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Effectiveness, Efficiency and Accountability in Philanthropy

What Lessons can be Learned
from the Corporate World?

International Foundation Management Symposium 2005

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Table of Contents

Preface	7
1. Key Issues in Foundation Management	9
<i>Heribert Meffert, Volker Then, Nina Fritsch</i>	
1.1 The Role of Foundations in Society— What Market Are We in?	9
1.2 Strategic Foundation Management	15
1.3 Operative Foundation Management	22
1.4 The Last Word—An Agenda for the Future	26
2. The Future of Foundations— In-depth Knowledge and Experience	29
2.1 Creative Philanthropy toward a New Philanthropy for the Twenty-first Century	29
<i>Helmut K. Anheier, Diana Leat</i>	
2.2 Entrepreneurship in Philanthropy	38
<i>J. Gregory Dees</i>	
2.3 Efficient Foundation Management— Accountability for Resource Allocation	45
<i>Joel L. Fleishman</i>	
2.4 Strategic Marketing— Creating a Philanthropic Brand Identity	57
<i>Heribert Meffert</i>	
2.5 Controlling and Quality Management in the Nonprofit Sector	71
<i>Johannes Meier</i>	

2.6	Effective Foundation Management— How to Assess and Manage Uncertainty?	85
	<i>Johannes Rüegg-Stürm, Niklas Lang, Peppi Schnieper</i>	
2.7	Sustainability: Experience from Project Work	97
	<i>Bettina Windau</i>	

Preface

The Philanthropy and Foundations division of the Bertelsmann Stiftung aims at an effective and efficient foundation sector. Our projects have focused on donor information, donor learning and innovative philanthropic vehicles such as community foundations as well as issues of foundation governance and management.

The Bertelsmann Stiftung invited an international group of participants from both academia and innovative social-investment organizations to its Foundation Management Symposium 2005. The debate was organized around the issues of effectiveness, efficiency and accountability and was held in a thoroughly interactive conference format. Foundations are not unique in many of the challenges they face, but they operate in an environment in which leverage and risk taking under conditions of market uncertainty remain key. They are usually small players compared to the problems they address, and their smallness requires particular care in their strategic thinking. At the symposium, brief impulse statements initiated round-table discussions on the philanthropic market as part of the third sector, strategic leverage, efficient resource allocation, and public expectations toward the accountability of charitable foundations. In particular, we raised the question whether foundations could learn from the corporate world in addressing these issues (and vice versa).

This volume documents the proceedings of the conference. The first contribution is an editorial overview of the debate, for the following contributions authors have elaborated their short impulse statements to the symposium. The contributions are more like essayistic reflections than academic papers, and their character has not been changed.

The transfer of knowledge from a corporate to a philanthropic background is difficult but still has its merits. Even participants from

business schools agreed that “the market” could be seen only as a metaphor in philanthropic contexts because the actual functioning of resource allocations lacks the efficiency and smoothness of a market. Nonprofit organizations in general and foundations in particular have to bear comparatively high transaction costs when they try to establish information on their field and transparency in their spheres of interest. When deciding on their allocations, foundation leaders cannot rely only on simple mechanisms of return on investment. They have to bear in mind more complex frameworks for their decision making that are defined by a multiplicity of variables which in addition are characterized by normative interpretations. However, this very complexity of decision-making under conditions of uncertainty may be of interest to the corporate world. In addition, the legitimacy advantages of foundations in society may be of interest to corporations.

I would like to thank all the speakers and contributors to our debate for their input. I wish you a stimulating reading experience and hope that you will share our interest in improving professional thinking within our sector.

