Fostering Effective Innovation in Philanthropy: Bold Approaches to Shape Strategy and Culture

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CSSL CENTER FOR SOCIAL SECTOR LEADERSHIP

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Executive Summary

This paper has been produced to highlight key areas where foundation grantmaking can use different approaches to innovation that we believe will generate more social impact through philanthropy. Work on this paper began well before the outbreak of the global COVID-19 pandemic. This work also started before the murders of Breonna Taylor, Ahmaud Arbery, George Floyd and Rayshard Brooks, and the outpouring of peaceful protest in support of Black lives. Given the massive needs facing philanthropy right now, it would only be natural to assume we considered putting this work aside for another day.

We believe, however, that the solutions we've crafted are relevant to helping philanthropy in this particular moment, as all grantmakers and service providers adapt as quickly as possible to meet immediate needs. It also our hope that the suggestions we make here will leverage a natural window to constructively challenge the status quo to build new lasting norms in philanthropy that create even more positive change as we move from our initial responses to the crises we face now, to recovery and rebuilding, to better address fundamental, systemic racial and socioeconomic inequities.

The ideas in this paper began with a set of hypotheses – about pain points for grantmakers related to innovation and risk, and potential solutions. We conducted in-depth conversations with senior grantmakers and foundation trustees[1] from a wide array of foundations based in and serving the US. We spoke to:

- Public and private foundations that ranged in size from $36M in assets on one end of the spectrum, to $7B in assets on the other end of the spectrum, with many asset sizes across this range.
- Foundations with staff of 5 or less on the small side, and hundreds of staff on the large side.
- Foundations serving the rural and urban south, the west coast, the Midwest, the northeast, and the nation as a whole.

Our conversations tested the validity of our assumptions, generated candid feedback on our ideas and surfaced many additional solutions. This paper discusses some of the root cause problems that stand in the way of effective innovation and taking productive risk, and suggests approaches we believe that can be useful to grantmakers in overcoming these barriers.

[1] We agreed to keep the list of interviewees for this research confidential, to allow for candor. Our interviews included large and small family and private foundations, and ranged from foundation trustees and CEOs to program directors. We interviewed roughly equal numbers of Black, Latinx, Asian and white foundation leaders for this paper. The majority of interviews were with women.

We focused upon:

- Strengthening problem definition practices
- Setting robust new standards for stakeholder engagement
- Testing ideas more quickly, in a structured way
- Strengthening organizational culture, governance and leadership

It is our hope that the magnitude of the devastating needs made crystal clear by the crises of COVID-19 and racial injustice will hasten the pace of positive change in the way we practice philanthropy. Our aim is to enable this rapid change through the ideas and tools on innovation discussed in this paper.

Establishing context: An innovation paradox made more challenging by COVID-19 and the urgent need for racial equity

The COVID-19 crisis and rising national demands for racial equity have created new responsibilities and expectations for the social sector – and philanthropy in particular. The magnitude of what is now required and demanded from the sector, across a vast array of needs including healthcare, criminal justice reform, financial security, racial equity, access to education, housing, food, technology, among many others, is breathtaking.

This environment complicates a paradox that challenged grantmakers even before this moment of change and need across the US: how do we practice effective innovation with limited capital to solve the big, challenging problems that our philanthropies were founded to solve?

The heart of the paradox is that fear of failure creates significant constraints on risk taking, which of course, ripples farther to also constrain the way in which philanthropic organizations practice ideation, implementation and ongoing innovation. As a result of these constraints, some of the larger gains in social impact that might result from successfully taking more and better risks go unattained.

We discussed this paradox in our interviews with grantmakers and trustees in philanthropy, and key issues regarding innovation emerged:

- There are great distances – literally and figuratively – between philanthropic decision makers at the trustee and staff level and the populations they aim to help. This is especially true regarding race and lived experience.

- Flimsy and incomplete problem comprehension can result from disconnects with end beneficiaries. This can lead to fundamentally flawed theories of change in which problems are “misdiagnosed”, misaligned solutions are deployed, and opportunities for innovation are lost.

- As a result of poor problem definition, learning cycles to fuel innovation sometimes test the wrong questions. This perpetuates investment in theories of change and ideas for innovation that have been distorted by a poor understanding of the problem, and limits impact.

- Profound power imbalances between grantmakers and grantees (and sometimes, between grantees and the communities they serve) make it difficult for innovative operators on the frontlines of social impact to push for approaches that break from the status quo. This reinforces racial inequities in philanthropy, and reinforces existing norms and systemic challenges, perpetuating the cycle described here.

