

Foundation Value Statements in Times of Economic Distress:

A (Very) Preliminary Analysis over Time

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Abstract

The effect of the economic downturn on foundation grant making has been examined extensively in trade publications and the popular press. Foundation responses to the crisis have also been examined extensively, in terms of shifting priorities, grant making levels, and the effect on commitments of recessions both recent and historic. The current economic crisis and the foundation response thereto (as well as the public perception of that response) represent an opportunity to examine how foundations tell their story—how they present themselves and what values they seek to communicate to grantees, grant seekers, other stakeholders and the general public. Kabanoff and Daly (2002) offer a framework to examine the espoused values of organizations. Whitman (2009) moves one step further, expanding on earlier research to craft a framework to specifically examine the espoused and demonstrated values of foundations.

These analyses suggest but do not address interesting questions about how articulation and demonstration of those values shift (if at all) in response to external circumstances such as economic distress. When times are tough, how do foundations present their values, to grantees/applicants, members of the public, regulators, peers, and other key stakeholders? What story do they seek to tell? How do they make sense of both events and their responses thereto?

Introduction: The effect of the economic downturn on foundation grantmaking has been examined extensively in trade publications (Barton & Wilhelm, 2009) and the popular press (Sutherly, 2009). Foundation responses to the crisis have also been examined extensively, in terms of shifting priorities (Gose, Wasley, & Wilhelm, 2008), grantmaking levels (PR Newswire Association LLC, 2009), and the effect on foundation commitments of recessions both recent (Lawrence, 2009) and historical (Lawrence, 2008). Nor has the advice for foundations been lacking—should they increase giving (Gates & Gates, 2009), maintain a focus on long-term strategy (Brest & Harvey, *Dealing With Hard Times: Advice for Foundations*, 2008), stay the course (Fantom, 2008), or encourage collaboration between nonprofit organizations (Heim, 2009)?

Murphy (2009) completed a brief summary of the state of foundation funding for university-based research as of February 2009, and concluded primarily that the picture was incomplete, that insufficient information was available for any general conclusions. McGill

(2009) set forth a preliminary summary and initial set of interpretations of foundation plans based on information available as of March 2009, focusing largely on what foundations said they would do in response to the crisis, rather than why they said they were doing it. Yet, the current economic crisis and the foundation response thereto represent an opportunity to examine how foundations tell their story—what values they seek to communicate to grantees, grant seekers, other stakeholders and the general public. Kabanoff and Daly (2002) offer a framework to examine the espoused values of organizations. Whitman (2009) moves one step further, expanding on earlier research (Whitman, 2008) to craft a framework to specifically examine the espoused and demonstrated values of foundations. These analyses suggest but do not address interesting questions about how articulation and demonstration of those values shift (if at all) in response to external circumstances such as economic distress, as discussed further below. When times are tough, how do foundations present their values to grantees/applicants, members of the public, regulators, peers, and other key stakeholders? On a more abstract but potentially no less critical level, what story do they seek to tell? How do they make sense of both events and their responses thereto?

I proposed to examine how (if at all) foundation espoused values and representations regarding their resource allocation decisions shift in times of economic crisis. Informed by existing literature and working with a selected sample of foundations, I hoped to elucidate how expressed values shift, if at all, and whether any such shifts are reflected in resource allocation decisions through examination of selected foundation communications, publicly available data, and examination of media treatments of foundation grant making. More broadly, examining my results in terms of the literature on ethics in grantmaking (Josephson, 1992), (Orosz, 2000), I

hoped to examine whether a normative framework might be developed in the context of which such decisions might have been made.