Dr. Brigitte Mohn
Member of the Board of Management
Bertelsmann Stiftung
Gütersloh, February 2006

2.6 Effective Foundation Management— How to Assess and Manage Uncertainty?

Johannes Rüegg-Stürm, Niklas Lang, Peppi Schnieper

Introduction

Management theory has strong links to economic theory. Economics is based on the assumption that individual, rational actors seek to optimize their benefits under given conditions, which can be successfully analyzed. Therefore, rational choice is very often considered a basic premise and core task of modern management. But there is much external uncertainty because of technological progress, ongoing globalization and far-reaching cultural change. Because of this uncertainty and the huge internal complexity of organizations today, the central issue of modern management is not primarily the rational selection of existing options but rather the question of how to cope with external and internal uncertainty and ambiguity (Weick/Sutcliffe 2001).

Foundations as charitable institutions face similar challenges. Their internal complexity is rooted in a thorough tendency to fragile, unstable and complex governance relations. This fragility and instability is caused by very different rationalities and motivational predispositions, which structure the daily practice of foundations. It is not at all just economic rationality (i.e., an efficient allocation of scarce resources) that drives management behavior in a foundation. Idealistic values, visions and purposes, controversial biographical accounts and fragile family relationships might be much more important even if they work in a highly implicit way or are even kept taboo. Hence, a careful assessment of the managerial context of a foundation is inevitable before any efforts of “professionalizing” foundation management for achieving more effectiveness are initiated.

In other words, every foundation management practitioner needs to be aware of the fact that foundation management means intervening in complex social contexts and practices and is therefore not a trivial exercise. The art of successful foundation management is to design these interventions in such a way that they are compatible (“anschlussfähig”) and resonant with the historically evolved managerial context of a foundation. This central argument is briefly substantiated and illustrated in this contribution.

The following findings are based on a major empirical investigation. Mainly data are recorded from 18 foundations. The selected foundations are a sample of typical Swiss and German foundations ranging from small to large according to their endowment. Thirty-two semistructured in-depth interviews were conducted and tape-recorded about the central challenges in foundation management. In addition to the interviews with executives and board members of the selected foundations, further interviews were conducted with founders, politicians, lawyers, and grantees in order to include all relevant stakeholder perspectives of the foundations under investigation. Finally, additional documents (e.g., annual reports and newspaper articles) have been analyzed to achieve a comprehensive picture of each foundation. (For a detailed description of the research methodology, see Lang/Schnieper 2006.)

The managerial context of foundations

In general, foundations are small organizations. There is little division of labor. Ninety-one percent of Swiss foundations have endowments of less than CHF 10 million; 1,932 of 2,129 state-supervised foundations in Switzerland allocate only 12 percent of total assets (Rüegg-Stürm et al. 2004a).

The huge advantage of managing for-profit organizations is the easy evaluation of their effectiveness and efficiency—at least in the short run. There is one single “currency” of performance evaluation as earnings and expenses are expressed in the same unit (money). This identity is not given in not-for-profit organizations. Foundations are characterized by a nonidentity of currencies between expenses/investments on the one hand and earnings/benefits (social value) on the other (Berman 2003; Rüegg-Stürm et al. 2004b). In other words, there is no unambiguous measure to evaluate the performance of the foundation.

A second issue refers to the ownership of a foundation. A new company is founded by an entrepreneur who needs to control the growth activities. The entrepreneur as investor is the owner of his or her enterprise and bears the full risk of the business activities. In contrast, the invested assets of a foundation are dedicated to a specific charitable purpose. Philosophically speaking, a charitable foundation

is owned by the society and the founder may be the trustee of the society—but no longer the owner. However, the society is not a clearly identifiable actor as for instance a critical group of shareholders (Anheier 2005).

Therefore, due to this lack of clear ownership and of an unambiguous measure with which to evaluate the performance of the foundation, there is a highly problematic tendency to fragile and diffuse governance relations, as there are no clearly legitimized representatives who still keep control on behalf of the “investing society.”

