

GUIDESTAR PUBLICATIONS

*A Guide to
Good Practices in*
**Foundation
Operations**

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A Guide to Good Practices in Foundation Operations

Prepared by GuideStar

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Foundations are an essential part of our society and our economy. There are currently more than 86,000 foundations in the United States with more than \$700 billion in assets combined. Those foundations gave more than \$50 billion in grants in 2012, a number that is only forecast to keep growing in the coming years. There is little doubt that the health of civic society depends, in part, on the health of foundations.

Yet for all the impact that foundations have made, the field remains ripe for improvement. Foundations have long been known as notoriously idiosyncratic, with different missions, methods, and practices. (Hence the old saw: “If you’ve seen one foundation, you’ve seen one foundation.”) This diversity is generally a good thing—civic society would be worse off if all foundations were alike. But for nonprofits, the one-size-fits-one quality of foundations can make grantseeking a challenge. And a costly, inefficient, and unresponsive grantmaking process has cascading effects, blunting the total impact of the philanthropic sector.

The practices outlined here take aim at the inefficiencies that hamper many foundation operations. And we offer them with an eye toward the certainty of change. The next few years will be transformative for the philanthropic sector, as technological change opens up new opportunities—and poses new challenges. It is essential that foundations continue to work to improve their practices today, even as they prepare themselves for an unknown future.

If you’ve seen one foundation, you’ve seen one foundation.

—Anonymous

An important thread that runs through the recommendations offered here is a concern that has become more salient in philanthropy, namely the power imbalance between grantmakers and grantseekers. Simply put, grantmakers exercise an enormous amount of power over grantseekers—a fact that even the most sensitive of grantmakers may overlook. That power imbalance underpins some of the inefficiencies that afflict philanthropy. Addressing that dynamic is the overarching theme of the practices promulgated here.

In the past, the term *best practices* has been used to describe the menu of initiatives and reforms that organizations can implement to improve their workings. But *best practices* implies a one-size-fits-all approach that we do not advocate. Instead, think of this paper as a summary of *good practices*—prescriptions that we

believe will help improve the performance of grantmakers specifically and philanthropy broadly, but should certainly not be deemed holy writ.

The good practices listed here cover a range of areas:

transparency, communications, constituency relations, diversity, and due diligence. They also apply mainly to a foundation's operations (good practices in the programmatic sphere, governance, and finance are distinct subjects for another day). We believe that foundations of all shapes and sizes can apply these practices without losing the identity and idiosyncrasies that make each unique. And we believe if all foundations take up these practices and others like them, civic society will be much more efficient, stronger, and more effective.

1. Be Transparent to the Public

On a most basic level, transparency is openness to the world outside a foundation's walls. A foundation's openness to questions—about what it does, how it does it, what impact it has, who it works with—is a desirable quality. And it's a quality that, as we look ahead to the future of philanthropy, needs to become a norm to ensure the field's continued health and vibrancy.

Why is transparency good? At first blush, transparency might seem mainly to benefit grantseekers and external audiences, who obviously have an interest in being privy to as much of a grantmaker's workings as possible. But a deeper look shows that transparency is very much in the interest of grantmakers themselves.

Although not a guarantee of effectiveness, we believe transparency in general correlates with excellence in foundations. Which makes sense—the more open and accountable an organization is, the more responsive it is to criticism and vigilant it is about performance. The act of transparency can force an organization to be clear about its goals and strategy.

Glasspockets, a service of Foundation Center, identifies [six benefits from transparency](#):¹

1. strengthens a foundation's credibility
2. increases public trust
3. improves relationships with grantees and regions served

4. reduces duplication of effort among foundations that care about the same issues
5. facilitates greater collaboration and collective problem solving
6. cultivates a community of shared learning and good practices among foundations

Despite these documented benefits, foundations still have not internalized the ideal of transparency. Today, a foundation generally chooses to “opt in” to transparency practices—it is not the default setting. That needs to change, and it begins with specific actionable items.

How should foundations go about becoming more transparent? The basic idea is to share as much information about your foundation as widely as possible. That process can encompass many initiatives. One is [eReporting](#), via Foundation Center, which has one of the most robust databases of global grantmakers and their grants. By submitting grants electronically to the eReporting program, a foundation ensures that the most up-to-date and accurate information about its grants is being made available to the sector.

Being transparent about what we do well, what we do poorly, where we exceed our expectations, and where we fall short cannot but increase the credibility of our institutions.

