

SWALL
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Effective
effective

by
Paul N. Ylvisaker



COUNCIL ON FOUNDATIONS

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MISSION

The Council on Foundations is a membership organization that serves the public good by promoting and enhancing responsible and effective philanthropy.

VISION

In an environment of unprecedented change and potential, the Council on Foundations in the twenty-first century supports philanthropy worldwide by serving as

A trusted leader: Promoting the highest values, principles and practices to ensure accountability and effectiveness in philanthropy.

An effective advocate: Communicating and promoting the interests, value and contributions of philanthropy.

A valued resource: Supporting learning, open dialog and information exchange about and for philanthropy.

A respectful partner: Collaborating within a network of philanthropic and other organizations working to promote responsible and effective philanthropy.

STATEMENT OF INCLUSIVENESS

The Council on Foundations was formed to promote responsible and effective philanthropy. The mission requires a commitment to inclusiveness as a fundamental operating principle and calls for an active and ongoing process that affirms human diversity in its many forms, encompassing but not limited to ethnicity, race, gender, sexual orientation, economic circumstance, disability and philosophy. We seek diversity in order to ensure that a range of perspectives, opinions and experiences are recognized and acted upon in achieving the Council's mission. The Council also asks members to make a similar commitment to inclusiveness in order to better enhance their abilities to contribute to the common good of our changing society.

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COUNCIL ON FOUNDATIONS

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Foreword

This booklet had its beginnings in 1986, when the Council on Foundations asked the late Paul Ylvisaker, then senior consultant for educational programs to the Council, to take a close look at the problems and opportunities of smaller foundations. Ylvisaker spent most of a year collecting information, talking with trustees and staffs of smaller foundations and making presentations at seminars for smaller foundations. *Small Can Be Effective* grew out of these efforts and was first published in 1989.

Small Can Be Effective is a popular and thought-provoking publication. The author does not draw conclusions and find solutions for you; instead, he prods, challenges and inspires you to look at small foundations in a new light, the light of possibilities rather than limitations.

Since the book was first printed, certain changes have occurred—some of the highlighted projects are completed and others have begun; some small foundations aren't so small any more—but the overall environment of philanthropy has changed little, and Paul Ylvisaker's thoughts are as inspiring and thought provoking as ever. We have made only a few gentle changes in this year-2000 impression, to account for the passage of time.

As you consider the author's thoughts, I hope you will find both an appreciation for the work of small foundations and a challenge to expand the creative efforts of your own foundation.

Dorothy S. Ridings
President and CEO
Council on Foundations

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When people think, talk or write about foundations, almost invariably they have in mind the large and very large philanthropies, starting and usually ending with the Fords, Rockefellers, Carnegies and MacArthurs.

Rarely will they be focusing on any or all of the small foundations that actually compose the overwhelming mass of grantmakers in the United States. Twenty-three thousand of the total 25,000 foundations in the United States have assets of less than \$10 million (arbitrarily chosen here as an approximate indicator of what could reasonably be classified as a “small foundation”).¹

The Council on Foundations has commissioned this essay in the belief that more attention should be paid to the workings of these smaller philanthropies, as well as to their contributions. All too little is known about them; but it is doubtful in the climate of rising demand for philanthropic funding and growing sophistication of applicants that they will remain invisible or unnoticed. Concern has already been expressed that increased scrutiny at both state and federal levels might well focus on actual and alleged shortcomings in this sector.

But the Council’s interest is more on the positive side. There is vast potential in small-scale philanthropy; and this is a time when that potential needs to be fully released. The dollars held by small foundations, individually and collectively, are a precious resource in a society trying to meet burgeoning needs with increasingly scarce public funds.

¹ Bear in mind that a number of “pass-through” foundations have little or no assets but actually give away sizeable sums and can hardly be classified as small foundations.

Moreover, it is the Council's fundamental belief that the creative use of foundation moneys, rather than their size and scale, constitutes the real potential of philanthropy—"small can be effective." This monograph, then, is an appeal for creativity and an attempt to illustrate how small foundations have been and can be both creative and effective.

What Is a Small Foundation? Some Further Benchmarks

In addition to asset size, small foundations might be distinguished by two other criteria: size of annual grants and size of staffs. Both indicators are arbitrary and approximate.