Also emergent, and arguably just as important, are the challenges faced by spend-down foundations. By definition of their mandate to liquidate assets relatively quickly, spend-down foundations are forced to take many large risks and grant large amounts of money in a relatively short period of time. While there is a growing conversation about how to help extremely large foundations take “big bets” wisely, there is certainly room to provide guidance on managing risk productively to smaller family foundations who want to foster more impact more quickly.

SECTION 1: How might grantmakers pursue more strategic, structured innovation to better solve the problems they aim to solve, and foster more social impact?

In this section, we explore and discuss:

- Barriers to innovation in philanthropy
- Root causes of risk aversion in philanthropy, including scarcity, proximity and power imbalances
- How barriers and root causes ripple through philanthropy
- Some suggested solutions to these challenges

<u>A. Barriers to Effective Innovation in Philanthropy</u>

The foundation leaders we interviewed were painfully aware of the enormous distances between decision makers at the trustee and senior staff level at foundations, and end beneficiaries. Our interviewees viewed this as a damaging breakdown which actually increased the risk that funding strategies will fail to have their intended impact and may even have unintended, negative consequences.

In our discussions with grantmakers and foundation trustees, they illuminated three particular high-level factors that often interfered with more effective innovation:

Aiming for fiduciary duty: We heard in our interviews that many foundation staff and trustees avoid risk in what they believe is a good-faith effort to be the best stewards of limited funds available to grantmakers.

Reputation: No funder wants their brand damaged by appearing to have "wasted" money through making bad grantmaking decisions. In addition, some funders partner with governments and corporations and see significant downside in limiting their ability to catalyze governments and companies in solving big problems, should they be perceived as imprudent.

Realities of corporate philanthropy: Corporate grantmaking is often aligned with meeting goals that are shaped by regulatory environments, business objectives, and overall reputational positioning with employees, customers and shareholders. This sometimes creates structural limitations on the risks these philanthropies can take.

B. Deeper, Root Causes to Risk Aversion

As we engaged with grantmakers and foundation trustees, they discussed some of the deeper root causes for foundations avoiding risk. Distilling the insights shared that were shared with us, three main drivers came into view:

1. As a starting point, scarcity can be distortive

We heard from philanthropic leaders that the traditional structure of foundations, in which they are designed to exist as grantmaking entities into perpetuity, is in and of itself a barrier to taking the kinds of risks needed for effective innovation. When foundations are set up for grantmaking into perpetuity, and required to grant 5% of their charitable use assets, this can create a hard "ceiling" for many, on the resources available for making the impact for which they aim, creating a scarcity mindset for many foundations.

As a starting point, this scarcity mindset shapes culture, strategy, governance, organizational design and biases around risk and reward – all of which can dull innovation. While it may seem reasonable to suggest that grantmaking into perpetuity is a way to maximize impact, these influences can also point foundations *away* from innovation – and away from the larger social impact gains that the right kind of innovation can produce. The scarcity mindset can also constrain the resources available for productive risk taking, by when it limits resources needed for the research and development required to address the many deeply complex and challenging problems philanthropy aims to solve.

We heard our interviewees bemoaning what sometimes felt to them to be “so much tinkering at the margins” instead of taking the kinds of risks that would foster more effective innovation. Resource allocation norms also create a strong and well intentioned incentive to fund what already works since there is no real margin for error, given the scarcity of funds available in a foundation set to grant into perpetuity.

The upshot of these factors, when taken together, is that the starting point for philanthropy is rarely “what problems do we want to solve, and how do we ensure the highest and best use of our capital to solve these problems?” Rather, it can often be, “we have a relatively small, fixed amount every year to do good. How do we get the most good out of this fixed amount?” This framework for considering strategic choices naturally takes meaningful innovation opportunities off the table for consideration.

One structural solution to the scarcity problems described above is to establish mandates for foundations to spend down assets in a fixed period of time, rather than to make grants into perpetuity. Research suggests that the number of foundations choosing to spend down was increasing for years prior to the global pandemic and this trend may grow given increased needs for philanthropy to address many acute needs as the COVID-19 crisis persists. A particular advantage that spend down foundations have, when managed and led thoughtfully, is the incentive and requirement to take *more* calculated risks given the relatively short period of time in which they have to complete their mission.

2. Proximity: The lack of foundation trustee and management proximity to and comprehension of the problems philanthropy aims to solve diminishes problem solving capability

In our conversations with grantmakers and foundation trustees, there was a strong awareness of the lack of proximity between foundation trustees and staff and the communities they hoped to positively impact. We certainly heard of efforts underway to remedy this challenge, but the lack of proximity is an especially vexing problem for a few distinctive reasons that make it far harder to solve than one might initially imagine. The COVID-19 crisis and increasingly urgent need to address racial inequities, exacerbate this dynamic as the physical and socio-economic distances between grantmakers, foundation trustees and community members has expanded.