—Bradford Smith, President,
Foundation Center

Another good practice is to make publicly available a grants database that can give grantseekers insight into a foundation's funding decisions.² Because most grantmakers already have a system to track grants they have made, making such information available shouldn't be too big a leap. One useful model for an interactive grants database is on the [Hewlett Foundation's website](#). The database allows users to filter by region, program, year, amount, and type of grant. Moreover, the Hewlett Foundation has made the software for the tool publicly available via a Creative Commons license so that others might use it to display their data.³

A foundation can also take many steps in its own operations to increase its transparency. From posting clear selection guidelines and easily accessible contact information on its website to funding projects that support data sharing to convening meetings on the topic of transparency, foundations can instill a pro-transparency mindset that, over time, can hopefully develop into a sector-wide norm.

To help measure itself against other grantmakers—and in the process to incentivize more pro-transparency changes—a foundation can consult transparency tools such as those provided by [Glasspockets](#), which allow an organization to compare its transparency practices with those of other organizations and produce a customized report with recommendations for improving transparency.

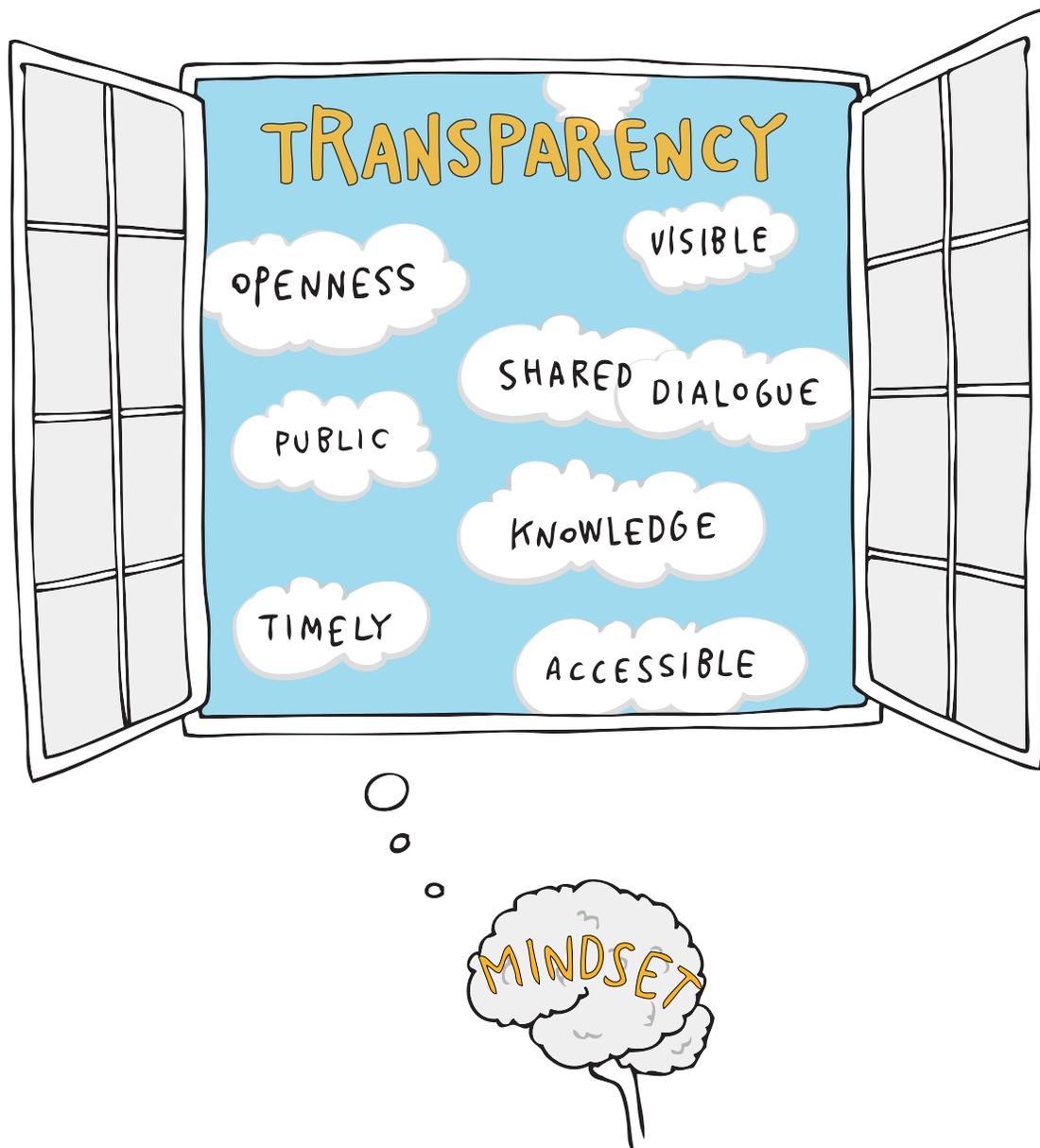


Illustration by Zsofi Lang. Reprinted from “Opening Up: Demystifying Funder Transparency,” p. 5, courtesy of GrantCraft, a service of Foundation Center.