Context and Review of Literature: The first question relates to what exactly happened. The economic recession which began in December 2007 (National Bureau of Economic Research Business Cycle Dating Committee, 2008) owed its genesis to “...significant losses on [bank] investments in home mortgages and related securities in the second half of 2007...[so that] banks and other lenders suddenly demanded much higher interest rates on loans to risky borrowers, including other banks, and trading in many financial instruments declined sharply” (Bullard, Neely, & Wheelock, 2009, p. 403). As a result of the interconnectedness both of different sectors of the US economy and of the US economy with other economies throughout the world, liquidity—access to capital—contracted severely, so that economic activity—and the wages it generates—also shrank precipitously (Bernanke, 2009). This resulted in severe drops in the value of securities and a corresponding nominal loss of asset value on the part of any individual or institution invested significantly in the stock market. Private foundations were no exception to this trend: nationally, by the end of 2008, endowments among a sample of 57 foundations for which data was publicly available had declined by a median of twenty-eight percent (Barton & Wilhelm, 2009). In Indiana, the seven largest foundations lost approximately \$3.2 billion in value in 2008, from \$100 million (or twenty-five percent) of the Nina Mason Pulliam Trust’s endowment value to \$2.3 billion (or thirty percent) of The Lilly Endowment’s corpus (King, 2009, p. A1). Media reports document losses on a similar scale among philanthropic institutions in geographic regions such as upstate New York (Dougherty, 2008) or

Seattle (Heim, 2009), and within individual subsectors of the foundation world, such as healthcare foundations (Sutherly, 2009).

The impacts of lower grant making levels and of the recession more generally on nonprofit organizations have included difficulty accessing bond financing and consolidation of organizations with similar missions (Gose, Wasley, & Wilhelm, 2008, p. 3), as well as increased demand for services and reductions in funding from government, individuals and philanthropic institutions (Bridgeland, McNaught, Reed, & Dunkelman, 2009, p. 6ff.). In fact, a mid-2009 survey by the National Council of Nonprofits (2009, p. 1) showed that more than half of the respondents had experienced increased demand and decreased revenue, with more than a third indicating that they have had to reduce operations. In response to these trends, foundations have focused on remedying the effects of the recession on the most vulnerable populations, including low-income and elderly households (Council on Foundations, 2008, p. 3) and in the communities in which they are based, supporting emergency assistance programs and providing supplemental operating support to stabilize existing grantees (Lawrence, 2009, p. 2f.).

However, these broad summaries of trends and activities barely scratch the surface of the question regarding what foundations are doing and, more importantly, why they are doing it. Fortunately, more detailed information is readily available: a Foundation Center survey (2009) summarizes the plans of the 100 largest foundations (by assets) in terms of their most recently available total giving and total assets numbers as well as their anticipated giving trend for 2010. While this is interesting in itself, the question of potentially greater interest—which has received significantly less attention in scholarly research, foundation publications, trade

media, or mainstream media—relates to the way that foundation representatives have articulated their plans and their justification for those plans. Some reference their actions in prior downturns (Fanton, 2008) while others note what they plan to do in the future and why (Rapson, 2008). Still others set forth a set of operating principles by which they will abide in response to the current crisis (Roob, 2009) while a few highlight their innovative and proactive efforts to address the crisis at hand (The Kresge Foundation, 2009), (Central Indiana Community Foundation, 2008) or to address the underlying and ongoing causes of economic stress that have been only exacerbated by the current crisis (New Economy Initiative for Southeast Michigan, 2009).

Why does this matter? The espoused values of an organization as articulated (or implied—an important qualifier to which I will later return) in these statements arguably have meaning, but have received scant attention. Moreover, these espoused values could be analyzed in two ways relevant to the research questions to be examined here. Kabanoff and Daly (2002) suggest a method for establishing the espoused values of an organization, using published documents as a basis. More recently, Whitman has suggested a framework for evaluating (2008) and measuring (2009) the social values foundations seek to advance, using methods somewhat similar to those used by Kabanoff and his colleagues in a range of different studies. The interesting point suggested by these analyses—and the basis for the more intensive but as-yet incomplete research on which the final version of this study will be based—relates to the diverging assumptions of these authors regarding treatment of organizational expressions of value as static or dynamic: while Whitman's analysis focuses on the alignment between foundations' espoused values and resource allocation decisions *at a point in time*,

