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# Evolving Strategies of Philanthropic Foundations

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## **A Preliminary Report of the Research Study conducted by Amanda J. Stewart**

Thank you to the foundation staff who participated in interviews as part of this research study. Your willingness to speak on behalf of your foundation's work is much appreciated!

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### **Background**

Philanthropic foundations play significant roles in local nonprofit sectors, both as financial investors and instrumental leaders. Operating in a principal-agent relationship with their nonprofit grantees, foundations provide much-needed resources and support to nonprofit organizations, who in turn help foundations fulfill their charitable purpose. Foundations command a force field of influence through their focus areas and philanthropic initiatives. Looking to increase their impact to offset greater community need, philanthropic foundations may be implementing strategies to help their grant resources go further and may be realigning the balance of its external roles for funding, leadership, and advocacy.

A foundation's operating environment, inclusive of regulations, investment returns, board and staff leadership, stakeholder relations, and foundation peers shapes the foundation's strategies. Many foundations are guided by a strategic plan, whereas others conceive of strategy more informally. Understanding how and what triggers foundation strategies to evolve is important to research and practice alike. This research study explored how foundations make decisions about their philanthropic resources to makes sense of evolutions in foundation management.

### **Overview of Research Study**

With a focus on understanding the effect of the 2008 financial crisis, the purpose of this research study was to investigate strategies of foundations operating or making grants in one southeastern U.S. state. The foundations included in this research were identified from the membership listing of a state association of grantmakers (n=105), and was randomly ordered to issue invitations for phone interviews. Sixty of these foundations were contacted for interviews, and ultimately 29 participated in a phone interview. The interview was semi-structured and took between 30 minutes to one hour, asking about the structure, process, and strategies of the foundation's work. The interviews took place between August and November 2016.

## Describing the Foundations in the Sample

The foundations in the sample represent a diversity of philanthropic institutions according to type, asset size, board leadership, staffing, and affiliations. Refer to Table 1.

The predominant foundation types were community foundations, followed by family foundations. The range of assets was \$145.3 million on average, but given the spread, the median was \$57 million. Foundations were led by 11 board members on average, and nearly a third operated with a sub-committee of the board dedicated to the role of reviewing grant applications. Foundations employed six staff on average, but three of the foundations had no staff employed. Beyond the membership in the state grantmaker association, foundations reported a diversity of state, national, and subject-matter (i.e. health or education) related memberships.

Referring to who participated in the interview, most commonly the interviewee was the executive director followed by a staff member in the executive suite, such as a chief operating officer. On average, the staff interviewed had been on board 8.4 years with a range of two months to 24 years.

**Table 1: Select Characteristics of the Sample**

Type of Foundation	Foundation Affiliations
37% were a community foundation (11)	100% member of state foundation association (29)
34% were a family foundation (10)	31% member of state nonprofit association (9)
14% were affiliated to a hospital (4)	17% member of Council of Foundations (5)
10% were affiliated to another nonprofit (3)	28% member of other national foundation associations (8)
3% were a corporate foundation (1)	28% member of Southeastern Council of Foundations (8)
Foundation Assets	41% member of subject matter affinity groups (12)
\$145.3 million average assets	
\$ 57 million median assets	
\$727k-957m range	
Board of Directors	Interviewee Profile
11 members on average	48% were executive directors (14)
28% of boards had a grants review committee	14% were in the foundation's C-suite (4)
	24% were a program officer (7)
55% accepted unsolicited grant proposals (16)	14% carried a title classified as "other" (4)
Staffing	Interviewees were employed 8.4 years on average by the foundation.
6 paid staff on average	
3 staff per foundation had responsibilities related to reviewing grants	
10% foundations had no paid staff (3)	

## Highlighted Findings

The interviews are being analyzed, and the results will be prepared for academic publication. In concise form, the following summarizes preliminary findings emerging from these interviews. When appropriate direct quotations are used from interview notes.