2. Be Rigorous—But Remain Respectful of Your Applicants

The term *due diligence* comes from the world of business. It refers to the process an investor undertakes to become better informed about a company's financial and organizational well-being to help determine investment decisions.

In the world of philanthropy, due diligence refers to a grantmaker's procedures to determine the health of a grantseeker and verify a nonprofit's eligibility to accept grants. But due diligence isn't just about legal and financial compliance. More importantly, due diligence helps a grantmaker determine whether a nonprofit fits with the grantmaker's mission; sheds light on the grantseeker's standing in the community and the broader field; and shows how well the organization is run by its board and staff.⁴

If due diligence is the bedrock of a grantmaker's decision-making process, it is nonetheless too easy for foundations to take this step for granted. Worse, grantmakers too often institute due-diligence procedures that can prove burdensome for resource-strapped organizations. Nonprofits frequently report that demanding due-diligence requirements can be a source of frustration, with grantmakers seeking redundant information and unnecessary documentation.

There are a few principles to keep in mind as a foundation constructs its due-diligence process.

1. **Keep it simple.** Every minute a nonprofit's leadership and staff spends fulfilling onerous requirements and filling out a grantmaker's templates is a minute taken away from the more important work they do. A grantmaker should consider what information it already possesses about the grantseeker before asking for it.

Moreover, the grantmaker should see what information it can gather from outside sources. There are three fundamental areas that require attention when doing due diligence: a grantseeker's legal status, its impact, and its financial health. Each of those areas is covered by different products from outside sources. GuideStar offers several tools. GuideStar Charity Check provides information on grantseekers' legal status. GuideStar Platinum can give funders a glimpse into an applicant's progress toward its mission. And GuideStar Pro is useful for gathering financial information for an applicant.

2. **Resist a one-size-fits-all approach.** Instead of applying the same due-diligence process to nonprofits of all types and sizes, a grantmaker should adjust its approach based on the organization and grant under consideration. It makes little sense to demand as much from a small organization asking for a small grant as one would from a large nonprofit asking for a substantial amount. Moreover, focus your process on the information you don't already have or can't get easily.
3. **Be rigorous—but don't be unrealistic.** All nonprofits have their respective strengths and weaknesses. As

With money in your pocket, you are wise and you are handsome and you sing well too.

—Yiddish proverb posted in the office of former Hewlett Foundation president Paul Brest

a report from the Bridgespan Group puts it, "Context matters: Depending on the size, age, and growth trajectory of a nonprofit organization or a particular program, its capabilities will look quite different." Don't expect a startup to act with the same efficiency and quickness as an established organization that is used to dealing with the grantseeking process.

4. **Finally, do no harm.** Trying to fulfill a grantmaker's due-diligence requirements can be a costly and onerous process for nonprofits. Imposing these demands on nonprofits without assessing how many of them are necessary or even desirable will only impede the missions of the very organizations a grantmaker is trying to help.⁵

But if rigor in due diligence is important, no less important is being mindful of your demands to grantees. For all of the good things that foundations do, the process that drives grantmaking can still be quite intimidating for applicants. Foundations all too often forget that basic fact, which leads us to suggest a general principle: make the applicants' lives as easy as possible.

One very important aspect of the grantmaking process—and perhaps the best way for foundations to know what they can do better—is grantee feedback. Perhaps the most widely used grantee feedback program is the one offered by the Center for Effective Philanthropy. The CEP's [Grantee Perception Report \(GPR\)](#) is a survey that grantees fill out to provide funders with comprehensive feedback.

Some of the questions the GPR seeks to answer include: How much impact do grantees believe that you are having in the fields and communities in which you work? How can you have more? How do grantees experience their relationships with you, and what suggestions do they have for improvement? What do grantees find most helpful and frustrating about your application and reporting processes? Are you communicating foundation goals and strategies effectively? To date, some 300 funders have commissioned the survey, and some 50,000 grantees have provided their feedback.

Another important—and yet usually unheralded—thing a foundation can do to improve grantmaking is to make the actual process of applying easier. In conceiving and constructing the application process, foundations should always be mindful of the user experience. Are the application instructions clear and helpful? Is the foundation website easy to navigate? Are the requirements reasonable?