Foundations that award an annual total of \$1 million or less can reasonably be classified as small. Similarly, foundations with five or fewer paid staff might be thought of as being small. But there are always exceptions that plague an attempt to classify or generalize. For example, the Alden Trust of Worcester, Massachusetts, has over \$50 million in assets, awards more than \$1 million annually, but operates without staff; its trustees handle all the normal grantmaking operations.

So it's probably best to deal in approximates and with a pervading sense of relativity. Small compared to what? To the Ford Foundation with its billions in assets, its hundreds of millions in annual grants, its scores of professional staff?

In the final analysis, to paraphrase a Supreme Court justice, you know a small foundation when you feel you are one.

What Do We Know about Small Foundations?

Most of what we know about small foundations comes from a combination of personal contact—the isolated examples of boards

we have served on, individual trustees and staff we have encountered, grants that have achieved high visibility—and from surveys that include some sampling of this sector.

One such is the Council's biennial Management Survey; half of its respondents typically satisfy the criteria cited earlier. But the sampling is surely skewed. It represents only a tiny fraction of all small foundations, and those that respond are members of the Council, displaying all the marks of interest and professionalism that generally characterize Council membership. Still, the results are informative.

To generalize, small foundations

- differ in board size
- have more donor and family participation on their boards
- show more participation by women as trustees
- differ in their minority participation (independent foundations have fewer minority trustees than their larger counterparts, small community and public foundations average 15 percent more)
- pay directors' fees less frequently
- employ a median of two professional or support staff, half of them part-time
- pay a small percentage of salaries as benefits
- less frequently have a written vacation policy or a written maternity-leave policy, although those who do have nearly doubled in the past two years
- indicate somewhat higher administrative costs and payout rates
- display conventional patterns of grantmaking, though with a slightly higher proportion going to religion.

All this is but marginal information. Clearly, what is needed are more systematic surveys, extensive field research, intimate case studies and critical essays of the kind that have been carried out with respect to the nation's larger and more conspicuous foundations.

The Function of Foundations: Three Traditions

Before answering the question of how small foundations can be effective, one needs to go back to some basics: What are the great traditions within which foundations, large and small, move and have their being? Essentially, there are three.

The oldest and most widely practiced and understood is **charity**. In its simplest form, it is a one-to-one transaction between two parties—one more affluent sharing resources with one more needy, a classic example being the Good Samaritan.

A second and equally ancient tradition is **patronage**, the identification and nurturing of talent. Originally practiced by kings and nobles, the tradition has given us the masters and masterpieces of art, sculpture and music. In its modern form, it is represented by fellowships such as the Guggenheim and MacArthur awards and by direct support of cultural and educational enterprises.

The third great tradition is **modern philanthropy**, only a century old and still evolving. It emerged with the massive fortunes of Andrew Carnegie, John D. Rockefeller and their kindred barons; it took on the structured character and law of the corporate world and associated itself with the outlook and professionalism of organized science. It dedicated itself to finding systemic solutions to underlying causes of poverty and other social ills and over time has become a recognized social process, in effect a set of private legislatures defining public problems, setting goals and priorities and allocating resources toward general solutions.

Embedded as we are in the immediacies of that evolution, we perhaps do not fully appreciate the role that foundations are allowed, and increasingly are expected, to play in American society. We have, in effect, been given a “hunting license” as private organizations to participate in what has conventionally been thought of as exclusively a public/governmental domain. And what is even more significant, this is becoming a global development: Societies everywhere, growing in diversity and complexity, have become aware that government alone cannot release the energies and potential of the citizenry without giving room for spontaneous private initiatives. In the late 1980s, even the Soviet Union began to encourage the formation of private foundations.

Modern Philanthropy: The Challenge to Foundation Creativity

Philanthropy in its contemporary form has grown explosively in its potential for social influence and creativity. It now has a multitude of ways in which it can be an effective and generative force for human betterment.

These generic functions of modern philanthropy can be listed under five general headings: financial, the catalytic role of philanthropy, the conceptualizing role of philanthropy, the critical function of philanthropy and the community-building role of philanthropy. The following enumeration illustrates the range and variety of the devices by which foundations, whatever their size, can exercise and maximize their effectiveness.

Only a few directly involve the transmission of money—which in itself gives an answer to that provocative, if somewhat mischievous, question: “Who would come to see you if you didn’t have any (or much) money?”

