FOUNDATION GOVERNANCE:

THE CEO VIEWPOINT

A Report on a Survey of CEOs of the Largest 250 Foundations in the U.S.

THE FOUNDATION GOVERNANCE PROJECT

THE CENTER FOR EFFECTIVE PHILANTHROPY

Contacts

Phil Buchanan, *Executive Director*
T: 617.492.0800 x203
philb@effectivephilanthropy.org

Ellie Carothers, *Senior Research Analyst*
T: 617.492.0800 x205
elliec@effectivephilanthropy.org

Acknowledgments

A number of organizations and people contributed to the development of this report. Thanks in particular to our seven primary funders (listed on the back page of this report) for their support of the Center's mission of providing management and governance tools to define, assess, and improve overall foundation performance.

Special thanks to the Center's founders, Mark Kramer and Michael Porter, for their support of this initiative and their counsel on its development and structure. Thanks also to the other members of the Center's Board of Directors for their counsel on this project and suggestions on this report: Alexa Culwell, Phil Giudice, Joel Fleishman, Mark Fuller, and Ricardo Millett.

Many members of the Center's Advisory Board (whose members are listed on the back page of this report) have provided advice on this project. In particular, the Governance Project Task Force of the Advisory Board was instrumental in the development of the survey instrument – and review of earlier drafts of this report. Its members include Kennette Benedict, Kay Hanson, Lucy Knight, Tony Pipa, Alicia Philip, and Edward Skloot. Thanks also to Debbie Hechinger of BoardSource, who offered her insight and is now a member of this task force as we enter Phase II of this Project.

Special thanks to Paul Brest and Edward Skloot for testing an early version of the survey instrument. We are also very grateful to Paul Brest for encouraging his colleagues to respond to this survey in a letter preceding its mailing.

All of the Center's staff worked on the analyses described here. Ellie Carothers and John Davidson, in particular, performed most of the analyses, with valuable guidance and support from Kevin Bolduc. Judy Huang also worked on the analyses and provided crucial suggestions in the development of this report. The Center's Summer Fellow, Molly Moore, contributed significantly to the development of the CEO survey and the workplan for the larger Foundation Governance Project. Thanks also to Alyse d'Amico for her work on the execution of the survey.

Phil Buchanan has overseen this initiative and was the primary author of this report, with significant support and editorial assistance from all of those mentioned above. Finally, thanks to Research Data Technologies for hosting the online survey and to Ascender Studio (www.ascenderstudio.com) for layout and design work on this report.

Table of Contents

Executive Summary

In the Fall of 2003, the Center for Effective Philanthropy conducted a survey of the CEOs of the 250 largest U.S. foundations to gather information about the governance practices of foundation boards. The Center received 129 completed surveys for a response rate of 52 percent. This report describes our findings, identifying foundation responses to recent media and legislative scrutiny, as well as highlighting the key attributes of foundation boards that are perceived by CEOs as most effective.

The conclusions presented here are preliminary because they are based only on CEO perceptions and are not yet informed by the perspective of foundation board members or other experts and stakeholders. These and other data sources will be explored in the second stage of the Center's Foundation Governance Project, and a final report will be issued later in the year. Given the importance of the CEO perspective, however, and the timeliness of our findings in light of recent external pressures on foundation boards, we are issuing this interim report to facilitate discussion and reflection already underway in the foundation field – and to prompt a re-examination of several existing assumptions about foundation governance.

Findings:

- The majority of foundation CEOs are highly satisfied with their relationships to their boards and, to a somewhat lesser degree, consider their boards to be effective. In open-ended comments, CEOs cite a high degree of commitment and dedication on the part of their trustees to the mission of the foundation, the intent of the donor, and the needs of the community.

- Corporate governance reforms and recent scrutiny of foundation practices have prompted board-level discussions at nearly three-quarters of the foundations surveyed and a third have instituted changes. The changes fall into three categories:

  – Changing committee structures or adding an audit committee;

  – Requiring board review or CEO and/or CFO sign-off of tax returns; and

  – Adopting new policies, especially concerning conflicts of interest.

- Five key variables are strong predictors of the degree to which a CEO considers his or her board effective, together explaining more than half of the variance in responses. In order of significance, they are:

  – Involvement in assessing the foundation's overall performance;

  – Bringing thought-provoking and important concerns to the attention of the CEO;

  – Responding to recent media and legislative scrutiny through board-level discussions of governance;

  – A lower proportion of donor's family members serving on the board; and

  – Actively representing the foundation to the public.

- Comparing the foundation boards that are rated by their CEOs as being most effective to those rated as least effective reveals substantial differences in both the level and the nature of board engagement.

In addition to two of the factors above, assessing overall performance and publicly representing the foundation, those boards rated as most effective are seen by their CEOs as:

– Meeting more frequently and spending more time on foundation business outside of scheduled board meetings;

– Substantially more involved in

  ○ Assessing the foundation's social impact

  ○ Contributing subject-specific expertise

  ○ Developing the foundation's strategy.

Approximately half of the foundations surveyed compensate some or all of their board members. On average, boards whose members are all compensated are perceived by their CEOs as spending substantially more time on foundation business outside of foundation meetings than the members of boards that are not compensated. The median annual compensation of board members among survey respondents is $22,000 per year.

Conclusions:

- Boards that are perceived as most effective by their CEOs are highly proactive and deeply engaged in guiding and evaluating the substantive work of the foundation. They do not limit themselves to the traditional roles of overseeing investments and approving individual grants. Instead, these boards spend substantial time on foundation business outside of formal meetings, actively review policies in response to external events, help devise the foundation's strategy, and assess its social impact and overall performance.

- The two best predictors of a CEO's rating of its board's effectiveness are the level of board involvement in overall foundation performance assessment and the quality of concerns the board brings to the CEO. This suggests that CEOs want and value the advice of board members about program strategy, social impact, and other substantive issues. Our research revealed no evidence to suggest CEOs would prefer boards that take a "hands-off" approach.

- A higher proportion of family members on a board tends to lower CEO perceptions of effectiveness. However, some family foundation boards are rated as highly effective, suggesting that family representation does not create an insurmountable impediment to effectiveness.

- Many foundations have adopted changes in governance in response to recent external scrutiny of corporate boards and foundation practices. These changes tend to increase transparency and accountability in financial reporting and decision making but they do not necessarily influence the factors identified by CEOs as most important to board effectiveness.

- These findings have important implications for foundation boards and CEOs as well as for further research on questions of foundation governance. They suggest that boards should review how they are spending their time and consider ways to motivate higher levels of board engagement. They also suggest some key questions warranting further study – and the need for an in-depth examination of the views of foundation trustees on these questions.