- Blind spots: We heard that many foundation trustees are not attuned to their blind spots and frequently underestimate how much they do not know. Understandably, this is a major hurdle to engaging in real conversations about what sorts of risk they might take, and what kinds of innovation may be possible. We heard in our conversations that the blind spot problem is true for management within grantmaking foundations as well. This problem is due partly to a lack of racial, socio-economic, and other kinds of diversity within the ranks of decision makers at the management and trustee level, who set problem-solving agendas and make resource allocation decisions.

- No downside to distance: We also heard that there is no real downside for foundation trustees to remaining distant from people, communities and issues which can make some very uncomfortable. Interviewees shared their beliefs that potential discomfort sometimes led to trustees remaining far from the problems their foundations aim to solve, without an incentive to do otherwise. In the words of one trustee we interviewed, “they get all the rewards without needing to be proximate.”

- Governance structures and norms: In our conversations, we heard grantmakers and foundation trustees comment on the way in which governance structures and practices can unintentionally (and in some cases, intentionally) keep a buffer between trustees and real discussions on how a foundation might embrace different approaches to problem solving. In particular, we heard that the understandable focus on financial performance of assets to ensure the relative ability to give into perpetuity received the majority of time on trustee agendas, at the expense of structured discussions that explored hard discussions on how these assets were being put to use.

3. Power: There’s no escaping the results of profound power imbalances in philanthropy

When we discussed risk with grantmakers and trustees, they all touched upon the profound power imbalances in grantmaking, and the different ways this hampers effective innovation. Our interviews reflected frustration that power sharing approaches in philanthropy to date had yielded little real change. We also heard about the reluctance of trustees and all foundation staff to have their power reduced, and that these power imbalances often happened between trustees and foundation staff who are white and grantees or perspective grantees who were of color.

One interviewee stated flatly that “power is a perk” among foundation staff members, and a tacit expectation that many staff members had in philanthropy.

C. The Ripple Effect on Innovation

The root causes described here often come together to have a negative impact on how philanthropy approaches innovation. Funders feeling the pressure of scarcity sometimes look for one-off quick wins by supporting efforts that appear at first glance to have the promise of creating panacea-like effects. Our interviews suggest that this often happens because a scarcity mindset in grantmaking can leaves little funding for successful innovation. This challenge is compounded by the blind spots of grantmakers and trustees who make resource allocation decisions, and the inability of voices far from the locus of power to challenge the status quo effectively. Candidly, this often plays out with white people in power making decisions, with preferences and points of view from people and communities of color removed from the process.

Later in this paper we explore ideas on how philanthropies can improve some fundamental governance practices that drive productive, value-adding innovation, and help clarify the differences between *invention* – which may actually be counter-productive to achieving social impact, and *innovation*, where value is created through invention.

D. Suggested Solutions for Effective Innovation[2]

Proven, long-used tools such as theories of change and impact evaluation remain foundational tools to help philanthropies take the risk required for effective innovation. Based on feedback from the philanthropic leaders we interviewed, and some fresh thinking from innovators in social impact, this paper offers three key practices for enabling grantmakers to foster innovation that can improve the field's ability to yield more impact[3]:

Suggested Solutions:

1. Strengthening Problem Definition Practices
2. Setting Robust New Standards for Engagement
3. Shorter Learning Cycles and Longer Funding Cycles

[2] This section benefits from the great insight of "Making an Impact – Guide to Strategic Philanthropy (JPM)": this paper was published in 2017, funded by The Philanthropy Center at JPMorgan Chase and written in concert with Sherry Consulting.

1. Strengthening problem definition and comprehension

A problem may appear to be entirely about what one is able to see, yet be vastly more complex than a viewer perceives. With this in mind, it is crucial and powerful to build the capacity of foundation staff members and trustees, to rigorously define the problems they aim to solve. Speaking to the importance of stronger problem definition, one foundation leader we interviewed shared:

“There are lots of assumptions about success that start with a solution already in mind, which leads many trustees and staff to presume they understand a problem really well, when in fact they don’t.”

Building a practice of stronger problem definition begins with strong secondary research and analysis on target problems to deeply understand:

- Root causes
- Systemic and policy causes
- Direct causes
- Indirect causes
- Hidden contributors

Aiming to practice better problem definition will be for naught unless the practice benefits from viewpoints of people of color, women, and people who are or have experienced the problems a funder aims to solve. Seeking out and letting diverse points of view challenge the way a problem has been historically considered is a powerful way for foundations to build innovation capacity. Choosing not to strengthen diversity, and including those diverse voices in decision making, perpetuates institutional blind spots and can foster the kind of poor problem definition that weakens or sometimes even nullifies impact.

