Waldron added that whatever the framework of the relationship, separation is needed. “New Profit is one of 10 to 15 partners” he said. “I would not want one point of contact to weaken leverage with others.”

Gene Cochrane is Vice President and Director of the Health Care Division of The Duke Endowment. He will become President of the Duke Endowment in January 2005.

Vanessa Kirsch is the President and Founder of New Profit Inc.

Jim Fisher is Vice President of Development of the Medical University of South Carolina.

Rob Waldron is President and CEO of Jumpstart.

UNDERSTANDING FOUNDATION EFFECTIVENESS: NEW RESEARCH FROM THE CENTER FOR EFFECTIVE PHILANTHROPY

Grantees are often asked to demonstrate their effectiveness to the foundations that fund them. Increasingly, however, foundations are turning the tables in the assessment process: seeking grantee perspectives along various dimensions and viewing the results on a comparative basis. As Phil Buchanan, Executive Director of the Center for Effective Philanthropy, explained, grantee perceptions can help foundations answer questions such as:

- Are we having an impact or achieving results in a particular field?
- Are we articulating and adhering to a funding agenda and strategy?
- Are we operating in ways that maximize our ability to help grantee organizations?

Beyond individual foundations' data, the results of the Center for Effective Philanthropy's spring 2003 Grantee Survey were also analyzed to determine field-wide implications about the relationship between foundations and grantees. One might think that the answer to the question, "What do grantees really value?" is simple. Conventional wisdom would suggest that the more money you give someone, and the longer you keep giving it, the more they will like you. In fact, to grantees, the size, duration, and type of grant support turn out to have a lesser effect on their perceptions of a

foundation's effectiveness than other factors. A full analysis of the Center's research findings will be the subject of a forthcoming research paper in early 2004, but seminar attendees received a briefing on the key findings based on responses to the Center's 50-question survey from 3,200 grantee organizations assessing their experiences with and perceptions of the 30 foundations that funded them.

On many dimensions, responses show that grantees have a positive view of foundations. Ratings were generally clustered in the top half on a scale of 1 to 7. There were, however, clear and consistent differences in grantee perceptions among the different foundations studied. As Kevin Bolduc, Associate Director of the Center, explained: "Comparative data is necessary when trying to understand performance based on grantee perceptions, since receiving money is a positive experience." It may also reflect a very human tendency to forgive small faults in a benefactor. In one such instance a respondent that gave a foundation a "4" for fairness – low for the survey sample, but in the middle of the possible range – would actually have placed the foundation near the bottom of the sample.

WHAT MATTERS TO GRANTEE ORGANIZATIONS

Conducting statistical analyses of survey responses across all of the foundations, the Center was able to identify the most important determinants of grantees'



"Even though most grantees report contact with foundation staff only a few times a year, the quality of those interactions really drives the overall tone of a grantee's perception of its funder."

KEVIN BOLDUC, ASSOCIATE DIRECTOR OF THE CENTER FOR EFFECTIVE PHILANTHROPY

perceptions of foundation effectiveness. Grantees' perceptions of foundations are driven in large part by three factors: 1) quality of foundation interactions with grantees; 2) how well they communicate their goals and strategies; and 3) the level of the foundations' expertise in the fields and communities their funds support.

"Even though most grantees report contact with foundation staff only a few times a year," Bolduc said, "the quality of those interactions really drives the overall tone of a grantee's perception of its funder." A particularly important factor is how approachable and fair grantees view their funders to be during the application process. Similarly, foundation responsiveness – which can be as simple as answering voice mails and e-mails in a timely fashion – is an important shaper of grantee perceptions.

How clearly foundations communicate their goals and strategies is almost as important to grantees as how they handle their interactions. This finding suggests that foundations' increased attentiveness to developing a clear focus and explicit strategies is not only appropriate, but welcomed by grantees. Bolduc offered a representative comment from a grantee on this point: "Because the foundation's funding is reliable, and because the foundation staff communicates clearly and well in advance of any changes in foundation priorities or resources, the impact of the foundation's grants to us is magnified. We can plan strategically and long-term, which is of critical importance to our programs."