Introduction

All organizations are accountable for obeying the law and complying with the tax code. In this regard, foundation boards are no different from the governing bodies of other organizations. In many other ways, however, foundation boards face distinct challenges. Unlike corporate boards that are accountable to shareholders or nonprofit boards accountable to donors, the foundation board is typically accountable to no outside entity in overseeing the substantive work of the foundation. The board's mandate may be defined by a trust document or the intent of the donor but, for all practical purposes, the determination of whether a foundation performs well and is effective in achieving its goals rests primarily with the board. Understanding the role and practices of foundation boards is, therefore, essential to any examination of foundation effectiveness.

The pressure to examine governance practices has been highlighted recently by media and legislative scrutiny from outside the field. The corporate governance scandals of 2001 and 2002 and the resulting Sarbanes-Oxley legislation have prompted many CEOs and trustees of the country's major private and community foundations to ask how governance reforms in the private sector might be relevant to them. The issue was further brought home to foundations as a wave of news reports in 2003 raised questions about overpayment of foundation CEOs or trustees, and Congress debated proposed legislation concerning foundation payout requirements, excessive compensation and administrative expenses.

Describing these concerns in a talk at the Council on Foundations 2003 annual conference entitled "A Worst Case Scenario or the Perfect Storm?: Current Challenges to Foundation Governance," Emmett Carson, president of the Minneapolis Foundation, said:

> *Foundation board positions are no longer ceremonial. Board members must be fully engaged in the oversight of their foundations' operations and must actively seek to improve their skills. It is essential that foundations do everything they can to guard against both real and perceived abuses.*[1]

Despite the importance and timeliness of these issues, foundation governance has seldom been studied, and the literature that distinguishes foundation boards from other kinds of nonprofit or corporate boards is relatively undeveloped. Much of the published guidance for foundation boards focuses on their minimum legal, fiduciary, and procedural responsibilities, and does not examine their contribution to foundation effectiveness.

1 Carson, Emmett D. "A Worst-Case Scenario or the Perfect Storm?: Current Challenges to Foundation Board Governance." As reprinted in *Responsive Philanthropy*. National Committee for Responsive Philanthropy, Summer 2003.

In fact, as we noted in the Center's earlier publications on foundation performance metrics,[2] there is surprisingly little consensus on the role of the foundation board. To be sure, considerable differences exist in governance structures and activities among the several thousand staffed foundations in this country, yet there are clearly common challenges inherent in the governance of any foundation. Certain activities are almost invariably performed, such as assessing investment performance or approving grants. Others are less consistently practiced, such as assessing the foundation's overall performance or the performance of the board itself. Our conversations with those in the field revealed intense interest among CEOs, board members, and others in obtaining more empirical data about the activities of foundation boards.

It is for these reasons that, in early 2003, the Center for Effective Philanthropy began planning a study of foundation governance. In September 2003, the Center launched the preliminary phase of the Foundation Governance Project by surveying CEOs of the largest 250 grantmaking foundations in the country regarding their views of their relationships with their boards.[3] This paper reports on the results of that survey.

The Center's 32-question survey of CEOs covered a range of questions related to board functioning, perceptions of board effectiveness, as well as responses to current political and economic realities. (See www.effectivephilanthropy.org for the survey instrument.) 129 completed responses were received from foundations with roughly $65 billion in total assets, providing a 52 percent response rate. (For a breakdown of respondents by foundation type, asset size, and region, please see Appendix A.)

The CEO survey is Phase I of what we envision as a much larger and more involved study that will take place during 2004. Phase II will involve an in-depth look at the boards of a number of large foundations – including surveys, interviews, and detailed analysis of board agendas and materials. From these and other analyses, the Center hopes to develop new insights that will be of practical value in improving the effectiveness of foundation boards and, by extension, of the foundations they govern.

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2 See *Toward a Common Language: Listening to Foundation CEOs and Other Experts in Philanthropy* (2002) and *Indicators of Effectiveness: Understanding and Improving Foundation Performance* (2002), available from the Center's website at www.effectivephilanthropy.org.

3 Largest 250 grantmaking foundations, excluding operating and corporate foundations, based on most recently available asset size data as of August 2003. Survey instrument was mailed to respondents, who had the option to respond on paper or online.

Discussion of Findings

Foundation Governance in the Spotlight

It is evident that the recent scrutiny of foundation boards by the media and the questioning of foundation practices by lawmakers have captured the attention of foundation trustees. Open-ended comments from CEOs suggest significant concern related to the questions that have been raised regarding foundation governance. "I am very concerned about the number of foundations not following ethical or wise practice," said one CEO. "I hope we can 'police' our own somehow without IRS/legislative remedies that hurt those of us who follow good practices."

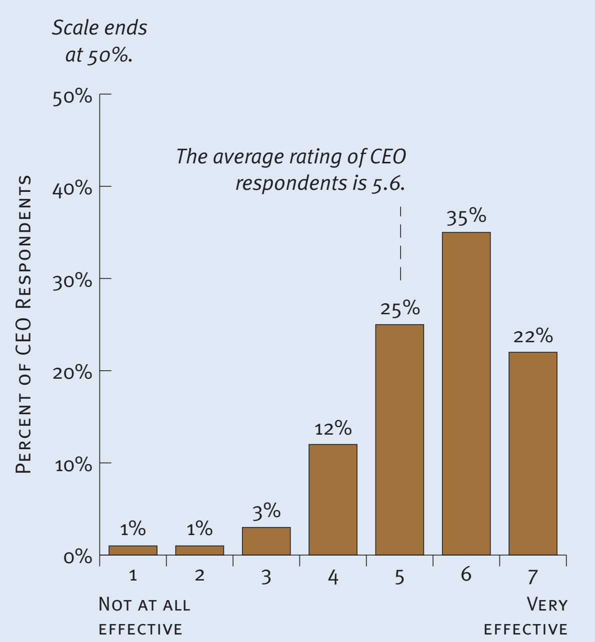
The vast majority of respondents' boards have discussed governance responsibilities in light of this recent scrutiny and a third have initiated changes in board functioning as a result. (See Sidebar, *Typical Changes in Response to Scrutiny*.) One CEO whose board has made changes was typical of other respondents, noting that "while not bound by Sarbanes-Oxley, we have formally expressed a commitment to abide by the spirit of that legislation to the extent its provisions can be applied to a nonprofit."

These changes, while important to ensuring adequate levels of attention to transparency and basic legal and fiduciary responsibility, do not seem to be linked closely to the factors associated with the overall effectiveness of the board, at least from foundation CEOs' perspectives. Although financial accountability, appropriate committee structures, and conflict of interest policies are necessary and important aspects of good governance, our analysis of the responses to the Center's CEO survey indicates that the active engagement of foundation trustees in key activities related to the substantive work of the foundation is significantly more fundamental to CEO perceptions of board effectiveness.