2. Setting robust new standards for engagement[4]

A strong practice of problem definition and comprehension is an important first step in enabling foundations to take more productive risk. Yet, this practice alone is only the first step of insight gathering. In our interviews with grantmakers and foundation trustees we heard examples of extremely thorough engagement of key stakeholders that ranged from end beneficiaries to grantees, government officials and staff. We also heard

[4] This section benefits from the excellent work of Fay Twersky and the Hewlett Foundation on effective philanthropy. Many of the resources they have created are available here: https://hewlett.org/practice-effective-philanthropy-resources-guides-hewlett-foundation/

instances of foundations that talked with very small numbers of stakeholders, very infrequently, and yet believed they were very well informed about how stakeholders experienced problems these foundations aimed to solve.

To practice effective innovation and mitigate the risks that follow, foundations must set a new high bar for what deep stakeholder engagement really involves. Reaching this new high bar means foundations must aim to become indisputably expert in understanding the nuances and contours of how various stakeholders experience problems, and must place an emphasis on building world class expertise on how their the end beneficiaries experience these problems.

So, what does “deep stakeholder involvement” mean? At the Haas School of Business at UC Berkeley, very short accelerators for graduate students aiming to start nonprofits and social ventures are required to conduct 100 stakeholder interviews in 10 weeks *just to understand the problem, after extensive secondary research conducted in advance of these interviews.* While it will certainly not always be possible to conduct 100 stakeholder interviews to understand problems and consider new ways to solve problems, this number represents a high bar for which foundations might aim, and a reminder of how challenging it can be to truly understand the complex, challenging problems philanthropy aims to solve.

Interviews with grantmakers and foundation trustees confirm that successful, deep engagement of a foundation’s stakeholders has a number of other requirements as well:

- <u>Building trust between funders and grantees in this process is crucial.</u> One way to achieve this is for foundations to engage stakeholders jointly with grantees, ideally involving trustees as well. This approach provides an opportunity to not only increase insight, but also deepen partnership. It is important that this process of joint engagement be genuinely about joint improvement, not about lacking trust in grantees. This kind of joint engagement requires real humility on the part of foundations. It would be easy for the blind spots and power imbalances described in this paper to cause more harm than good if this was done without forethought and openness to learning in ways that may be new for foundation staff and trustees.

- <u>Deep engagement must do no harm to end beneficiaries.</u> It must also never become extractive, and instead should aim to produce material advances for community members and communities as a result of this practice.

- <u>The practice of deep engagement should ideally be *broadly* useful</u>, so that it is as helpful for understanding policy issues and community organizing issues as it is for problems that may be easier to define. Ideally, as foundations increase their expertise in the roots and components of the problems they aim to solve, and in learning about which solutions are most effective, knowledge sharing helps others build upon these advances.

3. Shorter learning cycles and longer funding cycles

Each of the grantmakers and foundation trustees we interviewed commented on the challenges of the status quo of how foundations often initiate and then grow their work. Ideas can emerge from conversations with experts who are well intentioned, but far from the problems they aim to solve. Success is often defined as a positive outcome from an external evaluation conducted years later. This approach has some methodological rigor, but also some very meaningful flaws - starting with the tendency to not test critical assumptions about funding strategies with the people whose lives they intend to benefit.

All of the grantmakers we talked with cited the absence of end beneficiary voice as a breakdown in the way philanthropies choose solutions and how to invest in solutions. The combination of limited beneficiary voice and very long learning processes can create a vicious cycle that dulls the value of innovation for grantmakers. This cycle starts with inadequate problem definition. The risks of pursuing poor strategy increase when solutions that flow from inadequate problem assessments are implemented without some initial testing of these solutions with end beneficiaries and other key stakeholders. This cycle worsens if flawed programs are run for years with the expectation that success will be determined after external evaluations are conducted at the end of a strategic planning cycle for a foundation.

But what if foundations tested basic assumptions about problems and solutions much more quickly? They could make midstream adjustments faster, and invest more in programs that reflected stronger problem definition and more realistic solutions development; and tested more easily and quickly in shorter learning cycles. They could then run more powerful external evaluations, asking more incisive research questions, and producing far more insight about what works and what doesn’t as they aim to solve social and economic problems.

Validating assumptions quickly is a practice that can help test core assumptions not only related to theories of change and higher level strategy, but in how solutions might be implemented, or communicated with intended beneficiaries. At the very least, this practice helps ameliorate blind spots and deepen insight on where there might be opportunities for success.