Kabanoff and Holt (1996) suggest that espoused values can (but do not necessarily) *change* over time. Along similar lines, Kabanoff, Waldersee and Cohen (1995, p. 1094f.) suggest that how leaders describe change within their organizations differed in a systematic way depending on which organizational values they emphasized; for example, organizations with values emphasizing performance, participation at all levels in furthering organizational goals, and commitment to those goals (among other values)¹ tended to focus on how all staff can help facilitate positive results from change, rather than, for example, emphasizing what managers need to do to ensure this outcome . This question has implications for my broader research interest regarding how foundation leaders attempt to communicate the purposes and values of the foundation to their successors, particularly within family foundations both when the successors are family members and when they are not. Gersick (2006) offers a broad outline of the nature of this transition, making some case-study based assertions about how it comes about, but his research almost by definition represents point-in-time analysis.

Of course, a more fundamental question might be whether anything published by foundations for consumption by the public really carries this deeper meaning regarding core purposes and organizational values. In part, this might be an ethical question relating to the alignment between the story an organization seeks to tell and the reality underlying its actual behavior. Ethical issues relating to communication, particularly within the context of philanthropy, have received at least some recent attention in the scholarly literature. For example, Clohesy (2003, p. 134) discusses the ethical challenges that arise from an articulated emphasis on donors as customers, including the possibility that services will begin to shift

¹ The authors refer to this constellation of values as a *meritocratic* one (Kabanoff, Waldersee, & Cohen, 1995, p. 1078)

according not to what clients need but to what donors will support. More recently, Forstorp (2007, p. 299) has suggested that key to ethical communication is avoiding the commodification of the service recipient as simply a means by which to justify donations. On the other end of the spectrum, Mitschow (2000) has suggested that iconification of service recipients—the assertion that any help afforded to them is preferable to no help at all, in large part because of the perception that continued assistance to those service recipients is sacrosanct—can result in continued support for an organization well beyond the point that the organization continues to be effective.

More fundamentally, this is a question of narrative and its role in not only representing our behavior, but shaping it. We might (and at some point before November, I will) productively talk about how these communications fit into the broader story that foundations are trying to construct about themselves. As Adler et al. (2007) suggest, narrative coherence—that is, a story that makes sense—is at least one indicator of a healthy personality, as is discomfort until that coherence is achieved. Moreover, as Lorem (2008) notes (building on the ideas of Ricoeur—see Kemp (2002) for a brief exposition thereof), successfully integrating events and one's response thereto into one's life narrative is a critical aspect of mental health. Similarly, Neimeyer (2006) talks about the importance of integrating difficult events and our response thereto into our life narrative in order to preserve and build mental health, while Polya et al. (2005) even note that the perspective a narrator adopts when recounting critical events in a life story—retrospective, experiencing or re-experiencing, specifically—is a significant indicator of one's mental health. At the core of this line of reasoning, Ricoeur (1985) notes the importance of life as a story that makes sense to the individual. I am making what I

hope is a reasonable—but intentional—logical leap to the assertion of the importance of life as a story for the institution. Edgar (2006) seems to affirm the importance of the story in her assertions that foundations need to be able to tell their story in a compelling way, using their narratives to flesh out the findings captured in their more atomistic (but still critical) analyses of program impact.

The final potentially interesting question to be considered is the normative one: what can an analysis like this potentially tell us about what perceived obligation the funder assumes vis-à-vis the funding recipient, particularly during difficult economic times? The simple answer, of course, is “none at all”, but that would be dismissive of a body of work regarding what recipients want from funders and what funders and others taking the perspective of the funder suggest about this question. With regard to the former, Bolduc and his colleagues at the Center for Effective Philanthropy have suggested (2004, p. 9ff.) and Huang (2006, p. 4) has reinforced that clarity of communication regarding strategy and desired goals of the foundation are one of the three aspects of funder relations with recipients that are most valued by those recipients (the other two, which should pose no surprise, are external orientation—as opposed to insularity—and responsiveness/approachability). Somewhat less currently, Payton (1987, p. 33ff) suggests that a central obligation of corporate grant making is a tolerance for ambiguity combined with respect for the other, both rooted in good character on the part of the individual interacting with the grantee. Josephson expands on this point somewhat with his list of critical virtues for funders: “...honesty, integrity, fairness, respect and accountability...” (1992, p. 5), with considerable attention to integrity, which is “...measured in terms of the congruence of principle and practice, conviction and conduct...” (p. 62), a concept bearing a

great deal in common with Payton's definition of good character. Finally, Martin (1994, p. 29ff) outlines a series of virtues incumbent upon the giver to exercise in the process of giving, including (but not limited to) compassion, a sense of justice, integrity, and respect for others.