Financial: Support Functions of Philanthropy

1. Grantmaking. Notice how in our times the concept of giving (the older charitable mode), and even the word, have given way to the modernized term of grantmaking. Actually, the process has become one of negotiated contracts, in which two parties—the donor and the donee—at least in theory agree on the terms of the exchange. Implicit in this exchange is the equality of the two parties, although there is still the hangover from former days of the superior position of the grantor, and hence the oft-cited occupational hazard of arrogance. But if we were explicitly to recognize the “democratization” of an elite institution, we would be practicing the equality of exchange in which money from one party secures the services of another on mutually acceptable terms.

It is in this kind of negotiation that philanthropy at any scale can and should ensure both its effectiveness and its credibility. In being credible, it will be all the more effective—and in making the adjustment to modern thought, it will demonstrate its creativity.

2. Lending. Granting money is only one way of extending financial support. A foundation can also lend, and by that device stretch, its resources. Lending may be done at below-market or even at no interest, accepting higher risk, while not depleting a foundation’s financial capacity. Lending has proved an effective way, for example, of covering revenue shortages often experienced by social service agencies whose cash flow position has become temporarily precarious.

3. Insuring. Another means of providing financial assistance is re-insuring commercial loans extended by banks or other sources to nonprofit agencies. Again, it allows foundations to be of assistance without diminishing their financial capacity.

4. Investing. The past decades have added still another device to a foundation’s repertoire: program-related investments. Once thought to violate the doctrine of prudence, such investments—out of the foundation’s corpus and usually at below-market rates

of interest—are now generally accepted and increasingly practiced. Again, they enable a foundation to stretch its resources without depleting them.

Another significant use of investments is to make an ethical statement. By screening its own investments through criteria that are socially and environmentally sensitive, a foundation can ensure not only that its own programmatic and financial goals are congruent, but also that its example may have an impact on other sectors of the general public.

The Catalytic Role of Philanthropy

- 5. Initiating.** Foundations often diminish their effectiveness by remaining passive, waiting for others to propose while hanging back themselves. Even small foundations can become proactive, taking initiatives that stimulate others to act.
- 6. Accelerating.** Social action is usually a slow process. Foundations by stepping in can speed up the process, acting as “society’s passing gear.” A notable example of this came when then-Governor Terry Sanford created the North Carolina Fund through the help of local foundations. The fund made it possible for minorities to participate in decisions and programs that speeded the adoption of and experimentation with a rich variety of solutions to the state’s long-festering social problems.
- 7. Leveraging.** Small foundations are particularly at a disadvantage not having enough money to fund larger ventures. But they can leverage their funds by bringing other resources into play.
- 8. Collaborating and Partnering.** Leveraging usually involves collaborating with others in joint grantmaking—another development in modern philanthropy that is picking up speed. A relevant case in point is the educational partnerships spreading across the country. Small foundations are conspicuous in school reform, maximizing their own energies, resources and creativity.

- 9. Convening.** Another foundation activity that has come into vogue is bringing together several sectors of the community with a common concern. Convening can be done with or without a financial outlay, but it requires credibility and trust. Foundations are a “natural” in this role. They are usually viewed as nonpartisan, a trusted meeting ground for divergent interests, and their functioning in this role can often have spectacular results. The Fund for the City of New York specializes in this activity. It holds “no-agenda lunches” where both public and private agencies can meet and discuss what’s on their minds, regularly resulting in new approaches and joint ventures. It can be one of the most creative—and least expensive—forms of philanthropy, ideally suited to small foundations and their limited means.

The Conceptualizing Role of Philanthropy

- 10. Analyzing.** Foundations are well known for the research they do and the fact-finding and analyses they finance. The role is at once valuable, mostly uncontroversial and need not be expensive. And it need not in every case be complex or sophisticated, often requiring only some time, asking the right questions and searching in the right places. Subjects for small foundations cover the whole range of community problems, from assembling data on the incidence of specific diseases to examining the import of demographic changes.
- 11. Defining and Redefining.** In a rapidly-changing society, one of the most valuable processes is taking a new or another look at issues that have long been, shortly will be or should be on the public agenda. There is too often a lag in public perception and recognition; foundations can play an effective part in defining and redefining those issues through research, analyses, conferences, seminars, publicity or simply reporting their own considerations and grant results.