Shorter term validation gets even more powerful if it is done in a structured way that starts with hypotheses about what philanthropic funding or other support might achieve in supporting certain types of work. Testing these hypotheses with end beneficiaries is especially useful in uncovering blind spots that foundations and even grantees may have, about how people experience problems, and how they might respond to solutions. Insight from testing hypotheses in short periods of time – often done in 30-90 day periods referred to as *sprints* – can also uncover new questions that shape funding strategies in unexpected directions. Many of the insights uncovered in sprints may have gone undiscovered entirely, or unclear for years, when more traditional approaches to evaluating success exclude more immediate work to validate assumptions about funding strategies.

It is important to note that another key solution for enabling more and better innovation in philanthropy is for funders to make multi-year grants, and to consider giving grantees more freedom in the work they pursue toward the goals set for a grant. This kind of flexibility gives grantees significantly more freedom to test things, and pivot accordingly as they work toward achieving the goals they share with funders. Partnering more closely with grantees to learn along with them as they validate key assumptions can build trust and generate sharable insight that lifts up successful work for others to build upon.

SECTION 2: How do we build organizations and culture that philanthropy requires for successful risk taking and innovation?

In this section we discuss solutions linked to organizational leadership and culture that can foster more productive innovation for foundations. With the benefit of feedback from the foundation leaders we interviewed for this paper, we reflect upon:

- Governance structures and practices
- Organizational design ideas
- The role of adaptive leadership

Without focusing on changing and sustaining the organizational culture required for successful innovation, grantmakers and service delivery nonprofits will leave social impact potential unfulfilled. Adopting new ways of working to pursue greater social impact requires not only practicing new strategies – but also requires that these strategies are enabled by organizational cultures aligned with the new work grantmakers will pursue.

All of the root cause problems related to ineffective innovation discussed here can be linked to features of organizational culture and design. There are also, however, some distinctive points related to organizational culture that surfaced in our interviews with grantmakers and foundation trustees:

A. The Distortive Effect of No Existential Competition:

"There's something funny that happens to an organization when you go to work every day and no one's trying to eat your lunch," said one interviewee.

This quip was offered partly in jest. But it reflects the way the combination of financial security and power dynamics insulate foundations from the sorts of competitive pressures that can be powerful levers for optimizing organizational design and culture, and attitudes toward the talent within organizations.

B. Bias Toward Familiar "Expertise" and Credentials:

In interviews with philanthropic leaders, we heard about the perpetuation of blind spots and confirmation bias that come from hiring "experts" as staff and consultants that look and feel familiar to trustees and foundation leaders – especially with regard to race, gender, and socio-economic background. Our interviewees observed how common it is for outside experts to need the sorts of credentials and pedigrees that foundation executives and trustees have themselves to win work, and be trusted to make "prudent" decisions about where to invest scarce resources.

C. Suggested Solutions for Building Organizational Culture that Enables Effective Innovation:

In drawing upon the research base used to teach social sector leaders at Berkeley Haas and our interviews with philanthropic leaders, three broad solution areas surfaced to help philanthropies build organizations and culture that enable productive risk - whether they grant on an ongoing basis, or are planning to sunset:

1. Reimagining governance structure and practice
2. Practicing first principles design for staff organizations
3. Practicing adaptive leadership as change management

1. Reimagining governance structure and practice

In the context of positioning organizations to take more risks as they pursue innovation, governance is often thought of as a set of practices that boards of trustees engage in to fulfill their fiduciary duty to the organization. This frame naturally lends itself toward understandably risk-averse points of view among trustees and senior executives within foundations.

There is, however, an alternative frame for articulating what governance could be, which can actually aid more and better risk taking among foundations. What if more philanthropies viewed governance more broadly, and treated it as *the way in which decision-making rights are distributed*? And, not simply across existing trustees and board committees – but across their complex sets of stakeholders? Adopting this view leads to possible governance solutions to many of the challenges discussed in this paper. Additionally, in this current moment of reckoning on racial inequity, changing the lens to view governance more broadly provides a powerful frame to fundamentally address inequities at the decision-making level of foundations.

This broader definition and practice of governance, allows us to explore a powerful starting point for reimagining decision making power:

How might we distribute decision rights over our work in ways that increase our understanding of the problems we want to solve, diminish or eliminate our blind spots, eliminate or decrease the biases in the choices we make, and move us closer to investing in what works, faster?