Table 1 summarizes these differing perspectives on critical virtues for grant makers. The interesting question therefore becomes whether these virtues are cited often (or at all) as foundations seek to justify their decisions within the context of economic distress.

Bolduc et al. (2004, p. 9ff)	Josephson (1992, p. 5f)	Martin (1994, p. 29ff.)	Payton (1987) ²
Clarity of Communications of Foundation Strategy and Goals	Honesty	Benevolence, manifested by demonstration of compassion, generosity, kindness and expression of love.	Tolerance for ambiguity
Quality of Interactions	Integrity	Justice, manifested by a sense of justice.	Respect for the other
External Orientation	Fairness	Reciprocity, manifested by demonstration of gratitude and fairness.	Cultivation of good character
	Respect	Sense of Community, manifested by public spiritedness, loyalty, conviviality, and faith/hope in community.	
	Accountability	Senses of sacredness, beauty and practices, manifested by reverence, aesthetic appreciation, and a commitment to excellence.	
		Self-respect, as manifested by integrity, dignity and pride.	

Method: Using the Foundation Center's 100 largest foundation summary as a starting point, I reviewed communications from the top 30 foundations in which they asserted what they would do in response to the financial crisis and why they would do it. Where available, I used communications explicitly addressing the financial crisis; where such documents were not

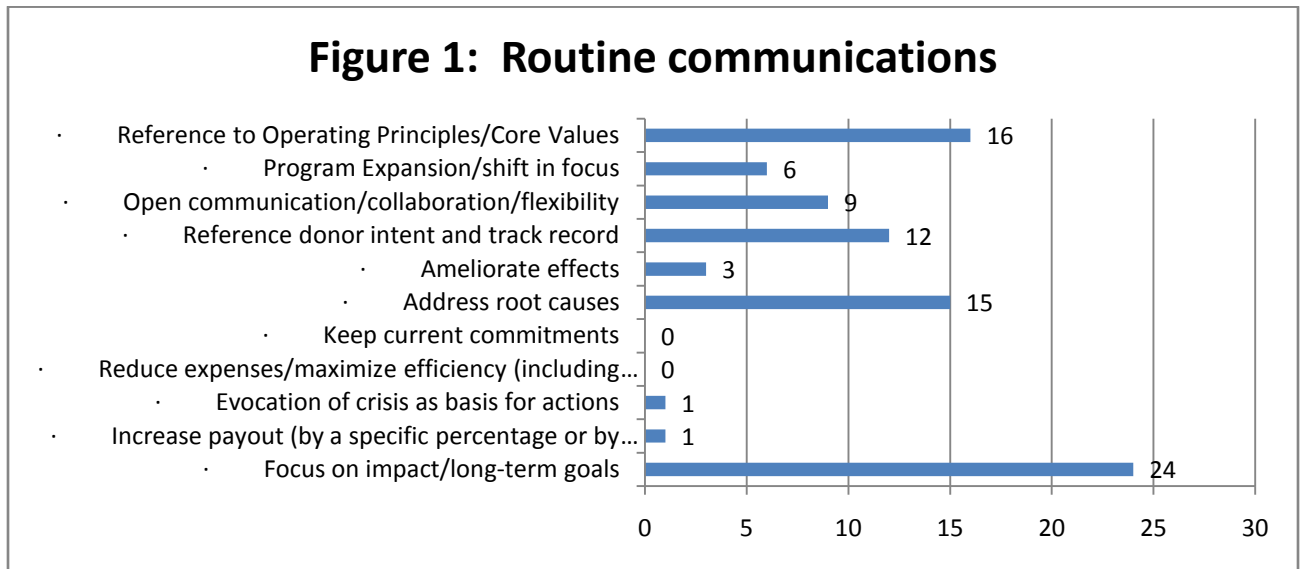
² Perhaps one of the most central points of Payton's work here is that the virtues required for a virtuous grant maker defy easy classification. The summary above is solely my own, based on the totality of the work.