This lack of control, coupled with a highly diffuse mixture of idealistic values, visions, rationalities and motivations, increases the fragility and instability of the internal context of a foundation which represents the practice ground of foundation management. If the purpose of foundation management is to make foundation practice more effective and more efficient, a careful evaluation of the internal managerial context is inevitable. Depending on such an evaluation, management can do one of two things:

- It can entail the implementation of analytical tools and traditional management techniques to systematize the decision procedures and to improve transparency and accountability. Basically, this would mean developing a modern, process-based organization (Rüegg-Stürm et al. 2005a).
- It can reveal the urgent need of a fundamental clarification and improvement of the relational context of all involved constituencies, which has much more to do with the professional work of a skilled family therapist than with that what we usually understand by modern management.

Certainly, there is no clear-cut either-or. The key argument here is that the second issue needs to be tackled before the first one can be addressed. It is the relational context (Watzlawick et al. 1967) which builds the interpretative ground for any analytical-technical interventions and practices that need to be made sense of. Therefore, depending on the relational context, an expert in group dynamics or a skilled family therapist may be engaged before any traditional management practices can be applied. The following results give some evidence of this proposition.

Context characteristics

In a major investigation of managerial practices in foundations, the managerial context of 18 foundations was categorized according to three dimensions, which have been proven as helpful distinctive criteria. This rough categorization allows one to draw some preliminary conclusions about how to intervene in the specific context of a foundation. The three partly interlinking dimensions refer to (1) organizational identity, (2) key references, and (3) governance relations.

Organizational identity

The organizational identity dimension ranges from private to public. *Private* means that actors in such a foundation understand the foundation as a purely private affair or enterprise. Its activities are considered privately motivated (often by its founder) and, as such, private issues. No obligation is acknowledged to make them transparent or even to legitimize them in the public eye. From this point of view, a more or less authoritarian leadership style (particularly on the part of the founder), being charitable for the public and therefore worth receiving public subsidies (tax privileges) is taken for granted and legitimized simply due to the legal status as "private foundation" of such an institution.

At the other end of the continuum, we can find an understanding of foundations as quasi-public organizations. Executives of such foundations acknowledge the legitimate need of the public to be informed about the purpose, the strategies, the core activities and the achievements of their foundation. They keep legitimizing their activities toward the interested society. This includes actively communicating with all relevant stakeholders and making huge efforts to substitute the lack of governance by an open dialogue with the public and with the society, whom they consider to be the owner of charitable foundations.

Key references

The key-references dimension is based on a continuum between person-centered and purpose-centered. Person-centered means that a foundation is more or less a one-man show; it is dominated and driven by the immediate insights and decisions of a single person. Hence, the shaping forces of such foundations are personal visions, values, ideas, motivations and the objectives of a single, dominant figure, very often the founder himself. The specification of strategies, programs, decision procedures and decision criteria is poorly developed, and if there is any specification at all, they are hardly applied in daily practice. It is no surprise that in such a context there is a strong tendency to treat the purpose of the foundation as a flexible reference point.

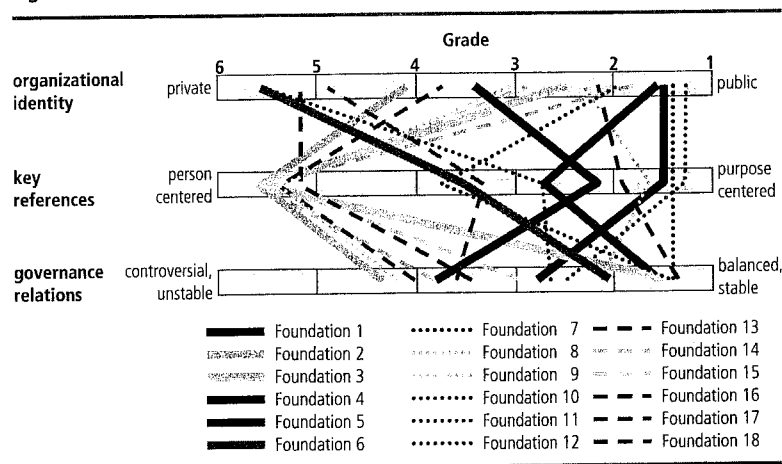
As long as the founder is still alive, this is not at all perceived as a serious problem, because this would mean that the will of the founder could be respected immediately in all activities of such a foundation. However, in person-centered foundations, it sometimes seems to be overseen that the act of creating a foundation means to definitively endow an asset for a clearly stated, specific and binding charitable purpose.