Unpacking this big, challenging question enables collaboration between trustees and management, with existing and potential partners, existing and potential grantees, and with end beneficiaries. Some of the tools that grantmakers and foundation trustees can use to practice this broader frame of governance are:

- Stakeholder and ecosystem governance mapping: Many foundations already have a very good understanding of the ecosystems within which they operate. Yet, there is useful insight to gain from mapping the connections and disconnects between key players and the key goals of the broader definition of governance described above.

  For instance, which stakeholders in an ecosystem may help ameliorate the bias that a board and set of managers bring to decision makers? Which stakeholders are likely to deepen bias? Which have the most to lose in giving up power? Which have more influence on decision making? This mapping also helps to guide productive responses to the questions described in the section below.

- Exploring key questions on decision rights: Using the frame of the *How Might We* statement above in conjunction with a stakeholder/ecosystem alignment map, trustees and managers can explore the key questions, and examples of related sub-questions below:

  - Who gets to make key decisions related to:
    - Issue areas for a foundation to fund?
    - Strategy for addressing these issues?
    - Partners in addressing these issues?
    - How resources are distributed to bring these strategies to life?
    - How results of funding strategies will inform future decisions?

  - How are these decisions made?
    - Will managers and trustees use formal criteria or distill information for decisions more informally?
    - Will some decisions aim for consensus?

  - What are the inputs used to make these decisions?
    - How much primary research and secondary research will be used to make these decisions?
    - Which decisions require the most input from end beneficiaries? From partners? From staff?
    - What are the biggest assumptions that should be tested as soon as possible, before large philanthropic investments are made?

There is an important exercise that follows discussion of these specific questions. In totality, what do the answers to the questions above say about how likely biases on race, gender and lived experiences are to impact decision making? Where are the greatest sources of these biases? Which of these barriers will be hardest to remove? Courageously delving into these second-order questions will generate the greatest productive discomfort, and the most progress, for the foundations willing to discuss and meaningfully address these questions.

Practicing a broader form of governance is not just an effective strategy related to innovation, but it also creates opportunities for power sharing – a significant challenge in philanthropy. The combination of deep community engagement, and validating key assumptions quickly, when done right, can be a powerful, and under-explored mechanism for power sharing between trustees, staff, grantees end beneficiaries and other stakeholders. When all of these stakeholders reach agreement on some meaningful level of commitment to solutions that emerge when they jointly focus on what they learn through these approaches, a very different form of decision making emerges, with the voice of end beneficiaries more central to strategy and resource allocation decisions.

Success with adopting a broader definition and practice of governance requires that governance among trustees at foundations is also practiced with excellence. Among the many best practices for trustee excellence, a few are especially relevant to using broader governance to enable more effective innovation:

- Better Definition of Fiduciary Duty: Foundations can recraft what it means to be a fiduciary as a trustee, or senior manager, using a holistic view of fiduciary duty which demands some level of budgetary, cultural and management alignment with stated innovation goals. This is a significant shift and requires fiduciaries to ask broader questions about how well the organization practices broader governance, staffing alignment to organizational goals, as well as financial performance.

- Redefining progress: While boards must maintain the part of their fiduciary duty that focuses on economic success and sustainability, it is important to ensure that when defining success and progress, financial metrics are considered along with broader metrics related to mission success, and success in building the organizational culture, management and leadership practices philanthropies need to succeed. For example, in addition to asking questions about the financial performance of the endowment, a board that embraces the role of diversity in decision making might include metrics on how many end beneficiaries and other partners were engaged to explore how best to serve them.

- Boards should consider creating board specific dashboards: These can distill metrics that help gauge their success as a group of stewards with a broad set of fiduciary duties, and be integrated into other dashboards for organizational success. In addition to core metrics about organizational performance, dashboards like these can take the pulse of culture through employee and grantee engagement surveys that ask questions about how supported employees at foundations feel about pursuing innovation, and whether grantees feel safe directing funding requests for innovative new approaches to their missions.

- "No excuses" approach to adding diversity to board decision making: To effectively address the barriers to catalyzing innovation described in this paper, voice and decision making power must be ensured for people of color and women, and people from many different lived experiences who have not historically been in the board room making resource allocation decisions. There is a great deal of activity by many foundations in doing this, with some encouraging success. Yet, the field of philanthropy still has a long way to go to bring more diversity to decision making.

  Some common pitfalls and related solutions for boards in this area are:

  - Expecting non-diverse networks to yield diverse candidates. A no excuses approach means boards will pay for the services of executive headhunters who specialize in placing diverse members on boards.