### Finding 1: Foundation staff play multiple roles.

Foundations staff reported responsibilities related to the processing and review of grant applications. While the majority of staff had no final authority over the approval of grant applications, they did hold influence in the process by conducting due diligence research, screening applicants, recommending a slate of applicants to the board or grant committee, or even just drawing the attention of boards to particular community needs or nonprofits through organizing board education or informative meetings. Foundation staff also served as a resource to the nonprofit applicants, helping guide or inform their applications or grantseeking approach. As one interviewee said, “I kind of get to play both sides of the fence – looking after the interest of the foundation and the donor and also giving counsel to nonprofits about how to serve in the community and be positioned for the grants.”

Foundation staff also reported more public facing roles, such as being a representative, liaison, convener, or facilitator, on behalf of the foundation and its interests and focus areas. These roles placed foundations among nonprofit grantees, community, state, or regional leadership from the nonprofit, business, and public sector, and among their foundation peers. Several interviewees reflected on the nonmonetary value in being present in the community with one describing that “bringing yourself to the table is almost as valuable as the money.” It was striking to hear in the interviews how foundation staff are playing multiple roles, often simultaneously and seamlessly, and are required to prioritize their time between the outward and inward work of the foundation. For several, they described their external roles as enabling them on behalf of the foundation to be proactive versus the reactive role of receiving and processing grant requests.

### Finding 2: Foundations operate with multiple points of reference.

Foundations are created with the donor intent or the founding purpose as a compass to inform and guide the foundation’s work and outlay of resources. Interviewees were implicit and sometimes explicit in describing secondary points of reference that inform their work and approach. Interviewees from family foundations often commented on how decisions about dedicating monetary and nonmonetary resources of the foundation reflected the current “passions” of the family members on the board. Interviewees also commonly referenced thought leaders from the community or foundation sector (e.g. consultants), prior professional experience of staff, or even information gained from an affiliation membership, such as a conference presentation.

Foundations also reported watching each other – being informed by the trends observed across foundations or the work of a single foundation that influenced their approach. Finally, foundations reported collecting primary data or interpreting secondary data sources that were specific to their community or focus area. Taken together these points of reference speak to the circulation of ideas and influence among the foundation sector and those who lead and inform its work.

**Finding 3: Foundations employ strategies with a spectrum of formality.**

Formally defined, a strategy refers to “a plan of action designed to achieve a major or overall aim,” and strategies conceivably lie along a spectrum of formality. To identify the strategies employed by foundations, interviewees were asked about what the foundation was trying to achieve and then how the foundation applied its monetary and non-monetary resources to those ends. All interviewees had articulated answers at the ready for these questions, often responding with their mission statement when asked the former question, and describing the activities engaged by the foundation and its staff in response to the latter. Yet when asked if these two responses taken together constituted the foundation’s strategy, some interviewees were hesitant, either responding there was no strategy formally written down or that the plan as written was not what the foundation employed in its daily work. Even when the strategy was not formalized, interviewees often gave evidence of being intentional with their resources and related activities towards focus areas, even implying how the foundation was a learning organization. As an interviewee from a new foundation described, “No strategic plan as of yet – in the next 5-10 years. We have learned so much in the past year – our approach to grantees is so different from previous year but going to get there.”

For some foundations in the sample though, strategies were spelled out in strategic plans developed over months or years of deliberation, informed by internal and external stakeholders, and commonly formulated through processes facilitated by external consultants or internal teams. These strategic plans are used as a means of evaluating financial and impact stewardship, employed as benchmarks or monitoring tools. The interviewees also spoke to the focus areas and approaches identified in strategic plans as being prompts for the foundation to engage grantmaking and other roles, such as community leadership, in a proactive rather than reactive way. For some foundations, strategic plans identified the “what” – the focus areas that related to the mission or impact interests of the foundations, whereas other foundations also identified the “how” in their strategic plan in terms of the “strategic tools” they were to engage such as thought leadership, data and research, grantmaking, or convening activities. For example, one interviewee described that the strategic planning process was prompting her board “to think of ways to use the talent – how to use the financial and human capital...how to deploy the resources we have at our disposal.” And another interviewee described her foundation’s effort to make the strategic plan readily useable

by making it concise enough to fit on one page, and she reported that “people pull it out in meetings and it’s exciting to see it as a working document.”

Finding 4: Foundation strategies are flexible and responsive, guided by values.