Perceptions of Effectiveness

Although there is a fair distribution in their assessments, CEOs generally perceive their own boards to be effective (see Figure 1). These positive perceptions seem to be driven by an appreciation for the commitment of trustees to the work of the foundation. In open-ended comments, many CEOs described the motivations of their trustees in terms of their deep concern for the issues being addressed and the needs of those being helped by their foundation's work. One CEO commented, "As civic leaders, board members of the foundation work in many different areas to be

Fig. 1 Effectiveness of the Board



Typical Changes in Response to Scrutiny

One-third of the foundation boards surveyed have made changes in response to the recent corporate governance scandals and increased media and legislative scrutiny of foundation practices. These changes typically fall into three categories:

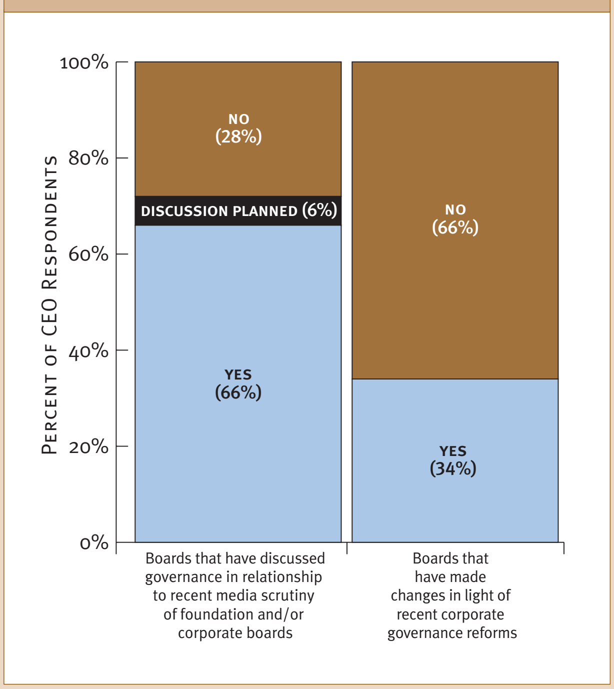
1. **Committee structures and assignments.** CEOs report that their boards have established audit committees where none previously existed or changed the composition and leadership of committees to diffuse responsibilities more broadly among trustees.

2. **Sign-off or review of public filings.** A number of foundations have begun to require either a board review of foundation's 990-PF federal tax return filings or that the CEO and/or CFO sign off on the filings and personally attest to their accuracy.

3. **Review and revision of policies.** A number of CEOs report new policies that have been put in place, or are under development, especially in regard to conflict of interest.

Community foundations were more likely than private foundations to have made changes in governance practices, with 56% reporting changes compared to 30% of the private foundations. As discussed throughout this report, procedural changes such as these can improve the transparency and accountability of foundations, thereby improving governance practices; however, these changes do not seem to affect the factors highlighted by CEOs as most relevant to the effectiveness of their boards.

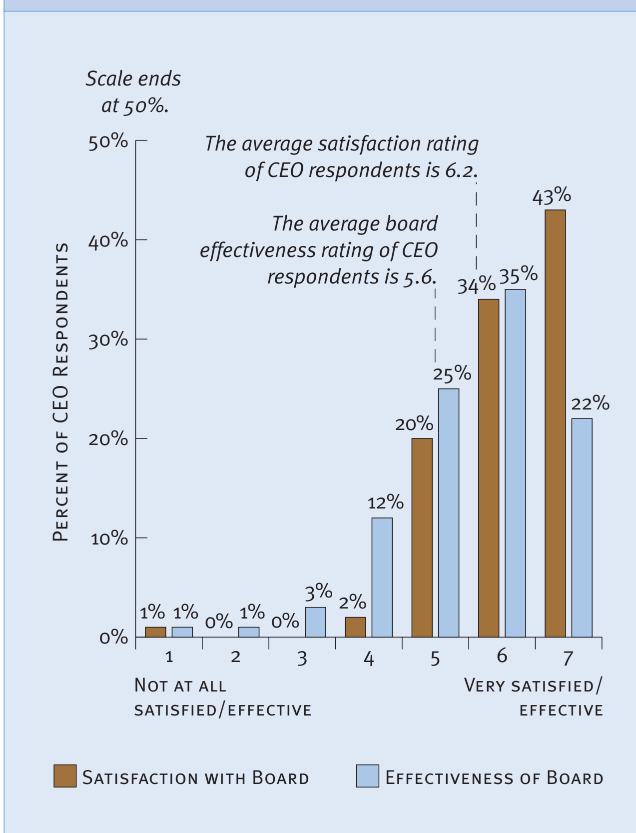
Foundation Governance Reforms Related to Media Scrutiny and Corporate Governance Reforms



catalyst[s] for change. Service on this board represents support for the mission and values of the Foundation as a vehicle for social change." Similarly, a community foundation CEO described his trustees' "commitment to the community and the concept of a community foundation," and a family foundation CEO described his board members' strong feelings of "responsibility to carry out the wishes of the donor."

However, CEOs' perceptions of the effectiveness of their boards are not necessarily the same as their perceptions of their relationships with their boards. Overall, CEOs have a more positive assessment of their own relationships with their boards (see Figure 2) than they do the effectiveness of their boards. Viewed together, the data imply that CEOs can distinguish between the quality of their relationships with their boards and the effectiveness of their boards. This raises the question of what, exactly, drives CEOs' perceptions of board effectiveness.

Fig. 2 Satisfaction with Relationship with the Board



Rather than asking CEOs to define "effectiveness" directly, we identified the underlying drivers behind their ranking of board effectiveness through statistical analysis of many characteristics of board structure and function covered in the survey (see Figure 3).[4] The results have significant implications for foundation boards, CEOs, senior executives, and staff. In order of importance, the following five attributes are the best predictors of CEO perceptions of increased effectiveness of their boards among the issues addressed in our survey:

- High level of involvement in assessing overall foundation performance;
- Ability to bring thought-provoking and important concerns to the CEO;
- A lower proportion of family members serving on the board;
- The occurrence of a board-level discussion of governance responsibilities in response to recent media scrutiny; and
- High level of board involvement in representing the foundation to the public.

Engagement, especially in certain key activities, appears to be the common thread linking four of the five drivers of effectiveness.

Engagement in performance assessment is the single most significant driver of perceptions of effectiveness but three of the other four drivers also relate to the issue of board engagement. The ability to bring thought-provoking concerns to the CEO and the occurrence of a board-level discussion of governance responsibilities in response to recent scrutiny also suggest a high level of knowledge and proactivity on the part of foundation board members. In addition, the level of involvement in representing the foundation to the public clearly relates to the continuous engagement of trustees in the work of the foundation.