  - Expecting end beneficiaries to succeed on boards without training or preparation. Some very well meaning foundations striving to diversify boards have added end beneficiaries of the programs they fund, to their boards of trustees. This can be quite problematic for many reasons. This option should be approached with abundant caution. Will this person be able to join the discussion with dignity? Are they prepared to navigate Robert's Rules of Order? Are they able to read and comment on the financials as they are presented in a board packet? Can they afford to put aside work or childcare duties to participate on a board? Spending money on thoughtful training and onboarding of diverse board members can alleviate some of these challenges. Changing long standing meeting times may also be required. Some boards might also consider giving board members the option to be paid in order to cover lost wages and child care costs. Board bylaws may need to be changed to enact these changes.

- Expecting one voice and vote to turn the tide. Anecdotally, many board leaders and observers cite the challenge of an individual joining a long standing group of board members – often including family members – and feeling poorly positioned to voice points of view that question the status quo. “Duos” and “trios” of new voices (and not necessarily the same new voice) are a better way to catalyze more dynamic conversations that question the status quo. Some foundation boards may need to adjust bylaws to add duos or trios of non-family members.

- Lacking term limits. Having fresh perspective through a structured infusion of new board members, fueled by thoughtful term limits, is a best practice in adding new points of view to board discussions. Again, bylaws of foundations may need to be adjusted to enact term limits.

- Revisiting the scope and focus of board duties: Given revised fiduciary duties, what ought the board focus on? How ought it apportion limited time to meet these duties, and what needs to be on board dockets and agendas at board meetings to achieve this? Where can boards leave the boardroom and engage with communities to meet these duties? Given how infrequently boards meet, the question of what gets added to agendas and how key points are communicated to boards is crucial and should be aligned with the way a board defines progress for itself and the organization. Some best practices include:

    - Invest significant time at the board and management level in determining what gets placed on the agendas of committees and full boards. The governance or executive committees of boards could take on this responsibility. If no governance committee, one could be established expressly to achieve this function.

    - Limit the amount of time spent looking backwards to ensure that the majority of time for boards can be spent on high-value, high-relevancy topics central to a foundation’s success. One common practice is to spend 25% on the past and 75% on the future in choosing board agenda topics and in managing board discussions.

    - Think creatively about how best to help board members gain insight about problems and solutions related to the areas a philanthropy invests in. Site visits are useful, but are there other experiences that also provide learning? One idea is to invite non-board members with diverse voices to be members of board committees. This approach adds diversity of point of view to board level decisions, and can provide a better entry point for board members who may not have experience in the board room, but whose contributions would be invaluable for boards.

B. First-principles design of foundations

If we had the opportunity to build from scratch and design the organizational staffing models and cultures of foundations, how would we do this, free of an incremental approach that stems from status quo models and many kinds of bias? The study of organizational culture provides us with some fundamentals to consider.

As a starting point, organizational culture is, at its essence:

- The spoken and unspoken, tacit and explicit sets of values, expectations, taboos, rituals and touchstones that define operating norms
- The often “invisible” context that guides peoples interactions at work
- The behaviors that persist when new people fill in pre-existing roles
- The behaviors of colleagues when no one is watching
- Often considered far more important than strategy in predicting success

It is important to acknowledge and design around the fact that unspoken and tacit values and expectations, and the “invisible” context guiding interactions, can be a breeding ground for racism, sexism and other forms of bias. Shaping effective cultures deliberately fills the vacuum of unspoken and invisible context with norms that celebrate and reward good behaviors among individuals, teams and organizations.

With the benefit of this background, and insight from our interviews with philanthropic leaders, we suggest a number of ideas on how to approach organizational design goals for foundations:

1. Diversifying staff

Each of the grantmakers and foundation trustees we interviewed emphasized how critical it is to continue pushing for staff and trustees who reflect the races, genders, lived experiences and other demographics of the people whose lives they aim to improve. This is a non-negotiable, table stakes requirement for success in improving the work of foundations through illuminating blind spots, disabusing false assumptions and creating opportunities for more effective community engagement.

2. Shift culture through redefinition of risk

Very understandably, for most foundations "failure" is an exceptionally negative outcome. It can be useful to shift the conversations internally on "failure" writ large, to how team members might take structured, strategic risks as part of a larger practice of effective innovation. Our interviewees emphasized the importance of building psychological safety in order to achieve this.

3. Constructively challenging HR norms within foundations on staff performance evaluation, compensation and advancement

Suggested solutions in this area which came directly from grantmakers and foundation trustees we interviewed include the following proposed solutions:

- Embracing new sources for finding employees for foundations, especially channels and affinity groups that help connect foundations to candidates of color. One interviewee described their practice of regularly hiring community organizers to purposefully bring new perspectives into the organization. Creating the discipline and practice of using sources for talent that have not traditionally been used for foundations shape organizations toward maximal impact potential. This also helps break the self-perpetuating cycle of constantly defaulting to "familiar" expertise and credentials which reinforce racial, socioeconomic and other biases and blind spots within foundations.