In speaking to their strategies, foundations referenced their values, in terms of community and mission orientation, as overarching their activities and decisions. Values were referenced by some a laundry-listing of characteristics and other times the values were more the ethos of how the foundation operates. For example, one interviewee described, “We knew we had to do <our work> consistent with our values that says we aren’t the experts but it’s the people in the field that are the experts,” and another described “the distinction for us from other foundations is that we don’t have specific focus areas....the bulk of what we do is listening to the community and responding.”

Beyond how the interviewees talked about their work, the foundation’s values influenced who the foundation partnered with as they sought like-oriented organizations or other foundations. The values also served as a rudder to guide the foundation – a screening filter for discerning new activities or investments. For example, in asking about the effect of the 2008 financial crisis, many described that to alter their investment in resource strained nonprofits would be counter to their mission and values. Interviewees reported other times when the board or the organization faced a pivot or transition point in its approach, or even was approached about undertaking a new initiative, and that they were ready to act, doing so confident that the new opportunity was a fit with their values.

Finding 5: Strategy changes start with a single step.

Perhaps this finding appears obvious, but it stood out among interviews that evolutions in strategies commonly started with a trigger point individualized to the foundation’s narrative. For example, several credited the influence of leadership, even leadership that had been exposed to different approaches through a site visit, a conference presentation, or previous employment. For others it was community engagement, commonly in the form of listening sessions hosted without an agenda or targeted outcome. Several discussed the decision to engage data to inform their approach, and one foundation described running the calculation of what all their ideal priority investments would cost to realize that another more catalytic approach was needed in their community. One interviewee described that a foray into a more public, advocacy role, engaged initially a bit happenstance, gave the board confidence to venture into other similar roles, and she remarked on the “trickle” effect in evolving the foundation’s strategy and approach. Several family foundations described intentional efforts, such as retreats and site visits, undertaken to infuse the next generation with the philanthropic intent of the foundation’s founder, as well as inform them on how to put their own stamp on it. Both family and community foundations credited that it was freeing up discretionary funds – yet in opposite directions - that helped shift their work to

proactive, strategic engagements. For family foundations it was lessening the pools of discretionary funds available to family member board members, and for the community foundations, it was increasing the pool of resources that were not dedicated through donor intent. Each emerging pool of undedicated resources meant that the foundations had increased resources to dedicate to strategic focus area investments.

Finding 6: Foundations are resilient and responsive in the face of recession.

This research sought to understand factors that influenced the strategies of philanthropic foundations, and specifically if the most recent financial crisis had any bearing. Foundations that operated during and in the aftermath of the financial crisis did speak to their responses and even their resiliency in the wake of the recession, but for most it did not appear to have a significant directional effect on the foundation's strategies. Interviewees credited the investment and spending policies of the foundations that enabled them to be consistent in their commitments, sometimes even increasing their financial commitments or suspending their spending policy to meet increased demand. As one interviewee said, "The value is that in an economic downturn our mission is even more important and <we> didn't want to lose ground in an economic downturn...we act like a foundation that will operate in perpetuity but that's not the mission. We have a spending policy that will maintain our endowment over time but not more important than our consideration of the impact and the present <need>."

Several raised multi-year commitments in their responses about the effect of the recession. First, some foundations expressed relief that they did not engage them, and thus, experienced increased flexibility in the face of the recession. Another described that the board decided to fulfill all multi-year commitments in the year following the financial crisis so that when their spending policy was anticipated to be decreased they had resources freed up for other needs.

For those making changes in the wake of the crisis, often the changes were reflective of the need to maintain existing funding relationship and be responsive to emerging needs. For example, one foundation stopped taking new requests, another started a new pool of emergency resources, and another started a community collaborative group to convene local nonprofits around common issues. Foundations wanted to also appear responsive to emerging needs with one even suspending a hallmark gala for the year so that its intentions matched its optics. Another foundation described that what once felt new has now become the "new normal."

Finding 7: Foundations are making decisions based on impact perceptions.