The one exception to this theme among the drivers of effectiveness is the negative effect of the proportion of the donor's family members on the board. (See

Fig. 3 CEO Perceptions of Board Effectiveness

Factors that Influence CEO Perceptions of Board Effectiveness	Explanatory Power
Increasing levels of board involvement in assessing the Foundation's overall performance	34%
Increasing quality of concerns that the board brings to the CEO	25%
Occurrence (or scheduling) of a board-level discussion of governance responsibilities in response to recent media scrutiny of foundation and/or corporate boards	16%
Decreasing percentage of family members on the board	15%
Increasing level of board involvement in representing the Foundation to the public	9%
% of Explainable Variance in Perceptions of Effectiveness	= 100% R^2=0.56

1: Due to rounding of decimals, explanatory power of factors in this figure sum to 99%.
Note: Model is a stepwise, mean substitution regression. Five of 129 responses were excluded in this regression analysis due to exceptional board structure in which board members spend more than 600 hours per year outside of board meetings on foundation-related matters.

4 The Center also performed stepwise regression analysis to determine the drivers of CEOs' satisfaction with their relationships with their boards. In order of explanatory power, higher attendance at board meetings, more board involvement in the CEO evaluation, higher quality of concerns that the board brings to the CEO, more board involvement in assessing the foundation's social impact, and shorter board meetings are significantly correlated with higher ratings of satisfaction. R-squared=0.39.

Family Dynamics: Donor Family and Board Effectiveness

The presence of family members on the board tends to lower CEO perceptions of a board's effectiveness (see Figure 3), although it does not alter perceptions of satisfaction with the relationship between the CEO and the board. Said one CEO, "Each board member brings personal eccentricities and family baggage to the foundation table. I work hard to keep them focused on the philanthropic agenda and foundation business — recognizing the family issues, but building trust with each individual…."

The data suggest that there are several significant differences between boards with family members and those without.[1] CEOs of foundations that have members of the donor family on the board describe their boards as less actively engaged, more motivated by personal agendas, and less essential to foundation effectiveness.[2] Family foundation board members also provide less subject-specific expertise and are less likely to engage in formal assessment processes: only 69 percent report a formal, consistent process for evaluating the performance of the CEO, compared to 85 percent of private foundations with no family on the board and 100 percent of community foundations.

Power dynamics within the board are, predictably, described as much more complicated by CEOs of family foundations. Another CEO wrote, "as a family foundation, some of our directors' interests are strongly shaped by a personal relationship with members of the family and making sure that those family members' agendas are 'protected' or 'positioned.' Other board members are more strongly motivated by their values and commitments to the foundation's work."

Another CEO described what is essentially a two-tiered board arrangement, with family members in control. "The directors basically 'rubber-stamp' all decisions made by the family." In an additional sign of the degree of family control that exists at some family foundations, a larger proportion of CEOs of foundations with family on the board reported that board members receive discretionary funds for grantmaking with little or no staff involvement.

The comments of CEOs of some foundations with family members revealed a level of concern not seen in the responses of those whose boards lack family members.[3] One CEO wrote that "internal family dynamics are the biggest challenge" and noted that "there is no external fix for this." Were it not for these dynamics, this CEO wrote, "the board is otherwise very capable of making even greater contributions to the foundation's effectiveness." Another echoed these sentiments: "In a family foundation… [there are] family dynamics that sometimes demand time disproportionate to the issues at stake." The result, this CEO concluded, is "less [time] for program strategy and development."

The solution to these challenges is not yet clear. The participation of family members on a foundation's board does not necessarily diminish its effectiveness. Several of the CEOs in this survey who rated their boards most highly have significant numbers of family members on their boards. This is further corroborated by data from the Center's research into grantee perceptions, in which family foundations sometimes perform extremely well.[4]

From a governance perspective, however, family boards may tend to rely more on fidelity to donor intent and the satisfaction of family members as the primary measures of their performance, rather than engaging in key activities that CEOs appear to associate with greater effectiveness, such as foundation performance assessment. This may be the result of a difference in the perspective of the trustees regarding the public accountability of family foundations compared to independent or community foundations. In the words of one of the CEOs quoted above, "the challenge is to elevate their sense of duty or responsibility to the outside world — beyond the family….They also need to see the money more as money in the public trust — rather than family money in a foundation."

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1 Family foundation boards tend to be smaller than the average foundation board. However, these differences described in this sidebar are attributable solely to the family aspect. In fact, among private foundations with no family members, smaller foundation boards tend to be rated as more effective. All differences in means between boards with and without members of the donor family are significant at least on a 90% confidence interval.

2 CEOs were asked how well a series of adjectives described their boards.

3 CEOs are generally not members of the donor family, although our survey did not ask CEOs directly whether they are related to the donor.

4 The Center for Effective Philanthropy has, in 2003, surveyed 11,000 grantees of 58 foundations, receiving more than 6,000 completed responses. More than 20 of those foundations have commissioned Grantee Perception Reports on their relative performance as viewed by their grantees. A paper on the field-wide implications of our analysis of this data set will be released in early 2004.

sidebar, *Family Dynamics*.) This is a challenging finding because it is a characteristic that applies to a large proportion of existing foundations, and not one that lends itself to easy change. (See sidebar, *Appointed for Life?*) However, there is evidence to suggest that the impact of family representation is not always a negative and, indeed, a number of family foundations in our sample were rated at the highest level of effectiveness. More research will certainly be needed to explore this issue — and to better understand the practices of highly effective family foundation boards.

Other structural factors of the board and foundation appear to be less systematically important in predicting perceived effectiveness of boards. While discussing governance structure and responsibilities in light of recent scrutiny does play a role in explaining the variation, the actual choices regarding structure do not. In fact, the existence of specific committees of the board, the number of board members, and the frequency of evaluation of the CEO or of the board itself do not appear to be highly associated with perceived effectiveness. (See Appendix B for complete data on Board Characteristics.) In other words, many different board structures can generate an environment for boards to engage productively in the work of the foundations they oversee.

In light of the apparent importance of level of engagement in driving perceptions of effectiveness, we sought to further explore the differences in levels of involvement between foundation boards perceived to be highly effective and those perceived as the least effective. The results are striking.

The Level and Nature of Engagement Among Boards Rated Most Effective

Segmenting the survey responses by CEOs who rate their boards as extremely effective (7 on a 1-7 scale) and those who rate their boards minimally or moderately effective (1-4 on the same scale) reveals sharp differences in both the level and the nature of reported board involvement. Across almost every activity, those boards rated most effective are significantly more involved. For example, boards rated as highly effective tend to meet more frequently, with a mean of nearly 50 percent more meetings per year than the less effective group. In addition, their members appear to spend substantially more time on foundation business outside of formal meetings — the median hours spent outside of meetings for boards rated highly effective is twice that of the group rated as less effective (see Figure 4).[5]

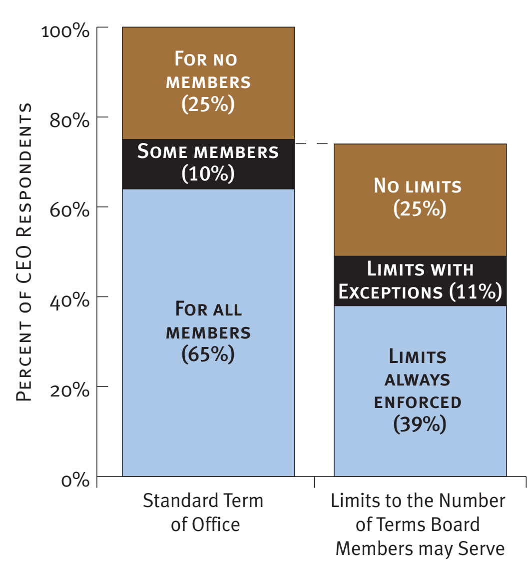
Appointed for Life?: Inconsistent Application of Term Limits

Data on the existence – and enforcement – of terms and term limits for trustees suggest that the composition of foundation boards does not change often.

