Effective Foundation Management: 14 Challenges of Philanthropic Leadership—And How to Outfox Them

Challenge #3: Lack of a Salutary External Discipline

Foundation Freedom: Blessing or Curse?

Samuel Johnson memorably wrote, "Be dependent on it, Sir, when a man knows he is to be hanged in a fortnight, it concentrates his mind wonderfully." Foundation leaders, however, know that they are unlikely ever to be hanged, literally or even figuratively, so what can concentrate their minds? It may seem like a strange sentiment to bewail the field's lack of external threats, but just as a dangerous predator benefits the herd by culling the weak and the sick, external threats make organizations get better. Foundations have no significant external threats, so what can provide them with the discipline needed to improve their performance?

Foundations are virtually alone among society's organizations in lacking such an external discipline. Commercial enterprises have a salutary external discipline called "the market." If a company does not effectively compete by offering goods or services that its customers want or can afford, the market will punish it swiftly and brutally. Those corporations that learn lessons from the market prosper, while the landscape of commerce is littered with the carcasses of those that failed to learn fast enough.

In government, too, there is a salutary external discipline, called "the electorate." If a politician fails to adequately represent the wishes and desires of her constituents, she is likely to find herself, come the next election, on the underside of a landslide. Those who listen and learn, however, get re-elected. Like bankruptcy in the commercial sector, electoral defeat in the government sector is rough, but highly effective, justice.

In most of the nonprofit sector, too, there is a salutary external discipline. If an environmental nonprofit, for example, is perceived as less effective than similar organizations, its constituents will turn to the more effective ones, both with their volunteer hours and their donations. The discipline may not be as swift or as brutal as that meted out by the market or the electorate, but it still benefits the nonprofit "herd" in the long run.

Only in the foundation world is there no salutary external discipline, or at least none powerful enough to compel foundation leaders' notice and respect. Foundations exist in a world with no effective competition, no customers as such, and no constituents. No matter how poorly a foundation performs, there is no chance that another funder will put it out of business, or that its applicants will boycott it, or that its grantees will vote the foundation's leaders out of office. Foundation leaders may not win any popularity contests, but no outside force can threaten their job security. And even though foundations are nonprofits, they are not (with the exception of community foundations) beholden to donors or volunteers, for their endowments cover all of their operating needs. Only a foundation's board of trustees provides oversight for its activities, so its CEO and officers naturally look inward, not outward, for their discipline.

Foundations, of course, are not devoid of legal oversight. Every one of them is subject to the laws and regulations of the federal government, as expressed through the Internal Revenue Code, and the laws and regulations of the state in which it is chartered, as expressed through that state's attorney-general. This oversight, however, confers only minimal constraints upon foundations. These laws and regulations are mainly mechanical: they do not address quality of operation, or effectiveness of outcomes. As long as a private foundation pays out 5% of its net asset value to eligible nonprofit grantees, for example, it has satisfied the Internal Revenue Service and its state's attorney-general, even if all of the grants made were ill-advised and achieved no discernable positive impact.

All of this means that foundations, untroubled by the need to make a profit, unvexed by the need to please an electorate, unfettered by the need to raise operating funds, enjoy a distinctively high level of operational freedom. Functioning virtually without any external distractions, foundations are free to concentrate all of their energy on achieving their missions. That this extends a remarkable luxury to foundations no one will dispute, but there is considerably less agreement as to whether this freedom is a good thing, and how well they make use of it.

One school of thought holds that this lack of effective external discipline is a *blessing* to foundations. It allows them to support important social ventures that could never exist otherwise, because they are unlikely ever to be profitable: so foundations correct for market failures. It allows them to support important social issues that could not be voted into being because they are too controversial, or benefit only a small minority: so foundations correct for government failure. It allows them to kick-start new nonprofit ventures that are too far ahead of their time to get support from multiple small funders: so foundations correct for fundraising failure. Thus, the lack of external discipline *liberates* foundations to do what is risky, to do what is right, to do what is visionary, all without having to ask permission of bean counters, naysayers, and mossbacks. Foundations are America's social venture capital, social conscience, and social fund for the future.

A countervailing school of thought holds that this lack of effective external discipline is a *curse* to foundations. If foundations correct for market failure, then why do most of them make only short-term grants, and constantly stress to their grantees the need to wean themselves from foundation support? If foundations correct for government failure, why have they been largely missing in action from the greatest social movements of the past century? (For example, only a handful of mainly smaller foundations, such as Field and Taconic, provided funding for the Civil Rights Movement.) If they correct for fundraising failure, why is it so difficult for new nonprofit ideas (those that don't fit preconceived requests for proposals) to get a fair hearing from program officers? Thus, the lack of external discipline *enervates* foundations, causing them to shy away from what is risky, right, and visionary, to play it safe so as to avoid criticism from bean counters, naysayers, and mossbacks. Foundations are America's wasted opportunity.