An especially effective way for foundations to improve the application process is to exploit existing technologies that can streamline grantmaking and reduce bureaucratic hurdles. So much of applying for grants involves the repetitive work of uploading registration and financial documents that are required under IRS rules as well as basic organizational information.

One such solution is [GuideStar for Grant Applications](#), which allows a foundation to pull organizational and registration information from GuideStar to autofill a grantee's online application. Doing so can significantly reduce the amount of time it takes for a nonprofit to complete an application. Integrating GuideStar Nonprofit Profile information into the application process not only reduces the application time but also cuts down on the turnaround time from intake to award.

Another excellent resource is PEAK Grantmaking's (formerly the Grant Managers Network) [Project Streamline](#), which offers a [tool kit](#) for streamlining a grantmaker's application process. Project Streamline's recommendations include stopping the outsourcing of basic administrative tasks to grantseekers, storing grantee information so that repeat grantees won't have to resubmit documents, using GuideStar, the IRS Business Master File, or IRS Exempt Organizations Select Check (formerly Publication 78) to verify grantee status, and accepting common applications.

Underpinning the good practices laid out here—a more streamlined application process, technological upgrades to reduce the burden on grantees, comprehensive and actionable feedback—is a bedrock principle: be aware of your stakeholder's needs and capabilities. A foundation that is responsive to those needs and mindful of those capabilities can only deepen its impact.

3. Be Responsive to Your Constituents

For all the importance of being transparent and accountable to the outside world, foundations shouldn't lose sight of something equally valuable: the perception of a foundation's mission and workings among constituents, both inside and outside the organization.

The people who work for funders, be they a handful of staffers at a small grantmaker or a sprawling network of teams for a major foundation, ultimately determine the success or failure of the organization. They set strategy, make decisions, and represent the organization's work to the world every day. An engaged staff will lead to better performance and greater impact, a simple fact that can be easily overlooked.

To ensure a high-performing staff, it is essential for grantmakers to take assessment and evaluation seriously.

Accountability, by definition, requires feedback.

—Joe Goldman, Democracy Fund

Foundations should seek to institute feedback mechanisms that collect assessments and data from staffers and use those evaluations to inform foundation strategy and operations. A fairly simple approach would be an employee perception survey, either developed in house or by a third party. Such a survey should seek to measure a range of criteria, including staff perceptions of their relationships with managers, whether staffers believe they are empowered to do their jobs, and their perceptions of organizational culture.

A more sophisticated option would be something like the Center for Effective Philanthropy's [Staff Perception Report](#).

(SPR). The SPR is a survey and report designed specifically for philanthropic funders. The report compares staff ratings to those of other funders' staffs and is a powerful tool for identifying strengths and weaknesses. The entire process takes two to three months and can be customized to fit the needs of any foundation.

Finally, grantmakers need to turn their attention to the beneficiaries themselves—the people and groups who stand to benefit from the grants foundations approve and the services that nonprofits offer. This is a fairly new area of concern among foundations, and as such, many grantmakers are still figuring out how to go about collecting this information. [Fund for Shared Insight](#), a collaborative effort among funders to make grants that improve philanthropy, has been considering this question, seeking to encourage and incorporate feedback from beneficiaries. Going forward, input from beneficiaries will likely be an area of growing concern for grantmakers and grantseekers alike.

4. Be Proactive about Diversity, Equity, and Inclusion

America is becoming increasingly diverse. America's foundations, on balance, have done a good job of heeding former Kellogg Foundation president and CEO Sterling Speirn's call of making sure philanthropy looks like America itself. In recent years, philanthropy has made increasing diversity within its ranks a priority. Erika Seth Davies, director of external affairs of the Association of Black Foundation Executives, [writes](#), "Today the public is no longer surprised when our nation's largest grantmaking foundations and corporations appoint African American, Latino, and women leaders as chief executive officers, chief investment officers, and chief operating officers."

But it is important that such initiatives not be limited to ad hoc efforts or in response to public campaigns. The push to diversify a foundation's staff needs to be internalized and systematized, enshrined as a keystone value for an organization. The oft-used metaphor is to make an organization reflect the country (or community)—"look more like America," in Speirn's words. But diversity's value goes beyond the symbolic. Diversity encourages innovation, energizes organizations, and widens perspectives. In short, it is an essential quality for any philanthropic organization that seeks to maximize its impact. The Council on Foundations

Community Foundations: Leaders in Evaluating Effectiveness

Today, the United States is home to more than 750 community foundations. Together, these organizations manage more than \$48 billion in assets and disburse \$4.3 billion to their communities annually. They come in all sizes, are located in every state, are found in urban and rural settings, and rely on varying business models.⁶

Regardless of the differences among them, community foundations share a common goal: to harness philanthropy to improve the quality of life in their respective locations.