Board turnover – and therefore the opportunity to bring on members with new energy and perspectives – is impeded by a lack of consistently enforced term limits. Only 39 percent of CEOs said their boards have term limits that are "always enforced."

The likelihood of foundations to have consistently enforced term limits varies significantly by foundation type. Family foundations are least likely and community foundations most likely to adhere to term limits.

Standard Terms of Office and Term Limits



5 Note that, due to the large standard deviation and small sample size, the differences in average time spent outside of meetings is not statistically significant at a 90 percent confidence interval.

Fig. 4 Time Spent is Higher for Boards Seen as More Effective

	Mean annual number of board meetings[1]	Hours spent annually on Foundation business outside board meetings[2]
Extremely Effective (Rated 7)	5.6	mean/median 74/50
Not or Moderately Effective (Rated 1-4)	3.8	mean/median 55/25

1 Statistically significant difference in means at a 90 percent confidence interval.

2 Responses from CEOs of five Foundations who estimated that their board members spent more than 600 hours are excluded in the mean and median calculations. Difference in hours spent outside of board meetings is not statistically significant due to large standard deviations.

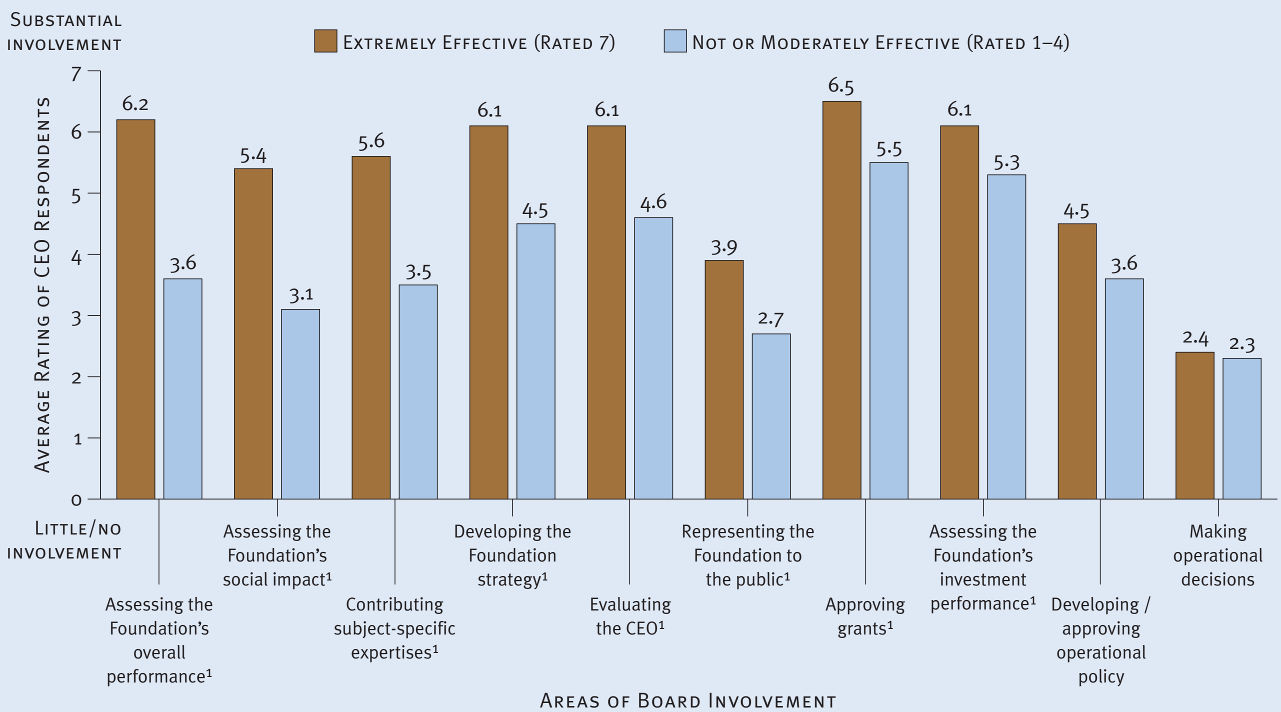
Note: Averages are based on the responses of 21 CEOs who gave their boards an effectiveness rating of 4 or less and 28 CEOs who gave their boards an effectiveness rating of 7.

The difference in degree of engagement, however, is not merely about the amount of time spent. Examining the frequency of specific activities reported by the two groups reveals that the difference is not only in the level of involvement, but also in the nature of that involvement (see Figure 5).

Those boards rated as highly effective are only slightly more involved in the basic activities of approving grants, making operational decisions and assessing the foundation's investment performance. On virtually every other activity, however, a substantial difference in the degree of involvement can be observed. Six activities, in particular, reflect the largest variations between boards rated as highly effective and those rated as less effective. They are:

- Assessing the foundation's overall performance;
- Assessing the foundation's social impact;
- Contributing subject-specific expertise;

Fig. 5 Involvement in Foundation Activities



1 Statistically significant difference in means at a 95 percent confidence interval.
Note: Averages are based on the responses of 21 CEOs who gave their boards an effectiveness rating of 4 or less and 28 CEOs who gave their boards an effectiveness rating of 7.

Board Compensation: Pay Buys More Time from Trustees

Recent scrutiny of foundation governance has included significant attention to the question of board compensation, with stories in *The New York Times*, *The Boston Globe* and other major newspapers. These reports have included examples of pay levels at foundations that are indisputably excessive – including examples of trustee compensation that exceed grantmaking budgets.

Among the respondents to our survey, 53 percent of independent family foundations, 74 percent of non-family foundations, and none of the community foundations compensate at least some of their trustees. The median pay of trustees of those foundations whose CEOs reported that their boards are compensated is $22,000. Viewed on an hourly basis, the median pay is $324 per hour.[1] Among those that do compensate at least some of their trustees, 26 percent of non-family and 6 percent of family foundations are currently reviewing their compensation policies.

One CEO remarked that "The donor named only [a set number of] people to serve as trustees, and these people take this responsibility seriously. They are also paid, which I think binds them to their responsibility absolutely. They expect each other to participate 100 percent of the time, and they do."