Finally, grantees view a foundation more favorably when foundation staff understand a particular field, share their expertise, and contribute to the advancement of knowledge in that field. This finding has particular interest for foundations that are intent upon demonstrating, or increasing, the impact of their efforts.

IMPLICATIONS FOR FOUNDATIONS

Foundations looking for messages from grantee organizations in these findings should note, first of all, that the relationship with the program officer shapes grantee perceptions. Grantees prefer to work with program officers who have relevant expertise, rather than officers whose main function is merely to approve or deny grants. They favor a relationship with the program officer that provides "a free give-and-take of information," said Bolduc.

FOUNDATION GOVERNANCE PROJECT: CEO SURVEY

The Center for Effective Philanthropy is analyzing responses to a recent survey of CEOs of the largest 250 foundations about governance issues. The survey comes at a time when foundation governance is receiving a new level of scrutiny. The survey looks at whether boards are discussing these new pressures, making governance changes, or reviewing compensation practices. It also asks CEOs to assess their working relationship with their boards and their perceptions of their boards' effectiveness.

Preliminary findings suggest that boards are taking the new climate of accountability seriously: Among foundations that have already responded to the survey, the majority of boards have had board-level discussions about accountability and roughly a third have made governance changes.

The Center's findings, however, suggest that governance changes driven by media scrutiny and corporate governance reform may not be enough to help boards actually increase their effectiveness. The CEOs who view their boards as most effective also rate them as more involved, especially in the areas of strategy and performance assessment. Boards perceived as most effective also spend more time on foundation matters.

The Center will be releasing a report on the findings from this survey in early 2004. The CEO survey is the first phase of a more significant Foundation Governance Project that will include an in-depth exploration of the views and practices of foundation trustees. For more information about supporting or participating in this project, please contact Phil Buchanan at philb@effectivephilanthropy.org

However, the value grantees place on clarity about foundations' goals and strategies also has relevance above the program officer level. Grantees appreciate foundations whose goals are clearly articulated on all fronts. Even a simple thing such as maintaining an up-to-date, informative website is helpful. To this day, there are well-established, multi-billion-dollar foundations that do not have websites or easily available contact information. More important, grantees are critical of foundations in which a consistent strategy is not shared at all levels. It is discouraging to be given a green light on funding by a board member, only to be told by a program officer later that the foundation isn't funding that type of work at this time, or vice versa. These and other findings will be discussed more fully in the Center's forthcoming research paper.

Kevin Bolduc is Associate Director of The Center for Effective Philanthropy.

Phil Buchanan is Executive Director of The Center for Effective Philanthropy.

USING GRANTEE AND APPLICANT PERCEPTIONS *Panel Discussion*

Deciding to obtain confidential, comparative data on grantee perceptions of your foundation across myriad dimensions – from interactions to clarity of communications to quantity and quality of non-monetary assistance – is not for the faint of heart. Vince Stehle, Program Officer for the Nonprofit Sector Support Program at the Surdna Foundation, joked that some might compare the process to “giving grantees the stick to the piñata.”

But for Doug Kridler, President and CEO of The Columbus Foundation, and Diana Gurieva, Executive Vice President of The Dyson Foundation, who commissioned Grantee Perception Reports (GPR) from the Center for Effective Philanthropy (see sidebar on page 17), grantee and applicant feedback proved a valuable tool in assessing foundation performance. Findings from the GPR, which was commissioned by 20 foundations in 2003, have additional value because foundations can view their grantees’ perceptions in a comparative context: the Center has surveyed grantees of more than 80 foundations since 2002. Stehle, who has provided funding, counsel, and other support to the Center in its development of the GPR, moderated the panel with Kridler and Gurieva on this new performance assessment tool.

Both Kridler and Gurieva appreciated being able to compare their foundations’ performance against others.

Given that receiving a grant is a positive experience, average ratings for any foundation tend to be high on an absolute scale – making comparative data essential to put results in context.

“The survey was useful not only in its results but in establishing baseline data, especially for me as a new CEO,” said Kridler. Gurieva added that for her, and for her small staff of seven at Dyson, a regionally-focused private foundation with assets of \$250 million, there was “a great sense of opportunity. At the stage we’re in, the GPR was very useful in supporting strategic change planning. After about 12 years as a staffed foundation, it was about time for us to rethink this, and having a sense of how our grantees perceive us is important.”

