

## Philanthropy Roundtable

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Title: Size Matters: Why Big Foundations Perform Poorly

Abstract: The bigger the foundation, the more poorly it performs. A survey instrument designed from “In Search of Excellence” (Peters & Waterman, 1982) and sent to more than 230 foundation grantees measured the performance of 30 southeastern health legacy foundations. Findings indicate that as foundations increase their assets and staff, they do not decentralize decision making. They also decrease their performance in consistently specific ways. The poorer performing foundations tend to wander into fields in which they have little or no expertise, they are less flexible with their operating rules and in responding to grantees, and they do not take risks or encourage experimentation. These weaknesses provide a roadmap to improved performance but only for foundations that value the role of grantees in accomplishing their missions.

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## **Size Matters: Why Big Foundations Perform Poorly**

Typically, in order to accomplish their objectives, grant making foundations rely heavily on nonprofit grantee organizations. As practicing foundation and nonprofit executives and academics, we thought, therefore, that all foundations should be very interested in understanding their relationships with grantees in order to improve their own performance. Surprisingly, most foundations do not ask grantees for feedback about key areas of their operations that influence their relationships. Were they to ask, large foundations might discover that they are not performing near as well as they think. Whether this reluctance to ask the tough questions comes from arrogance, skepticism, or fear of accountability, the result is that valuable input is often ignored (Prager, 2003).

Under the auspices of the Southeastern Council of Foundations, we systematically surveyed 230 grantees of 30 health legacy foundations in the south and found that large foundations tend to earn lower performance results than smaller foundations. Assuming that the relationship between grantees and health legacy foundations is no different, our findings may be of interest to other family, community, and independent foundations. For the purpose of this study, large foundations were defined as those with assets greater than \$100 million. They are viewed by grantees as less effective foundations and they show several consistent weaknesses. They are criticized for wandering into fields in which they have little or no expertise, for being less flexible in responding to grantees

and for rigidly enforcing their operating rules. These large foundations are also criticized for not taking risks or encouraging experimentation. Smaller foundations, defined as those with assets less than \$100 million, tend to make quicker decisions, place greater value on their grantees, show more flexibility with their grant making rules, and are more tolerant when circumstances change. All of these factors in combination lead to a perception among grantees of higher performance.

### **Study Design**

Health legacy foundations hold the residual assets from the sale of nonprofit assets to for-profit companies. Typically, they invest the sale proceeds and make grants to other nonprofits. Thirty southeastern health legacy foundations responded to a survey in 2004 designed to document several of their important organizational characteristics. Additionally, a random group of more than 230 grantees graded the performance of these same foundations using a sixteen-item questionnaire modified specifically for nonprofit foundation grantees. Peters and Waterman (1982) identified the original indicators of high-performance businesses in their best-selling book “In Search of Excellence” (Peters & Waterman, 1982), and Sharma (Sharma, Netemeyer, & Mahajan, 1990), designed the original business-oriented questionnaire.

## **Findings & Conclusions**

Low performing foundations are often larger foundations. Size seems to beget few performance benefits. On average, the larger the foundation, the greater the likelihood that it is a low-performer. This finding throws into question the bureaucracy, hierarchy, and complex work rules used by large foundations as they attempt to add value to their philanthropy. The tradeoff between a dollar spent on staff and a dollar given directly to a grantee is a difficult balance. Large foundations are characterized by large staffs, which, in turn, may tend to justify themselves and ever larger staffs. Grantee responses indicate that the foundation staffs add less value than increased program funding.

Large foundations earn very low marks for their inflexibility. These foundations may place more importance on the grantee following the rules than on having an impact. This frustrates grantees and goes hand-in-hand with large foundation staffs. Since foundations do not have a widely supported method of measuring success, they may be retreating to the predictable activity of bureaucracy, enforcing process rules. Increased hierarchy may also tend to enforce rigidity as each successive layer of staff has less latitude to be flexible with grant rules.

The eminent sociologist Max Weber (1947) observed that bureaucratization is an inevitable, and in some aspects even desirable, development of modern organizational life. As organizations increase in size and

complexity, adherence to impersonal rules and their uniform application increase as well. Legal authority emanating from the top of the organization becomes a defining characteristic of large organizations (Weber, 1947).

As a predictable consequence of the process of bureaucratization, large foundations are unwilling to experiment. All of the talk among foundations about taking risks seems to disappear among big foundations. Smaller foundations are more willing to jump into risky projects. Since one of the touted strengths of private foundations is that they can afford to take on risky projects, it seems that the fear of failure is an important grant-making disincentive that neutralizes this theoretical strong point in large foundations. Grantees believe that large foundations create an atmosphere that systematically dampens innovation. This is predictable behavior on the part of foundation boards as their fiduciary pressure to conserve the corpus of the foundation exceeds the pressure for desired programmatic results.

Large foundations perform even more poorly as they add staff and decentralize their decision-making. Mintzberg (1989) observed that as organizations increase in size, they adopt mechanisms to improve performance. One mechanism to improve operations is to push decision-making further down into the hierarchy (Mintzberg, 1989). However, when this happens among foundations, performance actually falls. Focus groups of grantees explain that the act of decentralization in foundations merely adds layers to each decision

and slows things down. Foundations may be decentralizing in name only. Whether the staff of a foundation is too defensive to make decisions, or too browbeaten by their boards every time a mistake happens, is open to debate. Grantees, however, see more foundation staff as an impediment and, perhaps, as wasted money.

Large foundations tend to forget old friends. When a grant ends, it appears that large foundations declare victory and move on. Grantees criticize foundations for not following up on their programs after the end of the grant. Few large foundations visit former grantee organizations to see if their funding left any lasting impact. Some grantees view this as disinterest, others as the product of values. Large foundations may value funding more than relationships and all of this talk about “partnership” may just be talk.

Grantees think that large foundations often make grants in fields in which they have little or no expertise. Perhaps they are easily bored with one field of work or easily defeated by some very durable social problems, but, foundations seem to be constantly looking for the next new thing. Grantees are uncertain about how to confront a funder with poorly conceived projects but strongly held notions of cause and effect. Smaller, high-performing foundations score better for “sticking to their knitting”.

Only grantees appear to be required to follow the rules. Often, large foundations do not stick to their grant guidelines for pet projects. Sometimes grantees see funding decisions that are strictly the result of a strong personality at the foundation. Rules change. Grantees are then confused. Is it who they know or what they know that is funded? A foundation composed of several different personality cults is a foundation prone to break its own rules. They may also be violating their publicized policies in favor of the latest fad. Grantees give low scores in either event.

On the other hand, high-performing, smaller foundations earn higher scores for things that are important to grantees. In particular, these foundations seem to adhere closely to their stated values. They hire employees that exemplify their values, and they let their values drive the direction of their organization. Smaller, high-performing foundations also pay attention to their grantees and listen to their opinions. They believe in their grantees and support them emotionally and intellectually as well as financially. High performers give personalized attention to their grantees. This may explain why they are often smaller foundations. High performers also encourage innovation and creativity, unlike the larger, low-performing foundations. The high-performance foundations seem to be less fixated on following the rules and more flexible. Lastly, high-performance foundations have lean operations with small staffs and efficient management. This is in direct contrast to the low-performing larger foundations.

The question that large foundations should be asking, is: “how can we retain the advantages of size (for instance in fund management, capacity building, durability, or research) while cultivating the strengths of a smaller organization (such as flexibility, close relationships, and quick decisions)? Why not ask your grantees?”

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