- Tying compensation to practicing effective innovation. Foundation leaders we interviewed observed that, "staff members in foundations often advance based on how long they have been here - not performance." This sort of perverse incentive is preventable. Different kinds of incentives, ones that foster the practice and culture of innovation, can be implemented by foundations.

- Tying compensation to engagement metrics. As a result of power dynamics, frontline foundation staff can become insular, and at times, even indifferent to community members wanting to engage foundations. One foundation executive suggested surveying grantees for feedback that can be integrated into assessing compensation for foundation staff. This leader went on to suggest that this approach might be most effective if engagement metrics were aggregated for an entire staff to create an incentive for collective action across a foundation, for the sorts of behaviors that foster strong effective cultures.

C. Practicing adaptive leadership as change management

The practice of adaptive leadership, in which leaders must drive change for complex stakeholder sets with different incentives and tolerance for the pace of change, provides a powerful tool for foundation leaders aiming to manage fundamental changes to how their foundations meet their missions.

There are many forms of leadership that foundations must practice – values-based leadership and technical leadership are among them. This paper focuses on adaptive leadership in particular because of the alignment between these practices, the insight gleaned from the grantmakers and foundation trustees we interviewed, and the suggested solutions discussed throughout this paper.

Pioneered by Ron Heifetz, the adaptive leadership framework includes a challenging but useful tension. Change within organizations, networks and ecosystems can be incredibly stressful for all the people involved in this change– but the right kind and right amount of stress can be productive drivers of meaningful change. Heifetz believes that there are particular leadership practices that can help leaders find this optimal pace of “pro-stress” in driving change, and which can help leaders from tipping into a pace and intensity of change that triggers “distress”. These behaviors include:

1. **Getting on the balcony**

   Leaders need to move back and forth between frontline “action” and higher level vantage points that illuminates patterns and enables better decision making. This practice helps leaders make good choices at varying levels of abstraction – from blue sky thinking to the highly tactical – in a way that helps keep stakeholders in the “pro-stress” zone.

2. **Identifying your adaptive challenges**

   Reflecting this paper’s earlier discussion on problems definition, leaders must be thorough in carefully diagnosing the specific problems they need to solve that are most likely to cause distress, and most require the practice of adaptive leadership.

3. **Actively regulating distress**

   Of course, even when practiced with great skill and success, driving change at a productive pace will inevitably cause distress for individuals, teams and entire organizations. Leaders need to acknowledge this, and with poise and humanity, know when to take their foot off the pedal to avoid pushing people to the point where they simply walk away from efforts at change.

4. **Deepening the right kind of debate**

   To tackle complex and challenging issues and work on these challenges collaboratively, leaders need to foster the kind of honest dialogue that provides space and safety for people to disagree and challenge assumptions. To help ensure this kind of discourse doesn't become unduly divisive, leaders need to lift up contrarian voices to reward the practice of challenging the status quo. Leaders must also relentlessly communicate about the overarching goal of hard discussions on complex issues – finding the answers that help the most in solving problems that are central to a mission.

5. **Providing psychological safety**

   Leaders must encourage and support the right kind of structured risk taking at all levels of an organization to leverage collective strength. Creating an environment of psychological safety is critically important as leaders drive real dialogue on race and the diversity of lived experiences that effective decision making processes will involve. People must be assured safety if they are expected to present ideas that challenge the status quo of foundation work.

Conclusion

The world is inalterably changed from when we set out to produce this paper. We originally aimed to provide a constructive but provocative set of ideas we hoped that foundation leaders would consider testing for the sake of increasing innovation, and ultimately, social impact. We chose to push forward not in spite of, but *because* of the COVID-19 pandemic and the unprecedented national demand for urgent reforms across systems to foster racial equity. As simmering tensions on race and opportunity boiled over in response to the crises facing America, we saw an unexpected relevance and urgency in sharing the ideas in this paper. We acknowledge that the ideas in this paper represent the *start* of ongoing practice, learning and fundamental change that we believe must happen for philanthropy to become more impactful.

While none of these individual ideas is new, we believe this collection of suggested solutions can yield real, systemic change. The ideas in this paper are worthy and important experiments that will undoubtedly yield tangible benefits and maybe even breakthroughs – even if they aren't the benefits and breakthroughs we initially expect. In the spirit of what we suggest throughout this paper, it is our hope that one small silver lining to the urgency of the situation we find ourselves in today is the impetus to try many new things – including the ideas we have shared here – more quickly than we might have otherwise.

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