Kridler and Gurieva noted that it is important to involve the staff and board in the GPR process. “I needed my board to get behind me on this,” said Kridler. And I need the staff to own any changes The Columbus Foundation is making as a result.”

Gurieva and Kridler offered frank comments on what they learned through the GPR. Gurieva noted that Dyson “showed up as lower on impact of field versus community, and in our disappointment, we at first felt that we were sorry to have done the GPR.” Then, after reflecting on her foundation’s strategy,

“Wisdom is in nonprofits, and we want to know how we can help them be better.”

DOUG KRIDLER, PRESIDENT AND CEO, THE COLUMBUS FOUNDATION





“If we believe there is an important core good in partnering, then [the Grantee Perception Report] is a good thing to do. Also, it is an important self-critique vis-à-vis recent public criticisms of foundations.”

DIANA GURIEVA, EXECUTIVE VICE PRESIDENT, THE DYSON FOUNDATION

she realized that Dyson “doesn’t focus on the field – if the staff are generalists, it makes perfect sense to us that we have a lot of broad – versus specific – expertise.” At the same time, Gurieva learned that her foundation scored extremely well when it came to non-monetary assistance. She realized how valuable this assistance is to grantees, allaying her “sneaking suspicion that all grantees want is the money.”

Meanwhile, at Columbus, one of the oldest community foundations in the country, and one of the largest, with assets of approximately \$600 million, the staff and board learned that the foundation was very highly regarded in terms of community impact – even more than the average community foundation, a cohort against which Columbus was compared throughout the GPR. However, Kridler remarked that the GPR also presented his foundation with some “harsh realities that forced us to talk about our processes and some changes we could make.” Not only did commissioning the GPR signal to grantees that Columbus was listen-

ing, but the process “is informing the foundation’s strategy, which grantees need to know.” Columbus also commissioned an Applicant Perception Report to learn how grant applicants – successful and unsuccessful – perceive the foundation.

Kridler and Gurieva agreed that commissioning and receiving the report is more than a customer satisfaction exercise. Said Kridler, “it’s a matter of what’s effective. Wisdom is in nonprofits, and we want to know how we can help them be better.” Added Gurieva, “If we believe there is an important core good in partnering, then this is a good thing to do. Also, it is an important self-critique vis-à-vis recent public criticisms of foundations” because it allows a foundation to understand whether its grantees perceive it to be making a difference in ways that go beyond a grant check.

Diana Gurieva is the Executive Vice President of The Dyson Foundation.

Doug Kridler is the President and CEO of The Columbus Foundation.

THE GRANTEE PERCEPTION REPORT

As part of ongoing research on performance assessment and the foundation-grantee relationship, the Center for Effective Philanthropy has surveyed the grantees of more than 80 foundations. Grantees are asked for candid, confidential perceptions of their funders along various dimensions, including the selection process, interactions during the grant, and provision of non-monetary assistance. The Center has provided comparative reports based on this data to many foundations.

The Grantee Perception Report (GPR) gives foundation CEOs, board, and staff detailed data on their foundations’ performance.

The GPR has been used by 20 of the largest 200 foundations in the U.S. in 2003, including 14 private foundations and six major community foundations. Leaders at these foundations believe comparative grantee feedback collected by an independent third party is critical in generating insights that enable higher performance.

The GPR can be customized to the specific objectives of a foundation. The Center works with each foundation to understand its priorities, conduct specific analyses of interest, and choose appropriate comparison groups.

For information, please contact Kevin Bolduc, Associate Director, at kevinb@effectivephilanthropy.org or 617-492-0800 x202.

RAISING THE BAR FOR FOUNDATION PERFORMANCE



“We have the opportunity to raise the bar higher, to push for greater effectiveness, and to advance the field.”