- 12. Focusing.** Again, in setting their own priorities for grantmaking, foundations of whatever size can exert a powerful influence on how nonprofits and public agencies concentrate their own energies and objectives. This is a further argument for foundations to clarify their goals and publicly state/report what they hope to accomplish.
- 13. Inventing and Testing.** A more familiar part of philanthropy's thinking function is that of devising new programs, new approaches and new solutions. Innovation and experimentation early-on became synonymous with the modern foundation. Two of our most ingenious solutions to serious social problems came from the pioneering efforts of very small foundations: the practice of painting white lines on the outside edges of roads and highways, radically reducing accident and mortality rates, and the use of lasers to limit the ravages of diabetic retinopathy, saving the residual vision of millions in this and other countries.

The Critical Function of Philanthropy

- 14. Commenting.** Foundations, by their reluctance to speak out and their uneven record of public reporting, have all too often passed up what is one of their readiest and least expensive opportunities to be of influence. They have the freedom and the platform not only to inform the public of what they stand for and have done, but also to comment on the state of the communities they serve and on the needs they see as not being fulfilled. Small foundations in general are particularly remiss. The infrequency of their public reporting and their seclusion from public awareness have bound them like Lilliput in knots of their own tying.
- 15. Approving and Disapproving.** Foundations, small as well as large, carry their own "Good Housekeeping Seal of Approval." Given the public trust and confidence accorded to them, they

are looked to as symbols of what has been disinterestedly judged as favorable or not favorable, promising or not promising, a risk worth or not worth taking. That symbol is to be guarded and used with the greatest of care and with the willingness to be explicit about both purpose and criteria.

16. **Advocating.** Brian O’Connell of the Independent Sector has stated his belief that advocacy is the most powerful and precious of roles of foundations and nonprofits. But it is hardly the most popular. One has to be willing to live with controversy. Small foundations willing to engage in it, either directly or through grantees, will obviously have to assess the risks, but they should also know of the potential rewards.
17. **Gadflying—Serving as Social Conscience.** This is the “prophetic” role that foundations at any scale can choose to play: They can do it through sponsored studies, commissions and reports or through statements and actions of their own. In recent years, small foundations throughout the United States have stirred the conscience of their communities on such topics as hunger, homelessness, AIDS—not to mention such nagging constants as civil rights and environmental protection.

The Community-Building Role of Philanthropy

18. **Bonding/Unifying.** De Tocqueville more than a century ago noted a virtue in the new nation that might well become its fatal flaw: individualism leading perhaps ultimately to the fragmentation of community. It is a theme picked up again by Robert Bellah and his associates in their volume *Habits of the Heart*. And for me, it was etched memorably in a friendly argument with Fei Xiao Tong, the noted Chinese anthropologist. “You,” he amiably charged, “are the White Devil. You symbolize undisciplined individualism. You define human potential in terms of what an individual can accomplish on his/her own,

regardless of whether that accomplishment is to the benefit or to the detriment of that person's community.”

Strengthening both the sense of community and the tradition of community service may well be the first obligation of foundations, whatever their size—an obligation that goes along with the rare privilege given philanthropy: the freedom to decide privately the means by which the goal of community building is to be accomplished.

19. Balancing. Building a community requires conscious efforts simultaneously at diversifying and equalizing, an essay in social balancing to ensure that disparities and polarization do not get out of hand. Even small foundations can make a difference simply in what they say, how they act and what they do. Choosing trustees and staff who reflect diverse backgrounds and interests is powerfully symbolic; making certain that grantees are similarly reflective and seeking out and being accessible to people and agencies struggling at the margin are ways to help a community achieve a healthy balance.

20. Leading. Foundations have no alternative but to accept the leadership position their command of flexible resources places them in. They will lead even when passive and silent; the only question is whether they will recognize and accept the responsibilities of their advantaged position. A foundation is a public trust; it is not simply a private prerogative, to be maintained as a private sanctuary and for private purposes. Why else the tax advantages accorded them by a public that expects public benefit in return?

Vast Room for Creativity²

By now, it should be evident that foundations do not need a lot of money to be effective: Within the 20 generic functions of modern

² It might well be worth the effort if trustees and staff were to review their grants and activities to determine which and how many of the 20 generic functions they have engaged in.

philanthropy, they have all the room they need to be creative. If, indeed, they were to exploit only a fraction of the strategies available to them, their individual and collective impact on American life would be vastly and beneficially expanded. This nation needs what foundations at all scales have to offer—public awareness and expectancy are fast rising.