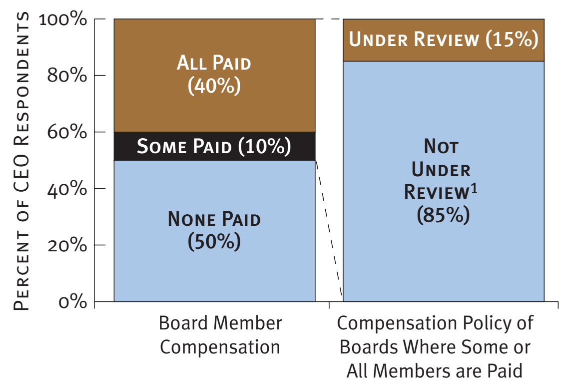
Proponents of compensating foundation trustees sometimes assert, among other arguments, that compensation may lead board members to put in more hours of service to the foundation. In fact, the Center's survey data tends to support this conclusion. There is a statistically significant difference in CEOs' estimations of the number of hours spent on foundation business outside board meetings between those who compensate all of their board members and those who compensate none.[2] The relationship between average compensation of board members[3] and CEOs' perceptions of time spent on foundation business by board members appears to be linear in nature, indicating that higher levels of compensation correlate with greater commitments of time.

On the other hand, there is no statistically significant difference in CEO perceptions of effectiveness between compensated and uncompensated boards. Therefore, one cannot conclude definitively on the basis of this sample that boards that compensate their members are reported by their CEOs to be either more or less effective.

Foundation trustees often receive another, less publicized or discussed perquisite: the ability to make grants with little or no involvement from program staff – often referred to as "trustees' discretionary grants." Unlike trustee compensation, disclosure of this benefit is not required on the IRS-990PF tax filing and is therefore not publicly available information. One third of CEOs report that their directors have the ability to make such grants: of those, the amount under the discretion of trustees range widely from many millions to a few thousand dollars. The median value of discretionary grant budgets in our sample is $43,000, and this benefit was enjoyed equally by trustees who were compensated and those who were not.

Further research is needed to understand whether there are differences in the composition, performance, and motivations of community foundation boards, none of which were compensated in our sample, compared to private foundation boards, a majority of which were compensated.

Board Compensation Policies



1 No boards where some, but not all, members are compensated are reviewing compensation policy.

Relationship between Compensation and Board Effectiveness and Time Spent

	CEO perception of overall effectiveness rating (1-7 scale)	CEO estimate of hours spent by Board members on Foundation business outside meetings[1]
All compensated Board members	Mean 5.8	Mean[2]/Median 71/40
No compensated Board members	Mean 5.5	Mean[2]/Median 42/30

1 Responses from CEOs of five Foundations who estimated that their Board members spent more than 600 hours are excluded in the mean and median calculations.

2 Statistically significant difference in means at a 95 percent confidence interval.

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1 Data on board member compensation collected from 2001 990-PF filings. Average compensation levels range from $500 to $175,000. Hours spent by board members include both CEO perceptions of time in board meetings and time spent on foundation-related matters outside board meetings.

2 This analysis of compensation and time spent on foundation matters outside the board meeting does not explain causality: whether board members spend more time because they are paid or whether board members are paid because they spend more time.

3 Average board member compensation determined from 2001 990-PF filings.

• Developing the foundation strategy;

• Evaluating the CEO; and

• Representing the foundation to the public.

Those boards rated as most effective not only spend more time on foundation matters, but are substantially more engaged in assessing foundation performance and social impact, as well as developing strategy and contributing to the understanding of the fields being funded.

These findings tend to refute the idea that CEOs would define board effectiveness as simply providing the CEO wide latitude or taking a "hands-off" approach. In fact, this data corroborates earlier findings by the Center's research that CEOs would like more, rather than less, board involvement in assessing foundation performance.[6]

Community Foundations: Key Differences

Responses from community foundation CEOs comprised 20 percent of survey responses. Not surprisingly, given the distinct roles of community foundations, and the imperative to fundraise from which most private foundations are free, significant differences exist between responses from community and private foundation CEOs related to the structure and size of the board. For example, the average board size of community foundation respondents is 19 members compared to nine for private foundations – and no community foundation respondents reported compensating their board members. However, many other responses tend to follow the same pattern as private foundations – with a similar distribution of CEO views on effectiveness. This suggests that, while community foundations clearly have distinct challenges and practices, private and community foundation boards can learn from each other about ways to increase their effectiveness. For a detailed breakdown of selected data by foundation type, see Appendix B.

The data also seem to reflect a broader shift in the expectations of board governance from addressing basic "operational" aspects, such as approving grant dockets or reviewing investments, toward the more substantive issues of policy, strategy, and social impact. Open-ended comments by a number of CEOs described this as a growing and positive trend – and effective boards are described as substantially less bogged down in details.[7] One CEO suggested that his board could become more effective by making "a full commitment to the policy planning and program oversight role and a final abandonment of the old attachment to micro-management of the grant-making function." Another CEO described the need for "better information on overall foundation effectiveness" at the board level. "We are currently creating an annual scorecard to measure organizational health, strategy effectiveness, reputation and influence, and overall effectiveness." Other comments answering the question "what would make your board more effective" echoed this sentiment:

• "More time invested in policy change and strategy development. [They] spend too much time on small grants and not enough time looking at the big picture."

• "A willingness to meet outside the boardroom for non-agenda discussions and review of larger aspects of the foundation's mission."

• "Even stronger measures of our performance and the impact of our work."

• "A clearer strategic sense of the foundation's directions."

• "Board needs to focus more on individual and collective self-assessment."

6 *Indicators of Effectiveness*, page 6.

7 CEOs were asked how well a series of adjectives described their board. On the dimension of "bogged down in details," there was – not surprisingly – a significant difference in perceptions of those who saw their boards as more effective and those who saw their boards as less effective.

Board Demographics

The typical board of a respondent foundation has 11 members. More than 80 percent have at least one committee: the most common committee is Investment (77 percent report having such a committee); followed by Finance/Budget (65 percent); Audit (60 percent); Governance/Trusteeship/Nominating (61 percent); Executive (48 percent); Grant Review (34 percent); and a variety of other, less frequently cited committees.

Fifty percent of respondents report that at least one member of the donor family serves on the board; of those, the average number of family members is 3.9. These boards tend to be smaller than the overall average – with an average size of just 8.9.

Detailed data on foundations' board operations can also be found in the Council on Foundations' Foundation Management Series. The Council surveys a much more diverse group of foundations in terms of asset size, and focuses primarily on questions of board process and structure – rather than perceptions of effectiveness. However, the data covers a wide range of topics, and for those specific areas where our survey overlaps with theirs – such as board size, number of meetings, percent compensated, etc. – our results are similar.

On the other hand, a third of foundation CEOs report that their foundations do not have a board-approved strategic plan, suggesting that many boards — even among the 250 largest foundations in the U.S. — are still not engaging key issues related to the link between their foundations' activities and desired outcomes.