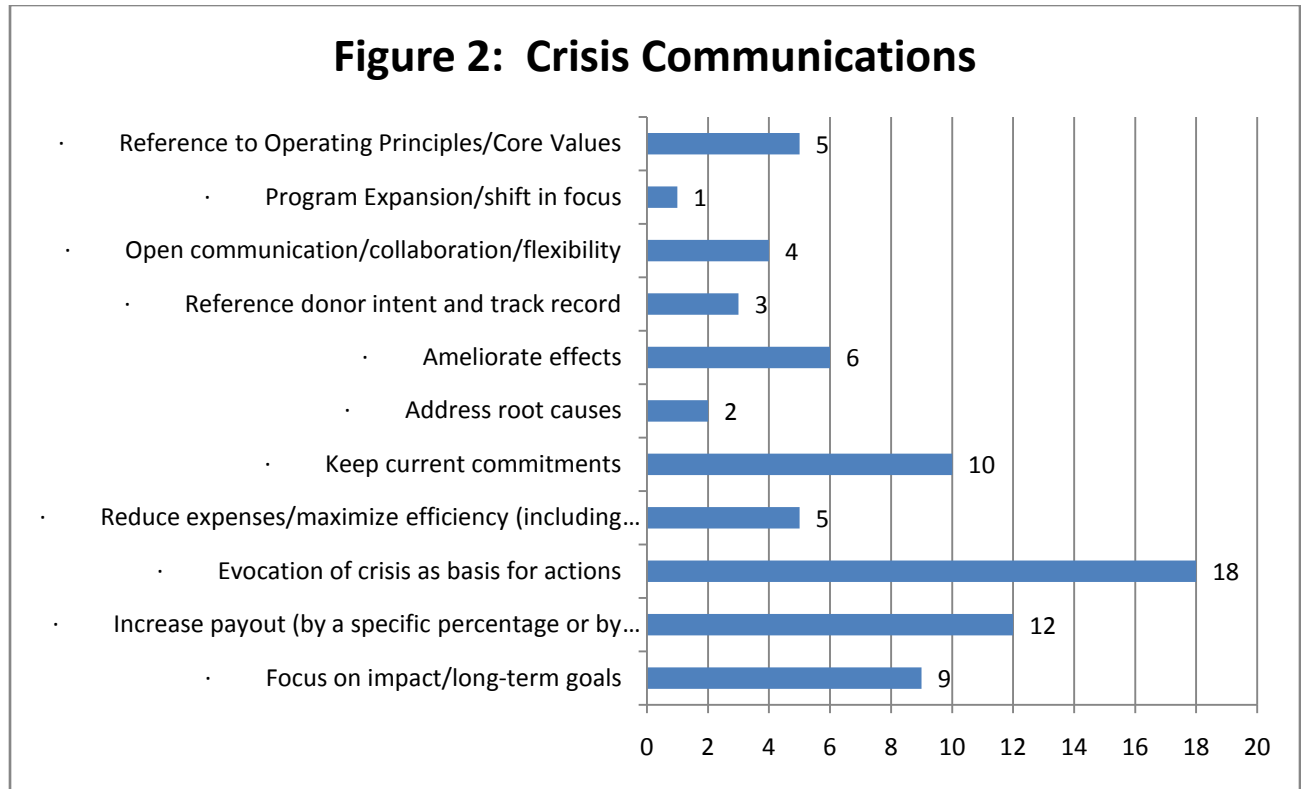
available, I used the most recent regular communication (such as annual report or annual letter). I read for common justifications of their actions and common phrasing and attempted to classify each response into specific categories:

- Reference to operating principles
- Program Expansion/Shift in Focus
- Focus on impact/long-term goals
- Increase payout (by a specific percentage or by an unspecified amount/percentage)
- Reduce expenses/maximize efficiency
- Keep current commitments
- Address root causes of crisis
- Ameliorate effects of crisis
- Reference donor intent and track record
- Open communication

As a basis for comparison, I secured the most recent pre-recession annual report from each foundation in the sample, issued for the program year 2007. Where unavailable (as noted in the appendix), I used the most recent annual report or other publication. The obvious limitations to this approach will be discussed below.