Examples of Small Foundation Creativity

Examples of creativity have been scattered throughout the preceding pages; it may be helpful to identify a few more. These are but a sampling of the myriad instances where the generative potential of small foundations has been realized.

The Edward P. Hazen Foundation has distinguished itself over two generations as a powerfully leavening influence both on the American scene and in the philanthropic community. It was originally a family foundation, but its board has for some time been composed of nonfamily members representing a wide diversity of gender, race and occupational background. With assets of less than \$10 million, its grants have been consistently well considered and often pioneering: for example, its earlier work in values and its more recent nurturing of minority scholar Ron Edmonds, whose work touched off the Effective Schools movement in the United States. The foundation has also risked the calculated decision to invest a considerable part of its income in employing a succession of extraordinarily competent staff, whose personal influence has matched in many ways that of the foundation's program grants.

The Henry C. Frick Educational Commission of Pittsburgh, with assets under \$5 million, has for nearly a century been a generative force in that community. With a board of trustees of 11 members representing areas such as finance, law, education, business and community leadership, the fund has served not simply as a grant-maker, but also as a program developer, catalyst, broker and convenor. It has carefully focused its activities, concentrating currently

on the alarming turnover of principals and superintendents (in the process initiating the development of a Principal's Academy), on early childhood and on problems such as teen pregnancy and drug and alcohol abuse.

A dramatic example of what a very small foundation can accomplish came with the establishment of the Dan and Inez Wood Fairfax Fund within the Southern Educational Foundation. Created by Jean and Betty Fairfax in honor of their parents, the Fund will award college scholarships to black high school students in Phoenix, Arizona, who have persevered through graduation. The original asset contribution was \$125,000, an endowment that is expected to grow modestly over the next seven years. It stands as a stimulating example of what minority donors of limited means can accomplish with a well-conceived contribution.

The Albert Kunstadter Family Foundation of New York City, with assets of less than \$3 million, has decided that its grants should focus on critical operating needs of a very wide variety of nonprofit organizations. The range of recipients extends from minority educational ventures to agencies working on international development and security. In doing so, the foundation has carved out its own niche: a flexible response at critical times in the life of an organization that has proved its worth. These timely grants rarely exceed \$5,000; most are between \$2,000 and \$3,000.

Finally, the Peninsula Community Foundation of Burlingame, California. It has assets of less than \$5 million; its grants range in size from \$50 to \$75,000, with the average between \$5,000 and \$20,000. It has displayed remarkable ingenuity (and frugality) in its response to local needs. To illustrate, it has

- created, and with local business support maintained, a Community Resource Library of funding sources and, along with it, a training seminar for those seeking funding

- working with local corporations, set up a distribution center for the free disposition of computers, furniture and other supplies to local nonprofit agencies
- provided a convening and coordinating point for staff of public and private agencies working on teenage pregnancy, similarly for several dance companies
- initiated (at a total cost of \$250) a get-together of the local constabulary and youngsters with cars and motorcycles, dissolving tensions and leading to the holding of a very popular rally and concourse
- along with other local funding sources, established a program of internships that adds college volunteers to the staffing potential of local nonprofits.

As Bill Somerville, executive director, notes: “The challenge lies in how creative one can be with limited resources. Small foundations should be low-budget operations, but this has nothing to do with how flexible and responsive they can be.... The San Francisco Foundation is a limousine, and the Peninsula Community Foundation is a motor scooter: We both carry people; they can carry more, but we can take the corners quicker.”



In *Small Can Be Effective*, Paul Ylvisaker challenges small foundations to “think big”—to be instruments for human betterment. Ylvisaker describes in detail five roles small foundations can play to produce meaningful societal improvements:

The Financial—Grants are just the beginning of how small foundations can support important endeavors.

The Catalytic—Strategically focused small foundations can speed up desirable reform through time-tested action strategies.

The Conceptualizer—Small foundations can help bring to the fore new ideas that speed social progress.

The Critic—Small foundations can play a valuable role as advocate and social conscience, ensuring that important human needs are not overlooked.

The Community Builder—Small foundations can work locally to strengthen a community and to build volunteer service to the community.

Small Can Be Effective is a classic, first published in 1989. Ylvisaker is a clear-sighted writer who believes passionately in the role of foundations in furthering human progress. This book belongs on the desktop of anyone responsible for guiding the development of a new, small or growing foundation.



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