Fostering change in board responsibilities is further complicated by the apparent lack of formal self-reflection or self-review by trustees themselves. Just 21 percent of CEOs report that their boards have a formal, consistent process for evaluating their own functioning and performance.

The practical reality, however, is that increasing the level of engagement of board members can be difficult. Many open-ended comments by CEOs referred to the lack of time their board members have for the demands of board service. One CEO wrote, "Our trustees are afforded numerous opportunities to be engaged in discussions about different policy issues, governance matters, strategic planning, the future of [our program areas], innovative investment strategies and trends in the nonprofit sector, but the reality is that our trustees do not have enough time away from their other pursuits."

Whether board members make sufficient time for their responsibilities depends, of course, on what they consider those responsibilities to be. Any serious discussion of this issue will depend on the data gathered from board members themselves during the next phase of the Center's research. It is possible, however, that foundation CEOs have begun to develop higher expectations for board governance than have many board members themselves.

In the Center's earlier research on foundation performance metrics, we described three primary areas in which boards add value to foundation work:

- Stewardship of foundation resources;
- Accountability; and
- Active engagement in furthering the foundation's mission.[8]

There is ample evidence, in CEO comments about the dedication of trustees to the mission of the foundation and, where applicable, the intent of the donor, as well as in the regular review of investment performance, that the responsibilities of stewardship are well served by most foundation boards in our sample. It is also clear that a majority of boards have responded to external scrutiny by focusing on policies and practices that increase accountability. However, it is the third aspect of governance — active engagement — about which the least research has been published and yet where the CEOs' perceptions of board effectiveness seem most firmly rooted.

8 *Indicators of Effectiveness*, pages 13 and 36.

Conclusion

It is clear that many foundation CEOs and their boards understand that a new level of scrutiny is upon them.

Our analysis of CEO responses suggests that the critical challenge, however, is to seize upon the current dynamics not simply to institute new policies on conflict of interest, or to reassign committee responsibilities, but rather more fundamentally to re-examine the board's role and engagement. Doing so, however, will require boards to be more self-reflective than they currently appear to be – given that so few currently engage in self-assessment.

The path to improving the performance of less effective foundation boards – based, at least, on CEO perceptions – seems to call for basic changes in the level and nature of board activities. As noted earlier, a third of foundation CEOs reported that their foundations had no board-approved strategic plan, which raises the question – under what construct are decisions made or performance judged? This, in some ways, is a more fundamental problem than the kind of problem remedied by board review of a foundation's tax filings or the establishment of a new committee structure.

This view – that "accountability" basics are being stressed at the expense of more fundamental problems in board functioning – has been articulated by others in the larger context of nonprofit governance:

> *By focusing primarily on accountability, we have created a job [trusteeship] without a compelling purpose. As a result, board members become disengaged. And the more disengaged they are, the less likely trustees are to ensure accountability – the very reason we created boards in the first place... In recent years, the field of nonprofit governance has approached the challenge of board improvement by continually trying to narrow the scope of the proper work for boards to a set of canonical responsibilities… [T]his approach should be reconsidered… Rather than narrowing our sense of the board's work, we should try to broaden it.*[9]

Our findings to date support this argument. The key question then becomes how to define a role for foundation boards that is most likely to contribute to the effectiveness of foundations? More specifically, we will explore several questions in the next phase of this project:

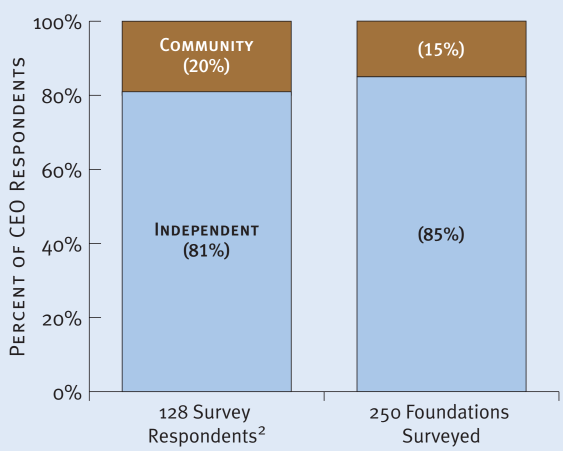
- First, do board members' perceptions of their effectiveness and responsibilities correspond to those of CEOs? Are the same activities seen as key drivers of board effectiveness?
- Second, if board members also see more engagement in a variety of activities – and especially in performance assessment – as essential to effectiveness, what impedes that engagement? How can they best be motivated to step up engagement in key activities? And how can CEOs raise their expectations of board performance without jeopardizing their own relationships with their boards?
- Third, to what extent do board members believe CEOs and staff serve as facilitators or impediments to engagement in those key activities?
- Finally, what data, methodologies, and management tools do CEOs and boards need to effectively engage in these additional activities?

Our hope is that, through the development of data and in-depth explorations of board perspectives and experiences, we can build upon the findings discussed here and identify key practices of foundation boards as perceived by both trustees and CEOs. Such an effort, if successful, will offer boards access to resources that do not currently exist, leading to improved board functioning and – we believe – more effective foundations.

9 Ryan, William P., Richard P. Chait, and Barbara E. Taylor. "Problem Boards or Board Problem?" *The Nonprofit Quarterly*, Summer 2003.

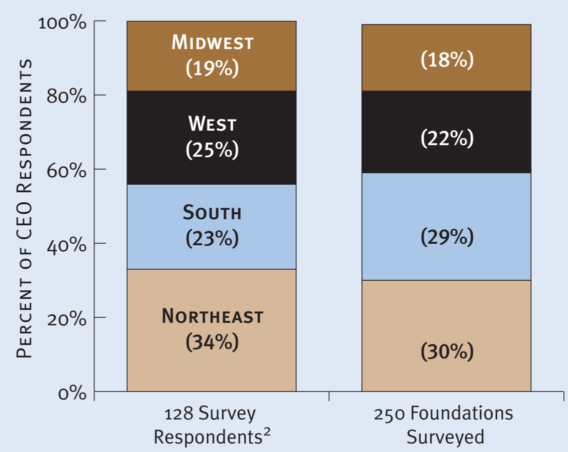
Appendix A: Respondent Foundation Characteristics

Foundation Type[1]



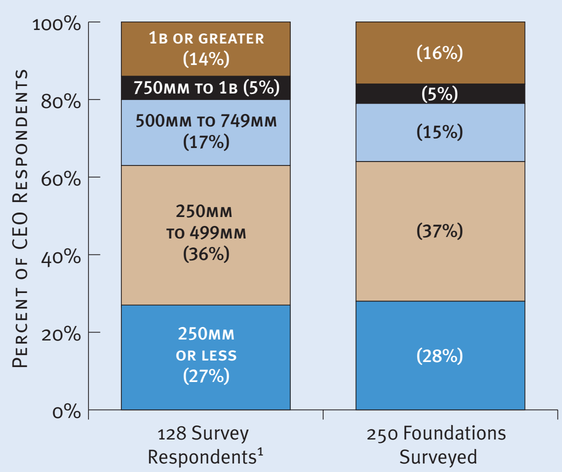
1 Foundation type is that reported by The Foundation Center.
2 One response was anonymous and uncategorizable.