The Curious Behavior of the (Foundation) Dog in the Night-Time

As usual, there is some truth on both sides of this divide. Partisans in either camp can certainly find, in the record of U.S. foundations, examples of grants both daring and craven, both conscientious and cynical, both visionary and short-sighted. Where does the truth ultimately lie? Perhaps the best place to search for it is in the Arthur Conan Doyle mystery, "Silver Blaze," in which Sherlock Holmes remarks upon "…the curious incident of the dog in the night-time." When Dr. Watson observes that "The dog did nothing in the night-time," Holmes replies "That was the curious behavior."[1]

If foundations are indeed liberated by all of their freedom, if they are indeed boldly exercising it to correct the failures of the market, the government, and the fundraisers, it would be virtually impossible to open a newspaper without reading of a groundbreaking social experiment fueled by their funding. If this were the case, foundation-funded nonprofit organizations would be storming the barricades of homelessness, hunger, poverty, and undereducation, armed with flexibly-funded, innovative and effective grants. Like the dog in the Holmes story, however, foundations seem to be doing curiously little in the night-time. Barricades of homelessness, hunger, poverty and undereducation remain intact, and those nonprofit organizations gallantly assaulting them constantly complain about the tepid support they receive from the nation's foundations. When foundations do appear in the papers, it is nearly always because their leaders have been caught doing something wrong: the *Boston Globe*, for example, has not run any series on highly effective grantmaking.

Defenders of the field will cry foul at using the media as the yardstick to judge foundations' use of their freedom. The press, they say, does not understand the intricacies of foundation work, and thus many quietly effective programs never appear in the papers. Moreover, the press cares only about the sensational and the negative, leaving on the cutting room floor stories about solid positive work done by foundation-funded programs. Doubtless, there is much truth to this analysis, and it does offer some measure of explanation for the silence of the dog in the night-time.

Even if, however, we accept all that the defenders offer to be true, we are left with the question of why the dog, if it has such enormous freedom, chooses to remain generally silent in the night-time. Foundations could lay siege to editorial boards, explaining the innovative work they have done, demonstrating the great results they have achieved, and demand more coverage for these pathbreaking outcomes, or at the very least, demand equal time with all the negative coverage. Foundations could do so, that is, if they *had* such great work and such wonderful outcomes to tout. If they have such results, the silence of the dog in the night-time is inexplicable. If they do not, that silence makes perfectly good sense.

So where does the needle of the balance ultimately point? Sadly, it points much nearer the side of enervation than that of liberation. This seeming paradox—the enigma of why unbridled freedom has produced such cautious behavior on the part of foundation leaders—has long puzzled even the most knowledgeable observers of the field. Jed Emerson, for example, says "And I don't understand why people who clearly mean well and want to have an impact with the resources under their control are so hesitant to take some measure of higher value risk."[2]

The reason is actually very straightforward: *embarrassment*. Since foundations are undisciplined by the market, electorate, or funders, their only impetus for improvement comes from their (generally) self-perpetuating board of trustees. If you are a foundation leader, your imperative thus is a simple one: keep the board happy, and you will keep your job. So, what makes a board happy? The answer is easy: pride-inducing success. What makes a board unhappy? The answer is equally easy: embarrassing failure. What does this mean for the CEO? As a practical matter, the answer to this question is also very simple: since any kind of success is preferable to any kind of failure, since embarrassing the board members is to be avoided at all costs, it is critically important that <u>every</u> project be a success. What is the best way to ensure that every project will be a success? The key to perpetual success is to keep every project uncomplicated and modest in its ambition. Thus, inexorably, in order to keep their boards happy, in order to assure that embarrassment never darkens the trustees' doorsteps, CEOs tend to seek the cautious and incremental success. Paradoxically, the societal organization given the most freedom to act hobbles itself; it is as if a superb French chef, capable of creating any gastronomic delight, insisted on making nothing except the blandest of oatmeal.

It is easy to point a finger of blame at timid, career-protecting chief executive officers, and CEOs, as a class, do deserve considerable censure. But Max King, the president of the Heinz Endowments in Pittsburgh, identified a broader problem upon becoming the chair of the Council on Foundations in 2006: "There is an old culture at foundations, an old culture in philanthropy, that tends to want to be quiet, cautious…. There are some factions…that are uncomfortable with being proactive, aggressive, and very public about their work."[3] Mr. King is certainly right about the antiquity of risk-aversion in the foundation field. As long ago as 1956, Dwight McDonald, who is best remembered for his quip that "Foundations are large bodies of money completely surrounded by people who want some,"[4] wrote in a far more serious vein that "Large foundations, like large corporations, are timid beasts, and when they are frightened by some small but vocal minority, they envelop themselves in a cloud of public relations."[5] Whence arises all of this aversion to bold and decisive action? Largely, it springs from the most important of the factions mentioned by Mr. King, the CEO's bosses, the boards of trustees. It is to please boards, after all, that CEOs turn timorous. So what can be done to change this sad state of affairs? Quite simply, boards must redefine "failure" in the foundation context.