Foundations were explicit in describing their intentions and desires for impact – impact in terms of mission accomplishment, system change, and large-scale influence. Foundations were driven to this desire from a myriad of places, but recurring prompts

included the increasing demand for their resources, the scale of the problem versus the scale of their resources, a desire to see a tangible difference in causes not just symptoms, and looking for a linkage between their investment and an outcome. As one interviewee described, “Boards can’t tell if they are making a difference <due to the> sheer volume <of requests so> we have to define something or we are going to lose our mind.” That “something” was often a proactively communicated focus area or a preferred strategy for investment. Others described that they had to give at a scale commiserate with their foundation’s size so as not to “mute” the impact, and others described that a strategy for impact was to partner with other funders or organizations so that their contribution ultimately contributed to a larger impact. Foundations were eager –but also patient – to see this impact. One interviewee said, “We don’t want small grants that aren’t going to move things over time.” Foundations also see impact as the product of more than just their financial investments as one interviewee said, “You are leaving money and impact on the table if you are not using all your assets.” Yet even with this emphasis to impact in terms of an outward mission, several foundations reminded about their impact in terms of their internal stewardship of their resources, specifically managing and growing their endowment resources.

#### Finding 8: Foundations play diverse roles.

Among the other findings are hints that foundations have diversified their role beyond their traditional check-writing role. As one interviewee said, “we have moved more into a collaborative, partnering type role.” Others would describe that they are conveners, facilitators, communicators, representatives, thought leaders, idea generators, and even catalysts. Foundations seem to most easily prioritize and navigate among these various roles when they had staff who either carried these responsibilities in their job title or had time allocation in their job function for such. Staff were also forthcoming in saying these expanded roles was not entirely their own doing, but undertaken with the support and even the prompting of their board leadership. Interviewees also acknowledged the risk in playing these new roles as one said “It’s easier work to say we are going to fund x program...we are putting a lot of resources and banking on the capacity that we have the potential to pull the community together.” Some foundations did acknowledge that sometimes their expanded roles came about from being asked rather than volunteering – a potential someone else saw in them rather than one they initially seized for themselves. And related, foundations also acknowledged that sometimes they had to decline requests so as to remain focused or not dilute their participation impact. And yet, foundations do not neglect their traditional role over these external functions. As one interviewee said, we are “not always believing that a grant is going to solve everything, but a grant might be what people need.”

Foundations were also intentional about navigating these roles with humility – listening before leading, posturing beside instead of in front – with several even describing their roles as “servant leaders.” Foundations did acknowledge the credibility and legitimacy their participation lent to a cause or a collaboration, but at the same time were

forthcoming about the potential for power imbalances. Interviewees described that they had no trouble getting their phone calls returned or having people show up to meetings when they were doing the inviting. One interviewee candidly said, “I wouldn’t be as smart, nice, or funny if I didn’t have <the foundation’s resources> to give away.”

**Finding 9: Foundations accept unsolicited grant proposals, but prefer relationships first.**

This final finding elaborates on how foundation’s approach their grantmaking role. While over half of the foundations accept unsolicited grant proposals, interviewees commonly acknowledged that they would prefer to be contacted and get to know the nonprofit applicant over receiving a cold application. Foundation responses also eluded to the value they place in knowing and relating to their grantees – seeking out recommendations for unknown applicants through their networks, offering to meet with potential applicants, providing application assistance, and performing site visits. Interviewees also remarked upon special relationships they have with nonprofits in their community, indicating high levels of trust and collaboration that extend beyond the regular grantmaking cycle or application process. The key take-away from this finding is oriented more towards nonprofits seeking foundation resources and encourages that their focus should be first on establishing a relationship and familiarity with the foundation and orientating their approach as a mutual fit between the nonprofit’s needs and the foundation’s approach prior to submitting a grant request.

**In Closing**

There is a maxim among foundation-related research that “when you have seen one foundation, you have seen one foundation,” implying that there is little generalizability among the foundation sector. Foundation interviewees also echoed this sentiment, often describing themselves as unique -- facing distinct issues or operating considerations. Yet, the foundation interviewees also told common stories of fulfilling their donor’s intent at the same time they seek to leverage their resources for impact. Their stories reflected evolving strategies and leaders engaged in redefining their foundation’s role. This preliminary report synthesized common themes emerging from these interviews so that foundations may reflect on what resonates among these findings, and that nonprofits may have new insights into the foundation sector.