Community foundations and other funders lead the sector in focusing on effectiveness—effectiveness of their grantmaking decisions, effectiveness of the nonprofits they support, and effectiveness of philanthropy overall. Understanding how a foundation serves its constituents involves more than the dollar value of the grants it gives, however. It's about funding outcomes, how effectively a foundation runs its operations, the money it is able to funnel back into the community from fundraising, the effect of the capacity support it provides, and more.

Pulling and analyzing this information can be time-consuming, but the insights an organization will gain should make the effort worthwhile. In addition to gathering data from their own systems, foundations should consider helping the organizations they fund set up feedback loops with recipients of their services. For an example, look at [Listen for Good](#), an initiative of the [Fund for Shared Insight](#).

Beneficiary feedback allows the nonprofits being supported to improve continuously. And the more effective those nonprofits are, the more impact grantmaking will have.

To learn more about technology solutions for community foundations, see "[21st-Century Tools for 21st-Century Community Foundations](#)."

offers [several resources](#) to enhance foundations' diversity and inclusion practices.

From the board on down to the junior staff, a foundation should recruit with an eye toward diversity. One practice that could firmly embed such a mindset would be to establish outreach programs aimed at increasing minority employees. Especially when focused on young people, such programs can have benefits that rebound beyond the foundation and into the broader field. Such an outreach strategy can help build the pipeline for diverse talent that can enrich philanthropy for years to come.

Foundations should also establish mentoring programs that can connect new hires with people of color in positions of authority within the organization and the broader field. Such a practice will improve retention and develop a sense of community that can enrich a foundation's culture.

Just as important, grantmakers—especially large foundations—should issue regular reports providing data with respect to their diversity efforts. Such proactive steps will go a long way toward building trust in communities of color.

But a focus on diversity shouldn't be restricted to a foundation's staff. Grantmakers should also pay attention to the diversity of the grantees and partners with which they work. The OMG Center for Collaborative Learning, in a [study](#) prepared for the D5 Coalition, a group that seeks to enhance diversity in philanthropy, identified eight practices that foundations should consider:

1. cultivate a deep understanding of the local contexts in which you invest
2. ensure that your mission reflects the value of diversity, equity, and inclusion, and that your leaders are strongly driven by the mission
3. target, through strategy, the structural issues that limit opportunities for people in underserved communities, and bolster the capacity of grassroots organizations that serve those communities
4. select nonprofit partners whose missions align with your values
5. engage nonprofits as partners and forge long-term relationships with them

6. build nonprofit partners' capacity to engage their communities authentically
7. convene nonprofit partners to discuss diversity and encourage authentic collaboration to tackle the structural issues that affect communities
8. use evaluation as a learning tool to improve your own—and your nonprofit partners'—practices of diversity

The Association of Black Foundation Executives offers a Responsive Philanthropy in Black Communities Toolkit. The [program](#) "emphasizes a careful and conscious analysis and application of strategies that result in opportunities for grantmakers to support Black communities." The approach provides tools that will help funders construct funding strategies that prioritize diversity.

We need philanthropy to look more like America, so we can better respond to the complex issues facing Americans today.

—Sterling K. Speirn, Former President and CEO, Kellogg Foundation

GuideStar has sought to fill the gap in the field by establishing the first data collection program covering nonprofit diversity. Created in collaboration with the D5 Coalition, the feature on GuideStar Nonprofit Profiles provides recommended standards for organizations to voluntarily share information about the make-up of board members, staff, and volunteers based on gender, sexual orientation, race/ethnicity, and ability/disability. An organization has the choice of entering the information into its free GuideStar Nonprofit Profile or incorporating the standards into its own reporting systems. The hope is that better diversity information across the sector will deepen foundation insight into the constituencies they are working to help.

Conclusion

Foundations have long been essential players in civic society. And amid a time of change and uncertainty, they are needed more than ever. But for all the good they have done, foundations can still be even more impactful. To do so, they need to be aware of—and take seriously—the inefficiencies that still hamper many foundation operations. But being aware isn't enough. Foundations can put in place good practices that can address those problems and inefficiencies, without sacrificing their identities.

The next few years will be crucial, potentially transformative ones for philanthropy. If the sector is to maximize its impact on national life, foundations need to continue the hard but important work of improving how they operate. Efficient, well-functioning foundations are the key to a thriving civic society.

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