The Blessings of Foundation Failure

"Failure" in the foundation world is like chastity in the rest of the world: honored more in the breach than in the observance. Newcomers to the field, whether executives or program officers, are routinely admonished that if every project is a success, it means that the foundation is not being bold enough. Yet, as Kenneth Prewitt of Columbia University notes:

"A foundation that does not fail is, presumably, not living up to its promise to explore what the market and the government shy away from. If a foundation were to take this promise seriously, it would announce what it believes to be the optimal ratio of program failure to program success and self-correct itself if it became too risk-adverse…to my knowledge, no American foundation justifies itself by calling attention to its program failures."[6]

No matter how much the concept of failure is publicly honored in the foundation world, in practice foundation boards treat failure as a scarlet letter, and as a potential cause of embarrassing exposes in the media. To the board's way of thinking, failure is failure, and it is better that their foundation be perceived as successful but not bold, rather than bold, but occasionally unsuccessful. Thus the kudzu of mediocre success creeps over foundations, strangling them under the sheer weight of its repetition, choking out room for risk-taking or true innovation.

How can foundation boards clear the kudzu? The essential first step is to distinguish between two very different kinds of failure: sloppy and experimental. Sloppy failure occurs when people fail to anticipate obvious obstacles, fail to plan for necessary contingencies, fail to develop incipient opportunities. Sloppy failure is a result of human error, and if not for that error, the projects in question may have been successful. Experimental failure, on the other hand, occurs when despite all due diligence, despite all thoughtful planning, despite all energetic attempts at follow-through, the inherent challenges and unforeseeable side effects of a high-risk venture combine to cause a negative outcome. Sloppy failure is to cause a plane crash by forgetting to fill a fuel tank; experimental failure is to experience a plane crash while testing a new, promising, but untried airplane.

The other key distinction between sloppy failure and experimental failure lies in the lessons that can be gleaned from them. The only lesson that can be learned from sloppy failure is that poor preparation and poor execution produces failure. Many profound lessons can be learned from experimental failure, each of which will help the foundation become more successful in the future. The key, of course, is to evaluate experimental failures rigorously, both to discover what went wrong, and to learn if those missteps can be corrected next time. A sloppy failure is just a failure, but an experimental failure is potentially a step to ultimate success.

So what is a foundation's board to do—demand failure? The answer is "yes." Not sloppy failure, of course, for no one wants that. Boards, however, must demand a certain level of experimental failure, for that is the price of doing business in the nonprofit sector, the cost of true innovation, the payment for clearing the kudzu of modest, incremental, "so what?" success. By demanding occasional experimental failure, boards free foundation leaders from their self-imposed play-it-safe shackles. If not every meal has to be perfect, the French chefs can abandon oatmeal and experiment with exotic new dishes.

Ironies abound in the management of foundations, but nowhere more so than in this challenge. Just as the lack of external salutary disciplines has left foundations less free, rather than more, so is it necessary for foundation boards to impose the discipline of experimental failure upon foundation CEOs so that they can ultimately experience significant success. Without the requirement of experimental failure, foundations will fall into the trap of successes so small as to be meaningless, and leadership so afraid of failing that they do not dare to succeed. It turns out that when it comes to a foundation's freedom, Kris Kristoffersen's Bobbie McGee got it right: "Freedom's just another word for nothin' left to lose."

Endnotes

1. Arthur Conan Doyle, "Silver Blaze" in *The Memoirs of Sherlock Holmes* (Oxford: Oxford University Press, 1993), 23.

2. Jed Emerson, "Foundations: Essential and Missing in Action," *Alliance Extra*, March 2006, <http://www.allvida.org/alliance/axmar06b.html?pnd> (12 May 2006).

3. Max King, "Riskier Days Ahead for Stodgy Foundations," Pittsburg *Post—Gazette*.com, 7 May 2006, <http://www.post-gazette.com/pg/pp/06127/688156.stm> (12 May 2006).

4. Dwight McDonald, *The Ford Foundation: The Men and the Millions: An Unauthorized Biography* (New York: Reynal, 1956), 3.

5. McDonald, *The Ford Foundation*, 171.

6. Kenneth Prewitt, "American Foundations: What Justifies Their Unique Privileges and Powers," in Kenneth Prewitt, Mattei Dogan, Steven Heydemann, Stefan Toepler, eds. *The Legitimacy of Philanthropic Foundations: U.S. and European Perspectives* (New York: Russell Sage Foundation, 2006), 35.