Results: Relevant selections from each communication, along with any notes regarding the selection, are included in the appendices (available upon request but not included here because of the volume involved). In brief, the communication pattern (according to my classification above) shifted significantly between 2007 and 2009 crisis communications, as illustrated in figures 1 and 2 below:





Much herein is hardly surprising; *of course* the crisis communications would evoke the crisis as a basis for action (although the Robert Wood Johnson Foundation’s evocation of a crisis in health care in 2007 is both interesting and potentially worth further exploration). Also, statements regarding reductions in operating expenses and intent to honor existing commitments are only relevant during times of crisis; neither point merited a mention in non-crisis communications.

Yet, what is both interesting and potentially worth further analysis are the other exceptions to the rules and some of the more conspicuous shifts, as follows:

- As would be expected, routine communications show a much higher emphasis on addressing root causes, while crisis communications show a much higher emphasis on ameliorating effects. However, a non-trivial number of foundations in this preliminary sample retained their focus on root causes in their crisis communications.

- Explicit references to collaboration/communication/flexibility were much more common during the non-crisis period than during the crisis period. Where foundations did reference this category of items during the crisis period, such mention was largely a pledge to maintain open lines of communication and to be flexible during the crisis; in contrast, partnership and collaboration received much more attention during the non-crisis period.
- Donor intent and foundation track record also receive much greater attention during non-crisis periods than during crisis periods.
- While program expansion and shift in focus were mentioned much more often by foundations in non-crisis communications, at least one foundation in the current sample did communicate intent to undertake a new initiative in their crisis communications.
- Among the values frameworks referenced in the crisis communications, the most relevant values framework among the four cited on page 9 is the one set forth by the Center for Effective Philanthropy in the Bolduc publication, particularly as keeping commitments and open communication figure so prominently among the assertions foundations made during this period. In the final version of this paper, I will review a wider range of publications to endeavor to determine which if any of the frameworks is most relevant to foundations during periods of non-crisis.
- Finally, and perhaps most problematic, even with the documentation of these shifts, I have not yet managed to get at the more fundamental question of whether the purposes of the foundation's grant making (or the values on which that grant making is based) are static or dynamic. My impression thus far is that grant making and operational shifts in response to external crises are treated as just that—momentary divergences from core purposes; as I

complete a more intensive survey, I anticipate being able to make a more definitive statement in this regard. One promising avenue (which was infeasible with the limited number of documents reviewed here) is to examine foundation assertions regarding their role and the context in which they see themselves playing that role.

Taken as a whole, these findings are obviously suggestive rather than definitive.

Limitations on any conclusions to be reached from this analysis include the following:

- *Interpretation bias*: Classification of each category of communication is based solely on my own interpretation. Obviously, this creates huge risks for biased interpretation of the information provided. In the final version of this study, the classification of communications into various categories will be based on the presence and frequency of particular terms via a more rigorous analysis.
- *Selection bias*: As noted at the outset, my sample selection was opportunistic, based on an existing inventory of the 100 largest foundations in the nation. Aside from the obvious selection bias issues, the 100 largest foundations in the nation are almost by definition more insulated from external shocks than, for example, the average family foundation with an endowment of less than \$1 million. A random selection of foundations from a broader universe of potential subjects would be much more defensible in assessing the questions I am trying to answer.

Taking these limitations into account, my hope in the subject piece was simply to test a potential method for evaluating a question regarding foundation statements of value. The method itself shows promise, subject to the limitations and modifications set forth here.

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