Foundation Geography[1]



1 Foundation regions are those defined by the U.S. Bureau of Census.
2 One response was anonymous and uncategorizable.

Foundation Asset Size Y2001



1 One response was anonymous and uncategorizable.

Appendix B:
Board Structural Characteristics

	Independent With Family	Independent Without Family	Community	All Responses
1. Respondent Foundations				
Number of responses	64	39	25	128*
Percent of responses	50%	30%	20%	100%
**One response was anonymous and uncategorizable*				
2. Number and Length of Board Meetings				
Average number of times the board meets in a typical year	4.2	5.4	4.9	4.7
Average length of board meetings (hours)	6.5	6.3	2.8	5.7
Average of average time spent annually per board member on foundation-related matters outside of meetings (hours)	63	57	45	58
Median of average time spent annually per board member on foundation-related matters outside of meetings (hours)	40	40	30	40
3. Board Meetings				
CEO attends meetings of the board	100%	97%	100%	99%
CEO is a voting member of the board	38%	56%	14%	39%
Percentage of board members at a typical meeting	96%	96%	84%	94%
Board meets in executive session	81%	87%	92%	85%
Chief executive participates in these sessions	68%	71%	70%	69%
4. Board Structure				
Average total number of board members	8.9	9.6	19.0	11.1
Average number of members who are members of the donor family	3.9	N/A	N/A	N/A
Average percentage of board members who are of the donor family	49%	N/A	N/A	N/A
5. Committee Structure				
Does the board have Committees	73%	85%	100%	82%
Audit committee	48%	70%	72%	60%
Executive committee	45%	33%	72%	48%
External relations/communications committee	2%	6%	24%	9%
Finance / budget committee	57%	67%	76%	65%
Governance/trusteeship/nominating committee	43%	73%	80%	61%
Grant consideration/ review committee	21%	27%	68%	34%
Investment committee	72%	70%	96%	77%
Personnel committee	26%	12%	12%	18%
Program specific committee	15%	6%	40%	18%
Proxy voting/shareholder responsibility committee	2%	0%	0%	1%
Strategic planning committee	6%	3%	32%	11%
Other committee(s)	28%	39%	20%	30%

	Independent With Family	Independent Without Family	Community	All Responses
6. Standard Terms of Office and Limits to Terms Served				
Board members have a standard term of office	61%	82%	100%	75%
All have standard terms	47%	72%	100%	65%
Only some have standard terms	14%	10%	0%	10%
Average length of typical term (in years)	4.8	3.8	4.8	4.5
Board members have limits to the number of terms they may serve	42%	68%	100%	66%
Limits are always enforced	24%	61%	84%	52%
Sometimes exceptions are made	18%	6%	16%	14%
7. Board Compensation				
The Foundation compensates board members	53%	74%	0%	49%
All board members are paid	37%	69%	N/A	40%
Some board members are paid	17%	5%	N/A	10%
The board compensation policy is currently under review	3%	19%	0%	8%
8. Discretionary Grantmaking				
Board members have discretionary funds from which they can make grants with little or no staff involvement	42%	31%	16%	33%
Average Board member discretionary grantmaking budget*	$47,996	$67,083	$29,250	$321,133
Median Board member discretionary grantmaking budget	$39,000	$50,000	$7,500	$43,000
**Two responses were excluded from average in which CEOs reported board members have discretionary grantmaking budgets of $10MM and $70MM.*				
9. Board Evaluation				
There is a formal, consistent process for evaluation of the functioning and performance of the board	14%	21%	40%	21%
Participation				
The entire board participates	56%	75%	60%	63%
The chairman of the board participates	33%	38%	60%	44%
A subgroup/committee of the board participates	33%	63%	70%	56%
The chief executive participates	33%	13%	60%	37%
Senior staff member(s) participates	0%	25%	20%	15%
External reviewer(s) participates	11%	0%	10%	7%
Frequency				
The board is evaluated multiple times per year	33%	75%	60%	56%
The board is evaluated every year	22%	25%	20%	22%
The board is evaluated every other year	11%	0%	10%	7%
The board is evaluated every 3–5 years	33%	0%	10%	15%

	Independent With Family	Independent Without Family	Community	All Responses
10. Chief Executive Evaluation				
There is a formal, consistent process for evaluation of the functioning and performance of the chief executive	69%	85%	100%	80%
Participation				
The entire board participates	64%	58%	58%	60%
The chairman of the board participates	39%	42%	38%	40%
A subgroup / committee of the board participates	34%	30%	58%	39%
Senior staff member(s) participates	5%	3%	8%	5%
External reviewer(s) participates	5%	3%	4%	4%
Others participate	0%	12%	8%	6%
11. Strategic Plan				
Foundation has a strategic plan	58%	69%	88%	67%
12. Review of Program Areas				
Board has a regular process for reviewing performace of program areas	69%	72%	68%	70%
Frequency				
These reviews take place multiple times per year	50%	54%	41%	49%
These reviews take place every year	20%	25%	29%	24%
These reviews take place every other year	8%	11%	6%	8%
These reviews take place every 3-5 years	20%	11%	24%	18%
More than 5 years between reviews	3%	0%	0%	1%
13. CEO / Board Communication				
Average hours spent in total each month talking to board members outside of regular board and committee meetings	16.3	13.5	12.0	14.7
14. Grant Payout				
Foundation's grant payout in 2004 compared to payout in 2003 will decrease as a percentage of assets	8%	14%	10%	10%
Foundation's grant payout in 2004 compared to payout in 2003 will remain the same as a percentage of assets	69%	56%	67%	64%
Foundation's grant payout in 2004 compared to payout in 2003 will increase as a percentage of assets	23%	31%	24%	25%
15. Responses to Media Scrutiny and/or Corporate Governance Reforms				
Have had or scheduled a board-level discussion of governance responsibilities in response to recent media scrutiny of foundations and/or corporate boards	68%	79%	76%	73%
Have not scheduled a board-level discussion of governance responsibilities in response to recent media scrutiny of foundations and/or corporate boards	32%	21%	24%	27%
Changed any governance practices in light of recent corporate governance reforms	30%	29%	56%	35%

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.

Funders

Major current funders include The Atlantic Philanthropies, Surdna Foundation, the David and Lucile Packard Foundation, The John D. and Catherine T. MacArthur Foundation, Charles Stewart Mott Foundation, Rockefeller Brothers Fund, and the Charles and Helen Schwab Foundation.

THE CENTER FOR
EFFECTIVE PHILANTHROPY

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

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EFFECTIVE PHILANTHROPY

678 Massachusetts Avenue, Suite 903
Cambridge, MA 02139