In contrast, purpose-centered foundations implement their purpose through (more or less) formalized decision procedures and clearly stated decision criteria, through strategies, programs and reporting practices. The purpose is treated as a strictly binding—and long-term—reference point for each decision and activity. Coherent and purpose-centered charitable activities are considered a central vehicle with which to strengthen the trust in foundations as reliable societal institutions. The structures and procedures of purpose-centered foundations are designed in such a way that the foundation practice is strictly independent of individual persons.

Governance relations

The governance-relations dimension ranges from "controversial, unstable" to "balanced, stable." Balanced and stable governance relations are characterized by clearly stated roles and responsibilities of the governing bodies with the clear intention of avoiding any prob-

Figure 18: Overview of analysis of the managerial context



lematic dependencies between all the involved board members and executives. A high degree of solid checks and balances is aspired and regularly disclosed in order to prevent any conflicts of interest and to improve trusting relationships with all stakeholders. In contrast, foundations with controversial and unstable governance relations are characterized by a considerable lack of transparency and of clear rules, roles and responsibilities of the governing bodies.

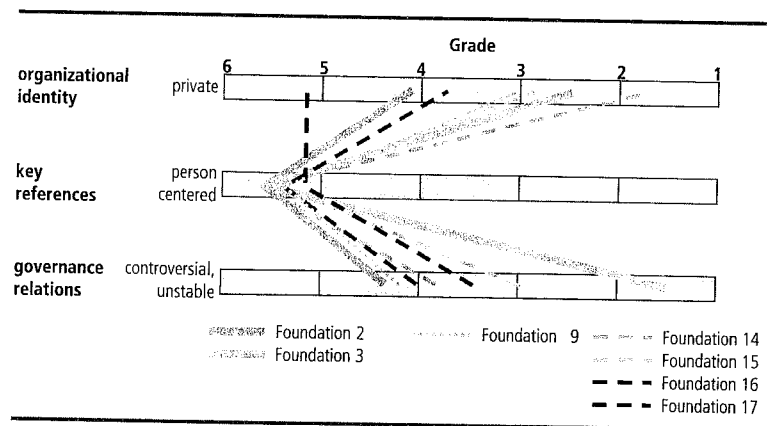
The relationship between the founder (and his or her family) and "his" or "her" foundation is controversial and unpredictable. A look behind the scenes can reveal a shocking kind of modern feudalism. Caught up in serious family conflicts, the founder behaves as a feudal lord, even if a lot of practices try to feign another and much more preferable reality.

The empirical analysis of the foundations under investigation reveals a very colorful picture of their managerial contexts (see fig. 18). It supports the often-cited statements that each foundation is unique.

Clustering the managerial contexts of the 18 investigated foundations according to three dimensions, two generic (extreme) types of managerial contexts or management approaches can be seen.

Type 1: Individualized person-centered private approach (seven foundations): The governing force of this type of managerial context is primarily centered around one person, in general the founder of the foundation or around a strong successor who defines most of the

Figure 19: Type 1: Individualized, person-centered private approach (seven foundations)