MARK KRAMER, CO-FOUNDER AND BOARD CHAIR,
THE CENTER FOR EFFECTIVE PHILANTHROPY

“When you get that warm feeling about the good work your foundation does, stop and ask yourself what it is based on,” said Mark Kramer, co-founder and board chair of the Center for Effective Philanthropy. “Without objective data, we just don’t know whether we are doing a good job or not. And that warm feeling can be very dangerous because it undermines our motivation to improve – to find new and more effective ways to achieve social impact,” he continued in closing remarks that highlighted key learnings from the seminar.

Kramer cited five insights that were discussed by seminar participants over the two days of the seminar:

1. Foundations depend on grantees to achieve the outcomes they seek. Therefore, foundations need to understand how their actions affect grantees and how best to support their success.
2. Grantees have very reasonable expectations of foundations. They want a foundation to be clear, consistent, and fair in communicating its goals – yet these simple practices are often lacking.
3. Improved performance comes from clarity of focus, a sound and well-researched strategy,

and the perseverance to stick with a program area or a grantee long enough to achieve an impact. Grantees see foundations as more effective when program officers have a solid understanding of the fields they are funding. This means that foundations must have a strong external focus,

Improved performance comes from clarity of focus, a sound and well-researched strategy, and the perseverance to stick with a program area or a grantee long enough to achieve an impact.

with deep knowledge and engagement in the fields they choose to fund.

4. Governance matters. More effective foundations engage their boards not only with their investment portfolio, but with the foundation's strategy and evaluation of its social impact.
5. Foundations must gather as much objective performance data as possible, whether from their grantees, communities, or other stakeholders, in order to understand and continuously improve performance.

Simple as these insights sound, many foundations still do not seem to apply them. Instead, Kramer remarked, foundations handicap themselves through the constant pursuit of the newest answer, through under-investing in staff and research to keep overhead low, through fragmented grants scattered across unrelated areas, and through the failure to examine the results of their work.

Turning to seminar participants for their perspectives on the obstacles that are holding foundations back from achieving more ambitious goals, Kramer gathered a wide range of answers. "The lack of external accountability – a lack of discipline – is holding us back," said one participant. Another saw the discipline issue reaching into goal setting as well: "Foundations exhibit a vague sense of wanting to know that they are effective. But they don't even know what they do not know. They don't even know what questions to ask." Discipline is also an element in helping grantees achieve their goals. "A lack of focus keeps us from adjusting or extending the duration of grantee relationships in ways that will help them achieve more, sooner," said one participant.

Foundations also continue to struggle with determining what impact their funding has and how to measure it accurately. But, as one participant cautioned, foundations should not get bogged down in worrying about who accomplished what. "I see the issue of attribution as paralyzing us more than helping us," she said. "We should use our wisdom to discern our contribution, but we should also celebrate the whole of what has been accomplished in a field."

Participants emphasized the need to act individually and in partnership to support grantees who are making a difference. "Too often," said one, "foundations pretend to be collegial but are actually highly competitive – they want to put their own stamp on programs in ways that prevent partnership."

Kramer reminded participants that they possess the resources to overcome these kinds of obstacles. "The leadership for improving foundation performance and accountability is in this room," he said. "We have the opportunity to raise the bar higher, to push for greater effectiveness, and to advance the field. This is not only an opportunity, it is our responsibility."

Mark Kramer is co-founder and Chair of the Board of Directors of The Center for Effective Philanthropy, and Managing Director of the Foundation Strategy Group.



JOHN MORAN, PRESIDENT AND CEO OF THE COLORADO TRUST

MISSION

The Center for Effective Philanthropy is a nonprofit, nonpartisan organization whose mission is to advance the practice of philanthropy by providing management and governance tools to define, assess, and improve overall foundation performance.

The Center was founded by Mark Kramer and Michael Porter in 2000 and received initial funding in 2001.

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Kevin Bolduc, *Associate Director*
Judy Huang, *Senior Research Analyst*
Ellie Carothers, *Senior Research Analyst*
John Davidson, *Research Analyst*
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THE CENTER FOR EFFECTIVE PHILANTHROPY

678 Massachusetts Avenue, Suite 903 • Cambridge, MA 02139
t: 617-492-0800 • www.effectivephilanthropy.org

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678 Massachusetts Avenue, Suite 903
Cambridge, MA 02139