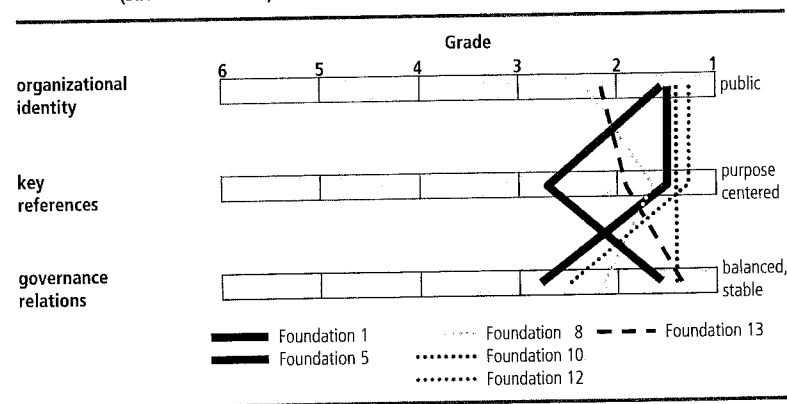


decisions and practices. He or she acts according to the motto "L'état, c'est moi!" or "I am the foundation!" This type of managerial context is highly ambiguous. On the one hand, such a management approach with a strong founder at its center can realize highly demanding purposes very quickly. No time is lost on bureaucratic decision procedures or political games.

On the other hand, individually changing preferences, spontaneous ideas and motivations as well as erratic thrusts may lead to unstable processes, which negatively affect the internal and external effectiveness of the foundation. Unclear competences and responsibilities combined with a very person-centered and feudalist approach may create a work climate of demotivation or even fear within the foundation and a relational context of suspicion and distrust among the foundation, its stakeholders and the public.

Type 2: Managerial, purpose-centered public approach: Such a managerial context is characterized by clearly stated practices and procedures and high transparency. The key reference of the foundation is not the founder as a person but the foundation's purpose as the externalization of the founder's unchanging will at a specific point in time. This declaration of the founder's will is the basis for taking systematic and collective efforts in order to develop, apply and continuously improve generally accepted professional standards and proven management practices. Decisions and activities are processed in such a way that they are continuously "ready for a TV test."

Figure 20: Type 2: Managerial, purpose-centered public approach
(six foundations)



In other words, the governing bodies of the foundation strive always to be prepared to present and precisely explain its purpose, strategies, programs, projects and activities to a critical public (Ulrich 2001). On the one hand, this type of managerial context and management approach tends to lead to stable and trustworthy relations with all relevant stakeholders. On the other hand, it may cause a certain lack of entrepreneurial spirit and of rapid execution of decisions (Frumkin 1999).

Practical conclusions

Receptive and non-receptive contexts for management

Depending on the managerial context as illustrated above, completely different approaches may be appropriate to improve the effectiveness and efficiency of a foundation. Type 1 of managerial context which is unfortunately not seldom represented in foundations, is not at all receptive to any traditional management concepts, methods and practices. Simply imposing proven management concepts, methods and practices on such a managerial context according to the motto "Solutions look for problems" (Cohen et al. 1972), would, therefore, usually yield disastrous consequences. Management concepts, methods and practices work, then, rather as a tranquilizer and tend to stabilize or

even reinforce the problematic reality because they are not able to address the real roots of ineffectiveness and inefficiency.

Type 1 represents a nonreceptive context for management as long as the relational involvement of the key persons and stakeholders is not substantially clarified and improved. This is in general not only an affair of the founder himself but very often a challenge of the family system or of the corporate system of which the founder is (still) a member. Therefore, in such a managerial context, any improvement activities do not primarily require management skills but rather the expertise of family therapy or group dynamics—at least in the preliminary stages. In that sense, it would be highly attractive if foundations started systematically learning from the complex interplay between families and family enterprises (Simon et al. 2005).

Mastering uncertainty and ambiguity

In addition to mostly fragile governance relations, the purpose of many charitable foundations implies activities of social entrepreneurship. This kind of activities is characterized by innovation, newness, much uncertainty and ambiguity (Rüegg-Stürm 2005). There is no proven experience of how a specific entrepreneurial initiative or its support will affect the development of a targeted social context. There are no proven chains of causation between actions, reactions and expected results. Such projects are therefore comparable with interventions into non-trivial systems (von Foerster 1984). Fortunately, management practices have been developed to cope with contexts of high strategic uncertainty and ambiguity. In that sense, foundations are invited to benefit from the following imperatives:

- Specify the expectations of all involved partners and stakeholders in advance. Carefully explore and clarify what exactly should be different after a certain project and how this difference (impact) should be achieved. Try to develop an "effectiveness map"—but be aware of the problem of unjustified causal inferences (Herman/Renz 1999). Keep in mind also that it is nearly impossible "that a single grant can make a major leap toward achieving some broader strategic objective" (Kramer 2002).
- Establish rich and reliable feedback loops. Care about the quality of communication and relationships with your stakeholders. Ex-

pectations are no more than hypotheses about the unknowable future, which will always be more or less different from what we expect. In order to keep control in such a context, it is crucial to record as early as possible any deviations and their causes via feedback. This is the basis for appropriate reactions ("controlling") and for long-term learning. Therefore, invest in transparent and trustworthy stakeholder relations, since foundation effectiveness is to a large extent a stakeholder judgment "formed and changed in an ongoing process of sense making and negotiating" (Herman/Renz 1999: 118).

- Proceed in an evolutionary mode. Do not rush for the big bang, but follow an experimental and learning-oriented step-by-step working mode of exploring opportunities. Strive for organic growth while aligning activities with your long-term mission.
- Take enough time to systematically and critically reflect on your everyday practices. Ask yourself what (content dimension) you are really doing and how (relational dimension) you are doing what you are doing (self-reflexive learning capability) (see Weger 2002).

Theoretical implications

The small size and the minimal division of labor of many foundations may lead to the wrong impression that the "business" and the organization of any foundation are a simple affair. The opposite is true. The governance relations and the core of its charitable activities, which are very often dedicated to demanding initiatives of social entrepreneurship, are highly fragile and full of uncertainty and ambiguity.

What is more surprising is the experience that we can hardly find any efforts in (management) science to develop an organization theory for foundations, which indeed reflects the inherent complexity of foundation practice. A foundation is not just a bundle of idealism, a generous superperson, the externalized cognitive goodwill of the founder, the projection surface of a brave new world, but in each case a manifold, individually and historically evolved and embedded repertoire of discursive and relational processes and practices in which all the involved executives and stakeholders participate in a unique way.

Therefore, a central conclusion from our investigation (and even more from the Bertelsmann symposium as a whole) is to intensify

the efforts to develop an "organization and management theory for foundations". A first conceptual idea of such an endeavor is drafted in Rüegg-Sturm et al. 2005b. Such a theoretical approach into account should take the genuine (legal and societal) constitution, the variety of managerial contexts of foundations and the special kind of value-adding activities that are planned and executed in this particular organizational context.

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2.7 Sustainability: Experience from Project Work

Bettina Windau

According to a recent study by the Urban Institute, the definitions of effectiveness vary broadly among foundations. To describe just one—but crucial—aspect of successful actions by foundations, I would suggest focusing on sustainability: a goal that everyone talks about, but which in practice presents a number of challenges. My remarks will be based on our experience at the Bertelsmann Stiftung.

The comfortable image of a foundation, which develops innovative solutions and then hands them over to the state for continuation and dissemination, certainly belongs to modern history.

This strategy often does not function satisfactorily, which can be due to the financial crisis in public budgets or to extensive fragmentation of decision making, but certainly also to the tendency of people to form opinions and take action under the influence of a complex blend of facts, assumptions, interests, dogmas, and the social interaction of the persons involved.

In collaborations with public-sector partners, several strategies may create sustainable-impact: long-term partnerships, the development of membership-based organizations, endowments, fee-based franchise systems or marketable strategies.

In any case, in the public sector, priorities and responsibilities may change after elections, making it difficult to achieve workable, long-term agreements securing direct and widespread implementation of the model solution worked out and funded by a foundation.

However, because foundations are—as a rule—free to make strategic decisions and are also free to determine the form and execution of their programs, some reality-tested strategies do exist which can be used to help ensure the sustainability of projects and programs.

During strategic analyses, project design and execution, it may be useful to investigate the following five areas and to keep them in view throughout the duration of the program. These are (1) goals, (2) resources, (3) infrastructure, (4) opportunities, and (5) obligations.

Considering these factors jointly and simultaneously brings together the activities and context of the program.